ACRONYMS

BDS – Business Development Support

BDSP – Business Development Support Providers

DED – Department For Economic Development

DWCPD – Department Of Women, Children And People With Disabilities

DFI – Development Finance Institution

DTI – Department Of Trade And Industry

FNB – First National Bank

GDP – Gross Domestic Produce

GEM – Global Entrepreneurship Monitor

IDC – Industrial Development Corporation

IFC – International Finance Corporation

MFI – Microfinance Institution

NDP – National Development Plan

NGP – New Growth Path

NEF – National Empowerment Fund

NSBA – National Small Business Act

OECD – Organization for Economic Co-operation and Development

SEDA – Small Enterprise Development Agency

SEFA – Small Enterprise Finance Agency

SME – small and medium enterprises

SMME – micro, small and medium enterprises

WEP – Women's Entrepreneurial Fund

WIB – Women in Business Program

WPEF – Women's Private Equity Fund

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Foreword

The United Nations Development Programme (UNDP) works towards economic empowerment of women as a matter of principle and in respect of the Human Rights of women. The South African National Development Plan and the New Growth Path envisage that the growth in micro, small and medium enterprises (SMMEs) will have a significant impact on the country's GDP and rate of employment - women should be an given an opportunity to be part of this growth.

There is compelling evidence that shows that greater gender equality translates into greater economic growth, and that women are a powerful driver of economic development and thus require more innovative support from the financial sector. Yet critical difficulties still exist for women entrepreneurs in accessing finance, as well as the lack of adequate financial services.

UNDP Regional Service Centre for Eastern & Southern Africa (RSC-ESA) conducted preliminary research in South Africa which demonstrated gaps between financial institutions' corporate policies and the need of women entrepreneurs, both in the public and private sectors. In order to build on the foundation laid by the RSC-ESA, UNDP South Africa country office held an exploratory meeting in Johannesburg, South Africa on 12-13 December 2011, with all the key stakeholders in the SMME sector. One key area for implementation that emerged as appropriate for further UNDP support was to support research on: 'Inclusive Finance: Exploring the Finance Pipeline for Women Owned SMMEs'. Consequently, UNDP commissioned the study, which has been carried out by New Faces New Voices, culminating into this report. This report examines the financing pipeline for women-owned SMMEs to see why access to finance continues to be a persistent problem despite there being an array of financial institutions and funding vehicles in South Africa that specifically target women-owned businesses. At the outset, the authors problematize the lack of clarity about the definition of SMMEs and SMEs which vary from government department to government department and within national agencies and the impact this has on developing targeted interventions to support small businesses at different income levels.

At the heart of this report is a review of funding institutions (in the public and private sectors) that target women SMME owners to understand their mandates, lending criteria, approval processes, financing charges and results to see how effective they are in providing different types of finance to their intended beneficiaries.

The research report provides ground breaking research, which document the failures and successes of various funding vehicles by looking at supply-side issues that determine women's access to finance.

It is our hope that the findings and recommendations in this report will contribute to greater understanding of factors that limit women's access to SMME financing, a major tool for fostering gender transformation, and that further, they will culminate in the promotion and implementation of inclusive gender equitable financing policies and programming for women entrepreneurs among financiers and key government and private stakeholders.

Finally, we trust that this report will directly address key government priorities that highlight Inclusive growth that promotes livelihoods and decent jobs; strengthened socio-economic infrastructure and gender transformation.

UNDP would like to acknowledge all our partners: The Department for Small Business Development, The Department for Trade and Industry, The Department for Women, Economic Development Department, Statistics South Africa-Gender Unit and UN Women, for serving on the Steering Committee of this project and for providing guidance and inputs into this report from its inception to its completion. We would like to thank all stakeholders who participated in the workshop held on 6 November 2014 at UNISA Graduate Business School, Midrand to validate the findings of this report. Finally, our heartfelt thanks go to New Faces, New Voices, who researched and wrote this report.

Mr. Gana Fofang

UN Resident Coordinator and
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South Africa

" *Based on our analysis of the legal and regulatory framework for SMMEs in South Africa, the legislative environment is not a constraint to SMME growth, although there is considerable room for improvement. With an allocation of R6.5 billion from the fiscus over the next 3 years to support small and medium enterprises, the growth of the SMME sector remains an integral part of the government's economic policy agenda.* "

Executive Summary

Women-owned businesses are receiving a lot of attention around the world as potential catalysts of growth, job creation and economic development. In the United States, where data is more readily available, there are 8.3 million women-owned businesses which employ 6% of the country's workforce and account for 29% of all enterprises.

Over a ten-year period (from 2002-2012), these businesses grew by 28.6% which outpaced the growth of all small businesses nationwide. In emerging markets, a mapping exercise conducted by the International Finance Corporation (IFC) and McKinsey in 2011 found that there are approximately 8 to 10 million formal women-owned small and medium enterprises (SMEs), which represent 31 to 38 percent of all small businesses. In Sub-Saharan Africa, the dynamism of SMEs as significant contributors to GDP is evident in many countries and the proportion of male-owned businesses to female-owned businesses is almost the same with women showing high rates of entrepreneurial activity.

Nevertheless, women-owned businesses tend to be smaller than their male counterparts, they tend to operate in the informal sector in low-value areas, and they tend to grow at a much slower rate. A persistent struggle faced by women business owners is that of access to finance that is affordable and appropriate to meet their business needs.

The IFC finds that « around 5.3 to 6.6 million women-owned SMEs in developing economies, which amount to 63 to 69 percent of women owned SMEs, are estimated to be unserved or underserved by financial institutions. » In Africa, more than 30% of the SMEs that are mentioned in the IFC report cite access to finance as a major constraint, far more often than men.

Turning to South Africa, which is the focus of this study, the growth in micro, small and medium enterprises (SMMEs) is expected to have a significant impact on the country's GDP and rate of employment as evidenced by their mention in the National Development Plan and the New Growth Path – key frameworks for economic policy and job creation that span the next 10 to 20 years. Women-owned businesses should be an important part of this story.

However, as in other parts of the world, women SMME owners struggle to access finance and other non-financial supports to grow their businesses and to move them from the informal to the formal sector. Although micro-lending programmes are widely available for women in the country and have been successful worldwide in serving female clients, a preliminary review of funding institutions that target the SME segment of the market suggests that the barriers for accessing finance may be even greater for these businesses.

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Purpose and objectives of study

The purpose of this study is to look at the financing pipeline for women-owned SMMEs to see why access to finance continues to be a persistent problem despite there being an array of financial institutions and and funding vehicles in South Africa that specifically target women-owned businesses. The study will examine *(i) how strong this pipeline is from a public and private sector perspective ; (ii) whether funding mandates make sense and are reaching the right target groups ; (iii) how successful these vehicles are in getting more capital into the hands of women ; and (iv) if the policy environment is conducive to the growth and sustainability of women-owned SMMEs.*

Implicit in this exercise is an attempt to assess what is working and what is not working in order to develop a « Code of Good Practice » for investing differently in women SMME owners in South Africa. As such, the objectives of the study are four-fold:

• to provide a broad understanding of the landscape of financing for women owned SMMEs;
• to identify barriers and bottlenecks that hinder access to finance by women owned SMMEs;
• to identify opportunities and develop innovative models that can be used to invest differently in women owned and operated SMMEs in South Africa, including how these enterprises can be supported to grow along the path from micro to small, from small to medium, and from medium to large by accessing capital via the public markets;
• and to ensure a coordinated effort between agencies, banks and the public sector in financing women owned SMMEs.

A big problem in developing targeted interventions to support small businesses at different income levels is the lack of clarity about the definition of SMMEs and SMEs which can vary from government department to government department, within national agencies, from country to country and even internationally in development circles. True SME owners are a breed apart from many survivalist and micro-enterprise business owners who are often in business out of necessity, due to limited economic opportunities elsewhere.

An additional and perhaps even more poignant question is whether there are sufficient models of how to transform micro-enterprises into sustainable businesses that can drive economic growth and job creation. In fact, there is a dearth of knowledge about how to move businesses along the growth continuum from micro to small – in part due to the practice of lumping them all together, without taking the time to understand their particular needs.

Another problem when dealing with women SMME owners is understanding which of their challenges are gender-specific and why and which ones are faced by all business owners regardless of gender. Women SMME owners face a wide spectrum of challenges, many of which have been documented in numerous studies and reports. These include (but are not limited to) lower levels of education and financial literacy, socio-cultural constraints, lower income levels, lack of tangible assets or collateral, time and mobility constraints, inter-role conflicts from juggling domestic and professional roles and lack of market exposure. These challenges will be explored in more detail in later sections of this study.

First and foremost, though, is the need to better understand what drives SMMEs and what the SMME landscape in South Africa looks like in general, and from a gender perspective. Today, SMMEs in South Africa provide approximately 52-57% of GDP and 61% of employment.

One of the key challenges facing South African regulators and policy makers charged with developing a SMME landscape that promotes growth is understanding the actual needs of SMME owners, from their key drivers to what motivates them to succeed. Although gender-disaggregated data is hard to come by, there are a few studies that illustrate the profile of women SMME owners in terms of their education levels, the size of their businesses, what sectors they are in and how many jobs they create relative to their male counterparts. These studies will also be explored in some detail later on.

A unique aspect of this study is a review of funding institutions (in the public and private sectors) that target women SMME owners to understand their mandates, lending criteria, approval processes, financing charges and results to see how effective they are in providing different types of finance to their intended beneficiaries. In order not to stray too much into the territory of microfinance institutions, a minimum lending amount of 30 000 ZAR and above was set out in the Terms of Reference for qualifying institutions. What the results show is that South Africa has an impressive array of funding vehicles, some of which were set up as government-led development finance institutions; and some of which were borne out of private sector initiatives to promote enterprise development and women's economic advancement in the country. To our knowledge, this is the first attempt to document the failures and successes of these funding vehicles by looking at supply-side issues that determine women's access to finance.

For ease of reference, this report is divided into six main sections. The first looks at how SMMEs are defined in South Africa, the policy environment in which they operate and understanding their needs. The second section looks at the landscape of SMMEs in South Africa from a gender perspective to understand the characteristics of women business owners and the businesses they operate. Section three contains a review of available literature in this area. Section four examines public and private sector funding vehicles that target women and how they are deploying capital to women SMME owners based on one-on-one interviews that were conducted with them. Section five is a compilation of the findings of our research and section six concludes with recommendations for developing a Code of Good Practice for investing in women-owned businesses.

One of the development objectives of this study is to promote the success of women SMME owners through access to finance that is inclusive and appropriate and that seeks to remove women from the margins of our societies. It is our hope that the UNDP, together with its partners in the South African government, will work towards greater collaboration and coordination at local, provincial and national levels and with international organisations to move towards a cumulative and comprehensive framework of development that supports innovative financing strategies that increase the amount of sustainable investment in women in South Africa and beyond.

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1

SECTION

Defining Smmes and understanding their needs

Within the current debate over inclusive financing for women-owned SMMEs, this study suggests that there are four questions of fundamental significance that should encourage the South African government and its development partners to discuss and determine what the definition of SMMEs should be and whether true growth enterprises should be separated from micro enterprises for a host of reasons. It is our firm belief as experienced practitioners in the field of SMME financing that once there is a clearer focus on the definition, then the appropriate policy towards creating a sustainable pipeline for both micro and small and medium enterprises (SMEs) will also become clearer.

The four key questions are:

1. *Where do large firms come from?*
2. *How does South Africa best diversify its economy to grow larger and more competitive firms capable of substantially increasing the number of jobs available?*
3. *How do the government's existing policies meet the needs of that group of businesses, by size and degree of development, that have the greatest capacity to contribute to economic growth and development?*
4. *What, in its essence, is an SME and how is it different from a micro enterprise?*

The Current Backdrop

For the past quarter century the widespread use of the term "SME" in the determination of economic development policy has implied first, that the segment of businesses occupying the space between microenterprises and large firms presents opportunities and challenges that are distinctly different from those of the other two groups, namely micro and large. The claim that "SMEs are the backbone of the economy" has become virtual boilerplate for papers, presentations, and popular articles on private sector development. Almost invariably, however, this claim has been made in the absence of any rigorous data to support it and often without an effort to understand what an SME is.

As a companion formulation to the "backbone" claim, one often sees the equally un-useful statement that "there appears to be no universally accepted definition of SMEs."

While both of these general claims are true, the passive acceptance of them has done more harm than good for the cause of private sector development in developing countries. The fuzziness with which development organizations and governments have defined what SMEs do and what SMEs are has undermined the very concept of "SME" – both as a discrete segment of the private sector and as a specific concern of economic development strategies.

Indeed, it has unfortunately become popular to adopt the acronym "MSME" (micro, small, and medium enterprise) or "SMME". Yet, our experience tells us that notwithstanding how we define them, true SME owners unlike many survivalist and micro-enterprise business owners, have in mind a future in which they have sales equivalent to hundreds of thousands or even millions of South African Rand – and in which their businesses are not "micro" by anyone's definition. This ambition with respect to the magnitude of their businesses is within neither the imagination nor the foreseeable capacity of any but the rarest of micro-enterprise owners, many of whom are running survivalist businesses to eke out a living. An additional and perhaps even more poignant question is whether there are an insufficient number of micro "growth" enterprises as to preclude the expectation of any natural continuum from micro to SME. There is a dearth of studies and knowledge about how to move businesses along the growth continuum from micro to small – in part due to the

"lumping effect". Accordingly, policies that "lump" these businesses owners are bound to be problematic.

Like other countries, the issue of what constitutes a small or medium enterprise is a major concern in South Africa. Various authors have given different definitions to this category of business. "A common definition of SMEs includes registered businesses with less than 250 employees." In practice, SMEs are defined in a number of different ways, generally with reference either to the number of employees or to turnover bands (or a combination of both, as in the National Small Business Act 1996, which also allows for variations according to industry sector). The definition of SMEs by size is necessary, but it is not sufficient for an understanding of a sector where the realities are not only complex, but also dynamic.

In South Africa, a 'small business' is officially defined in Section 1 of the National Small Business Act of 1996, as amended by the National Small Business Amendment Acts of 2003 and the 2004 (NSB Act) as:

The NSB Act further categorises small businesses into distinct groups, namely; survivalist, micro, very small, small and medium, hence the use of the term "SMME" for small, medium and micro-enterprises. However, the terms 'SMME' and 'SME' are used interchangeably in South Africa. The SME definition uses the number of employees (the most common mode of definition) per enterprise size category combined with the annual turnover categories and the gross assets (excluding fixed property), as summarised in Table 1 below.

" … a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule14... ".

Table 1: Broad Definitions of SMMEs in the South African National Small Business Act

Enterprise Size	Number of Employees	Annual Turnover(S A. Rand)	Gross Assets, Excluding
Medium	Fewer than 100 to 200,depending on Industry	Less than R4 million to R50 m depending upon Industry	Less than R2 m to R18 m depending on Industry
Small	Fewer than 50	Less than R2m to R25 m depending on Industry	Less than R2m to R4.5 m depending on Industry
Very Small	Fewer than 10 to 20 depending on Industry	Less than R200 000 to R500 000 depending on Industry	Less than R150 000 to R500 000 depending on Industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Source: Falkena et al., (2001)

• **Survivalist enterprise:** The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector.

• **Micro-enterprise:** The turnover is less than the value added tax (VAT) registration limit (that is, R150,000 per year). These enterprises usually lack formality in terms of registration. They include, for example, *spaza* shops[ix], minibus taxis and household industries. They employ no more than 5 people.

• **Very small enterprise:** These are enterprises employing fewer than 10 paid employees, except for the mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.

• **Small enterprise:** The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

• **Medium enterprise:** The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer.

A full treatment on the need to more clearly define SMMEs is beyond the scope of this study. However, it is our sincere hope that the foregoing discussion will persuade the relevant policy makers within the South African government to revisit the definition of SMMEs not only with respect to the SBA, but across the board. Our research, academic and grass-roots experience has led us to the conclusion that many of the challenges that the government faces in meaningfully addressing the needs of women owned and operated small businesses within South Africa are derived from a problematic definition of SMMEs.

In the Terms of Reference governing the Research Methodology & Framework (See Appendix A) for this study, it was agreed that SMMEs for purposes of this study would be defined as follows: a small business is one that has at least 5 but not more than 200 employees (if the business is in the minerals & energy, construction or manufacturing sectors).

Otherwise, a small business will not have more than 100 employees. The annual turnover limitations are a minimum of 30,000 and maximum of 250,000 ZAR. We recognise that these thresholds may be much lower than those used in developed countries, but deem them appropriate given the understanding of SMMEs and their needs within the South African institutional framework.

• In summary, our research produced the following principal conclusions:

1.The degree of diversity and conflict among official SME definitions is currently so great that it borders upon, or surpasses, irresponsibility not to reconsider how they are derived and applied.

2. Multi-country definitions of SMEs cannot legitimately be said to be consistent among countries if they do not take into consideration the differing levels of poverty among such countries and the differing levels of relative competition among private enterprises.

3. Official national definitions vary too greatly in proportion to national economies for responsible use by international organisations.
4. In order to avoid further distortions in the generation of SME policy and the resulting misapplication of funds, the major multilateral development institutions should take steps, as a group, to introduce some coherence of rationale among their SME definitions and encourage the same for individual national governments.

5. Microenterprises and SMEs are distinctly different, do not naturally elide in an unbroken continuum, and cannot be usefully discussed together – thus the definition, "SMME" should be discarded.

6. Definition by turnover has multiple advantages over definitions by either employment or assets, given that it is the most consistent across sectors.

In the many discussions and debates over what government should do to improve the pipeline for financing women owned and operated businesses, too much is at stake to go forward without knowing who they really are. In this section of the study, we hope to have provided a useful benchmark for furthering discussions that lead to meaningful changes in policy.

The South African Legislative Environment: Supporting or Hindering SMME Growth?

Creating a cohesive landscape for SMME growth involves the development of a complicated, multi-faceted set of policy initiatives that hinge on a clear understanding of the needs of SMME owners, the environment or landscape in which they operate, as well as SMME dynamics. Based on our review of the South African landscape, SMME owners in general (and women in particular) do not understand the SMME environment. Polices and information pertaining to their growth is often fragmentary, anecdotal or simply non-existent. Furthermore, policy makers as well as SMME "experts" often fail to appreciate the inherent dynamism of this segment – a factor exacerbated by a poor definition of the market segment.
Based on our analysis of the legal and regulatory framework for SMMEs in South Africa, the legislative environment is not a constraint to SMME growth, although there is considerable room for improvement. With an allocation of R6.5 billion from the fiscus over the next 3 years to support small and medium enterprises, the growth of the SMME sector remains an integral part of the government's economic policy agenda. In his 2014 Budget Overview Speech, Pravin Gordhan, the Minister of Finance states that Government will continue to provide an enabling environment for businesses to grow and create employment. He goes on to identify the following priorities for creating this enabling environment, namely:

• *An acceleration in infrastructure investment as a key priority due to the large number of contractors and sub-contractors that fall within the SMME category in this sector of the economy*
• *More tax relief for small businesses and entrepreneurs*
• *Funding for special economic zones to increase exports and manufacturing development incentives for small businesses*
• *Training and financial support for small-holder farmers and other labour-intensive sectors*

• *A tax incentive to encourage youth employment*
• *Special emphasis to investing in and improving SMME competitiveness*
• *Lessening the burden of compliance by SMMEs and reducing the tax burden on micro-enterprises*
• *Continued support for job creation by the private sector, with a particular focus on youth.*

The priorities outlined in the Budget Speech are an indication of the even bigger goals contained in the National Development Plan (NDP) and the New Growth Path (NGP) which see SMMEs as a key driver of growth by creating 11 million new jobs by 2030. At the same time, the NDP is also careful to point out constraints that prevent SMEs from increasing job growth such as the current economic climate, the labour environment, financial constraints and skills challenges. An even more important assertion in the NDP, which reinforces the importance of this study, is that employment tends to be created by new and expanding firms to which women-owned businesses can contribute. Data from the US shows that women-owned businesses are growing at a faster rate than all SMEs. We were not able to aggregate country-wide data to support whether this is true for South Africa, but given the population dynamics and the fact that the majority of micro-enterprises are owned by women, we believe it is safe to assume that South African women-owned businesses are also poised to grow at a faster rate than SMEs overall.

The New Growth Path was first presented to government officials in 2009 by the Department of Economic Development (DED) as a policy framework to stimulate employment and decent work in key sectors of the economy including agriculture, manufacturing, mining, beneficiation, science and technology, and tourism, among others. Its plans to strengthen and support SMMEs are an integral part of this plan in order to deepen their participation in the larger economy.

