Formal financial institutions' financing of women-owned small and medium enterprises in South Africa: a supply-side perspective

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Abstract

Purpose – Although women-owned small and medium enterprises (SMEs) represent only 21.1% of all SMEs in South Africa, they play a fundamental role in the SME sector in terms of job creation, employment and poverty alleviation that is critical for economic growth. This study aims to explore (FFIs) financing of women-owned SMEs in South Africa from a credit provider perspective (supply-side).

Design/methodology/approach – A qualitative research approach positioned in the interpretivistic research paradigm was used to accomplish this study objectives. The five-step process of content analysis proposed by Terre Blanche, Durrheim and Kelly was used to analyse the qualitative data collected from the 16 participants via semi-structured in-depth interviews.

Findings – The findings reveal that FFIs are willing to finance women-owned businesses provided they can contribute a reasonable percentage of the equity capital and a first-class collateral. Lack of equity, business experiences and first-class collateral are the most serious challenges faced by FFIs when considering lending to women-owned SMEs.

Originality/value – This study investigated the financing of women-owned SMEs in South Africa from a supply-side perspective, compared to other studies that used quantitative methodology. This study findings provide insights into how FFIs perceive financing women-owned SMEs, women-owned SMEs credit approval rate, the factors that influence the willingness of FFIs to provide credit to women-owned SMEs and the challenges experienced by FFIs in financing women-owned SMEs.

Keywords Women, SMEs, Financing, Formal financial institution, Supply-side

Paper type Research paper

1. Introduction

Small and medium enterprises (SMEs) are credited as a dominant form of business in developed and developing economies and they are universally regarded as a primary facilitator of economic growth and development (Kautonen, Antti, Maria and Andrea, 2020). Given that SMEs are a primary source of employment (World Bank, 2019), innovation and technological advancement (Fei and Schweisfurth, 2020) as well as revenue generation (Abdu, 2018), most governments are now paying greater attention to the expansion of SMEs with the purpose of promoting economic growth and development. In addition, contemporary literature affirms that SMEs play a fundamental role in creating inclusive opportunities for women, as women-owned SMEs comprise about 40% (totalling about 10 million women-owned SMEs) of all businesses in developing economies (Fei and Schweisfurth, 2020; World Bank, 2019; World Investment Report, 2017). The World Investment Report (2017) submits that women make up 40% of the global workforce, and they play a fundamental role in most of the sectors that are critical for economic growth in developing economies. Contemporary literature has conceptualised women-owned businesses as businesses with women owning the majority share (World Bank, 2021; Jaiswal, 2020; Small Business Report, 2021).

In South Africa, SMEs with women ownership represent just 21.1% of all SMEs (Small Business Report, 2021). This number is quite small when compared with women-owned SMEs in other developing economies. For instance, the Mastercard Index of Women Entrepreneurs (MIWE) (2022) highlights that 38.5% of all SMEs in Botswana, 38.4% in Uganda and 37.2% in Ghana are owned by women. The report acknowledges that these three countries are world economic leaders with the most women business owners. In contrast, only 3.4% of all SMEs in Bangladesh, 3.2% in Jordan and 1.6% in Saudi Arabia are owned by women (MIWE, 2022). Given such statistics, the World Bank (2019) and Fei and Schweisfurth (2020) affirm women entrepreneurship in Africa as a key driver for economic development, contributing significantly to employment creation, poverty elimination and economic expansion, especially in the agricultural, tourism, retail and wholesale sectors. The report further highlights that the provision of support is fundamental for growth and innovation of women's entrepreneurship, as it advances the communities around successful women, and propels a global economic recovery that is more sustainable and equitable for everyone. In addition, the Small Business Report (2021) also highlights that the traditional role of women as home managers is fast disappearing, as more women have become engaged in economic activities over the past ten years. Consistently, Statistics South Africa (2022) posits that women-owned SMEs in South Africa contribute significantly to job creation, employment, income inequality and gross domestic product. A survey conducted by the Global Entrepreneurship Monitor (GEM) (2020) revealed that women entrepreneurs are easier to finance, are less risky and they generate more jobs than their male counterparts. The GEM (2020), the World Bank (2021) and the MIWE (2022) conclude that the low level of entrepreneurship activities in most developing economies is a result of the low level of support towards women entrepreneurship, given that formal financial institutions (FFIs) are the primary source of debt finance for women entrepreneurs.

Despite the noted importance of women-owned SMEs and the increase in the number of women-owned SMEs over the years, women-owned SMEs are more disadvantaged, especially around support systems and start-up funds, than men-owned SMEs (Small Business Report, 2021). With the current high unemployment rate estimated at 35.3% (Statistics South Africa, 2022) and a high SMEs failure rate estimated at about 46% (MIWE, 2022), women entrepreneurship has the potential to become the panacea to unlocking South African economic growth if additional support is channelled towards women entrepreneurship development (Statistics South Africa, 2022). According to MIWE (2022), as women constitute 52% of South Africa's population, an important way to develop the country's economy is to boost and improve women self-employment and to pursue intervention and support programmes geared towards increasing women's participation in entrepreneurial activities. In addition, the World Bank (2019) posits that one of the most effective ways to address the unemployment problem in developing countries such as South Africa, would be to leverage the employment creation potential of SMEs (especially female-owned with their population dominance) and promote the development of female entrepreneurship.