As outlined below, the NGP's objectives are :
• To create a single funding agency to serve the needs of SMMEs (the Small Enterprise Finance Agency which will be discussed later) ;
• To see that government pays small business suppliers on time ;
• To integrate SMMES support into all sector strategies, especially the value chains of big businesses ;
• To eliminate unnecessary red-tape and simplify the regulations for SMMEs ;
• To strengthen SMME owners access to finance ; and
• To address the concerns of SMMEs about space requirements and costs.
The implementation of these initiatives will be an ongoing concern of the DED and other government departments, to see how the enabling environment for SMMEs can be improved.

Understanding the Needs of SMMEs

If we divide South Africa's key SMME stakeholders into relevant categories, three principal categories emerge : (1) the SMME owners; (2) experts and advisors to SMMEs; and (3) funders of SMMEs (both public and private sector funders). Based on an analysis of the market, one of the key challenges facing South African regulators and policy makers charged with developing a SMME landscape that promotes growth is a failure to understand the actual needs of SMME owners. Again, part of this failure relates to a lack of understanding about how the sector is structured but is also, in part, due to the inherently dynamic nature of the sector.

Today, SMMEs in South Africa provide approximately 52-57% of GDP and 61% of employment, not including the secondary and tertiary effects that would increase the relevancy of these percentages. Currently, 90% of SMMEs in South Africa employ less than 50 people. The Africagrowth Institute housed at the University of Cape Town's Graduate School of Business tracks factors that inhibit the growth of the SMME sector as a whole. These factors are published quarterly in an SMME survey and it should be noted that these factors have remained relatively constant over the past 6 years.

In 2011, these factors included:
• *Government taxes and regulations*
• *Currency exchange rates*
• *Insufficient demand (uptake of SMME products/ services)*
• *Shortage of skilled labour*
• *Operating costs (including the cost of regulatory compliance)*
• *Broad-based Black Economic Empowerment (B-BBEE)*
In 2012, the top three limiting factors identified according to the AfricaGrowth SMME Survey were government taxes, regulations and the operating environment (including employee costs and labour policies that favour employees and not SMME owners). Whilst the purpose of this study is not to seek to redress regulatory, labour or tax policies, it is neverthless crucial that these SMME concerns be highlighted at the outset in hopes that they will inform the digestion of the information contained herein in a manner that may lead policy makers to improve the SME landscape in South Africa.

As mentioned above, one key challenge that continues to emerge when analysing the SMME landscape in South Africa is the consistent failure of both public and private SMME funders to understand the needs of this dynamic market segment. In conducting research that forms the basis of this study, we looked at the South African landscape, but we also looked internationally to a cross-section of countries that have cohesive SMME regulatory frameworks. This process of contextualisation enabled our researchers to develop the key take-aways noted immediately below that are driven by the stated needs of SMME owners. The countries reviewed for this study include Canada, the UK, the US, Mauritius, Singapore, the European Union and OECD countries.

Today, SMMEs in South Africa provide approximately 52-57% of GDP and 61% of employment, not including the secondary and tertiary effects that would increase the relevancy of these percentages.

“Currently, 90% of SMMEs in South Africa employ less than 50 people.”

It is acknowledged and understood by policy makers globally that the importance of SMMEs to GDP is not limited to job creation, but is also inextricably linked to producing wealth and value. It is also understood that the twin goals - the social imperative of employment, and the economic imperative of competiveness - are generally not easy for regulators and policy makers to balance and to reconcile.

The following are a few key recommendations for South African policy development based on our findings to date:

- *Apply a measure of tax relief and/or incentives for SMME owners;*
- *Reduce the regulatory "red tape" that SMMEs owners encounter;*
- *Refine the existing regulatory framework to make it easier to navigate versus promulgating new legislation;*
- *Ensure a balance between private sector investor incentives and business relief measures to avoid "crowding out" and to ensure a more feasible pipeline of true growth SMMEs;*
- *Consider equity tax benefits to increase the amount of equity and other types of investors for SMMEs;*
- *Invest in a comprehensive government initiative to increase awareness and uptake of existing initiatives;*
- *Better understand the key SMME growth areas and focus on these (i.e. renewable energy); and*
- *Revisit the role of and requirements of existing regulators and assess their impact on SMMEs.*

Some of these recommendations were echoed in the 2014 Budget Speech as areas that the government wants to tackle and improve, which shows that South Africa is moving in the right direction to create an environment conducive to SMME growth.

What drives smmes?

Section 3 of this study describes and contains a detailed Literature Review. An in-depth discussion relating to the documents reviewed in compiling our findings are accordingly reserved for that Section. However, it bears referencing here of an important survey that provides crucial insights into the needs of SMMEs operating within the South African landscape.

The SBP's Headline Report - SME Growth Index canvasses over 500 South African SMMEs. It defines SMMEs as firms employing fewer than 50 people and operating in three sectors: manufacturing, business services and tourism. The Survey interrogates the firm-level experiences and dynamics of South Africa's SMME community. The sample is randomly selected; highlighting its applicability and it broadly reflects the demographic profile of the country's business owners, as captured in the official Quarterly Labour Force Survey.

The SBP Survey is the largest such project of its kind, and it is now approaching its third round. The longitudinal nature of the study is particularly important as it allows trends over time to be identified. So far, a vast amount of data has been gathered - some 65 000 data points in the 2011 round and 235 000 in the 2012 round. This is intended as the solid, empirical evidence that has so far eluded so much of the national conversation around SMMEs. Whilst the Survey does not aggregate data according to gender, it does provide insights that are unique and unprecedented. In particular the Survey seeks to interrogate how SMME owners perceive the willingness and the capacity of South African policy makers to address their needs.

The SME Growth Index is a study of established firms. Start-up firms are excluded. The most recent Survey reports that SMME owners (male and female) who are succeeding are generally better educated than the workforce as a whole. For example, 40% have a bachelor's or post-graduate degree, as opposed to some 5.5% of the total adult population. Most of the remainder have a diploma or vocational qualification, and only 3% have not completed school. Virtually all had previous work experience, most commonly in a medium or large firm.Another important finding of the study is the motivation for going into business. By a large margin, successful SMME owners identified "pull" factors (versus government incentives) such as opportunity and ambition, as the driving force behind their decision to establish their business. Fewer than 1 in 5 of the 500 indicated that they had been driven to establish their business through retrenchment and the lack of an alternative job. These findings are consistent with our research of successful SMME policies elsewhere. For example, a 2009 study for the Kauffman Foundation in the United States found that an overwhelming 96% of respondents rated their previous work experiences as important for their later success.

These findings are poignant because they are important indicators of who "growth SMME" owners really are; an understanding that is imperative if we are to meet their needs and achieve the goals stated in the country's growth plans as articulated by the Minister of Finance. The failure to understand who SMME owners are and their motivations for starting their businesses is, in part, responsible for their poor uptake of initiatives and funding opportunities that do not match their needs.

These findings also support the Finance Minister's stated objective to continue to invest heavily in the development of people and young people (in particular) who are entering the workforce without adequate academic or cognitive training. This failing, in turn, impedes the capacity of South Africans to find jobs that would hone the skills necessary to establish successful SMMEs. These findings also correlate well with those of the latest Global Entrepreneurship Monitor (GEM) report, which indicates that the state of education in South Africa is the most problematic area for the development of entrepreneurship.

The ***SBP Survey*** reports that SMMEs are more likely to employ young (and older) work-seekers than those in middle age. Relative to a ***35 year old, a 20 year old*** is almost 4 percentage points more likely to be employed in a small firm.

"Relative to a ***35 year old, a 20 year old*** is almost 4 percentage points more likely to be employed in a small firm."

SMME Growth Trends

According to the SBP Growth Index, SMME owners across all sectors reviewed presently have in place plans to expand their businesses. However, most are failing to implement these plans. On aggregate across the panel, turnover increased by some 9% over the period between 2011 and 2012. When inflation is factored in, the overall increase is very slight: to the point that turnover growth is probably more accurately measured, at most, as something in the region of 3%, or even as reflecting no growth at all. The most frequently cited reasons for this include adverse economic conditions, escalating business costs, a hostile regulatory environment and a shortage of skilled staff. These findings are echoed by the AfricaGrowth Survey and have informed our policy recommendations contained above.

The SME Growth Index demonstrates a strong correlation between firm turnover growth and skills acquisition (training). A majority of firms (some 58%) whose turnovers had grown between 2011 and 2012 had invested in training for the business owner. Nearly two thirds (65%) of growing firms had invested in their employees. By notable contrast, only 26% of the owners of firms whose turnovers had declined had undergone training; and only 50% of the firms that had experienced a decline in turnover had provided training to their employees. For largely these reasons, the NDP envisages a more skilled workforce.

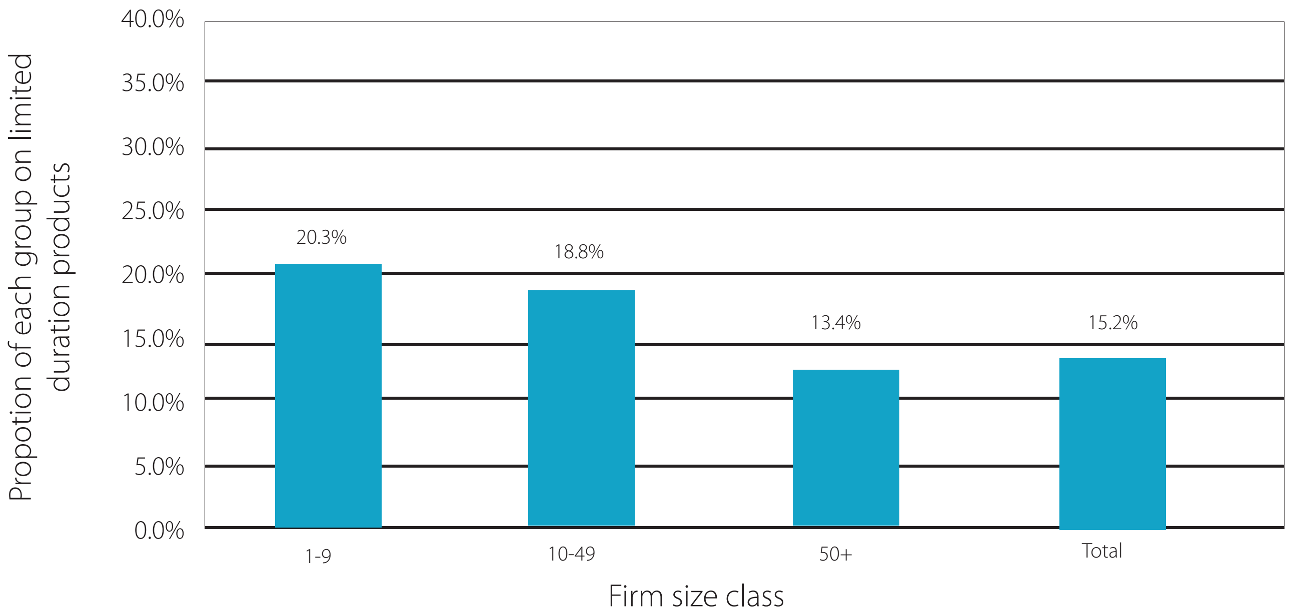
An additional trend worth noting is the growing interconnectedness and integration of national markets. For many SMME owners, facing competition from outside of South Africa's border is not an appealing proposition, but it is nevertheless an unavoidable result of globalization. Market integration is a key driver of the need for greater competitiveness of businesses that fall within South Africa's SMME sector. With proper analysis and appropriate innovation, it is one that holds out significant opportunities. Foreign markets - such as Africa's growing middle class - offer commercial opportunities that may not exist within limited national markets. Value chains are increasingly global in nature. The benefits to SMMEs from exporting are considerable and whilst the NDP envisages South Africa's SMMEs being competitive across the continent, the growth that would enable them to do so is not materialising.

A final important feature concerns age. Chronic unemployment among the country's youth has come to the fore as one of the most serious problems facing South Africa; unaddressed, it could be a permanently destabilising factor. It is in this respect that SMMEs could offer their most compelling attraction. The SBP Survey reports that SMMEs are more likely to employ young (and older) work-seekers than those in middle age. Relative to a 35 year old, a 20 year old is almost 4 percentage points more likely to be employed in a small firm.

There is, however, an important nuance. Whether or not firms are adding to employment seems to be related to the ratio of skilled to unskilled workers. Firms with a larger proportion of unskilled staff are less likely to be growing than those with smaller proportions. These findings would indicate that unskilled employment has an indirect link to the availability of skills, and by implication, the efficiencies and productivity gains that they bring. These efficiencies and productivity gains ultimately determine the SMMEs' competiveness and long-term likelihood of success. Seen from this perspective, the imperatives of competitiveness and employment are linked rather than incompatible. Unfortunately, this also means that there is a limited capacity for SMMEs to absorb unskilled labour and that this is compounded by the shortage of skilled labour. Finally, SMMEs are most likely to employ staff on a fixed-term or temporary basis. Data from Stats SA shows a clear correlation between the size of firms and the use of such labour (as a proportion of overall employment in the various size categories).

The smallest firms are most prone to using such labour, closely followed by SMMEs that employ 10-49 people. In each case, around 1 in 5 employees holds his or her position on a temporary or part time basis. This is substantially above the proportion employed in this way in larger firms. This is illustrated in the graph below.

Figure 1: Firm size and fixed or temporary employment



Source: Stats SA and SA Politics Web's calculations

Notes: This table has been compiled on the basis of employees with a written contract, and excludes from the calculations those whose terms were "unspecified".

The failure to understand the needs of SMME owners is heightened in the case of women business owners as drivers of GDP. Whilst SMMEs, in general, continue to be positive contributors in economic advancement, a targeted focus on investing in women entrepreneurs and women business owners will increase South Africa's competitiveness in the Africa region and globally. Studies from around the world have continuously demonstrated that when women have high rates of labour force participation, the corresponding impact on GDP is overwhelmingly positive. However, according to the IMF, "the gender gap in earnings is even higher in self-employment than in wage employment" because women-run businesses are more prevalent in the informal sector and they tend to grow slower and have lower productivity rates than male-owned businesses. These, and other factors, will be explored in the next section that examines the profile of women SMME owners in South Africa.

2 SECTION

The SMME landscape in SOUTH AFRICA from a gender perspective

Having examined the definition of SMMEs, the policy environment in which they operate and the factors that help them grow, the second section of this study looks at the SMME landscape in South Africa from a gender perspective. This is crucial in order to understand the profile and characteristics of female business owners - what sectors they are in, what percentage of businesses they own, what their financing needs are, how many jobs they provide, and how well equipped they are to manage and grow these businesses.

The lack of gender-disaggregated data makes this a difficult exercise and points to the need to improve the quality and frequency of data collected to better understand this segment of the market. Nevertheless, in constructing this profile, we relied on two studies that were conducted in 2010 and 2012, which show the interplay between gender, race, educational levels and access to finance for SMME owners in South Africa. Rather than summarizing these studies in the literature review that follows in section 3, we felt it was more useful to bring this information forward to set the context for the discussion that follows.

The Finscope surveys are often cited in SMME literature as being one of the few data sources that measure the size and scope of the small business sector as well as their financial needs. Although financial access surveys are conducted annually, the Finscope Small Business Survey has only been conducted once in South Africa in 2010 so conditions might have changed since then. The Finscope Small Business Survey 2010 South Africa (hereafter referred to as the Finscope Survey), tells an interesting story about the profile and size of small business owners by gender, educational levels and race. According to the study, there are approximately 5.6 million owners of micro and small enterprises in South Africa with 58% being femaled owned and 42% male owned.

Using the Finscope data, the Center for Inclusive Banking in Africa at the University of Pretoria grouped these businesses into three categories, namely: survivalist, mid-level and small in order to better understand their characteristics in the market segment they occupy and their financial needs. At the lower end of the scale, they found that 60% of these businesses, or 3.3 million, operate at a survivalist level, with owners tending to be female, black and poorly educated. These are mostly informal traders whose businesses are not registered.

Within the category of what they defined as mid-level businesses, which account for 30% these enterprises and have a turnover of R4000 and above, the proportion of male-owned and female-owned businesses is mostly the same. Businesses with a turnover of R10,000 per month and above represent the upper-end of the market and are typically service-oriented businesses, representing 10% of the total number of businesses. They generate more employment than any other level, « with 66% having one or more full-time paid employees and 24% reporting five or more full-time paid employess. » At this level, there are roughly equal numbers of male and female owners, most of whom have completed high school but only 30% are black owned. This information is summarized in Table 1 below and shows that as businesses become more formal and bigger in size, measured in terms of turnover, the number of women-owners declines.

Provincial Distribution of Businesses

Table 3 shows the geographic distribution of these businesses with the largest number of businesses found in Gauteng, followed by the Eastern Cape, KwaZulu Natal and the North West province, and with the least number being in the Northern Cape and Mpumulanga. Gauteng dominates in that almost half of the largest businesses are found in this province which explains the concentration of funding in this province. The majority of survivalist businesses are found in rural areas, however, as 37% are found in urban townships, suburbs, or central business districts. Interestingly, more than 90% of the businesses surveyed were less than 10 years old.

Table 2 : Demographic profile of South African businesses by gender and size

	Survivalist (turnover <R4000 per month)	Mid-Level (turnover >R4000 per month)	Small (turnover >R10 000 per month)
Male	35.5%	50.4%	51.4%
Famale	64.5%	49.6%	48.6%

Source : Center for Inclusive Banking in Africa, University of Pretoria, September 2011.

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Table 3: Provincial Distribution – Number of Business Owners per province

Province	BSM 1 to 3	%	BSM 4 to 6	%	BSM 7 & 8	%	Total	%
Eastern Cape	16%	248772	15%	35771	6%	828744	15%	293041
Free State	124537	7%	29172	5%	446750	8%	519312	16%
Gauteng	29%	265509	48%	1279085	23%	583986	17%	139775
Kwa Zulu Natal	46229	8%	769990	14%	417279	12%	118601	7%
Limpopo	2%	545601	10%	253140	8%	104147	6%	28746
Mpumalanga	386033	7%	89527	3%	40530	2%	24164	4%
Northern Cape	3%	429163	13%	258357	15%	30738	6%	718258
North West	219315	7%	147069	9%	84701	15%	451085	8%
Western Cape	100%	1676052	100%	554751	100%	5579767	60%	30%
Total	100%							

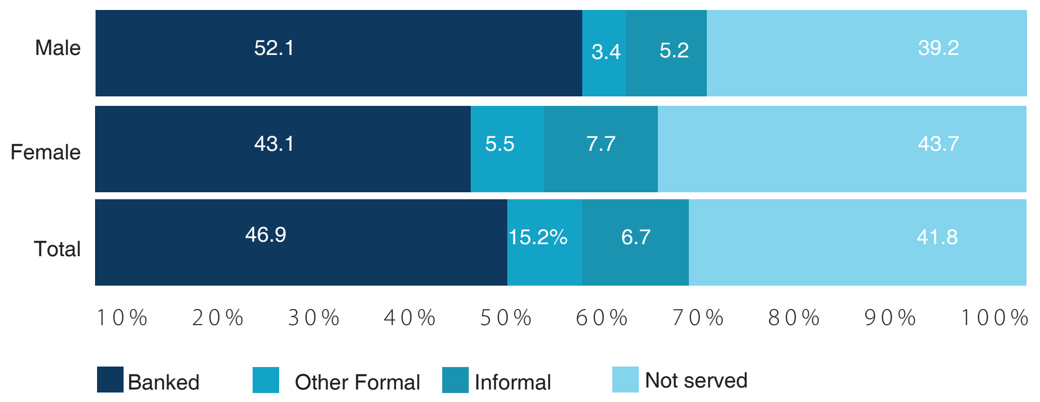
The majority of ***survivalist businesses*** are found in rural areas, however, as ***37% are found in urban townships, suburbs,*** or central business districts. Interestingly, more than ***90% of the businesses*** surveyed were less than 10 years old.

> "more than **90%** ***of the businesses*** surveyed were less than 10 years old."

Financing Needs of SMMEs

When it comes to access to formal and informal financial services for these businesses, the Finscope Survey showed that 52.1% of male owned businesses were banked vs 43.1% of female owned businesses, female owned businesses relied on informal financial services more than men, and 43.7% of female-owned businesses were financially excluded, as illustrated in Figure 2.

Figure 2 : Male anf Female small Business owner access strand



At the survivalist level, where most women business owners are, only 20% have a bank account or an ATM card.

An analysis of funding needs revealed that more than 90% of these businesses typically require less than R1 000 to R10 000 to start their businesses; 81% of mid-level businesses need more than R50 000 ; and 75% of small businesses require funds in excess of this amount. It was also useful to note where entrepreneurs get their funding and how many have actually borrowed from formal financial institutions. This is set out in Table 6 below.

Although this information is not organised by gender, most business owners at the lower end of the market rely on friends and family to fund their businesses and those at the high end rely on banks.

Table 4 : Sources of Funding for Businesses

Borrowing Behaviour (%)	Survivalist	Mid-level	Small
Borrowed for business past 12 months	2.1	3.5	5.5
Borrowed for business previously	1.6	1.6	8.6
Sub-total	3.7	5.1	14.1
Largest Source of Borrowing :			
From Bank	2.6	19.3	72.4
From MFI or Microlender or NGO	4.6	2.9	0.9
From Government	7.7	0.6	0.4
From Stokvel/Burial Society	4.7	6.9	0.1
From Informal Moneylender	13.5	8.5	0.4
From Friends and Family	62.5	57.9	19.6
From Employer	1.3	0.0	0.9
Buy on Credit from Supplier	2.9	3.8	5.2

Source : Center for Inclusive Banking in Africa, University of Pretoria, September 2011.

Although this information is not organised by gender, most business owners at the lower end of the market rely on friends and family to fund their businesses and those at the high end rely on banks.

Another measure of entrepreneurial activity by gender and the factors that stimulate and support it is provided by the Global Entrepreneurship Monitor (GEM) survey, the last of which was done in South Africa 2012. The GEM survey defines potential entrepreneurs « as those who perceive good business opportunities AND believe that they have entrepreneurial capabilities. » It also looks at the transition from intentional entrepreneurship to early-stage entrepreneurial activity to established businesses. Based on their findings, 35% of women believe that they have entrepreneurial capabilities compared to 43% of men. As illustrated in the Table below, the GEM report also shows that 61% of early-stage entrepreneurs are male versus 39% who are female ; and that female entrepreneurs are more likely to be driven by necessity rather than opportunity.

Table 5: Early Stage Entrepreneurial Activity and Motivation by Gender

	Male	Female
Total Early Stage Entrepreneurial Activity	61	39
Motivated by opportunity (within gender group)	71	61
Motivated by necessity (within gender group)	27	39

Source : Global Entrepreneurship Monitor 2012 South Africa

Another interesting finding is the number of jobs created by business owners by gender. While male and female business owners are almost equal in the percentages that have between 1 and 5 employees, no female business owners employ more than 20 employees while 7% of male-owned businesses do and the average number of employees for male-owned businesses is double that of female owned firms.

Table 6: Number of Jobs Created by Male and Female-Owned Firms

Number of current jobs	Male early-stage owners	Female early-stage owners
No employees	14%	11%
1 – 5 employees	71%	77%
6 – 19 employees	7%	11%
20+ employees	7%	0%
Total	100%	100%
Mean employees per firm	5.6	2.5

Source : Global Entrepreneurship Monitor 2012 South Africa

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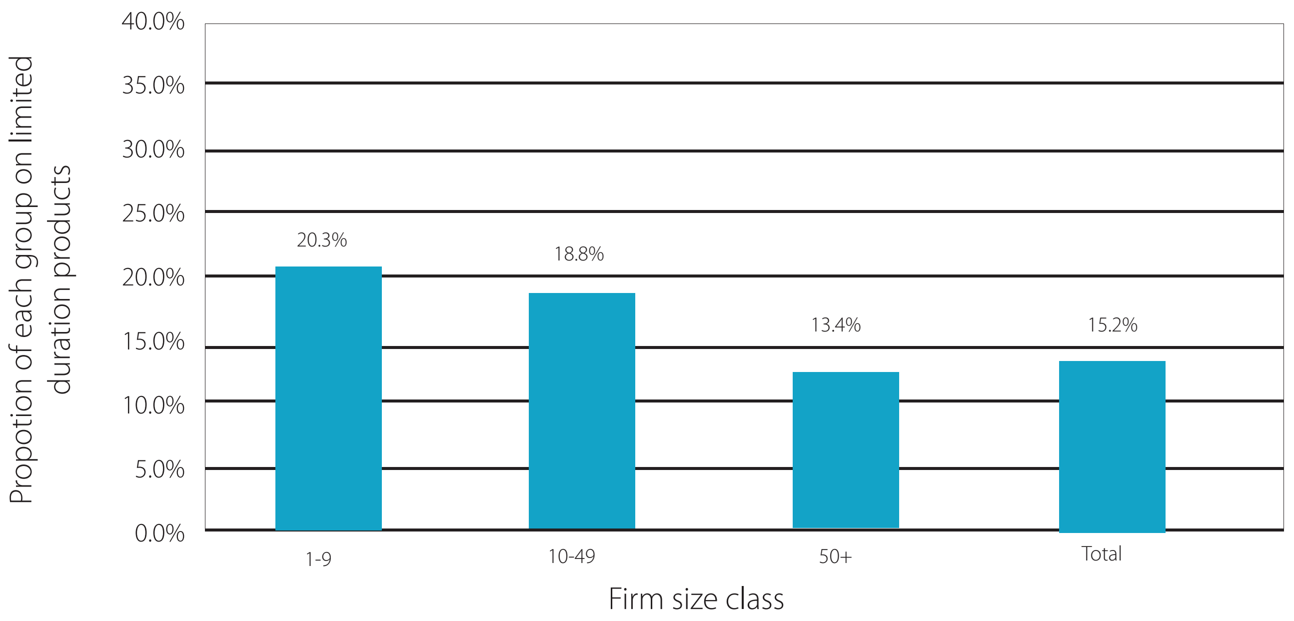
In terms of the provincial distribution of entrepreneurial activity, the GEM report showed that Gauteng had the highest percentage of early-stage entrepreneurs (at 29%), followed by KwaZulu Natal and the Eastern Cape at 23% and 18% respectively and the provinces with the lowest percentages were Limpopo, North West and the Northern Cape at 4% or below which was similar to the findings of the Finscope Survey.

Financial Environment and Sources of Funding

The GEM survey also looks at the financial environment in which entrepreneurs operate, in terms of the supply and demand for financial resources, and how difficult it is for entrepreneurs to access finance. As the figure below illustrates, the majority of South African entrepreneurs rely on funding from personal savings at 48%, 21% rely on banks and other financial institutions, 19% rely on family savings, 5% rely on friends, and 7% rely on other sources.

Figure 3: Sources of Funding for South African Entrepreneurs, 2012



Source: Global Entrepreneurship Monitor 2012 South Africa

Interestingly, "of the total number of entrepreneurs surveyed, 80% required R50,000 or less to start their business, while the remaining 20% needed between R50,000 and R500,000 as seed capital."

Direct comparisons are difficult to make since the Finscope and GEM surveys do not use the same definition of what constitutes SMMEs, however, they do provide some useful data. Using these surveys to understand the profile of female entrepreneurs in South Africa, the following conclusions emerge:

• Female owned businesses are concentrated at the survivalist level and are driven by necessity rather than opportunity;
s the size of businesses increases, as measured by turnover, the proportion of women owners decreases;
• Women-owned businesses create fewer jobs than their male counterparts;
• Women business owners are less educated than their male counterparts;
• Women business owners rely on informal sources of financing for their businesses and are more likely to be financially excluded than their male counterparts.

These observations are critical in understanding the motivation for women to enter business, why women SMME owners struggle to get finance and the type of constraints they face which will be elaborated upon in later sections. What these studies also reinforce is the tendency of business owners to use their own savings to either start or expand their businesses instead of relying on commercial banks and other financial institutions. Although micro-lending programmes are widely available for women, a preliminary review of funding institutions that target small and medium enterprises suggest that the barriers for accessing finance for this sub-segment of the market may be even greater. This will be explored in more detail in later sections of the Report.

The Challenges of Financing Women SMME Owners

The real challenge within South Africa in terms of providing access to finance for women SMMEs relates firstly to the challenges of providing a landscape that supports all SMME growth, and one that appreciates the needs of SMME owners despite their gender. We have noted in section one the difficulties policy makers face in finding a balance between the objectives of job and wealth creation that drive its SMME development initiatives. When it comes to financing women SMMEs, that balancing act is further complicated by even lower levels of education and skills than is to be found in the general population. Again, we have noted above how education and skills impact the uptake of SMME support, as well as the overall competitiveness and success of the SMME. The same applies to women SMMEs.

As a result of the foregoing (and despite efforts to bridge the finance gap through special funds and initiatives that target women) women SMME owners still face a wide spectrum of challenges many of which have been documented in numerous studies and reports. These include (but are not limited to):

• Lower levels of education;
• Socio-cultural constraints, norms, belief systems, customary laws;
• Lower income levels;
• Lack of collateral – obstacles to access to land;
• Time and mobility constraints;
• Inter-role conflicts; and
• Lack of market exposure.

Education: The Finscope and GEM studies referred to in Section 1 show that the majority of female business owners are poorly educated, with 80% of those who operate at a survivalist level not having completed high school. At the higher end of the scale, 83% of business owners have completed high school but these owners account for only 10% of the total number of enterprises, country-wide. Lack of education is a serious hindrance to the growth and success of women-owned SMMEs as it deprives them of the necessary skills, experience and judgement to properly manage their business, analyse the competition and take advantage of opportunities.

Lack of market exposure is also a symptom of poor education, which disproportionally affects women. Women business owners have less work experience, in general, than their male counterparts
They are less likely to have been employed prior to starting a business, and are have less wage sector experience than men. They are also less likely to be employers and are generally self-taught when it comes to managing their businesses. This gap in analyzing and seizing business opportunities due to lack of market exposure is a serious limiting factor for women business owners in terms of productivity and competitiveness.

Income Levels: Here, too, the Finscope and GEM studies show that female business owners have a lower turnover than their male counterparts, with most of their businesses concentrated in turnover bands of less than R4000. What is startling, however, is that "for two thirds of businesses across all segments, business income is reported to be the sole source of income in the household" which shows how heavily dependent these business owners are on the fruits of their labour. Apart from the business, those at the lower end rely on government grants as their main source, while those at the higher end supplement their income from their spouses salary.

The Finscope South Africa ***2010 Small Business Survey*** (hereafter referred to as Finscope 2010 Survey) found that ***75% of respondents*** were not aware of any **BDS services.**

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Socio-Cultural Constraints: Although it is difficult to measure the impact of norms, belief systems, and societal attitudes on the behavior of entrepreneurs, the social acceptance of women SMMEs owners can be seen in how many enter the world of business when given a choice to be employed elsewhere, and the status of women entrepreneurs as successful role-models. Although South African women are not restricted from entering any profession, they are less likely than men to have entrepreneurial intensions, probably due to how they have been socialized. In women, these socio-cultural constraints go a step further in weakening their confidence as they seek to enter male-dominated spaces in business that are not considered part of their traditional domain. The educational system needs to do more to foster an entrepreneurial culture in both men and women at an early age to break down cultural and gender stereotypes.

Lack of Collateral: When one takes a historical view, women have been at a disadvantage when it comes to owning tangible assets such as land and property due to inheritance rights, which favored males or first-born children. However, this is also the result of having lower incomes, higher poverty levels, and a greater chance of being unemployed than men. Recognizing that apartheid also denied Black South Africans the chance to acquire assets, some funding institutions have made it easier, over time, for Blacks and others to obtain unsecured loans by waiving collateral requirements. Nevertheless, the need for collateral for SMME owners can be a challenge that hinders their access to finance.

Time and Mobility Constraints: Time and mobility constraints are more likely to weigh against women living in rural areas moreso than those living in urban areas due to a lack of infrastructure. In some societies where women are very restricted, their lack of mobility affects their ability to grow their business, simply because they cannot move outside of the house freely, which is less of a hindrance in South Africa. Another constraint, however, is proximity to a bank or financial institutions, which can be both a time and mobility constraint. The percentage of adults in rural areas who are formally banked is consistently lower than adults in urban areas, due to the time and distance they have to travel to reach banks. Women are more likely to suffer in this regard. Even in urban areas, the percentage of adults in urban informal settlements who are banked is 67%, which may be a function of proximity and ease of access to banking services.

In summary, the majority of women-owned SMMEs will continue to be concentrated in the informal sector and their businesses will operate in low-value areas such as trading and the services sector, for the foreseeable future. Some of the challenges mentioned above can be addressed through policy changes, some through greater education and training, and some through better access to finance and non-financial business supports.

In time, as social norms evolve to embrace entrepreneurship as a desirable occupation for women, the gender-specific constraints they face will become a smaller part of their every-day lives. An examination of levels of social analysis and how they affect institutions follows in the latter section of the literature review.

3 SECTION

The SMME landscape in SOUTH AFRICA from a gender perspective

There is a body of literature in the SMME support and development space that seeks to bring to the fore the challenges, dynamics and funding issues faced by SMMEs in general, and by women owned and operated SMMEs in particular. As noted above in our discussion of "Trends Worth Noting", the South African government has developed policies and implemented programmes geared towards the support and funding of SMMEs through a variety of funding agencies and institutions.

However, it remains unknown the extent to which these initiatives have succeeded in addressing the funding and support challenges faced by SMMEs. The purpose of this literature review, within the framework of this study, is to provide readers with insights into presently existing research and literature on the subject of inclusive financing for women SMMEs in South Africa.

A research literature review is a systematic, explicit and reproducible method for identifying, evaluating and synthesizing the existing body of completed and recorded work produced by researchers, scholars and practitioners. This study provides an organised critical account of information, ideas and knowledge that has been published (or is available in the public domain) on women SMMEs' access to financing.

The main limitation of the literature review, as a study methodology, is that it relies on information that has already been researched (secondary information), and if there is none, then specific questions on the current study might not be adequately answered. Secondly, owing to different objectives and methodologies (and study designs) of previous studies, the data might not be in the right format or specific enough to answer the needs of the current study. Because of these limitations, a literature review is always conducted in preparation for primary and more detailed research.

Despite the above limitations, this study employed the literature review process in a systematic way following the "input-processing-output" approach. This involves sequential steps to collect, know, comprehend, apply, analyse, synthesize and evaluate quality literature in order to provide a firm foundation for the topic under study.

The methodological approach is illustrated below in Figure 4. It involves both quantitative and qualitative analyses of secondary data.

Literature Search Method

A comprehensive literature search of published academic, peer reviewed professional literature using a variety of databases including journal articles, conference papers, books, dissertations and technical papers, both published and unpublished, was conducted.

The main sources included libraries - both public and university libraries and the Internet. The literature reviewed therefore included:

- Published journal articles, working papers and other theoretical publications on SMME access to credit;
- Papers/articles found on the websites of suppliers of credit, development financial institutions, banks and other funders; and
- Papers/articles found on the websites of credit regulators and SMME advocacy organisations.

The collected data or information was categorised in groups. The definition of SMME was viewed within a South African context, noting the conflation of terms between SMME and SME. Various definitions were explored and analysed for their inclination and specificity to developing countries. Most of the literature search was based on what others have come up with concerning women SMMEs' access to appropriate financing focusing on the South African context.

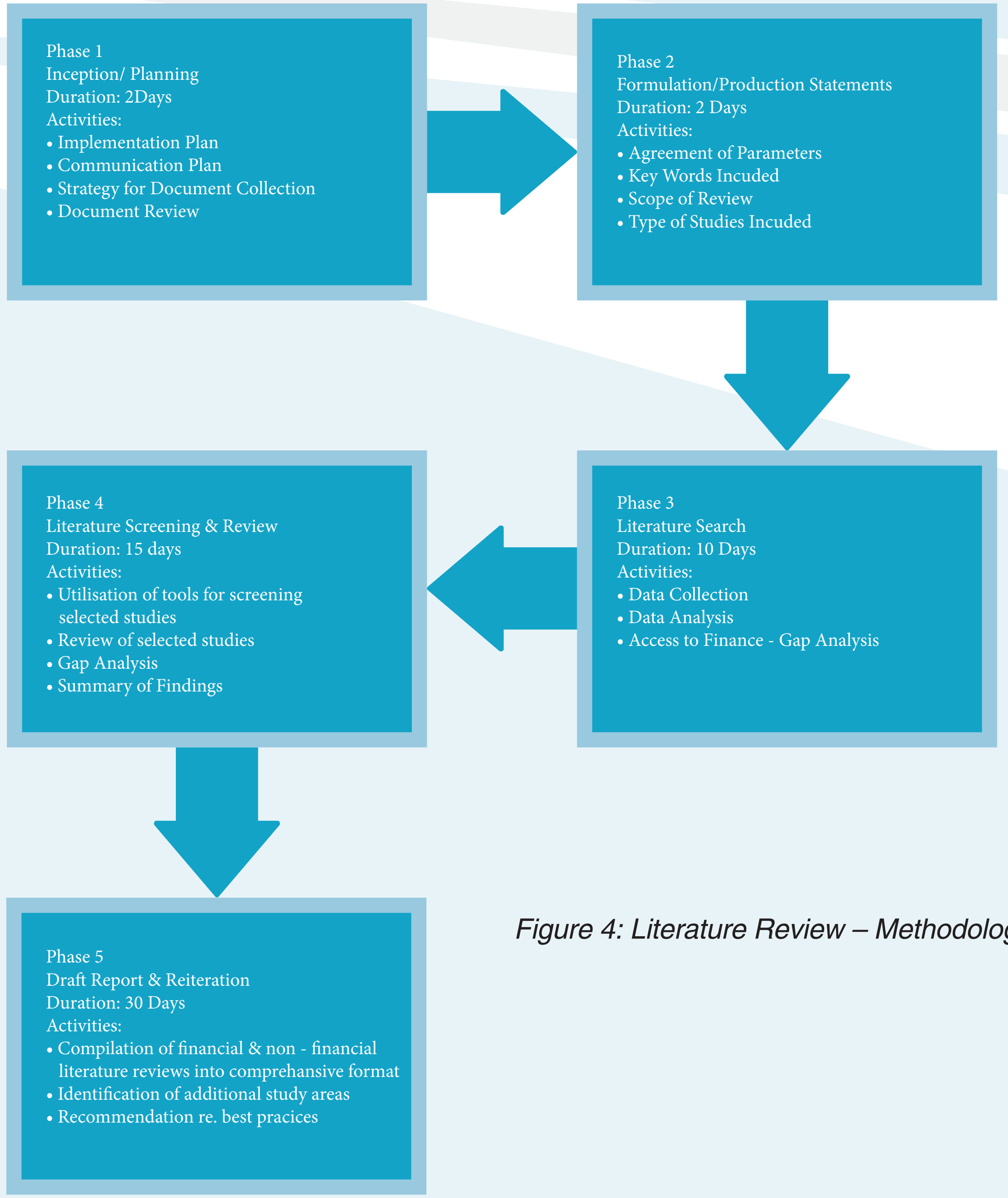


Figure 4: Literature Review – Methodological Approach

In conducting the literature search the main focus was to identify the critical drivers of women owned and operated SMMEs and what the challenges are for SMMEs in accessing appropriate finance, what constitutes appropriate finance, and what public and private funders need to do to develop an appropriate and effective funding pipeline in South Africa.

While the literature research was being conducted, every effort was made to ensure that the sources were as relevant and focused on the subject at hand as possible. The Finscope and GEM reports and publications from South African DFIs were drawn for comparison with similar state or private institutions. The literature sources were also categorised accordingly either as quantitative (e.g. those focusing on methodology or policy) or qualitative (e.g. case studies) for easy analysis and summarisation. The literature search was broad enough to cover all relevant detail.

Literature Review & Analysis for financing women-owned smmes

As mentioned in Section One, the purpose of this Report is to provide an overview of the current landscape of financing for women owned small, medium and micro enterprises (SMMEs); identify gaps and bottlenecks that hinder women from accessing funds; and recommend strategies to overcome them, including new models of investing differently in women in South Africa. To that end, the focus of the Literature Review has been to offer insights into existing current research and studies on inclusive financing for women SMMEs in South Africa.

There are some interesting developments in the research on gender, feminism and “entrepreneurism” and we highlight these developments in this section of the study. For example, research into women entrepreneurship and small business has changed over the years on an individual, micro and macro level in response to gender theories in three waves. This reference to waves of research of women categorisation is noted in Figure 5 below.

In the first wave, women were invisible in the business arena, but theories began to move from gender-neutral to male reference points. The second wave followed feminist observation and compared women entrepreneurs with men and their ideas. This wave ended up classifying women as the ‘other’ and as marginalised. Typical thinking predominant in this wave with respect to women in society resulted in the “lumping” of women with children, people with disabilities and other categories of individuals who were considered (consciously or unconsciously) to be “other than” the principal societal baseline, which was inherently male.