Despite the many interventions and support programmes available for women entrepreneurs in developing countries such as South Africa, the non-availability of formal sector financing and the lack of access to finance from FFIs, remain two of the most critical problems that impede the growth and sustainability of women-owned SMEs compared with men-owned SMEs, as less than 20% of women have access to finance from FFIs (Althalathini, 2015; World Investment Report, 2017; Abdu, 2018; World Bank, 2021). For instance, research by Archer *et al.* (2020) acknowledge that women-owned SMEs are more credit constrained than men-owned SMEs. Furthermore, Bhasin (2009) reveals that women have limited access to essential resources including credit from FFIs. In addition, in comparing the sources of available finance for men- and women-owned SMEs, Hisrich and Peters (1998) indicate that the main sources of finance available to women-owned SMEs are personal assets, savings and personal loans, whilst men-owned SMEs have personal assets, savings, credit from banks, investments and loans from friends and families at their disposal. Pesbitero *et al.* (2016) and Asah *et al.* (2020) argue that the opaqueness of borrowers, cost-effectiveness of credit to women entrepreneurs and high transaction costs are some of the motives why FFIs are unwilling to lend to women entrepreneurs (supply-side) in developing economies. Furthermore, imperfections involved in lending to women entrepreneurs, information economics resulting from imperfections between FFIs and women entrepreneurs, and lending technologies used to judge credit applications are cited as further reasons. Extra challenges such as the lack of a proper legal and regulatory framework for dealing with default credit, the fact that SMEs are not compelled to report their financial performance in a standardised manner and the lack of credit rating agencies only make matters worse for FFIs to consider lending to women-owned SMEs (Baby and Joseph, 2016). Nevertheless, considering the highlighted factors and challenges, a recent study by Asah *et al.* (2020) revealed that more men had access to credit from FFIs compared to their women counterparts. From the findings highlighted above, it is possible to construe, as indeed do Abdu (2018) and GEM (2020), that FFIs shy away from lending to women-owned SMEs because of the perceived high default rate and risk associated with such businesses. Contemporary literature refers to such phenomena as the "discrimination hypothesis" (GEM, 2020; World Bank, 2019; MIWE, 2022).

The World Bank (2019) and Fei and Schweisfurth (2020) argue that the inability of women entrepreneurs to access credit from FFIs is predominantly a supply-side problem, while women entrepreneurs contend that they do not understand the reasons for their inability to access credit from FFIs. However, the GEM (2020) and MIWE (2022) iterate that the lack of financial support from FFIs poses a threat to women entrepreneurship success in South Africa. MIWE (2022) adds that the lack of financial support is the primary cause of the slow growth, high failure rate and early exit of women entrepreneurs. According to Statistics South Africa (2022), adequate financial support for women entrepreneurship has the potential to boost South Africa's employment and economic growth, reduce the high failure rate of women entrepreneurs and spur the entrepreneurship development of women. There is a lack of empirical evidence from extant literature, using qualitative methodology, of the supply-side perspective of FFIs financing women entrepreneurs in South Africa (Fatoki and Smith, 2014; Asah *et al.*, 2020; Asah and Louw, 2021). It is against this backdrop that this study investigated the financing of women-owned SMEs in South Africa from a supply-side perspective. The following research objectives were developed from the research aim:

- to examine how FFIs perceive financing women-owned SMEs in South Africa;

- to investigate the factors that influence the willingness of the FFIs to provide credit to women-owned SMEs in South Africa; and
- to explore the challenges faced by the FFIs in granting credit to women-owned SMEs in South Africa.

2. Literature review and theoretical construct

Finance, being the lifeblood of every enterprise, no enterprise, irrespective of how well managed, can survive without adequate funds for working capital, fixed assets' investment, employment of skilled employees and the development of markets and new products (Hussain, Millman and Matlay (2008). Given that equity and debt are the two primary sources of finance for every enterprise (Mills, 2014), capital structure theories advocate that enterprises should make maximum use of debt in their capital structure for different reasons. While the Static Trade-Off Theory by Modigliani and Miller (1958, 1963) advocates that enterprises should take absolute advantage of the tax shield and aim for 100% debt in their capital structure (taking into consideration the assumptions of the Modigliani and Miller theory), the Pecking Order Theory (POT) advanced by Myers (1984) maintains that there is no well-defined optimal capital structure. Along with Jensen and Meckling (1976), the Static Trade-Off Theory (also referred to as the Tax-Based Theory) suggests that the optimal capital structure of an enterprise is obtained when the net tax advantage of debt financing balances leverage related costs, such as financial distress and bankruptcy, while holding the enterprise's assets and investment decisions constant. Considering the Static Trade-Off Theory, issuing equity will mean moving away from the optimum capital structure, which is, in effect, considered to be a wrong decision. Hence, the reason why enterprises rely heavily on debt finance from FFIs to finance their operations. However, the high demand for credits from FFIs has forced FFIs to develop credit rationing behaviour between SMEs and large companies (Hoque, Sultana and Thalil, 2016). Meanwhile, the competitive demand for credit has made FFIs develop discriminatory behaviour between male and female owned enterprises, as supported by the theory of "Economics of Discrimination" proposed by Becker (1971) and the "Discrimination Hypothesis" (GEM, 2020; MIWE, 2022).

Contemporary research relating to gender and access to credit can be categorised into two groups, namely, prejudicial and statistical. A prejudicial perspective of discrimination is sensitivity-based, and it can be defined as a lack of adherence to objective criteria when articulating and implementing decisions of credit application from women-owned SMEs. The theory of "Economics of Discrimination" proposed by Becker (1971) exposed prominent issues on gender discrimination and access to credit. According to the theoretical formulation of Becker (1971), biased institutions would be willing to forgo potentially profitable business transactions to avoid interactions with members of a minority group. Consistent with the theoretical thinking of Becker (1971), research by Hu and Liu (2011) revealed that black and Hispanic-owned SMEs pay significantly higher interest rates on approved credits than that of equally creditworthy SMEs owned by whites. It is of primary significance to this study, to establish whether the gender of the owner is a primary credit criterion listed in the credit handbook of FFIs or a factor that determines credit rationing.