We are presently in what is considered by many authors to be the third wave of research with respect to gender responsive financing and researchers have increasingly challenged the notions of “otherness” in the marginality of women and women globally have fought to define for themselves what it means to be a woman and an entrepreneur. Accordingly, much of the literature prevailing at the moment is focused on the need for women SMME owners to define their own universe and to clearly express what it is that they require in order to balance their responsibilities in the private sphere with their activities in the public arena, including being a SMME owner.

Figure 5 – Published Dissertation GIBS

There are a plethora of studies that document the factors that prevent women from effectively accessing financial and non-financial support for SMME development, thereby thwarting the efforts of policy makers to make financing for women SMMEs more inclusive. These factors include (but are not limited to):

Changes of Category System in Women Entrepreneurship and Small Business

“ Th of SMME was viewed within a South African context, noting the conflation of terms between SMME and SME. Various definitions were explored and analysed fortheir inclination and specificity to developing countries. ”

- The lack of mentors
- The culture's lack of respect for women in business
- Women's insufficient business training
- Women identified coping with family and work as the most difficult factor to running a business
- Women in South Africa were found to differ from men in four factors: the obstacles they face, their reasons for starting a business, their goals and the factors they perceive as important to success;

These points support the contention that challenges faced by entrepreneurs could be gender based. If this is the case, institutional support offerings for women SMME owners would need to be tailored to address the gaps they experience at the appropriate level in the institutional offerings. What is required is an evolution in our understanding of the institutional arrangements that keep women trapped in survivalists and micro enterprises, and a firm commitment to breaking from outdated ways of dealing with SMMEs in general – one that involves the conflation of key terms and generalist policies in lieu of more targeted approaches.

Finally, it is important to note that much of the literature sourced also supported our initial findings, namely that the principal sources of failure in South Africa relating to financing women owned and operated SMMEs relate principally to:

- The lack of understanding of the nature of SMME growth, in general; and
- A dearth of meaningful interventions and strategies that have the capacity to penetrate L1 institutions.

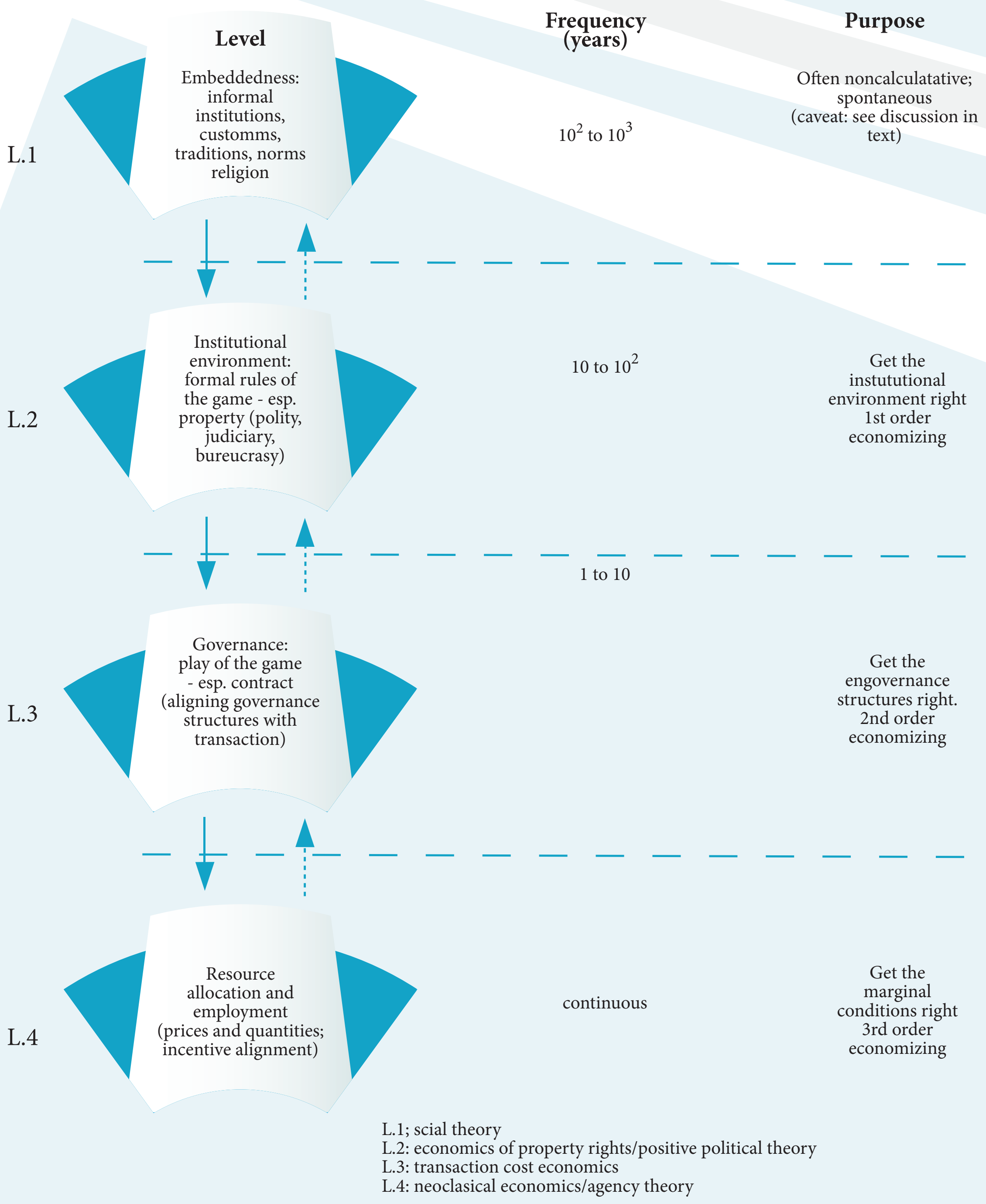
Levels of Social Analysis in Present Literature

This section summarises our findings based on literature that supports two related theories of social analysis that in our opinion matter greatly if we are to address the factors that impede more financial inclusion in support of women SMMEs. Both theories are related to new schools of institutional economics. The first premise is that institutions do matter. The second related premise is that the determinants of institutional economics are subject to analysis by these very same tools of economic theory.

In theory, there are four levels of social analysis as represented in Figure 6 below. The solid arrows indicate that the higher level imposes constraints on the level that is immediately below it. The reverse arrows that connect the lower levels with higher levels are dashed signal feedback. The author mentions that in due course the system is fully interconnected. Our rationale for including the Figure in this Section of our Literature Review is to call attention to the fact that many of the initiatives that provide financial and non-financial support to SMMEs are located at L4 – whilst many of the societal factors that conspire to keep women on the lowest economic rungs of the SMME ownership ladder are located at L1.

Level 1 is the social embeddedness level and represents the norms, customs, mores, and traditions that are located at this level. Religion is said to play a major role at this level. A characteristic of this level is that institutions change very slowly, in the order of centuries or millennia. Douglas North, cited in Williamson (2000), asks "what is it about informal constraints that give them such a pervasive influence upon the long run character of economies?" Many of these informal institutions have mainly spontaneous origins and a deliberative choice of a calculative kind is minimally implicated. The result is that institutions have a lasting grip on the way society conducts itself.

Figure 6: Four Levels of Social Analysis



So what are the implications of the foregoing social analysis for South African policy makers who are involved in the design of SMME development strategies and interventions? Level 2 represents the institutional environment and it is where policy makers can truly make a difference. The structures in place on Level 2 are partly the product of evolutionary processes and structural design opportunities. These design instruments include the executive, legislative, judicial, and bureaucratic functions of government and the distribution of powers across the different government structures. The definitions of property rights and of contract laws are important features.

Based on our Literature Review, most authors concur that the current level of discontent within the existing SMME landscape in fact provides the South African government with opportunities to produce sharp breaks from established procedures and presents a rare window of opportunity to effect broad reform.

These "breaks" should be distinguished from the policy recommendations that encourage regulators to analyse better the impact of existing policies before promulgating new ones. The point here is simply that windows of discontent offer opportunities to implement major changes in the rules of the game that without such intervention would only occur in the order of decades or centuries.

Level 3 illustrates the ability of institutions to establish policy changes in an economy, whilst Level 4 is the level at which optimal apparatus, often marginal analysis is employed and the SMME is described as a production function. At this level adjustments to prices and output occur on a more or less continuous basis and changes are instituted quicker.

Non-Financial Business Development Support Network

Non-financial business development support is offered in South Africa by institutions including Government agencies, corporate organisations, private companies, NGO's, international organisations and donor agencies. Gender mainstreaming is normal for most BDS providers, with only a few specifically mentioning or targeted at women.

Although there are institutions offering purely BDS services, many organisations offer a combination of BDS and funding. Where both services are offered, BDS may be a separate offering or may be provided as an add-on to funding.

Despite Government policies to encourage women-specific BDS services and the Department of Trade and Industry (DTI) creating many initiatives for this purpose, the resultant network of service providers is confusing to negotiate. Certain institutions no longer exist or have been integrated into new agencies, but this is not clearly indicated in the DTI's literature. Some government reports are not dated, which is a problem in trying to establish the regulatory context for SMME's.
The literature shows that a high percentage of entrepreneurs are not aware of the existence of BDS providers. The Finscope South Africa 2010 Small Business Survey (hereafter referred to as Finscope 2010 Survey) found that 75% of respondents were not aware of any BDS services.

Gender mainstreaming by government and other organisations often makes it unclear whether offerings include women-specific services. SEDA appears in DTI literature to have women specific BDS, but is cited in the Finscope survey as not offering any. Some agencies appear to include women as an afterthought, excluding any mention of them from the main text of BDS offerings, and only showing them as a sub-category along with the youth and disabled people.

Findings from the main documents reviewed are provided in the following sections. Women-specific BDS organisations identified in the reviewed literature are shown in the appendix. Also included in the appendix are the results of the preliminary desk research and a listing of other documents reviewed in the process.

Under the direction of the DTI, and as result of government SMME promotion policies, a large decentralized network of non-financial business development support (BDS) has been created in South Africa. The Small Enterprise Development Agency, SEDA, formed at National level, provides BDS support through branches at provincial level. At local government level, support is provided through Local Business Support Centres.

DTI initiatives include specially created programs for SMME development. A broad range of support is available and includes basic business support and advice, skills development, incentives for business, export promotion assistance and market research. Despite the creation of the Gender and Women Empowerment Unit, only a few of the DTI's SMME promotion initiatives appear to target women specifically. The Department acknowledges that gender mainstreaming, where women are included with other groups, needs to be balanced with women-specific support.

The network of non-financial BDS service providers is not limited to government agencies, but includes private organisations and individuals, large corporations, NGO's, foreign companies and donor agencies. Of the organisations identified in the literature review, only 40 offer women-specific support. They are listed in Appendix B.

Challenges Identified by Non-Financial Support Providers

In analyzing the non-financial services support mechanisms that currently exist in South Africa, our aim was to understand both the demand side (noted above) as well as the supply side challenges (noted below) that exist at many levels of BDS support for women. The following are the key challenges identified by BDS service providers:

Women-Specific Challenges

• Insufficient women-specific support programmes
• Broadly categorizing women and failing to segment their needs adequately
• Many agencies have insufficient data on the number of women they assist
• Lack of information on services available to support women entrepreneurs
• Poor access to markets and lack of information on entering new ones
• Hidden barriers to participating in male-dominated sectors; and
• Mainstreaming of women in service offerings.

Challenges Created by Policy tial end-users are not aware of service providers existence
• Difficulty, high cost and lack of information of business registration
• Poorly qualified and inexperienced staff
• Inadequate BDS support at both provincial and national levels
• Inadequate BDS programme content lacking:
• General business start-up concepts and skills
• How to assess business ideas
• Market research and business planning
• Business management skills
• Time management
• Financial literacy
• Mentorship support
• Personal skills development and leadership skills
• Lack of access to information, advice, marketing, procurement and finance
• Lack of training in entrepreneurship, business and management skills
• Lack of training in industrial relations and the labour environment
• Limited access to appropriate technology
• Lack of joint ventures
• Lack of capacity building and institutional strengthening.

From the literature review, it appears that the DTI, as the principal decision- making and coordinating body in the enterprise development space, needs to improve the BDS offering in general, and with respect to women owned SMMEs, in particular.

Ways in which this could be achieved include:
• Streamline and improve communication channels throughout the BDS support network to avoid confusion and duplication of effort;
• Improve potential end-user awareness of programmes and initiatives; and
• NCreate more women-specific programmes in line with women's particular needs.

In reviewing literature that relates to women and entrepreneurship/ SMME development, we noted the influence of socially constructed differences between men and women, which can change over time and which vary within a society and between societies. Several prominent authors that write in the space of gender based entrepreneurship note it would be useful to understand entrepreneurship as itself "a gendered activity".

Gap Analysis

It is important to distinguish between two different types of gaps identified for purposes this Report: gaps in the research literature; and gaps in availability or accessibility of financing for women SMMEs in South Africa. Both of these distinct types of gaps are discussed in this section.

There are few national, provincial or local level South African studies that attempt to evaluate the range of SMME types and also provide data that can be disaggregated according to the definition of women SMMEs defined in the Terms of Reference and accordingly, the Research Framework and Methodology (See, Appendix A) that sets the research parameters for this study. The difficulty of attempting to reach meaningful conclusions when data is non-existent or not disaggregated is further exacerbated by the lack of a working definition of SMMEs that can be utilized across theInstitutions surveyed.

There is also ample evidence that women SMME owners face different barriers depending on the industry, business type, age, stage, and type of financing required. As such, it is critical to have reliable baseline data on the barriers faced by SMMEs as a whole that can be disaggregated according to these categories, in order to provide a relevant comparison point for examining whether certain SMME owners (i.e. women) face greater barriers because of their gender. The existing baseline data for SMMEs as a group is inadequate to provide a starting point for this type of useful analysis.

Gender focused funding as a niche within the "access to finance" arena is relatively new when compared to funding for SMMEs as a whole. In addition, the various studies that were reviewed and noted in this Report were published during the last 5 years, and many of these studies attempt to draw conclusions based on data that is presently still inconclusive. In addition, each study has its own focus, reference group, and objectives, and as such, employs specific research methodologies targeted to its objective(s). As well, some of the studies have a regional or provincial focus rather than national.

The majority of the studies reviewed for this project focused on the SMME sector as a whole, and were not designed in a way that would allow for disaggregation of data to examine barriers to financing by type of industry, stages, maturity of business or location of business within South Africa (i.e. urban versus rural). These factors make it difficult to draw accurate, broadly-based conclusions regarding how to properly construct an effective pipeline for financing women SMMEs from the cross-section of South African (and international information compiled on South Africa) literature presently available. It is even difficult to do intra-group comparisons based on existing research, as the methodologies, scope of research, sample size and research focus varied significantly from study to study.

From a research perspective, much of the published literature on demand and supply side SMME financing lacks rigour. Again, this is in part due to problems with the definition of "SMME", as well as the pressure on researchers to shape the sample population to comply with the problematic definitional parameters that, in turn, make it difficult (or impossible) to draw accurate conclusions that can have profound policy implications. For example, of the 17 relevant studies found pertaining to SMME financing barriers, only a few utilized a control group and used South African data. Of these, all focused on women, so there is no comparable existing published data focusing on barriers faced by other profile groups that can help us to establish a baseline to stress test the issues raised.

In addition, only a handful of the articles used in this study were published in peer-reviewed journals; the majority were reports conducted by or for particular types of organizations (e.g., banks, small business organizations, groups representing particular interests). This lack of scientific rigour is of particular concern for drawing conclusions regarding financing when so few papers have been published on topics such as barriers to SMME financing for women in particular sectors or geographies.

Finally, any research of this type is limited in its access to those businesses that were not able to access any funding and were therefore unable to move even to the start-up stage. This is a real loss when trying to evaluate barriers to financing and whether particular groups face greater barriers than others. Methodologically, however, it would be very difficult to identify this group for survey purposes, as financial institutions and other funding sources are unlikely to release information regarding unsuccessful candidates, and those who are unable to start SMMEs would be difficult to find without very large scale sampling.

It is also worth noting that initiatives that target women SMME owners in sectors of the economy where they are not presently active are bound to fail due to the fact that successful SMME owners are driven by "pull" and not "push" factors. A finding supported by the most recent GEM and SBP Survey reports.

> *"The literature shows that a high percentage of entrepreneurs are not aware of the existence of BDS providers. The Finscope South Africa 2010 Small Business Survey (hereafter referred to as Finscope 2010 Survey) found that 75% of respondents were not aware of any BDS services."*

4 SECTION

SURVEY OF FINANCIAL INSTITUTIONS AND FUNDING VEHICLES

SEFA's mandate is "to address the challenges faced by ***SMMEs,*** including survivalist businesses and cooperatives." Its target over the next five years, from ***2013-2018,*** is to lend ***R6.4 billion to SMMEs*** across the country.

"Its target over the next five years, from 2013-2018, is to lend **R6.4 *billion*** ***to SMMEs*** across the country."

It bears repeating that the main purpose of this study is to provide an overview of the current landscape of financing for women owned micro, small and medium enterprises (SMMEs) in South Africa; to identify gaps and bottlenecks that hinder women from accessing funds and recommend strategies to overcome them; and to consider new models of investing differently in women-owned businesses in South Africa. This section looks at public and private sector funding vehicles that target women and how they are deploying capital to women SMME owners based on one-on-one interviews that were conducted with financial institutions and other funders.

South Africa has an impressive number of funding institutions and vehicles that specifically target women owned and operated SMMEs, many of which are the result of government and private sector initiatives to channel more resources into the hands of women. This section examines the financing pipeline for women SMME owners based on one-on-one interviews that were conducted with over 90% of the financing vehicles that operate within this are.

Specifically, we targeted institutions that provide loans to women starting at 30 000 ZAR and above, in order to make a clear distinction between microloans provided by microfinance instituitons (MFIs) for survivalist-type of businesses from those that aim to support more growth-oriented businesses. Like many of the businesses that are supported, this universe of funding institutions is concentrated in Gauteng and comprises less than a dozen development finance institutions (DFIs) and private investing vehicles. This excludes commercial banks, MFIs and Enterprise Development Funds, which are treated separately.

Within the public sector, the largest of these financing vehicles, as measured by the total amount of funds under management, fall under the Department of Trade and Industry (DTI) and the Department for Economic Development (DED). These funds constitute a substantial percentage of the constellation of Development Finance Institutions (DFIs) that make up the financing landscape in the country. Although their mandates vary from boosting domestic industrial capacity, creating jobs, addressing the challenges faced by SMMEs, and implementing Broad-Based Black Economic Empowerment, the DTI and DED funds were created with the sole purpose of putting more resources into the hands of entrepreneurs to improve household incomes and accelerate economic growth and job creation. To date, we were unable to determine the approximate amount of all funding (public and private) available for SMMEs in South Africa, and accordingly the percentage of that total amount that is controlled by the DTI and DED. We have made recommendations for further research in this area.

Overview of Public and Private Sector Funding Institutions

One of the oldest DFIs in the country is the Industrial Development Corporation (IDC) whose existence predates the dawn of a democratic South Africa in 1994, having been created by an Act of Parliament in 1940 (Industrial Development Corporation Act – No. 22 of 1940). Previously, the IDC fell under the Department of Trade and Industry, but with recent government department reorganization, the IDC now falls under the Department for Economic Development. The IDC's mandate of building the country's industrial capacity has not deviated much since it was established, except with the addition and removal of certain sectors and permission to now invest outside South Africa. At one point it could invest in construction, franchising, publishing, education, financial services and transport, but now it is restricted to specific sectors which include manufacturing (including chemicals, metals, clothing and textiles, wood and paper), mining, agro-processing, green industries and value-added services such as tourism, healthcare, media and motion pictures and ICT.

In order to bring more women into these sectors, the IDC established the Women Entrepreneurial Fund in 2008 with funds from its own balance sheet. Initially capitalized at R400 million, but reduced to R300 million one year later, this Fund is one of the oldest government sponsored funds that make up the funding pipeline for women-owned SMMEs. The National Empowerment Fund (NEF) is a more recent creation that speaks to the aspirations of the ANC-led government to correct some of the economic disadvantages Black South Africans suffered under apartheid that restricted their entrepreneurial development. It was created in 1998 (National Empowerment Fund Act, No. 105 of 1998), and became operational in 2004 with a government capitalization of R2.5 billion.