From a statistical perspective, credit discrimination occurs in situations characterised by information asymmetry, where data on vital credit indicators such as business sustainability and creditworthiness can be costly and difficult to obtain directly (Khaleque, 2018). To achieve cost-savings, FFIs may be keen to infer these data from easily observable demographic characteristics of individuals (Abubakar, 2015; Khaleque, 2018; Adnan, 2019).

In addition, Archer *et al.* (2020) note that poor functioning of the credit markets in developing economies such as South Africa is generally attributed to incomplete markets and information asymmetry.

According to Huang *et al.* (2014), the thoughts of information asymmetry as theorised in the POT by Stiglitz and Weiss (1981), represent a weighty attempt in swerving from the dominant paradigm of competitive equilibrium, thus creating an avenue for credit rationing in the market. Stiglitz and Weiss (1981) propose that credit rationing arises from adverse selection and moral hazard, and these two are influenced by interest rates which play a dichotomous role in screening and sorting potential borrowers. From the perspective of Huang *et al.* (2014), adverse selection occurs when FFIs probe and screen for borrowers with the highest probability of repayment. Consequently, interest rates are relied on as a measure of screening, and this attracts borrowers willing to pay high interest rates with greater risk of default. In contrast to high interest rates suggested by Huang *et al.* (2014), Siddik *et al.* (2017) posit that FFIs prefer to maintain interest rates at nominal level and instead ration credit to limit surplus demand, given FFIs' risk averse attitudes. From the above argument, it can thus be construed that information asymmetry, adverse selection and moral hazard can have a significant impact on the capacity of FFIsto provide credit to women-owned SMEs. Regardless, the POT warns that women-owned SMEs should avoid using external equity as it increases the weighted average costs of capital (WACC) and might negatively impact enterprise performance. Fei and Schweisfurth (2020) use the argument of WACC to advance that women-owned SMEs should depend more on cheap debt finance from FFIs, given the unavailability of venture capital.

The above construct also highlights why contemporary literature is of the view that inadequate financing of women-owned SMEs in developing economies such as South Africa is predominantly influenced by supply-side factors. Supply-side factors are those that are solely controlled by FFIs. In the context of developing economies such as South Africa, these factors include cost-effectiveness of credits, lending risk, lending imperfections between FFIs and women entrepreneurs and the opaqueness of borrowers (Akinboade, 2015; Abu, Domanban and Sekyi, 2016). Fei and Schweisfurth (2020) and the World Bank (2019) further highlight other factors that limit FFIs lending to women-owned SMEs as high transaction costs, information economics arising from imperfections in women entrepreneurship and FFIs' lending relationship and lending technologies used to assess credit applications from SMEs.

The Small Enterprise Development Agency (SEDA) (2020) insists that the factors highlighted in the above paragraph are the reason behind the high credit rejection rate experienced by women-owned SMEs. The high credit rejection rate has left most women-owned SMEs confronted with unanswered questions such as: What are the factors that influence FFIs' willingness to finance women-owned SMEs? What criteria do the FFIs use to assess me and my business's creditworthiness? and What are the challenges faced by the FFIs in assessing and approving credit to women-owned SMEs?" The current study sought to contribute to the body of knowledge on women-owned SMEs and women-owned SME financing by providing answers to these questions through a qualitative inquiry. Following a qualitative research approach provides rich insights of the phenomena which can help improve the access of women-owned SMEs to FFIs finance and reduce the high failure rate of women-owned SMEs in South Africa and other developing countries.

3. Research approach, method and design

This study used a qualitative research approach positioned in the interpretivistic research paradigm, explained by Ryan (2018), to achieve the research objectives of this study.

Implementing a qualitative research approach enabled the researchers to conduct an in-depth examination and interpret the phenomena of financing of women-owned SMEs by FFIs. As human partiality is inherently part of the research process, the researchers used a self-reflexive attitude to achieve qualitative, in-depth interpretations of the text of lived experiences about the phenomena of interest (Berryman, 2019).

3.1 Sampling method and size

According to the Banking Association of South Africa (2021), the South African formal financial sector has 27 commercial banks (FFIs). The unit of analysis of the current study comprised the eight largest FFIs. The eight FFIs in this study are responsible for about 85% of all liabilities and about 91% of all assets in the commercial banking sector in South Africa, with approximately 106 credit and business managers employed at head offices situated in the province of Gauteng. As this study focused on employees at the banks' head offices, non-probability sampling, specifically purposive sampling, was used to select these participants. Purposive sampling involves the identification and selection of participants from a sample that are proficient and well-informed about a phenomenon of interest. The researchers selected employees at the head offices as they have extensive knowledge and experience in making lending decisions and are responsible for formulating lending policies and guidelines at branch level for business and credit managers' credit lending decisions. In addition, purposive sampling was used in selecting the credit and business managers at head office, rather than interviewing business and credit managers at branch office level, as interviewing these managers would provide in-depth understanding of lending policies and guidelines. Considering the regulations and guidelines of the National Credit Act governing credit lending in each FFI, interviewing more than one credit and one business manager at head office level from within the same FFI, would usually result in data saturation. That being the case, a totalof eight credit managers and eight business managers constituted the sample size for this study. All the credit and business managers voluntarily gave their consent to be interviewed.

Written, signed and stamped permission letters were issued by each FFI to allow the research and each participant signed a consent form before the commencement of the interview. The participants were guaranteed anonymity, respect, integrity, confidentiality and the option to withdraw from participating at any point in time.

3.2 Data collection

Strict COVID-19 protocols were observed before the commencement of data collection. Face-to-face, in-depth interviews conducted in English that lasted for about 30 to 40 min were used to collect the qualitative data. The interviews were conducted with eight business managers (BM_1–BM_8) and eight credit managers (CM_1–CM_8). The interview guide designed to achieve the research aim and objectives was aligned with the literature reviewed and the theoretical construct. The guide was divided into five sections. Section A was the demographic characteristics of participants. Sections B, C, D and E focused, respectively, on how FFIs perceive financing women-owned SMEs; the factors that influence the willingness of FFIs in financing women-owned SMEs; how FFIs assess credit applications from women-owned SMEs, and the challenges faced by FFIs in lending to women-owned SMEs. Examples of the interview questions are:

- "Given your experience as a credit/business manager over the years, how does your institution perceive investing in women-owned SMEs?"

- "With respect to the major investment areas you stated, and besides the lending criteria you have already highlighted, could you please highlight and explain the factors that influence your willingness to lend to women-owned SMEs?"
- "With reference to the lending criteria established by your institution, to what extent do women-owned SMEs comply with these criteria?"

The data collected from the participants was transcribed and stored according to research ethical guidelines. To further enhance the credibility and legitimacy of this study's findings, the data were submitted to the participants for validation.

3.3 Data analysis

The researchers used the five-step process of content analysis described by Terre Blanche *et al.* (2006). These include familiarisation and immersion (understanding the depth and diversity of the interviews and identification of recurrent themes); inducing themes (examining the themes in detail); coding (identifying and grouping aspects of the data that relate to the research problem); elaboration (exploring the themes more closely) and interpretation and checking (examining the different themes for possible meaning) to analyse the data. Other methods the researchers used for familiarisation with and analysis of the data, included reading and rereading each transcribed text, repeatedly listening to the audio recordings, making notes and developing portraits and reflective notes to gain in-depth understanding of the phenomena of interest. Afterwards, the researchers grouped the data into themes and sub-themes, using different codes as coding occurs simultaneously with developing of themes. The themes were further elaborated on to build a holistic picture of the data for clarity of understanding.

3.4 Qualitative research criteria and limitations

Ryan (2018) notes that internal validity (credibility), external validity (transferability), reliability (dependability) and objectivity (confirmability) are the quality research criteria that researchers must use to analyse and evaluate qualitative data analysis. A clear explanation of the analysis, backed by a well-articulated research design, data analysis and a comprehensive explanation of the research process contribute towards the quality of research findings. Adopting a reflexive approach enhances the trustworthiness of the research findings. In addition, the credibility of every study establishes confidence (the value and believability) in the findings of the study and establishes trust with the research participants (Bengtsson, 2016). In this study, credibility and dependability of the research findings were guaranteed by the fact that the researchers are well-educated, experienced and highly skilled in conducting research and interviews, in both professional and academic settings. Besides the researchers' immense knowledge of the subject, the expertise of the participants also contributed to the credibility and dependability of the research findings. With respect to the transferability of this study's findings, the fact that this study was conducted at the head offices of only eight selected FFIs in Gauteng Province, means that the findings can only be generalised to the eight FFIs. Hence, the findings cannot be generalised to other FFIs operating within South Africa or other developing economies. However, the findings could still be useful to other FFIs operating in South Africa and other developing economies.

4. Research findings

Of the 16 participants in this study as shown in Table 1, nine (56%) were men (five credit managers and four business managers), whereas seven (44%) were women (three credit

Participants	Nationality	Gender	Age range	Ethnic group	Current position	Current position duration	Highest level of education
CM_1	South African	Male	35–40	Black	Credit manager	5 years	Degree
CM_2	South African	Female	30–34	Black	Credit manager	3 years	Diploma
CM_3	South African	Male	41–45	White	Credit manager	7 years	Degree
CM_4	South African	Male	35–40	Black	Credit manager	6 years	Degree
CM_5	South African	Female	35–40	Black	Credit manager	6 years	Adv. Diploma
CM_6	South African	Male	41–45	Black	Credit manager	4 years	Degree
CM_7	South African	Female	35–40	Black	Credit manager	6 years	Degree
CM_8	South African	Male	35–40	Black	Credit manager	6 years	Degree
BM_1	South African	Female	35–40	Black	Business manager	7 years	Degree
BM_2	South African	Female	35–40	White	Business manager	4 years	Degree
BM_3	South African	Female	30–34	Indian	Business manager	5 years	Post G. Degree
BM_4	South African	Male	50–55	White	Business manager	11 years	Matric
BM_5	South African	Male	41–45	White	Business manager	5 years	Degree
BM_6	South African	Female	41–45	Black	Business manager	8 years	Adv. Diploma
BM_7	South African	Male	35–40	Black	Business manager	6 years	Degree
BM_8	South African	Male	35–40	Black	Business manager	4 years	Degree

Source: Authors' own creation

Table 1. Biographical information of participants

managers and four business managers). In addition, 11 (68.75%) of the participants were African (ethnic group), 12 (75%) had at least a bachelor's degree, eight (50%) were aged between 41 and 45 years, 11 (68.75%) had been employed at the same bank throughout their careers and 13 (81.25%) of the participants had more than 10 years of banking experience. All the participants were South Africans. This study's findings, aligned with addressing the research objectives stated above, are presented in the following sections.

4.1 How FFIs perceive financing women-owned SMEs

The current study sought to explore how FFIs perceive the financing of women-owned SMEs. Participants were asked to indicate their perception of the financing of women-owned SMEs. Interestingly, six of the eight FFIs acknowledged that they did not finance immigrant women businesses even if the women had a South African Permanent Resident Permit (SAPRP) because they are considered to be the riskiest set of clients. However, all the participants acknowledged an increase in the number of credit applications from women-owned businesses over a five-year period. Participant (CM_2) noted that:

> As a bank we have experienced a significant increase in the number of credit applications from women over the past, say five years. That tells you that more women are getting into business, and we are very happy to support them financially to grow their business.

Another participant (BM_1) stated that:

> Our bank is very committed to providing credit to women-owned businesses that bank with us because women mostly venture into businesses that are less risky, and most women are risk averse by nature. Hence, we like to provide credit to women businesses that meet the minimum credit criteria. Actually, I can say the more women venture into business now creates more business opportunities for us as a bank.