Its mandate is "promoting and facilitating black economic empowerment by providing financial and non-financial support to black empowered businesses, and by promoting a culture of savings and investment among black people." Among it's strategic objectives is supporting black women in the economy which has resulted in 21.1% of the NEF's approved investments, to date, being in businesses that are owned and managed by black women. The newest of the DFIs is the Small Enterprise Finance Agency (SEFA) that was established in April 2012 as a wholly-owned subsidiary of the IDC. SEFA is an amalgamation of three previous organisations: Khula Enterprise Finance, the South African Micro-Finance Apex Fund and the IDC's small business unit. SEFA's mandate is "to address the challenges faced by SMMEs, including survivalist businesses and cooperatives." Its target over the next five years, from 2013-2018, is to lend R6.4 billion to SMMEs across the country. Significantly, 40% of the loans must be to women, which amounts to R2.5 billion.

SEFA provides direct loans to SMMEs, but also provides Credit Guarantee Schemes through commercial lenders and wholesale lending to financial intermediaries, which include micro-finance institutions, to on-lend to SMMEs. Within the DTI family and slightly older than SEFA is the Isivande Women's Fund, which was established in July 2011 and is managed by an external fund management company, Identity Partners, under the supervision of the IDC. This fund has approximately R34 million to invest in women-owned SMMES and 80% of these must be black-owned. Its mandate is "to accelerate women's economic empowerment by providing more affordable, usable and responsive finance than is currently available." Not only does this fund provide

both equity and debt to SMMEs, but 22% of its funding is for start-ups, 30% is for expansion (defined as geographical expansion), 19% is for buy-outs and 16% is for growth capital (defined as increasing capacity). The Isivande Fund also has a separate fund of R5 million to provide technical assistance to the businesses it supports.

Funding vehicles for women that have been established by the private sector, excluding commercial banks, have fewer assets under management compared to state-owned DFIs, but they too are making an important contribution in supporting women-owned businesses. The pioneering Women's Private Equity Fund (WPEF) was launched in 2002, when no such vehicles existed, in the belief that there were a substantial number of women-owned businesses with the capacity to absorb larger private equity investments. With an initial capital base of R128 million exclusively from the public sector, it remains, even today, "one of only 10 women-focused private equity funds in the world." Its emergence was greeted with a huge response with over one thousand applications for funding received in its first six months but its track record over the years has been less than stellar.

Other private sector funding vehicles that target women are the Masisizane Fund, established by Old Mutual in 2007 from its demutualization process. The Masisizane Fund has a total amount of R400 million which has been allocated to women, youth and people with disabilities who operate in small towns, rural areas and townships. Of this total, R275 million was set aside for a Women SME Fund to assist in the growth of black women-owned and run micro and small enterprises.

The PPC Ntsika Fund, which is owned by the PPC group (a registered financial services provider), is another example. This fund, which was initially capitalized at R20 million, started in January 2013 and has a strong preference towards women-owned SMMEs. It is managed by Enablis, a non-profit organisation that supports SMMEs financially and non-financially. The Table below summarizes the financing pipeline referred to above, excluding commercial banks and MFIs, which fall outside our lending parameters.

It is worth noting that the majority of these funds, on both the public and private sector side, were set up in the last 5 years, which suggests that gender-focused funds are a still a relatively recent phenomenon. The emergence of these funds is possibly a sign of greater pressure on funding institutions and government to increase women's access to finance from women's business organisations and women entrepreneurs. It could also suggest that a "one-size-fits-all" approach to supporting all SMMEs regardless of gender, may be less effective than one that recognizes that women entrepreneurs face a different set of challenges than their male counterparts, which need to be taken into consideration when designing policies and intervention strategies to help them grow.

Notwithstanding the relative new-ness of female-focused funds, Business Partners Limited has been financing small and medium enterprises in South Africa for 32 years with private sector funding. In the late '90s and early 2000s it also experimented with having a Women's Fund but over time, it decided to combine all its funds into one portfolio and set a target that 40% of all its funding would be channeled to women-owned businesses. In addition to funding, Business

Among it's ***strategic objectives*** is supporting black women in the economy which has resulted in ***21.1% of the NEF's*** approved investments, to date, being in businesses that are ***owned and managed by black women.***

"Not only does this ***fund*** provide both equity and debt to ***SMMEs,*** but **22%** of its funding is for ***start-ups***"

Table 7: Funding Vehicles that Target Women in South Africa

Government-led Financing Vehicles	Private Sector Financing Vehicles	NGO-led Financing Vehicles
IDC Women Entrepreneurial Fund	Business Partners	
National Empowerment Fund	Masisizane Fund	
Small Enterprise Financing Agency	PPC Enablis Fund	WDB Enterprise Fund
Small Enterprise Financing Agency	Shell Foundation Enterprise Fund (managed by Identity Partners)	
Isivande Women's Fund	Women's Private Equity Fund	

Partners also provides after-care support and mentoring, with the post-support costs shared with entrepreneurs. As a specialist investment group, it has amassed more than R12.5 billion to invest in SMEs with the bulk of its funding (60%) aimed at expanding businesses, 20% aimed at start-ups and 10% for venture capital. These are ventures defined as being just past the seed stage and ready for commercialization.

Microfinance Institutions, Commercial Banks and Enterprise Funds

On the lower end of the SMME market segment, women business owners are also supported by Microfinance institutions (MFIs), which provide much smaller loans and tend to operate in rural areas. Typical examples of NGO-driven MFIs are WDB Microfinance, (formerly the Women's Development Bank) and the Small Enterprise Foundation, which focus exclusively on women.

Their average loan sizes of R1500-R2000 are far below the scope of this study since we focused on institutions giving R30 000 and above. Nevertheless, some do reach this threshold such as the Tutuwa Community Fund, which is the microfinance division of Standard Bank that was started in 2009 from empowerment shares that were distributed by Standard Bank through the Tutuwa Trust. Its loans range from R1,000 to R50,000 and 60% of its clients are women. Although microfinance institutions have disbursed hundreds of millions of rand to thousands of women, their loans really support survivalist businesses that rarely break out of this mold. WDB illustrates this point in having made 200,000 loans but not one above R25,000.

Commercial banks are more difficult to analyse in that they do not disaggregate loan information pertaining to SMMEs by gender, thus it is difficult to determine what percentage of their loan book is represented by women.

The usual route for banks is to develop specific products for women, such as Standard Bank's credit card for women – MyCard – that was launched in mid 2010. Billed as the first of its kind in South Africa, MyCard was designed to take into consideration the stronger buying power of women and their growing influence in determining household purchasing decisions. Women who applied for the card enjoyed carefully selected benefits such as "women specific disease cover," roadside assistance, and a handyman service. An interview with individuals from Standard Bank revealed that the card was not a success and confirmed, for them, that women want gender-neutral products that meet their needs – not products that differentiate them from men.

Absa Bank also offers a variety of women-specific products. 'Absalutely Women' is an insurance service tailored to suit women

and their specific risks such as: women specific diseases such as breast and cervical cancer, insure the child due to a circumstance rendering the mother unable to take care of the child, surgery or corrective procedures. Additional costs involved in pregnancy are covered. Absa Bank also has Absa Vehicle Finance for Women and a financial education website providing women with tips and advice and 0.5% concession on the financed credit rating.

ABSA reports that the number of female customers remained relatively stable from 51% in 2010 to 47% in 2013 as a percentage of the total number of customers. However, during the same period, the number of loans to women increased by 23 percent. Recently, ABSA established the Absa Women Empowerment Fund to provide funding to women SMMEs in approved industries, which is capitalized at R250 million. A unique aspect of this fund is that it lends to women who would not normally qualify according to bank criteria due to poor credit records.

Beyond offering products geared for women, other banks have used their marketing muscle, varied product offering and networks to attract this market. The best example of this is First National Bank's (FNB) Women in Business Program (WIB) that was started in 2008. The rationale for starting the program was to better understand what products and services women wanted and to help women become more financially literate. FNB also realized that business-women wanted a networking platform where they could meet other business people as they had difficulty in finding business opportunities.

Although no funds were allocated to the program, it was used as a marketing and outreach platform to attract female clients to other business units where they could access funding and other banking services. Through WIB, women could then get assistance in managing the application process and they could get coaching and guidance on how to better manage their businesses and what funding would suit their business needs. The WIB program was closed down in 2010 and was merged into another business unit when its female champion left the bank. Nevertheless, FNB Commercial lent out R5.2 billion to women-owned businesses in 2012.

A new trend that is emerging is the creation of Enterprise Development Funds that have a gender focus, which provide financial and non-financial support to women entrepreneurs. With the promulgation of the Broad-Based Black Economic Empowerment Codes (B-BBEEE), enterprise development is one of the areas that the government is championing to develop a stronger entrepreneurial culture in the country by getting large companies to help small businesses.

Under the enterprise development element of the codes, companies can earn points for making direct and indirect contributions to small businesses to improve their empowerment score-card. Contributions can be monetary or non-monetary and they can get additional points for supporting women. Shell has established a fund that targets women and youth that is managed by Identity Fund Managers, which also manages the Isivande Women's Fund. The WDB Group also launched an Enterprise Fund in 2013 which plans to provide small loans to women in the range of R50,000 to R300,000.

Investment Criteria and Focus Areas

The investment criteria used by these funds and the size of the loans they provide are driven by internal mandates which dictate what sectors they want to support, the mimum and maximum funding they can provide, and under what conditions or costs. Table 8 below shows the geographical focus of these funds and summarizes their investment criteria and distribution of funds according to different stages of businesses.

Table 8: Geographic focus, Investment Criteria and Stages of Businesses Funde

FUNDING INSTITUTION	GEOGRAPHIC FOCUS	INDUSTRY FOCUS AND WHERE FUNDS ARE TARGETED	OTHER CRITERIA
Business Partners	Operate country-wide but large urban areas are big drivers of their investments. Have offices in rural areas such as Nelspruit and Polokwane.	Most industries except hardcore agriculture and hardcore mining. 60-70% for expansion; 20% for start-ups; 10% for venture capital	Only target formal SMEs which seek funding within their range Turnover should vary from R2 million to R250 millionMust be South African basedOwners must be involved in the business
Isivande Women's Fund	Try to go beyond Gauteng	Not industry or sector specific but exclude "sin" industries and arms. Also don't do speculative real estate. 30% for geographic expansion; 22% for start-ups; 19% for buy-outs; 16% for growth capital	Business must be 51% owned by women Business owner must have a track record of 6 months operational involvement Potential for job creation Businesses must get business support
National Empowerment Fund	Focuses on urban and rural areas. Has 7 regional offices in Eastern Cape, KwaZulu Natal, Mpumulanga, Limpopo, Free State, Western Cape, North West. Plans to open an office soon in the Northern Cape.	All sectors except deep mining and "sin" industries. Some areas of property investment are also excluded. Fund all stages of businesses but don't track breakdown.	Businesses must have 50.1% black ownership; must show meaning participation of black women; must have operational involvement of black people at managerial and board levels; must be commercially viable and able to repay NEF funding.
Small Enterprise Finance Agency	45% of funds are earmarked for priority rural provinces such as Limpompo and the Eastern Cape.	Mining, agro-processing, small scale farming and manufacturing. Try to align sector focus with New Growth Path.	
WDB Enterprise Fund	Rural and urban areas	Agriculture and light manufacturing. Don't fund start-ups; businesses must be 2 years old.	
Women Entrepreneurial Fund	Try to set aside 30% of funds for projects in rural and peri-urban areas but difficult to achieve due to low deal flow. Has regional offices in all provinces.	IDC mandated sectors which include manufacturing, chemicals, metals, clothing and textiles, wood and paper, mining, agro-processing, green industries, tourism, healthcare, media and motion pictures and ICT. Fund start-ups to expansion but don't break up funding according to categories.	
Women's Private Equity Fund	Country-wide	Focused on early stage businesses that had high growth potential	

Loan Sizes

A striking feature of the funding vehicles that we analysed is the considerable range in the size of loans they provide to women from R30,000 to R75 million and above, as summarized in the Table below.

Table 9: Minimum and maximum funding range and average loan size of investments

FUNDING INSTITUTION	FUNDING RANGE	AVERAGE LOAN SIZE OR EQUITY INVESTMENT
Business Partners	R500 000 to R25 million	R2.4 million; average for equity investments was R4.5 million
Isivande Women's Fund	R 30 000 to R 2 million	R750 000
National Empowerment Fund	R250 000 to R75 million	
Small Enterprise Finance Agency	R50 000 to R5 million	R 250 000
Women Entrepreneurial Fund	R1 million to R40 million	R 3.5 million
Women's Private Equity Fund	R 15 million to R25 million	R8-10 million in equity
WDB Enterprise Fund	R50 000 to R300 000	Only started in 2013

Source: Interviews and Annual reports

Before the creation of SEFA, there was a noticeable gap in the market in the range of financing vehicles that were prepared to offer loans from as low as R30-50,000 and up to R250,00 and above. This is commonly referred to as the "missing middle" which is where most true SMEs find themselves - too large to qualify for microfinance loans and too small to access loans from commercial banks. SEFA services the small end of the missing middle where most micro-enterprises operate. Although the Isivande Women's Fund makes loans that range from R30,000 to R2 million, their average loan size is R750,000 which is on the higher end of the scale. SEFA aims to be a big player in this space. In the words of its CEO, "SEFA was set up to address a funding gap that isn't being filled by commercial banks." SEFA's direct lending business offers loans between R50,000 and R5 million but the average loan size is R250,000. It is worth noting that of this group that provides loans that are under R1 million to SMMEs, the Isivande Fund is the only one that provides equity as well as debt as part of its funding options, although SEFA has plans to provide equity at a future stage.

At the high end of the funding spectrum, loan sizes range from R1 million to over R75 million. As mentioned above, the Women's Private Equity Fund (WPEF) was one of the very first funds that sought to take equity stakes in women-owned firms by making investments in the range of R10 million and above. The IDC's Women's Entrepreneurial Fund also targets businesses at the high end of the market with loans ranging from R1 million to R40 million. This amount can be substantially higher if other business units within the IDC are willing to co-invest.

The NEF makes investments ranging from R250,000 to R75 million – a limit the NEF is willing to exceed if the investment is of strategic importance. It also offers the broadest range of products in the form of debt, equity, quasi equity, mezzanine finance and other options.

A snapshot of what these financing vehicles have achieved and how much capital they have invested is summarized in the table below based on the funds at their disposal and the number of enterprises they have supported since inception or in a given year.

Table 10: Funds Available and Deployed to Women Business Owners

INSTITUTION	FUNDS ALLOCATED TO WOMEN-OWNED SMMES	INVESTMENTS MADE IN WOMEN OWNED SMMES TO DATE	TOTAL FUNDS DEPLOYED TO DATE IN WOMEN-OWNED SMMES
Business Partners	R14.4 billion to SMES regardless of gender	978	R1.64 billion
Enablis Fund	R20 million	None	None
Isivande Women's Fund	R65 million	44	R36.6 million
National Empowerment Fund	R5.47 billion to all SMMEs	N/A (have approved 549 investments, 21% are black women-owned and managed in value)	R1.1 billion
SEFA	R2.56 billion	55,590	R537 million
WDB Enterprise Fund	R 1 million	1	R75,000
Women Entrepreneurial Fund (IDC)	R300 million	21	R86.4 million
Women's Private Equity Fund	R128 million	6	R100 million

Source: Interviews and Annual reports

Despite being the newest funding agency, SEFA far outpaces other DFIs in the funding support it provides to women because it works through intermediaries who are able to make many small loans using MFIs and through direct investments in SMMEs. The sheer volume of these micro loans suggests that although many women are accessing finance, the small size of the loans they obtain isn't catalytic in helping them to graduate from one level to the next. Although the numbers are impressive, one wonders whether this capital is being used efficiently in terms of return on investment.

Since its inception ten years ago, the NEF has approved 549 investments valued at more than R5.47 billion in black-owned firms, 21.1% of which are owned by black women. This would suggest that by value, about R1.15 billion has been channeled to black women business owners in that period. In the 2012-2013 financial year, the NEF approved 135 deals worth R1.33 billion but no indication is given of how many are female-owned.

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Nevertheless, the NEF comes out strongly in support of women in it's Report by categorically stating: "In the experience of the NEF, women entrepreneurs are known to have better financial discipline and tend to service their loans with far greater diligence and are reputed to do so in record time."

Recognizing the importance of this market and the need to step up its support of women entrepreneurs, the NEF will soon launch its own Women's Empowerment Fund to grow the participation of women in its investment portfolio from 21% to 40%.

Business Partners has the best track record of supporting SMEs overall and has invested R14.4 billion in almost 70 000 transactions involving small businesses since its inception in 1981, which must be borne in mind when comparing its record to much newer funding vehicles. It also has the best record of funding women SME owners. Over a 5-year period when such investments were tracked, it made a total of 978 investments valued at R1.64 billion in female entrepreneurs based on figures contained in Annual Reports from 2008-2013. This is an average of 195 investments per year in women entrepreneurs.

Currently, women make up 38% of their clients and 37% of the businesses it supports are run by black women. In their experience, "women spread their wealth further and women are more likely to share wealth." The other funding vehicles make a much smaller number of investments per year. Some face supply side challenges that impact their capacity to find the right women-owned businesses that fit their investment mandates.

As an example, the IDC Fund has made 21 investments since inception totaling R86.36 million. The most frequent reason applications are rejected is because clients don't provide the required information. The second biggest reason is because the applications fall outside the IDC's mandate and the third most important reason is because proposals are not commercially viable.

In an attempt to get more women to apply, the IDC ran a campaign in 2012 whose results are also instructive. The campaign generated 450 applications but 350 were in sectors that fell outside their mandate. Of the 100 who were invited to submit business plans, only 26 did; and of the 26 submissions, 15 were sub-standard. In the end, they received 4 comprehensive business plans and none were funded. Acknowledging the poor deployment of IDC funds, the Head of Development Funds admitted that "we struggle to find businesses that qualify under the fund, probably because the IDC mandate and the profile of current women-owned business are not aligned."

Other funding vehicles face internal capacity constraints in not being able to service the levels of demand that are out there, especially beyond Gauteng. Some funds also face challenges relating to the time and expense required to screen and filter numerous small projects versus larger investment projects. This issue of quality of deals versus the quantity of deals was alluded to in our interviews with some institutions feeling pressure from government to deliver numbers when they felt the focus should be on creating sustainable businesses. In defense of their cautious approach to lending, one respondent stated that "We can't lend recklessly therefore we need bankable projects."

Creating and sustaining a strong pipeline of bankable businesses is critical to satisfy the requirements of both demand and supply side market participants. Much of the literature on SMME funding for women focuses on demand side challenges. However, in carrying out this study we noted that equally important is creating a pipeline of experienced investment managers, both male and female, who can respond to this demand. Capital deployment (and supply side challenge) was cited as a key obstacle the Women's Private Equity Fund faced in its early years that hindered its ability to find and assess quality deals due to a lack of fund managers who were used to dealing with women.

On the positive side, what the numbers contained in this report do not show is how quickly funds are being disbursed to meet growing demand and the spillover effects of this funding in terms of of job creation. The Isivande Fund will be fully committed by December 2014 – well ahead of its 5-year schedule. Although the fund has made 44 investments, and has a very high approval rate, the managers observed that demand is higher than what they can service. Identity Partners is in the process of trying to raise a second SME fund given the huge demand they see in the market.

The NEF was also fully committed by 2010 and has lived off its investments, which have allowed it to double what it was allocated by government. The NEF has supported more than 44,000 jobs including 24,000 new jobs. Business Partners has created more than 550,000 jobs and its profit-making model has allowed it to survive for over 3 decades. One respondent stated: "Our mandate is to disburse all the funds we have been allocated and to get back as much as possible, but we don't have to increase the funds we have." We would argue that there is a need for funds to be run profitably in order to sustain themselves and to plough back their earnings into funding more businesses. Once funds have been fully committed and disbursed it is often difficult to go back to government and request more funds.

Today, SMMEs in South Africa provide approximately 52-57% of GDP and 61% of employment, not including the secondary and tertiary effects that would increase the relevancy of these percentages.

> "90% Currently, of SMMEs in South Africa employ less than 50 people."

The Cost of Funding

There is no doubt that development finance agencies of the South African government, commercial banks, private companies and microfinance institutions have made progress in ensuring the availability of capital for women-owned businesses. Equally important, though, is how accessible and how affordable that funding is which can also impact levels of uptake. A look at funding costs reveals the following picture:

In summary, most of the funds provided through DFIs and private institutions don't require security, which is a big benefit for women entrepreneurs who often lack collateral. Moreover, even in those cases where security or an owner's financial contribution is preferred, institutions are willing to waive this requirement if the deal is attractive and the business is viable. The IDC even talked about offering a "development discount" in pricing if the businesss had a positive social impact. What is less certain is whether the cost of debt is cheaper than what commercial banks offer. Some funds do attempt to keep financing charges below the prime lending rate charged by commercial banks but the majority do not, once their administrative and operating costs are factored in. The WDB Enterprise Fund indicated that they would have liked to offer a lower interest rate, but having an Enterprise Development Licence from the National Credit Regulator determines the pricing they can offer. The CEO of SEFA explained how they arrive at their pricing which is above the prime lending rate:

"If the funds were put into the bank they would earn interest at 5.7%, therefore 5.7% is the opportunity cost of not keeping the money in the bank. The cost of funding is based on the hurdle rate which is the opportunity cost at 5.7% to which we add 5% for the cost of doing business and running the organization, 1% as an impairment charge, .5% for the time value of money and an additional risk premium of 1-4%.