Participant (CM_4) noted that:

> Most women who apply for business credit from us usually contribute about 30% to 40% of the starting capital and that is very encouraging to us. It shows the level of commitment women put in their business. I can tell you that women are more passionate when they enter a business than men and their drive to succeed is more compared to men.

When asked a follow-up question regarding the credit approval rate for women-owned businesses, most of the participants agreed that about seven out of every 20 credit applications from women-owned businesses were approved. For instance, participant (BM_5) stated that:

> Let's say about seven to eight for every twenty-credit applications that I processed were approved. That gives us at least about 30% approval rate if I am correct. The rate is that low because most women do not own first class collateral to pledge. Some women use their joint marital asset to pledge as collateral without a signed affidavit from their partner, which we cannot accept.

From the excerpts above, despite the impact of COVID-19 on the South African economy, FFIs are still very committed to providing financial credit assistance to women-owned SMEs who meet the minimum criteria. More so, the participants generally agreed that providing credit financial assistance to women-owned SMEs creates more opportunities for FFIs, since women are regarded as more committed, passionate and have the drive to succeed in their businesses, compared to men.

4.2 Factors that influence the willingness of the FFIs to provide credit to women-owned SMEs

This study also explored the factors influencing the willingness of the FFIs to provide credit to women-owned SMEs. Table 2 below provides a summary of the perspectives of participants on the factors that influence the willingness of the FFIs to provide credit to women-owned SMEs.

As highlighted in Table 2, the participants held the view that the owner's contribution is the most important factor influencing the provision of credit to women-owned SMEs. This is backed by its highest frequency ($n = 24$) of mention, given that the frequency determines the level of importance of each factor and not the number of participants. Frequency is the number of times which a theme is mentioned and iterated. The participants noted that they most often consider financing women-owned businesses that can contribute a reasonable percentage of the total capital in the form of an investment account with the bank. Participant (CM_4) noted that:

> We are very interested in financing women that show commitment to their business by contributing let's say about 30% of the capital. Even women who can contribute only about 20% of the capital, we do consider. We have also received words from top management that we should boost the financing of women businesses more because our credit data revealed that women are more credit trustworthy.

From the participants' perspective, equity contribution is an indication of commitment to the business and the desire to succeed. Collateral ($n = 22$) is the second most important factor that influences FFIs from granting credit to women-owned businesses, and demanding collateral is a way of guaranteeing the repayment of the credit. One of the participants (BM_1) mentioned that:

> For women who cannot provide up to 50% of the capital contribution, we demand, in addition, some sort of collateral assets and approved by our team of evaluators worth about 50% of the loan requested. The equity contribution plus the collateral help reduce the lending risk and increase the credit worthiness of the application.

Table 2. Participants' perceptions regarding the factors that influence the willingness of the FFIs to provide credit to women-owned SMEs

Participants	Factors that influence the provision of credit to women-owned SMEs	Frequencies (n)
BM_1; BM_2; BM_3; BM_4; BM_5; BM_6; BM_7; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_6; CM_7; CM_8	Owner's capital contribution (equity)	24
BM_1; BM_2; BM_3; BM_4; BM_5; BM_6; BM_7; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_6; CM_7; CM_8	Collateral	22
BM_1; BM_2; BM_3; BM_5; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_6; CM_7; CM_8	Credit profile	18
BM_1; BM_2; BM_4; BM_5; BM_6; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_7; CM_8	Audited financial statement	16
BM_1; BM_2; BM_3; BM_4; BM_6; CM_1; CM_2; CM_3; CM_4; CM_6; CM_8	Business experience	13
BM_1; BM_2; BM_4; BM_7; BM_8; CM_1; CM_2; CM_3; CM_4; CM_6; CM_7	Entrepreneurship education	13
BM_2; BM_3; BM_4; BM_7; BM_8; CM_1; CM_2; CM_3; CM_5; CM_7; CM_8	Annual turnover	11
BM_2; BM_3; BM_4; BM_8; CM_1; CM_2; CM_4; CM_5	Relationship with the bank	8
BM_1; BM_3; BM_4; BM_7; CM_1; CM_2; CM_3; CM_5	Location of the business	8
BM_3; BM_5; BM_6; CM_1; CM_4	Government policy	5
BM_3; CM_2; CM_5	Nationality	3

Source: Authors' own creation

Another participant (CM_1) noted that:

> We accept personal assets such as personal property, life insurance, investment account, contract award letter, or surety as collateral. In case the asset is jointly owned, then we will need a signed certified affidavit from the court agreeing to pledge the asset as collateral.

The credit history and records of the owners and the business reveal the credit profile ($n = 18$), which is the third most important factor used to assess the creditworthiness of women entrepreneurs and their businesses. One of the participants (BM_3) stated that:

> As a matter of institutional principle, for new businesses, we request for credit records of the owners and business for the past twelve months. But for a business that has been in operation for more than three years, we request for the credit records of the owners and business for the past thirty-six months and we use it to determine if the owners or business are creditworthy or have default credit in the past. If they haven't, we then look at the equity contribution and collateral.

The decision to approve credit and the conditions of the credit contract are principally dependent on the strength of the audited financial statements ($n = 16$), which comprise the balance sheets and the income statement, as one of the participants (BM_5) stated that:

> The financials of the business are quite important and we cannot make any credit decision without assessing the financials of the business, be it a new business or an established business. For a new business, we demand the financials for the last six months, whereas, for an established business we demand the financials for the last thirty-six months.

Business experience ($n = 13$) and entrepreneurship education ($n = 13$) provide women entrepreneurs with the required knowledge and aptitude. Regarding these, one of the participants (BM_4) noted that:

> So, I have met many people that might be engineer, medical doctors but they have no experience on how to manage a business. So, it must be a combination of the knowledge and the experience;

> someone who has undertaken a business course and who knows what entrepreneurship is all about, and is also willing to learn from others in order to be able to provide those kinds of entrepreneurial qualities.

Annual business turnover (n = 11) is important in making credit decisions, as such information is used to assess the performance and evaluate the creditworthiness of the business. Meanwhile, the location of the business ($n = 8$) is critical as it reveals the risks the business is exposed to. One of the participants (BM_7) stated that:

> The location of the business is very important to us when assessing a credit application because businesses located in high crime areas are riskier, and honestly, we decline credit applications from businesses located in high crime areas that have history of being robbed.

Another participant (CM_1) added that:

> Business location is very important to us because some small businesses struggle because of their location. For instance, if your business, say a small grocery supermarket is located near an established brand like Spar, Shoprite or Walmart; it will be difficult for your business to succeed because it cannot match the pricing-index of such established brands to make sufficient sales, and giving credit to such businesses becomes very risky.

According to some of the interviewed participants, the relationship with the bank ($n = 8$) plays an essential role in lending, as it reduces information asymmetry and provides an opportunity for the business and credit manager to motivate for their clients. Participant (CM_2) highlighted that:

> As a credit manager, there are some clients that come to me for business advice from time to time. So, I know these clients, their businesses, and the financials of their businesses. So, if need be, when they apply for credit, I can sometimes write a letter of motivation to support their application.

Determined by the Reserve Bank and the Banking Association of South Africa, government policy (n = 5) governing lending in South Africa generally plays an essential role in financing women-owned SMEs. The regulations of the Credit Agreements Act, as pronounced by the Banking Association of South Africa (2021), dissuade the provision of high-risk or high-cost credit, and limit the amount of credit and the length of term in the Usury Exemption Notice. BM_5 stated that:

> Like I told you before, it is a standard practice that we only finance 50% of what the equity of a business is. So, in times like now where the demand for credit is quite high because of the pandemic, we are strictly enforcing such practice.

As for nationality ($n = 3$) participants acknowledged that they only financed South African women and only two of the eight FFIs affirmed that they financed immigrant women with a SAPRP.

4.3 Challenges faced by the FFIs in granting credit to women-owned SMEs

The study also explored the challenges faced by FFIs in granting credit to women-owned SMEs. The participants' views of the challenges faced by FFIs in granting credit to women-owned SMEs are summarised in Table 3 below.

According to the participants, lack of equity capital ($n = 22$) is the most serious challenge experienced by FFIs when considering financing women-owned SMEs. It is also the primary cause of low participation rates of women in entrepreneurship in South Africa, as contemporary literature highlights. One of the participants (CM_4) noted that:

> In my past experience as a business manager with my former employer before I accepted this position as a credit manager in this bank, I can honestly tell you that most women applying for credit for business purposes do not have enough capital to support their business and that is a challenge to us because our credit policy demands that women should be able to contribute say 30% of the credit they are applying for:

Another participant (CM_2) spoke about funding women entrepreneurs (women with entrepreneurial ideas, but working for someone else) and explained as follows:

> There are women with good entrepreneurial ideas, but they are working in another company. When such women approach our bank for financing because they want to start their own business, in situations like that we simply ask the women to present us with a good business plan. We will then evaluate the business plan. In case we see that the plan is good and the idea is feasible, then, the bank will pay her salary for 12 months and provide her with about 80 to 90 percent of the starting capital on condition that she must resign from that company and commit herself to the business completely. We will also appoint someone to assist her on the day-to-day running of the business. We will also negotiate how the profit will be shared but most often, is 60:40 or 70:30. The woman always takes the greater percentage. The woman will not have to provide any collateral in a case like this.

Lack of business experience ($n = 16$) and first-hand collateral ($n = 16$) are equally serious challenges faced by FFIs when considering financing women-owned SMEs. According to the participants, lack of business experience is one of the prime reasons most women are less successful in business. Participant BM_1 noted that:

> In my years of experience as a business manager of this bank, we have experienced lots of credit default from women with good businesses. When they started the business, it was running well, and we supported them when they applied for funding to grow their business. After they receive the funding, you could tell from their financials that the cash flow did not really change and when we start deducting the monthly instalment, the business suddenly starts experiencing cash flow problems. So, what did they do with the credit we gave them? I could tell that there is a management problem here. That experience in managing a growing business is somehow lacking. As such, the business sales start decreasing and decreasing.

However, the participants noted that most women did not have first-class collateral to pledge when applying for credit, as FFIs hold collateral as a way of reducing credit risk.

Participants	Participants on the challenges faced by the FFIs	Frequency (n)
BM_1; BM_2; BM_3; BM_4; BM_5; BM_6; BM_7; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_6; CM_7; CM_8	Lack of equity capital	22
BM_1; BM_2; BM_3; BM_4; BM_5; BM_6; BM_7; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_6; CM_7; CM_8	Lack of business experience	16
BM_1; BM_2; BM_3; BM_4; BM_5; BM_6; BM_7; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_6; CM_7; CM_8	Lack of first-class collateral	16
BM_1; BM_2; BM_3; BM_6; BM_8; CM_1; CM_2; CM_3; CM_4; CM_5; CM_6; CM_7	Poor credit record	12
BM_1; BM_2; BM_3; BM_6; BM_7; CM_1; CM_2; CM_3; CM_4; CM_5; CM_8	Poor financial record	11
BM_1; BM_4; BM_6; CM_2; CM_3; CM_5; CM_6	Lack of entrepreneurship education	7
BM_1; BM_3; BM_8; CM_3	Competition for finance	4

Source: Authors' own creation

Table 3. Perspectives of participants of the challenges faced by the FFIs when considering granting credit to women-owned SMEs

According to the participants, the most acceptable collateral are fixed assets (business building), investment account, life insurance policy, surety and contract award letter. One of the participants (CM_2) stated that:

> For women banking with us, we usually demand investment account with us or any other bank and first-class collateral such as business building. Please note that we do not accept the residential home of the applicant because it is difficult to repossess such property especially if there are kids living in the house. So, we tell our clients that if they want to use their personal home as collateral, we would not accept it. We also accept life insurance policy after we have checked to see that the person has not defaulted payment of the policy in the past.