This interest rate differential can be made up in more attractive repayment terms and other concessions that banks are more stringent about offering but this is not guaranteed. Some funders were unapologetic where the cost of funding was more expensive than commercial bank rates, and felt that their pre-investment and post-investment support was worth the difference. More education and transparency is needed about the cost of funding to business owners so that they know what they are getting themselves into and how this will impact their bottom lines.

Business Development Support

In addition to providing financial support, almost all of the financing vehicles we analysed provide some business development support (BDS) services to help entrepreneurs acquire useful skills and training which is informed by an assessment of the operational and strategic needs of the business. The objectives of BDS providers range from enterprise development support to skills enhancement to linking entrepreneurs with market opportunities and helping them to access finance. Some offer courses that entrepreneurs can take in finance, marketing, sales, etc., that vary in length depending on the level of the entrepreneur, and some facilitate linkages between business owners and development institutions and government departments where they can access specific services or training. The range of services provided also includes finding mentors who can provide one-on-one coaching and identifying financial institutions who can assist with funding. Most funds provided these services at no charge to the business owners, making this type of technical assistance a core component of the support provided to SMMEs.

Table 11: Financing Costs Used by Funding Agencies

FUNDING INSTITUTION	TYPE OF FUNDING PROVIDED	COST OF FUNDING%
Business Partners	Debt and equity	Charge prime plus 4% as the minimum but prime plus 7% is the average pricing. Debt funding is also priced at prime plus 4%.
Isivande Women's Fund	Debt, equity, contract financing and royalties. Short-term debt is repayable within 6-18 months and long-term debt over 3-5 years.	The cost of financing ranges, depending on whether security is provided, but generally prefer to charge below prime. Hurdle rate is 0% based on capital preservation, but charge interest in order to preserve the net present value of their capital.
National Empowerment Fund	Debt and equity	Use government bonds as their base cost and add a risk premium. Cost is then based on prime-linked rate. The required return on investment is between 15% and 18% on equity investments.
Small Enterprise Finance Agency	Debt only - including direct lending, revolving credit lines, bridge loans and terms loans. Also do wholesale lending to financial intermediaries. Don't take equity.	Rate charged for direct loans is about 11.5% to 18%
WDB Enterprise Fund	Debt only	Charge 14% fixed interest plus administration.
Women Enterpreneurial Fund	Debt only	Each transaction is priced differently but is based on a real after tax IRR of 3% and is adjusted for risk.
Enablis Fund		Charges 8% - plus 1 based on the level of risk. Loans based on a 5-year term.

Source: Interviews

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What seems to be lacking though, is training aimed at equipping women with the knowledge and confidence to raise capital and deal with banks or other lending institutions. As one respondent put it, *"Women don't know how to negotiate and how to pitch to banks. They don't take the initiative to market themselves."*

What also emerged from our interviews was the need to better position women business owners to access capital already available in the marketplace. This uptake can be effected through a number of strategic measures, including training and capacity building geared towards helping women owned and operated SMMEs to become more "bankable". Related to this is the issue of understanding when funding is required and the type of funding that might be appropriate at different stages of growth in enterprise development. It is interesting to note that both funders and BDS providers observed that women need more support in how to access funding. To quote one survey respondent,

"Women need help to know if they need funding and how to service that funding. They fear having a loan and don't know how to manage their cash-flows to service loans. There needs to be lots of education around this."

In terms of how BDS providers measure the impact of their work and its effectiveness, it was difficult to assess how many women clients have grown their businesses as a result of the support they receive. As one survey respondent said, "success is measured in terms of businesses that are able to generate income and the number of jobs created," but the systematic measurement and tracking of these results is lacking. This criticism also applies to most funding institutions who fail to track the progress of the SMMEs they fund on a long-term basis or whether they graduate from one level or type of funding to another. There are efforts underway to introduce a rating system for BDS providers, which would help to identify those that are doing a good job from that offer poor quality service which would be useful to business owners.

In our view, an even greater challenge is that both funding institutions and BDS providers are generally not set up to provide long-term "aftercare support" for women business owners. This is a problem at the lower segments of the market as women entrepreneurs seem to require more "hand-holding" than their male counterparts. This is partly a confidence issue and is partly the result of women having had less business exposure than men and less formal business training. In addition, BDS providers tend not to offer personal mastery skills, which develop one's confidence and ability to tackle obstacles – a key trait of successful entrepreneurs. The prevailing view among institutions that money is available for women SMMEs when countered with the reality that too many women still struggle to access finane suggests that the challenges of uptake are not being sufficiently addressed by BDS providers.

Nevertheless, this transfer of knowledge needs to be a two-way process with women not waiting to be spoon fed but taking the initiative to seek the help they need. There was a general feeling among BDS providers that women are not doing enough to help themselves and more women need to apply the training they have received. This further reinforces the importance of longer-term monitoring and evaluation strategies to see if businesses are growing and how many are graduating from micro-to small, small-to-medium and medium-to-large. As one respondent noted, "One has to take a long-term view in supporting women-owned businesses because they tend to require more support before they can be graduated to commercial banks."

When it comes to business support and training, most fund managers

recognize the importance of providing technical assistance to the business owners they fund. However, the general feeling among funders who partner with government training initiatives is that training provided by government agencies is too generic and more bespoke training is needed at different stages of the entrepreneurial journey.

Trends Worth Noting

As mentioned earlier, an interesting trend worth noting are the emergence of Enterprise Development Funds that have a gender focus. Enterprise development is one of the areas that the government is championing to meet BEE requirements as a way of getting large companies to support small businesses. Under the enterprise development element of the Codes, companies can earn points for making direct and indirect contributions to small businesses to improve their empowerment score-card, and they can get additional points for supporting women.

Some private institutions are also starting to prioritize access to markets in how they support SMMEs beyond access to finance. As one banker observed, "Most entrepreneurs complain about lack of access to finance, but they first need to show the bank that they have customers. Without access to markets money doesn't matter." ABSA has made a big push to increase market opportunities for small businesses by establishing a portal that links them with the procurement needs of big businesses. It also encourages some of their big suppliers to include small businesses in their supply chains. This trend is likely to continue and should benefit women business owners. ABSA has also established the Absa Women Empowerment Fund that provides funding to aspiring women entrepreneurs. An amount of R250 million a year has been ring-fenced for SMEs not eligible for funding through normal banking channels which should serve an even broader pool of applicants.
There are also useful lessons to be learned from initiatives such as the PRASA Women in Rail Program in terms of how to move women into non-traditional sectors where they are severely under-represented. The Passenger Rail Agency of South Africa (PRASA) was established in 2008 as the leading provider of integrated public transport solutions for urban rail commuter services and long haul passenger rail services. Recognizing this sector as one that is traditionally male-dominated, PRASA established a program to get more women into the railway sector over the next 5 years (from 2013-2018). By providing women with the technical skills to compete with their male counterparts, and by making women across the country aware of business opportunities in this sector, PRASA plans to dramatically change the face of this industry in less than a decade.

Moreover, by coupling this training with actual access to business opportunities, PRASA has been able to award contracts amounting to R627 million to over 100 women owned businesses to date. The Coca Cola 5 By 20 Program also provides non-financial support to micro and small entrepreneurs and is part of a global initiative to support 5 million women-owned businesses by 2020. In South Africa, the pilot phase of the project started in 2010 by selecting 40 businesses to support by giving the owners Coca Cola branded containers from which to sell their products. The business owners were typically spaza shop owners or street vendors who were retailers of Coca Cola. The program provides these women with business skills training through service providers, creates peer support groups for them and provides post-training support to assess how well they are applying their knowledge. With a mandate of creating 1 million jobs by 2015, the Program tracks the growth of these enterprises by measuring their income earned and turnover. In the next phase of the Program, Coca Cola plans to provide finance to these women by encouraging financial institutions to partner with them.

Summary

What is unique about this Report is the focus on the supply-side factors in understanding the challenges and opportunities in increasing women's access to finance. Having looked at the financing pipeline for SMMEs that specifically target women-owned businesses, South Africa does have an impressive array of funding vehicles, relative to most African countries, which is a positive reflection of government efforts to empower women at all levels of business from micro to large and to channel more resources into their hands. Both from a private and public sector perspective, this pipeline funds all manner of businesses from start-ups to established businesses, and provides equity and debt financing as well as other financial products such as contract financing, to cater to the needs of entrepreneurs at different stages of their entrepreneurial journey. Rather than elaborate on our findings here, findings related to the financing pipeline will be evaluated in section five. The relative success or failure of these funding vehicles in deploying capital to women will also be assessed in the following section based on the information that has been presented in the interviews above.

Today, SMMEs in South Africa provide approximately 52-57% of GDP and 61% of employment, not including the secondary and tertiary effects that would increase the relevancy of these percentages.

> "Currently, 90% of SMMEs in South Africa employ less than 50 people."

5 SECTION

KEY FINDINGS

Today, SMMEs in South Africa provide approximately 52-57% of GDP and 61% of employment, not including the secondary and tertiary effects that would increase the relevancy of these percentages.

> "90% Currently, of SMMEs in South Africa employ less than 50 people."

The following Section of this study contains key findings from the literature review and from the interviews conducted with funding institutions. Detailed recommendations for the South African government and policy makers based on our in-depth market analysis and discussions with key market players and stakeholders that are actively involved in SMME funding will follow in the next section. These recommendations are based on a macro view of the challenges facing policy makers responsible for creating an enabling environment in which an effective pipeline for financing women SMMEs in South Africa can be restructured and maintained.

General Findings

As discussed throughout this Report, creating a cohesive landscape for SMME growth involves the development of a complicated, multi-faceted set of policy initiatives that hinge on a clear understanding of the needs of SMME owners, the environment or landscape in which they operate, as well as SMME dynamics. Government has put in place legislation that makes the enabling environment conducive to the growth of SMMEs but legislation by itself will not make up for deficiencies elsewhere.

Polices and information pertaining to their growth is often fragmentary, anecdotal or simply non-existent and policy makers as well as SMME "experts" often fail to appreciate the inherent dynamism of this sector – a factor exacerbated by a poor definition of the sector. Based on our review of the South African landscape, our Literature Review, Gap Analysis and interviews with key stakeholders on the ground in South Africa SMME owners in general (and women in particular) do not understand the SMME environment.

Whilst there continues to be an increase in the number of institutions that have initiatives that target women, the macro impact of these various and often disparate initiatives remains difficult to assess in part because of the problematic definition of SMME as referred to earlier. The result is "over-inclusion" – meaning a plethora of initiatives that are reviewed – but many of which provide support to survivalist enterprises but do little to meet the actual needs of the SMMEs that have the capacity to develop into true growth enterprises that, in turn, drive GDP.

We have noted throughout this Report the need for a coherent definition of "SMME", a fact worth raising once again in this section detailing our findings and recommendations going forward. It is important to note that much of the literature reviewed uses the terms "entrepreneur" or "entrepreneurship" interchangeably with that of "enterprise", "enterprise development" and accordingly with the term "SMMEs". As with the muddled definitions of "SMEs" referenced above – we find this conflation of terms problematic if the goal is to develop specific and strategic SMME policies capable of effecting much needed measurable and sustainable change. Based on our experience, expertise and research, entrepreneurism and enterprise are related, but clearly distinguishable terms.

We define entrepreneurism as the process of identifying opportunities in the market and through innovation – assuming the risk of organizing, establishing and managing an enterprise or undertaking with the expectation of making a profit that may be social, financial or a combination thereof. We define an enterprise owner as any person, male or female, who owns a business. No determination is necessary as to whether that person is innovative in identifying the gaps in the market and in establishing and maintaining their business. Nor is it necessary for an SMME owner to display the characteristic appetite for risk that has come to define true entrepreneurial activity.

Why does this distinction matter? The distinction between entrepreneurism and enterprise development matters a great deal. In fact, an understanding of the differences is critical to an appreciation of our policy recommendations with respect to the growth and development of SMMEs in South Africa. A key component of entrepreneurism that was alluded to in our initial discussion concerning their needs relates to the "pull" versus the "push" factor. Entrepreneurs enjoy the process of building their businesses and are therefore likely to repeat process – especially if they are given the necessary freedom, support and encouragement to do so. These people display the resiliency that results in their SMMEs growing and developing despite harsh global financial conditions, a difficult South African SMME landscape and sometimes unfair competition from SMMEs that enter the South Africa from markets where they receive unparalleled support.

For the reasons noted immediately above, it is important that policy makers identify and target the entrepreneurs amongst the SMMEs that they support. Unfortunately, this distinction is often lost in policy making and in literature as well. The majority of authors simply do not drill down to such levels of specificity when discussing the dynamics of the SMME sector. As a result, most of the literature that frames the discussion of gender and SMME development "lump" survivalists undertakings with micro businesses with business that are being driven by entrepreneurs with real growth potential. It thereby reduces the value of the discussion for those interested in achieving the objectives of job and wealth creation that can be realized by harnessing the power of women owned SMMEs.

Findings from the Literature Review

It is important to distinguish between two different types of gaps identified for purposes this study: gaps in the research literature and gaps in availability or accessibility of financing for women SMMEs in South Africa. Both of these distinct types of gaps are discussed in this section.

The literature review showed that there are few national, provincial or local level South African studies that attempt to evaluate the range of SMME types and also provide data that can be disaggregated on women's access to finance by income levels, size of businesses, and other useful measures. The difficulty of attempting to reach meaningful conclusions when data is non-existent or not disaggregated is further exacerbated by the lack of a working definition of SMMEs that can be utilized across the institutions surveyed.

“Polices and information pertaining to their growth is often fragmentary, anecdotal or simply non-existent and policy makers as well as SMME “experts” often fail to appreciate the inherent dynamism of this sector – a factor exacerbated by a poor definition of the sector. Based on our review of the South African landscape, our Literature Review, Gap Analysis and interviews with key stakeholders on the ground in South Africa SMME owners in general (and women in particular) do not understand the SMME environment.”

In addition, the various studies that were reviewed and noted in this study were published during the last 5 years, and many of these studies attempt to draw conclusions based on data that is presently still inconclusive. In addition, each study has its own focus, reference group, and objectives, and as such, employs specific research methodologies targeted to its objective(s). As well, some of the studies have a regional or provincial focus rather than a national one.

The majority of the studies reviewed for this project focused on the demand-side challenges women SMMEs face as a whole, which were not designed in a way that would allow for disaggregation of data to examine barriers to financing by type of industry, stages, maturity of business or location of business within South Africa (i.e. urban versus rural). These factors make it difficult to draw accurate, broadly-based conclusions regarding how to properly construct an effective pipeline for financing women SMMEs from the cross-section of South African (and international information compiled on South Africa) literature presently available. It is even difficult to do intra-group comparisons based on existing research, as the methodologies, scope of research, sample size and research focus varied significantly from study to study.

From a research perspective, much of the published literature focused on demand side issues without looking at what financial institutions can do to better serve the SMME market. A much more systematic approach needs to be undertaken to understand the conditions that hinder entrepreneurs, from a financing standpoint, especially from those that tried but were not able to access any funding. This information would be valuable in trying to evaluate barriers to financing and whether particular groups face greater barriers than others.

When it comes to business support services, the literature shows that a high percentage of entrepreneurs are not aware of the existence of BDS providers, or where to look for funding, for that matter, which exposes the difficulty in accessing information that would be helpful for business owners. The DTI has gone a long way to assemble relevant information for business owners and to publish directories, guides and other manuals that list service providers and other non-financial supports, but the dissemination of this information is not as widely available as it needs to be. Even funders prefer to operate under the radar rather than marketing themselves for fear of being swamped, which leaves SMME owners in the dark about the funding options available to them. There is substantial scope for better educating and marketing the financial and non-financial (i.e. Business Development Services) offerings by the various existing government policies (as well as private sector initiatives) that are available.

Findings Regarding the Financing Pipeline

Gender focused funding as a niche within the "access to finance" arena is relatively new when compared to funding for SMMEs as a whole. Barriers in access to finance include the lack of a strategy for the successful penetration of the women SMME market segment that, again, shows a lack of precision in how to target distinct segments of this market and a lack of information from both supply and demand side players on where the successes and failures lie. This lack of information has several consequences for the intended beneficiaries of that funding.

In the first place, some institutional mandates set the benchmark for funding above the level that is accessible by most women SMME owners. The profile of women SMME owners clearly shows that the majority of these businesses occupy the lower to small end of the market, therefore their capacity to absorb large amounts of funding through debt, in excess of R1 million and above is highly restricted. The lack of information and strategy also results in institutional mandates that target sectors where women do not operate in significant numbers. These sectors are generally male-dominated areas where women SMMEs are greatly under-represented including manufacturing or more specialized industries such as chemicals, metals, paper, etc.

The lack of information and strict sector focus effectively rules out the participation of many women SMME owners the majority of whom continue to operate in the services industry.

Few of the initiatives studied offered low value equity investment and other types of financing that may be necessary for true growth SMMEs. New funding approaches need to be explored to prevent over-burdening entrepreneurs with debt. Private equity funds are important because they diversify sources of funding for entrepreneurs who often cannot sustain high levels of debt, especially when the business is just getting started. Private equity is aso a more patient form of capital that can weather the risks of investing over a long period of time while the business matures and grows. It also allows for a higher level of engagement with business owners, and the transfer of useful knowledge and skills to emerging businesses.

Another area that should be monitored closely, although difficult to detect, is evidence of gender bias or gender stereotyping in how banks treat female clients compared to male clients. One of the banks that we interviewed had evidence to show that women have higher repayment rates than men and tend to be better credit risks, which is almost universally acknowledged. However, female executives we interviewed who worked in commercial banks felt there was evidence of gender bias in the high failure rates of women seeking loans compared to men. This type of discrimination goes beyond the difficulties women can often experience in obtaining loans, to even paying higher fees than their male counterparts. A recent study of banks in the UK found evidence of gender stereotyping in that women entrepreneurs were charged higher fees for bank loans than men - up to 1% more.

Another interesting study of unconscious bias was recently done by three prominent US business schools: Harvard Business School, the Wharton School, and the MIT Sloan School. They found that investors prefer entrepreneurial ventures pitched by men even when the content of the presentations was the same." In the area of venture capital, where a high degree of persuasiveness is critical to obtain the confidence and backing of potential funders, this can be severely limiting for women in that the funding baseline is not gender neutral. In South Africa, not much funding goes to start-ups and venture capital is still quite scarce, which are critical areas to support in developing an entrepreneurial culture and encouraging male and female entrepreneurs to be innovative and take risks.

It is also evident from the pipeline surveys that a few funders are starting to introduce innovative financing approaches to SMMEs that don't require collateral. Although only a few of the funding agencies we interviewed provide contract financing – ie. loan facilities to fund the implementation of contracts from credible parties such as government departments or large corporates – this area is bound to grow. The same is likely to be true of supply chain finance solutions, which go hand-in-hand with the government's efforts to promote enterprise development by getting large companies to assist small businesses.

> *The lack of information and strict sector focus effectively rules out the participation of many women SMME owners the majority of whom continue to operate in the services industry.*

Whilst market segmentation occurs at the lower end of the financing spectrum, little market segmentation was noted with respect to the financial institutions that provide financing for small and medium enterprises. The principal financial services currently being rendered to SMMEs across the board are generally not being segmented by gender and these include: overdrafts, trade credit, SMME banking, cash management services and business advice.

Despite the country's impressive array of funders who specifically target women, when one excludes microfinance institutions, the volume of loans or equity issued by all providers is still a drop in the ocean compared to the demand. That tension is not likely to disappear soon and rather than sacrifice quality for quantity, we strongly believe that there is room for even more gender-focused funds that operate in the missing middle area.

This means that financial institutions have to get better at understanding the women's market segment and they have to treat this market seriously by improving the quality of their data and knowledge of what drives women SMMEs at different income levels. It also means that financial institutions also have to provide data, themselves, on how many women-owned businesses they fund, what percentage of their loan book is held by women, the number of women depositors, etc. According to the IFC's research, and as Standard Bank discovered, women don't necessarily need specific products designed for them. What they require is "custom-tailored marketing, specific distribution channels, and effective customer management by financial institutions."