Another participant (BM_7) noted that:

> We accept contract letter from contractors who have been awarded a contract and are looking for funding to execute it. In situations like that, our legal team will liaise with the parent company that issued the contract to finalise some paperwork regarding payments. Only after then can we process the application. We also consider someone like a surety with a business account with us who can sign on behalf of a client applying for credit. We block the account, and the owner cannot access the account till we recover all the credit amount before the account can be accessible

Poor credit record ($n = 12$) is another challenge faced by FFIs, and one of the participants (CM_3) highlighted that:

> Our credit application form demands that the client list all her past credits as well as the current credits. When we input the information in our credit model, it gives us the credit score, meaning that a low credit score means that giving credit to such client is very risky and if the client does not have an investment account or first-class collateral, then we would reject the application.

Participant BM_3 noted that without proper financial records ($n = 11$), it becomes difficult for FFIs to evaluate the present and predict the future performance of the business. This is best captured in the excerpt:

> The financials of the business help us to know the financial situation of the business. Therefore, without proper financials, it becomes very difficult for us to know how the business is performing and we wouldn't be able to know if the business owners will be able to repay the loan or how much loan the business qualifies for.

According to some participants, lack of entrepreneurship education ($n = 7$) is a challenge for FFIs and it is one of the reasons women entrepreneurship is low in countries such as South Africa. Contemporary literature is of the view that entrepreneurs without entrepreneurship education cannot articulate a proper business plan (Ndofirepi and Rambe, 2017; Rodriguez and Lieber, 2020). One of the participants (BM_4) stated that:

> As a businesswoman who really wants to grow in business, I believe it is very important to take a business course because it will help you acquire knowledge that will help you understand your business financials and how to properly write a good business plan.

Finally, some of the participants noted competition for finance ($n = 4$) as another challenge experienced by FFIs when considering financing women-owned SMEs. According to the participants, competition for finance highlights one of the reasons behind credit rationing amongst SMEs in general. Specifically, participant BM_8 noted that:

> One thing I will like you to understand is that we as a bank have other investment priorities. We have other capital extensive projects that require huge capital outlay. Besides, what about other businesses not owned by women? What about large businesses? So, there is always that competition for finance and we must make prudent decisions that do not expose the bank to a certain level of risk. So, financing small businesses is just one of our investment priorities.

5. Discussion

Based on the findings reported in Section 4.1 (How FFIs perceive financing women-owned SMEs), FFIs are very interested in financing women-owned SMEs due to the additional business opportunities women-owned SMEs create for FFIs. Furthermore, the participants concurred that an added motivation for FFIs to finance women-owned SMEs is the fact that most women venture into businesses that are regarded as less risky. However, given the risk-averse attitude of FFIs when considering lending, most credit applications are probably declined because the amount of risk according to the institution's credit model is not within a tolerable level. It is for this reason that FFIs do not grant credit to immigrant women-owned SMEs without a SAPRP. Noteworthy is the fact that the participants pointed out that about 30% of women have access to credit from FFIs. Given such a low approval rate and the fact that women constitute a greater percentage of South Africa's total population, it is feasible to conclude that FFIs are not interested in financing women-owned SMEs. However, the findings are inconsistent with contemporary literature (World Investment Report, 2017; Abdu, 2018; World Bank, 2021), which argue that less than 20% of women have access to finance from FFIs in developing economies such as South Africa. The 30% approval rate indicated in this study, compared to the 20% noted in contemporary literature is further evidence that FFIs are committed to supporting women-owned SMEs in South Africa. However, Pesbitero *et al.* (2016) concur that FFIs are hesitant in lending to women entrepreneurs because of the risk profile of women and their businesses.

As presented in Section 4.2 (Factors that influence the willingness of the FFIs to provide credit to women-owned SMEs), equity contribution is the most important factor that influences the willingness of FFIs to finance women-owned SMEs and this is followed by pledged collateral. Owner's equity is quite important to FFIs as it signals the owner's commitment to the business and increases the FFI's confidence in the business, while reducing the risk of the owners taking on risky investments, thereby reducing moral hazard (Archer *et al.*, 2020). Given that cash generated from the business is the most essential source of credit repayment, Abdelhafid and Buheji (2019) iterate that collateral is FFIs' last line of defence in case of credit default. As some business owners can be desirous to involve themselves in opportunistic behaviours or engage in private spending sprees after receiving finance from FFIs, and the fact that FFIs cannot monitor how the money is spent, Osano and Languitone (2016) submit that collateral plays a corrective role in the behaviour of women. Hence, holding collateral is the primary method that FFIs can use to effectively ensure they obtain something in return, in the event of credit default by women entrepreneurs.

Credit profiles of the owner and the business audited financial statements and annual business turnover of the business are used to evaluate the creditworthiness (key criteria of repayment ability) of women-owned SMEs. This is done by analysing the stream of cashflows, the character of financial discipline, and the financial health of the owners and the business (Archer *et al.*, 2020). Abib *et al.* (2015) add that audited financial statements and annual business turnover are also used to evaluate the present performance and forecast the future performance of the business. Business experience and entrepreneurship education provide women entrepreneurs with the requisite business skills in managing a business profitably (Mohsin *et al.*, 2017). Tehseeen and Ramayah (2015) add that women with business experience and entrepreneurship education are more innovative, are regarded as capable of making informed and strategic decisions and are more likely to explore new business opportunities. In addition, these women are able to compile sound business plans and achieve high profits.