Future Research Recommendations

Despite the fact that it is by now well established that SMMEs drive GDP, and the corresponding consideration that women are one of the fastest rising populations of SMMEs owners globally - and that they make a significant contribution to innovation, job, and wealth creation in economies across the globe – women SMME owners as a class are vastly understudied. This paucity of research on the effective financing pipeline for women SMMEs is also well documented. Accordingly, recommendations relating to the need for data aggregation will be set forth below in the section dealing with Policy Recommendations.

With regard to specific research and information gaps, the following issues have yet to be systematically addressed in studies relating to the effective financing of women SMMEs in South Africa:

Issues Relating Specifically to the Financing Pipeline for Women SMMEs:

- The amount of capital in South Africa (public and private) that is targeted at women SMME owners.
- The amount of capital actually deployed in the women SMME market segment.
- Transferability of management capacity and skills from the micro-finance industry to the SMME funding sector and the corresponding impact on capital deployment within the women's SMME market segment.
- The connectedness between compensation of SMME funds managers and the percentage of capital they invest in women: A question of mandates.

- The existence of effective monitoring and assessment frameworks by DFIs operating in South Africa with respect to the funding of women: Questions of Policy, Fragmentation and Implementation.

Additional Issues relating to Women SMMEs Start-up

Demand side Issues:

- The "push versus pull" factor of SMME start-ups. Do policies that "push" women into under-represented market sectors really work in the long term?
- Regional variations in female start-ups.
- Links between successful SMME start-ups, education levels, technical training and prior work experience.

Supply side Issues:

- The reasons for the longer incubation period for women owned business start-ups.
- Methods for effective education of funders concerning the biased-baseline when women are pitching start-up concepts.
- The effect of initial size and resources on long-term business performance – Does a gender gap exist?
- An exploration of the role of supply side factors as constraints in women start-up finance.
- Whether South African commercial banks charge higher fees for women starting in business.

Additional Issues: Ongoing Enterprise Management

- Links between prior work experience and relative business performance.
- Factors underpinning variations in business performance.
- Effect of gender on small business management.
- Effect of gender on productivity and overall business performance.
- Factors inhibiting the scaling of women businesses from micro to small.
- The different types of BDS that have the greatest impact on women SMME competitiveness.

Additional Issues: Financial and Non-Financial (i.e. BDS) Variations in Types of Markets Served

- The performance differences of women-owned and men-owned SMMEs within designated sectors holding non-gender determined variables constant.
- Regional and market sector variations in women-owned SME (versus SMME) performance across South Africa.

6 SECTION

RECOMMENDATIONS FOR A CODE OF GOOD PRACTICE

Key Recommendations – Exploring the Pipeline for Funding Women SMMEs

Today, SMMEs in South Africa provide approximately ***52-57% of GDP and 61% of*** employment, not including the secondary and tertiary effects that ***would increase the relevancy*** of these percentages.

> *"Currently,* **90%** *of SMMEs in South Africa employ less than 50 people."*

In presenting Key Recommendations in this Report, it bears reiterating that the nature of this study focuses on supply factors. We have consciously chosen to exceed the parameters agreed upon during the commission of this study to expand its scope to include a host of demand side, as well as non-financial factors, a discussion of which we believe is inherent in a study of this nature. However, the focus of this study is grounded with the Terms of Reference that have been incorprated into the agreed upon Research & Methodology contained in the Appendices. We believe that it is important to bear in mind the parameters of the study in order to better appreciate the focus of the recommendations contained below. As noted above, additional recommendations relating to the various sections and segments of the study are also noted throughout in the appropriate Sections.

We have noted elsewhere in this study the substantial impediments to SMMEs' access to finance that are present on the demand side. Many women seeking to access the finance pipeline are under-skilled and lack business experience, with the result that they struggle to gain access to existing capital and women-focused funds that concentrate on the higher segment of SMME market. At the same time, these funding vehicles sometimes find it difficult to deploy the capital they raise. We remain confident, however, that through the systematic monitoring and assessment of what is working in the market place, the SMME funding class – as a new asset class – will gain in experience. The continued efforts and support of the South African government, as well as the efforts of DTI and its private sector partners, will result in continued growth and development in the quantity and quality of the human and financial capital found in the SMME investment space.

In addition to the demand side challenges noted elsewhere in this study, our researchers also identified critical and substantial obstacles in the supply side that are the primary focus of this study. The demand and supply side obstacles interact in a complex fashion within the SMME market segment and we believe that is unlikely that policy makers will achieve the growth in GDP and new jobs that are presently targeted unless and until a more structured approach to SMME growth and development is conceptualised and implemented. This targeted approach will require a questioning of how the strategy for SMME growth ties into the government's growth objective. Each segment of the SMME segment will then need to be studied to determine how the overall governmental growth objectives can be furthered by the strategies for that specific segment. Finally, policy makers will then need to decide how to address the issue of fragmentation in the segment that sees many potential growth SMMEs trapped within the micro segment of the market.

In light of the foregoing, a critical finding of this study is the conclusion that the progression of SMMEs along the growth continuum from micro to medium (where meaningful job creation occurs) is not achievable on a large scale within the existing regulatory landscape because of the immensity of the SME sector which is further exacerbated by its conflation with the micro-financing segment which we believe is a separate industry to the SME funding sector. In addition, it is logistically impossibile to accompany SMMEs along the growth continuum based on current education levels found amongst women SMME owners who find themselves on the difficult path to a high-skill high-capital status. The danger is to grow the low-skills high-capital segment, which is an area of systemic risk for the financial sector and is indeed often viewed as a "no-go area" because the amount of risk funders must assume to fund this market segment is deemed incommensurate with expected returns.

Recommendation #1 – Focus on Creating Informed Demand for Existing Capital

Accordingly, we suggest a policy focus on skills development as Step 1 in the Code of Good Practices for developing the funding pipeline for women SMMEs. By investing in targeted skills development and education concerning financial literacy, capital raising and the availability of financial and non-financial support available for women SMME owners, policy makers will enhance the capacity of women to better uptake the financing that is currently available.

In governmental terms, this demand side challenge is regarded as the responsibility of the DTI and the Ministry of Gender. However, we believe that to focus on this demand side challenge alone would ignore the fact that the financing must be available when demand is ready. The recommendations noted below focus on a range of other obstacles that must be addressed in order to make certain that the financing pipeline for women is sufficient to meet informed demand.

Recommendation #2 – Promote Business Angels and Venture Capital

The SMME landscape is vast, complex and varies by sector, size, geographic location which poses particular challenges to policy makers and regulators seeking to address the issues of access to finance. Generally, an SMME that has a turnover of R5 million per annum should be able to access debt financing through banks, whereas small businesses with a turnover of R150 000 per annum remain highly dependent on loan finance or equity from either friends or family. Women business owners are more prone to rely on this type of funding. These findings are consistent with studies of SMMEs in other markets where consistently, the finance that owner-managers can access in their personal capacity plays a critical role in the provision of finance to the enterprises. This factor is also consistent for both women and men SMME owners.

The recommendations accordingly consider both the markets for equity and debt finance for SMMEs in Africa. With regard to the equity-funding market, policy makers should more actively promote the concept of 'business angels' and venture capital for start-up SMMEs. Fiscal support is justified in this area, because the lack of equity funding for SMMEs is a symptom of a deeper problem, namely a serious market failure. For the somewhat larger enterprises, the venture-capital market may be attractive, but only if lower entry requirements are introduced to revive this market segment.

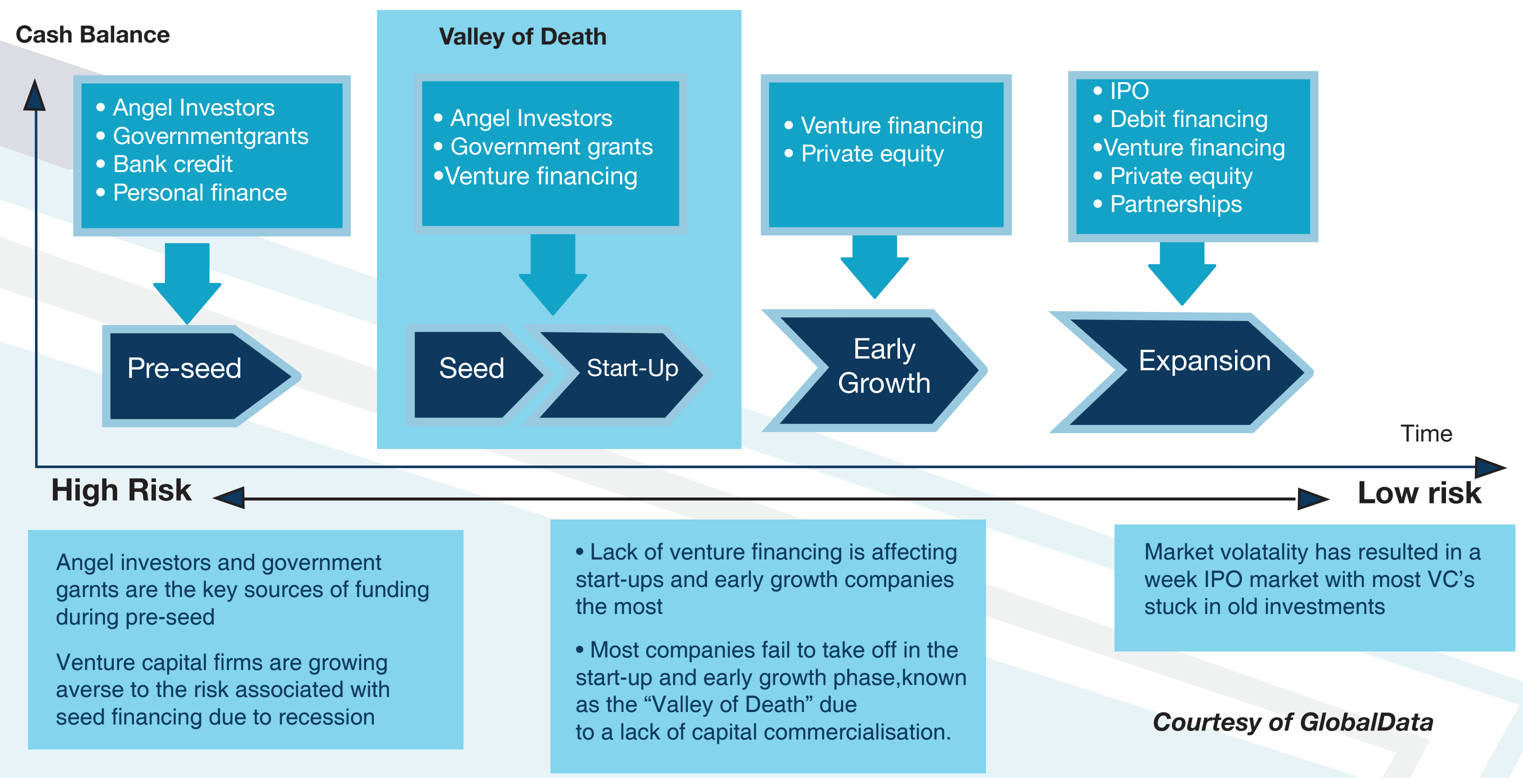
Structural improvements could also be made in the debt-funding market for SMMEs. For example, better disclosure rules and more competition may improve credit facilities from the banking sector, and the market for asset-backed securities could likewise contribute to better debt-funding mechanisms for SMMEs in future.

Recommendation #3 – Address Market Segment Fragmentation

Businesses grow along a continuum. We recommend that the South African government unpack the definition of SMME and develop funding strategies appropriate for each segment in this definition.

We then recommend that policy makers consider incorporating the Life Cycle Theory of Firm Development into a national strategy relating to SMME funding pipeline development. As noted in Table 7 below, the lack of business angels and venture financing translates into there being a dearth of meaningful financing options in the pipeline to fund new venture creation. Traditional SMME funders in South Africa have been been concentrated at the low end of the SMME scale (survivalist and micro). The knock-on effect is that innovation and sustainable venture creation is stifled. We have also noted elsewhere in this study that the existing financial landscape contains market errors that have resulted in lending institutions not being incentivized to invest in this market segment. Accordingly, in the lifecycle of SMME development, we refer to this stage as the « Valley of Death ». Policy makers, by focusing on increasing the amount of appropropriate financing for SMMEs have the opportunity to correct this market failure.

Figure 7 : Life Cycle Theory of Firm Development



Courtesy of GlobalData

Recommendation #4 – Make Finding Bankable SMMEs Easier for Funders

Encouraging women-owned businesses to become formally registered and to operate within the formal financial system will improve their chances of accessing funding. At the same time, access to information about SMMEs should be increased to ensure that existing and potential providers of finance have the information they need to assess the risks of evaluating funding applications by using credit scoring techniques geared to SMMEs. This should help to make them more bankable and lower perceptions of women-owned businesses being more risky. It would also be important to ensure that the control over information on SMME exposures is not utilised by dominant players, such as banks, to inhibit competition or to inhibit the entry of new providers of finance. Any intervention that improves the ability of financial service providers to accurately assess SMME risk would increase their willingness to extend credit and other financial services to SMMEs.

Recommendation #5 – Pass Legislation that Requires Better Reporting of Finance Charges

Disclosure rules for the providers of finance could be improved to address the current lack of transparency of finance charges and borrowing costs. Most SMMEs find it difficult to compare one funder to another, or the different types of funding they are presented with, because they usually do not have a full picture of all the finance charges that are levied by various credit suppliers. This restricts their choice and flexibility and is a valid concern even in the case of funders who focus on providing equity investment for SMMEs. Because they generally have lower levels of education and business experience, women are especially vulnerable to being subject to charges for finance (both debt and equity) that can hamper the growth of their businesses and, in some cases cause severe over-leveraging, leading to the SMMEs' collapse.

The impact of the changes proposed above would be limited until the price control embodied in the Usury Act is scrapped or, at least, modified in order to allow the prices charged for financial services (and interest on loan finance) to be set at levels that are commensurate with the cost and risk of providing finance to SMMEs. The proposed regulatory changes should both increase access to and improve the cost of providing finance for women owned and operated SMMEs.

Recommendation #6 – create more funding vehicles that invest in women

There will always be less capital available than is required by entrepreneurs. This tension between supply and demand continues to plague even developed countries where the supply of available capital is far higher than what emerging economies can provide. But the business case for investing in women is sound and has been proven by numerous studies world-wide. Simply put, women are a good investment and investing in women makes good business sense.

In South Africa, the majority of funding vehicles are concentrated in Gauteng which is where most businesses are. More effort needs to be made to reach other provinces perhaps through regional-specific funds or rural-focused funds managed by regional DFIs and Development Corporations. This must be coupled with more and better quality data about where women feature in the economy in the informal and formal sectors. National surveys which track the progress of women-owned SMMEs must be done annually just as surveys to track financial inclusion levels around the country are conducted annually. This would vastly improve our understanding of the challenges facing women-owned SMMEs and enable policy-makers to design the right interventions.

SUMMARY AND CONCLUSION

As mentioned at the outset of this study, our findings and experience support our recommendation that the South African government revisit the inclusion of survivalist businesses and microenterprises with true SMEs. This should not only inform policy decisions, but clearly must flow through to the determination of capital available for micro-enterprises, as compared to small businesses.

An important finding from our surveys supports the need for a more detailed analysis of how the "lumping" of microenterprises and survivalist businesses with SMEs has in fact led to a distorted view of the amount of capital available to businesses in general and calls for a deeper look at the government's strategy specifically as it relates to more growth-oriented SMEs – which are better positioned to create jobs than micro-enterprises.

The interest in women-owned enterprises is of a relatively recent nature. Several reasons led to the current concern about investing differently in women who run small and medium enterprises. Globally, studies have shown that small firms make various indispensable contributions to every country's economy.

They act as major job providers, produce a significant part of the total value added, feed larger industries with their needed inputs of production and after-sale services, as well as act as distributors/ buyers of their products. In addition, small firms provide a large segment of the poor and middle-income population with low priced consumption goods and services.

SMMEs also represent a useful channel through which small savings are translated into investments. Finally, small enterprises could become major sources of constant innovation and experimentation and could thereby change the market structure.

The continuous influx of small firms, in all sectors of the economy by all segments of the global society, is considered a healthy phenomenon and a crucial barometer for social and economic well-being. It reflects the extent of dynamism and movement in the market. The entry of new enterprises that are owned and operated by women carries the possibility of the emergence of a group of dynamic, efficient, and ambitious women entrepreneurs, who have the potential for growth, development, and expansion. Since informal economic units constitute the main bulk of small and medium enterprises, researchers have been interested in studying the main characteristics of the informal micro-enterprises and how they differ from formal enterprises.

What we are finding is that funders and donor organisations would achieve a greater developmental impact if more resources were allocated to helping informal enterprises become formal; and for there to be more specific and targeted interventions that can assist formal small enterprises to grow to become medium sized enterprises.

Decades of experience, market research and business analysis supports the finding that investing in research and innovation in providing greater access to financial services by investing in women owned and operated SMMEs is not only vital to finding solutions to the current economic crisis, but also to ensuring that such financial and economic crises do not reoccur in the future.

It is our sincere hope that this study that was commissioned by the UNDP is utilized to contribute to meaningful policy discussions that translate into more strategic policies that harness the capacity of women SMME owners to multiply positive growth effects in the sectors and communities in which they operate.

APPENDIX A

RESEARCH METHODOLOGY & FRAMEWORK

The NFNV Approach
New Faces New Voices (NFNV) uses a thorough logical framework for developing research methodologies. Our aim in developing a logical framework is to facilitate and enhance the process of analyzing the Final Research Report in order to enable the UNDP and its partners at the Department of Trade and Industry (DTI), the Department of Economic Development (DED), and the Department of Women, Children and People With Disabilities (DWCPD) to maximize its impact on development. Thus, our approach to Research and Development (R&D) is developed with a clear developmental impact goal in mind.

How we define development
Development is defined as a process of empowerment that helps people to obtain influence over the factors that govern their lives. We are keenly aware of the challenges of incorporating methodologies that will permit us to begin to develop innovative ways to measure and assess achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.' This broad definition of development contrasts with narrow views that focus on for example only GDP growth, industrialisation or technological growth, although these will all be important means to empower peoples and give them more capabilities.

Definition of impact
Impact is defined as an assessment of whether institutions within South Africa that have a mandate to fund women owned and operated SMMEs are, in fact, deploying capital as intended. In our assessment of SMME funding impact, we adjust for any potential negative effects of the work carried out and seek to identify only what has happened as a result of what the organisation does and not what would have happened anyway. We define who the development impact affects (eg. income class, gender group, ethnic group, age group) and when the impact materialises. We therefore suggest a framework that imposes rigorous analysis and one that should therefore be treated as one assessment of development impact among others which may yield different results. It should also be noted that development impact is not an absolute measure, and that organisations will operate at different levels with different development strategies with some being more difficult to execute than others.

NFNV Research Process – Framework and Methodologies

NFNV's Research Process is composed of 7 Key Stages which will be enhanced by Supplemental Stages specific to the UNDP Research Project on inclusive financing for women SMMEs in South Africa.

Key Stage 1 – Identification of Parameters
Now that we have met with members of the Steering Committee on Thursday, 2 May 2013 and have agreed on the parameters set forth in Supplemental 1.1 – 1.5 (See, "Parameters" below), NFNV will now identify best practices and methodologies based on the universe of organisations, including (but not limited to) the following organizations and institutions:

- Financial institutions (including commercial banks, finance and insurance companies), private equity funds,
- Local, regional and international developmental finance institutions,
- Government financed institutions,
- Private equity funds, and
- Specialized enterprise investment fund
- Private companies that fund SMME development
- Business development support providers that target women SMMEs.

Organisations are subsequently selected with a focus on those that have achieved success in terms of developmental impact in the area of investing in small to medium sized enterprises, as well as those that have failed to meet their development impact goals.
Subsequent to selection, but prior to evaluation, NFNV' research analysts conduct an in-depth assessment of the dynamics and challenges of the country (or geographic area) and issues under review with particular emphasis on identifying best practice development strategies.

Supplement 1.1	Supplement 1.2	Supplement 1.3	Supplement 1.4	Supplement 1.5	Supplement 1.6
• Geographic Scope • South Africa	• Financing Treshhold • SMME's	• Financing Stages • Start - Up • Existing	• Gender Emplowerment • Procurement % • Management % • Ownership %	• Types of Financing • Dept • Equity • Guarantees • Hybrid	• Baesd on 1.5 • Challanges • Opportunities

Key Stage 2 - Research data collection
NFNV obtains data from both private and public sources including access to research reports that we have developed for similar institutions that are shared with permission, regulatory filings, donor reports, the organisation's website, GuideStar, CaritasData, Charity Commission's register, press, Lexis-Nexis, academic studies, World Bank, UN and other development industry sources. We also have information sharing relationships with a number of developmental finance institutions with similar developmental impact goals.

"Development is defined as a process of empowerment that helps people to obtain influence over the factors that govern their lives. We are keenly aware of the challenges of incorporating methodologies that will permit us to begin to develop innovative ways to measure and assess achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities."

Based on a thorough review of the initial data, NFNV' research analysts prepare a Preliminary Research Report in line with the UNDP's Terms of Reference for review and comments by the designated person(s) at the UNDP and their partners in government. This Preliminary Research Report will outline recommendations for the highest development impact model (given the funding and geographic parameters agreed upon with UNDP) and will highlight key areas for discussion within the organization and among its partners in government.

Supplement 2.1	Supplement 2.2
• Synopsis of Main Literature	• Desk Studies

Key Stage 3 – Empirical research
In our opinion, it is imperative for a report of this nature to include empirical research elements in the Final Report. Field Studies are also important to gain greater understanding of the needs of SMME's, their characteristics and the sizes of the enterprises that are working in the designated areas set forth in Supplementals 1.1 – 1.5 identified above.

Supplement 3.1
• Empirical Research

Generally, empirical research should be done in order to accomplish several objectives. Namely: (i) to look closer into the way small and medium firms that are owned and operated by women do the following: (a) access capital, (b) cope with changing market conditions, (c) competitors, (d) suppliers, (e) workers and (e) how these SMMEs cope with rules and regulations. In most developing economies, this information is not readily available and field research desperately needs to be conducted in order to develop strategies and interventions in financing that actually meets the needs of the intended SMMEs.

Key Stage 4 – Findings and Analysis
Once the Parameters for the research are agreed upon by NFNV, the UNDP and its partners, these parameters are then used to provide the necessary scope for the literature review and desk top analysis. To the extent that information is available from field research referenced above, that information will also be included into the analysis of the findings. This information is then used to further define the survey or questionnaire. Interview and survey results, along with findings from Key Stages 1-3 above are analyzed and compiled into the Preliminary Research Report. All supporting data used for the analysis is included.

Key Stage 5 - Preliminary Research Report for discussion
As mentioned above, the purpose of the Preliminary Research Report is to give the UNDP an opportunity to discuss the findings and recommendation of the Research Report prior to preparation of the Final Research Report. As an organisation, NFNV is committed to excellence in all areas of its operations. Providing a Preliminary Research Report not only provides an opportunity for us to gain important feedback on research conducted on behalf of the UNDP and its partners, it also gives the client organisation an opportunity to gain useful insights on crafting its own internal final recommendations that are better tailored to the implementation capacity of the UNDP and its implementation agents.

Key Stage 6 - Final Research Report drafting and recommendation
NFNV research analysts will draft a Final Research Report for the UNDP and members of the Steering Committee from DTI, the DED and the DWCPD which will include specific policy and practice related recommendations for innovative models that can be used to invest differently in women owned and operated SMMEs. This Final Research Report is only is prepared after review by NFNV' multi-disciplinary research advisory committee.

Key Stage 7 – Framework for Future Research
Parameters used for Research on Inclusive Financing: Exploring the Financing Pipeline for Women Owned SMMEs in South Africa

Our principal objectives in defining the Parameters for Phase 1 of this Research Project are:
• Assist the UNDP and its partners to better understand the gaps in research data available; and
• Provide the basis for developing a comprehensive framework for conducting additional research that may be required.

IMPORTANT – The Parameters set forth below are suggested as a means to provide the necessary scope and a framework for research. These Parameters are not intended as rigid boundaries. NFNV recommends a more fluid approach to research that would empower our Team to go beyond the Parameters where we deem it prudent and advisable to do so. All exceptions to the agreed upon Parameters will be documented in the Research Report.

Parameter Identification

Supplement 1.1	Supplement 1.2	Supplement 1.3	Supplement 1.4	Supplement 1.5	Supplement 1.6
• Geographic Scope • South Africa	• Financing Treshhold • SMME's	• Financing Stages • Start - Up • Existing	• Gender Emplowerment • Procurement % • Management % • Ownership %	• Types of Financing • Dept • Equity • Guarantees • Hybrid	• Baesd on 1.5 • Challanges • Opportunities

Our understanding is that the UNDP's principal objective at this stage is to secure a Research Report that can be utilized as a basis for developing recommendations for Government, Limited Partners, Governments, Multi-laterals and DFIs concerning Key Funding Modalities for Inclusive Financing as follows:

- Development of a "Code of Good Practice" for investing in women SMMEs
- Independent assessment of selected funding mandates as compared to inclusive financing objectives of funding institutions
- Key recommendations concerning structural and institutional relational factors affecting the capacity of women SMME funds to effectively deploy allocated capital
- Actionable recommendations for government, limited partners, multilaterals and BDS providers to bring the current framework in line with Best Practice measurements internally to foster a better understanding of the following:

In light of the above, NFNV suggests that Phase 1 research by defined by the Parameters depicted in the diagram below:

GEOGRAPHICAL SCOPE FOR PHASE 1

• ***Phase 1*** of the initial research should include global best practices and methods, but the review will be limited to funding agents and business development providers operating in South Africa. See Annex A attached.

FINANCING THRESHOLD

• ***Phase 1*** research will include micro-financing. However, defining SMMEs is often an obstacle for business studies and market research. SMEs and Micro businesses are fundamentally different in terms of their financing needs. The micro-financing industry and funding sources for true SMEs are, in fact, separate industries. Accordingly, one of the biggest challenges in properly constructing research of this nature is to begin to change the mindset of development agents who consistently "lump" true growth enterprises (i.e. SMEs) with micro and survivalist businesses.

• Definitions in use today define thresholds in terms of employment, turnover and assets. They also incorporate a reasonable amount of flexibility around year-to-year changes in these measures so that a business qualifying as an SMME in one year can have a reasonable expectation of remaining an SMME in the next. The thresholds themselves, however, vary substantially between countries and across the various public and private institutions and organisation within South Africa. As the SMME thresholds dictate to some extent the provision of government support, countries in which manufacturing and labour-intensive industries are prioritised politically tend to opt for more relaxed thresholds. We will commence Phase 1 research utilising the following and will relax these measures where it is prudent to include an organisation:

• Breaking down the SMME definition: a small business is one that has at least 5 but not more than 200 (if the business is in the minerals & energy, construction or manufacturing sectors. Otherwise, not more than 100 employees. The annual turn-over limitations are 30,000 - 100,000 and 100,000 to 250,00 ZAR. We recognise that these thresholds may be much lower than those used in developed countries, but deem them appropriate given the understanding of SMMEs and their needs within the South African institutional framework.

FINANCING STAGES

- Phase 1 research will include a review of financing firms that provide all types of financing including:
  - seed money for concept development;
  - start-up capital;
  - working capital; and
  - expansion capital.

DEFINING FINANCING FOR WOMEN OWNED SMME'S

- Many firms involved in financing women owned and operated SMMEs have a threshold for the minimum percentage of women's participation required. For purposes of our initial research, NFNV recommends that we include as broad a sample as possible, as each financing firm is likely to differ in terms of how it sets its investment parameters.

TYPES OF FINANCING

• Again for Phase 1 compilation of global best practices, NFNV recommends that we review institutions that provide a number of different types of financing in order to establish which practices appear to be working best for gender focused financing.
• Excluded from the research are the following types of categories of investors/institutions:

- angel investors;
- specialised funds (i.e. agriculture specific funds); and
- small businesses that lend to SMME's.

Financing Types:
•Loans and convertible loans
•Operating line of credit
•Asset-based financing
•Leasing arrangement
•Supplier credit contracts
•Government-direct investment
•Government-backed loans
•Mezzanine and bridging facilities
•Performance guarantees
•Equity Financing

Financing Institutions may include one or more of the following Types:
•Private equity funds
•Government established SMME funds
•Commercial banks and Microfinance institutions
•Regional and International Development banks
•Specialised women enterprise funds
•Institutional investors (eg. Pension fund, large company)
• Private companies that fund SMME development (e.g. Anglo American)

SUMMARY:

This document was created by NFNV in fulfillment of its agreement to provide the UNDP with the deliverables noted immediately above. It contains information setting forth NFNV's Research Framework and Methodologies, outlines both the Phase 1 and Phase 2 Parameters to be considered when conducting the research in question, includes on Appendix A key research questions, and provides a tentative outline for the Final Research Report.

LIMITATIONS

NFNV's Final Research Report should be considered by the UNDP as only a single factor in making the decision of whether or not to establish an enterprise development fund that focuses on the Commonwealth Countries.
NFNV's Research Reports are provided for informational purposes only and they are not to be construed as offers to fund any particular organisation. The decision to support an organisation is reserved for Funders who must make their own decisions using their own advisers, as they believe necessary and based upon their specific situation and objectives.
Funders should also consider how the funding is effectuated and the appropriateness of the type of funding or partnership envisaged.
NFNV encourages long-term support and partnerships.

Appendix B

List of Reviewed Documents

1.Biekpe, P.N. (20110. 'The Voices of SMMEs in the South African Economy.' AfricaGrowth Institute and the University of Cape Town. South Africa: Annual Small Business Summit 2011.

2.Calvin, Barbara and Damola Owolade. "A Profile of BSM Segments, a Lenders Perspective: based on data from the FinScope Small Business Survey, South Africa 2010. Centre for Inclusive Bankng in Africa, University of Pretoria, September 2011.

3.Department of Economic Development (2009). New Growth Path: A Framework.

4.Department of Trade and Industry, South Africa. "Enterprising Women."

5.Department of Trade and Industry. "Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises."

6.Department of Trade and Industry. "South African Women Entrepreneurs – A Burgeoning Force in our Economy."

7.Department of Trade and Industry (2003). Unlocking Potential in an Enterprising Nation. The Integrated Small Business Development Strategy in South Africa 2004 – 2014.

8.Finmark Trust (2010). FinScope South Africa Small Business Survey 2010.

9.Finmark Trust (2006). The National Credit Act and its Regulations in the Context of Access to Finance in South Africa.

10.SBP's SME Growth Index (2013): Easier, Harder for Small Business in South Africa. Headline Report.

11.Herrington, Mike and Donna Kelley (2012). African Entrepreneurship: Sub Saharan African Regional Report. Global Entrepreneurship Monitor. Graduate School of Business, University of Cape Town.

12.Impacttrust (2012). "South African Regulatory Framework Review and Design: Designing an enabling regulatory framework for South African small and medium enterprises and high impact social businesses." Interim Discussion Paper.

13.Mathibe, M.S. and J.H. van Zyl (2011). The Impact of Business Suppport Services to SMMEs in South Africa. International Business & Economics Research Journal, November: Vol 10, No. 11.

14.National Credit Regulator (2011). Literature Review on Small and Medium Enterprises' Access to Credit and Support in South Africa.

15.National Directory of Small Business Support Programmes (2010). The Department of Trade and Industry, Government of South Africa.

16.Ndabeni, Lindile L. Small Medium and Micro Enterprises in South Africa's National System of Innovation.

17.SBP Alert (2009).

18. SBP (2013). "Developing a new path for SMEs in South Africa."

19. Sithabile, Garet Mari (2011). Published Dissertation on "The Effectiveness of Institutional Support for Women Entrepreneurs." The Gordon Institute of Business Science, University of Pretoria.

20. Small Enterprise Development Agency. Women-owned Enterprise Development Information Booklet

21. Umgungundlovu SMME Development and Support Plan (Urban-Econ Development Economists).

NON FINANCIAL SUPPORT providers FOR WOMEN SMMEs

The network of non-financial BDS service providers is not limited to government agencies, but includes private organisations and individuals, large corporations, NGO's, foreign companies and donor agencies. Of the organisations identified in the literature review, only 40 offer women-specific support. They are listed below:

1 Association for Women's Rights in Development
2 Association of Women in Science and Engineering
3 Bavumile
4 Business Women's Association of South Africa (BWASA)
5 Business Opportunities – Women at Work
6 Business Partners Women's Fund
7 Cape IT Initiative
8 Communities Fund - Anglo American Zimele
9 De Beers Zimele
10 Deloitte Succeed Campaign
11 Digital Women –International on-line Community for Women in Business
12 Eastern Cape IT Initiative
13 Fine Women Business Network
14 Government Support for Women in Construction
15 Human Initiative Restructures Society (HIRS)
16 Investing in Culture Programme
17 Khutaza Women in Housing
18 Maadima Foundation
19 Masimanyane Women's Support Centre
20 Masisizane Fund
21 Nicro Business Centre
22 Nozala Trust
23 Olwazini Fund - Anglo American Zimele
24 Online Women's Business Centre
25 Real Enterprise Development (Red Door) - Western Cape
26 Small Scale Mining Technical Support
27 SMME Export Promotion Project
28 South African Reference Group on Women in Science and Technology
29 South African Women Enterprise Network (SAWEN)
30 South African Women in Construction (SAWIC)
31 South African Women in Mining (SAWIMA)
32 Technology for Women in Business
33 The Business Place
34 The Clothing Bank
35 Women and Enterprise – Women's Net
36 Women at Work
37 Women in IT
38 Women in Oil and Energy South Africa (WOESA)
39 Women's Development Business
40 Women's Enterprise Initiative South Africa (WEDISA)

Twelve women-specific organisations were identified in the preliminary desk research. Of these, 3 are not listed in any of the literature review documents. They are:

1 Business Engage
2 Coca Cola 5 by 20 Initiative
3 SME Toolkit South Africa

Appendix C

List of Funding Institutions and Organisations interviewed

ABSA
Business Partners Limited
Enablis
First National Bank (Women in Business Program)
Isivande Women's Fund
Masisizane Fund
National Empowerment Fund
Small Enterprise Finance Agency
Tutuwa Community Fund (Standard Bank)
WDB Enterprise Fund (WDB Investment Holdings)
WDB Microfinance
Women's Private Equity Fund
IDC Women Entrepreneurial Fund

Business Development Support Providers

Business Engage
Coca Cola 5 by 20
Goldman Sachs 10,000 Women Program (GIBS)
Nozala Trust
Women's Enterprise Development Initiative (WEDI)

Sample Questionnaire 1

Financial Institutions Survey

- When was the fund or enterprise development programme started?
- What is the total value you have available for financing SMME's?
- What percentage of your financing is for early stage SMMEs (seed, start-up, early stage expansion)?
- What is the total amount that you have you currently invested in SMME's?
- What is the average size of the investment or loan you make?
- For funds, what is the minimum and maximum investment in portfolio companies versus SMMEs?
- What is your targeted minimum ROI?
- For funds, what is your hurdle rate? (the rate above which you share in the profits)
- Do you take a share of the profits of the SMMEs you finance?
- How many SMMEs did you finance in 2012?
- Who provided the funds for your financing SMMEs?
- Describe the key personnel/managers responsible for financing?
- Describe the financing process and your approval rate?
- What is the average length of time from application to financing?
- How do you go about finding potential SMMEs to invest in?
- Do you have incentives in place to incentivize your key financing personnel/managers to grow SMMEs? (e.g. profits generated by SMMEs, number of jobs created, money distributed or on other measures)
- Do you track the number of SMMEs you finance that graduate to another source of financing (i.e. micro to small, or small to medium)

Objectives

- What are your key financing objectives – (capital retention, profit, high return venture capital investments, job creation, empowerment, other development objectives etc.)
- What proportion of your funds are empowerment based?
- Do you measure or plan to measure jobs created or sustained through investments?

Selection

- What key selection criteria do you use?
- Do you or do you plan to focus on specific industries or specific types of companies? Do you exclude or plan to exclude any industries or types of companies? Do you invest in lifestyle companies?
- Is there be any other social screening - Is job creation a selection criterion?
- Do you focus on rural or urban companies?
- Do you focus on industries or types of companies in which you have expertise?
- What stage of financing do you look for or generally (seed, startup, expansion, late stage expansion, MBO/LBO/MBI)?

Gender Focus

- Do you target companies that have a substantial women component?
- How do you define “substantial women component?”
- Do you receive any support from third party institutions to facilitate gender-focused investing?
- Does your organization have in place any means of assessing the impact of its activities on the development of SMME’s that have a substantial women component?
- Do you have or does your organization invest in any technical assistance that is geared specifically to SMME’s that have a substantial women component?
- What percentage of total funds available are invested in SMMEs that have a substantial women component?
- Do you collect data on the number of women owned and operated SMMEs you finance? If so, how is this data aggregated?
- Do you have special products that are developed for women?

Involvement

- Do you provide support on operational issues in the company?
- Do you provide support on strategic issues in the company?
- Do you hold a seat on the board?
- Do you make use of external consultants for expertise, or do you make use of internal people only?
- Do you plan to make use of incubators?
- Do you charge for consulting to the companies that you invest in?

Structuring of Finance

- What financial instruments/products do you use?
- Do you mainly make use of debt or equity of quasi-equity investments? What is the split between these?
- Do you make use of payments based on revenue (like royalties)?
- What proportion of the company are you willing to take?
- What is the average rate that you charge for debt?
- Is your debt secured? If, so to what percentage of the loan?
- Does debt repayment begin immediately or is it delayed? On what basis is it delayed?
- Is equity mainly a sweetener – i.e. is the entire capital repayable as debt?
- Do you finance contracts? – i.e. an SMME has a contract but will not receive payment until later.

Exit

- For funds, how do you generally exit?
- What sort of overall return have you made in the last few years of financing SMMEs?

Any additional comments or suggestions about the state of financing SMMEs in South Africa?

APPENDIX C

Sample Questionnaire 2

Business Development Support Provider Survey

- When was the BDS service started?
- Is it a Government, private or public – private initiative?
- Do you have a database of SMME's?
- Do you have specific criteria for targeting SMME's – eg. sector, turnover, employees?
- How do you publicise your services?
- How many SMME's have you assisted since inception?
- How many business development staff do you have?
- What are basic qualifications and experience level of BDS staff?
- What geographical area / radius do you cover?
- Who are your main competitors within the same radius?
- Do you charge a fee for your services?
- How is the fee structured and does it vary according to SMME category?
- Does this fee cover your operating costs?
- How do you go about finding customers?
- What incentives do you have in place or plan to put in place? (are you incentivized on SMME's assisted, success of services, or on other measures)

Objectives

- What are your objectives – (linkage to markets, access to finance, increasing competitiveness, enhanced skills & capability, job creation, empowerment, other development objectives etc)?
- Are your services aimed exclusively at empowerment SMME's or will you also provide support to white firms? What proportion of your customers are empowerment based?
- How flexible is your programme content, is it a fixed offering or do you adapt to client demand?
- Which services are provided on a one-to-one and which are provided in a group setting?
- How do you measure your success – (jobs created or sustained, SMME's saved from failure, turnover, revenue generated after intervention etc)?
- What records do you keep of services provided and end-users?
- What percentage of your clients are repeat customers?
- Do you perform follow-up impact assessment and how is this done?
- Do you provide training and in what areas?
- Do you provide mentoring and coaching?
- Which, if any, of your support takes place at client premises?
- Do you report regularly to your stakeholders on your activities, successes and challenges?

Selection

- What key selection criteria do you use?
- Do you or do you plan to focus on specific industries or specific types of companies? Do you exclude or plan to exclude any industries or types of companies? Do you support lifestyle companies?
- Is there be any other social screening - Is job creation be a selection criteria
- Do you focus on rural or urban companies?
- Do you focus on industries or types of companies in which you have expertise?
- What stage SMME's do you target (pre-startup, startup, growth, established)? Do you have a breakdown of these?

Gender Focus

- Do you target companies that have a substantial women component?
- How do you define "substantial women component?"
- Do you receive any support from third party institutions to facilitate gender-focused investing?
- Does your organization have in place any means of assessing the impact of its activities on the development of SMME's that have a substantial women component?
- Do you have or does your organization provide any technical assistance that is geared specifically to SMME's that have a substantial women component?
- What percentage of your database consists of SMME's that have a substantial women component?

Involvement

- Do you provide support on operational issues in the company?
- Do you provide support on strategic issues in the company?
- Do you hold a seat on the board?
- Do you make use of external consultants for expertise, or do you make use of internal people only?
- Do you have an incubator or do you refer SMME's to an incubator?
- Do you charge for your services?
- Do you subsidize this fee?
- What are the challenges that women business owners face?
- How can business support providers be more effective?
- What is lacking from most training programmes for entrepreneurs?
- What trends have you noticed in the types of entrepreneurs you serve and their needs?

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