Abdelhafid and Buheji (2019) explain that due to the problem of asymmetric information, business location as well as close and long-standing relationships with FFIs play essential roles in the financing of women-owned SMEs. This is because FFIs would prefer to not extend credit to opaque women-owned SMEs located near established brands or in high-crime areas, rather than increasing the cost of borrowing. Hoque *et al.* (2016) further explain that the strength of the relationship and the location of the business affect the pricing and availability of credit, as women with close ties to FFIs and whose businesses are located in low-crime areas and further away from large, established business brands, reduce lending risk and have a better chance of accessing credit. Nonetheless, the fact that government policy on credit aligns with FFIs policy on credit, makes it difficult for non-South Africans to access credit from FFIs. Kautonen *et al.* (2020) add that women-owned SMEs will have easy access to credit from FFIs in a good economic climate, with positive government lending policies such as modest interest rates and credits that do not require collateral. However, the impact of the COVID-19 pandemic has forced the government and FFIs to increase interest rates. Hence, as affirmed by the World Bank (2021), this discourages lending to women-owned SMEs.

The findings presented under challenges faced by FFIs when considering lending to women-owned SMEs, indicate that lending to women entrepreneurs with little or no equity capital, little or no business experience, lack of entrepreneurship education and without first-class collateral, is riskier than lending to large companies, as supported by Baby and Joseph (2016), Mohsin *et al.* (2017), POT (Stiglitz and Weiss, 1981) and the Static Trade-off Theory of Modigliani and Miller (1963). It is for such reasons that FFIs have resorted to demanding and holding collateral as a measure of reducing the lending risk and protecting the bank's interest. Peng, Zhou and Liu (2020) and Aldrich and Wiedenmayer (2019) add that business experience and entrepreneurship education are essential for women entrepreneurs to enable them to timely explore new business opportunities in a highly uncertain and dynamic environment, which create future advantages for the enterprise. Amongst other factors, MIWE (2022) attributes the low entrepreneurship achievements and low level of entrepreneurship activities for women in South Africa to the lack of business experience and entrepreneurship education, as well as the limited growth of women-owned SMEs. In addition, Pesbitero *et al.* (2016) explain that FFIs resort to credit rationing because of their inability to measure the capacity of women-owned SMEs to effect credit repayments due to the poor credit and financial records of these women and their businesses. Consistently, Siddik *et al.* (2017) and Adnan (2019) affirm that poor credit and financial records of the owners and the businesses put FFIs in a tough position to support women-owned SMEs as FFIs use credit and financial records to evaluate the creditworthiness of all credit applications.

6. Conclusion and implications for management

The findings of this study revealed that FFIs are more willing to finance women-owned businesses, provided they can contribute a reasonable percentage of the equity capital and a first-class collateral. However, despite FFIs' willingness to finance women-owned SMEs, women are called to be investment-ready given that FFIs always want to mitigate the risk of financing women with sufficient equity capital and first-class collateral. Richard and Mori (2012) point out that "investors look out for very specific things when they assess requests for funding. Entrepreneurs must be made aware of the needs and concerns of specific types of investors". In addition, women should humble and avail themselves to be mentored by successful entrepreneurs. This will provide a unique opportunity for women to acquire first-hand business experience and skills that will help them improve their management practices (e.g. accurate records of the operation of their business). Such a relationship with the mentor can be used as a reference to help reduce information asymmetry, build their asset base, access external resources such as credit from FFIs and improve managerial capabilities, business experience and business knowledge. This will in effect reduce the risk perception of FFIs, which may in turn facilitate access to credit capital.

Extending and emphasising the Broad Black Base Economic Empowerment (BBBEE) points model in lending could encourage more FFIs to create special lending schemes for women-owned SMEs to support more women and the government could grant tax relief annually to FFIs that focus more on financing women. The points accumulated by each FFI annually can be used for tax reductions, rewards and appreciation, which usually play a pivotal role in share prices. This can only be effective if FFIs submit their yearly reports and budgets on approved credit to the South African Revenue Service (SARS) and SARS then decides on the percentage of tax rebate to grant to the FFI (e.g. 0.001% more or less). Such a model will help improve access to credit from FFIs of women-owned SMEs and would also encourage other women to embrace careers in entrepreneurship, which will in turn boost the level of entrepreneurship, and reduce unemployment and poverty as women constitute a greater percentage of South Africa's population.

Targeted entrepreneurial and financial education programmes could assist women in addressing specific challenges. These can be enmeshment of personal and business finances, entrepreneurship education and knowledge, maintaining good financial records, making proper use of financial statements and financial ratios and exploring and consulting FFIs and other potential investors on credit related issues. In addition, managing potential financial risk and making a concerted effort in understanding economic and financial environments and their impact on business, are challenges which can be addressed by these programmes. Women are also called on to avoid operating their business in high-crime areas or near established business brands.

Unexpectedly, FFIs portrayed the ideology that women without credit records or those who have not been indebted in the past should be revised. As women are risk averse in nature, they tend to adhere strictly to the Pecking Order Theory. Thus, women only seek external finance such as business credit from FFIs, provided they cannot generate further capital from amongst existing shareholders (internal equity) or retained earnings from their business are insufficient for growth. Adhering to this finance theory does not make women riskier. Hence, it is logical and reasonable to argue that most women are without credit history simply because they did not require credit at first. Besides, literature acknowledges that very few women in South Africa have embraced entrepreneurship as a career option in the past. Given the competition for finance, the risk associated with lending and women's enthusiasm in venturing into less risky businesses, financing women without any debt presents a new business opportunity for FFIs with low lending risk. Furthermore, both women and FFIs are called to improve debtor/creditor relationships by being dynamically engaged in networking and the advancement of a healthier bank-client-relationship, to mitigate the problems of moral hazard, adverse selection and information asymmetry, thus improving credit accessibility. In conclusion, the findings of this study should be used to educate and enlighten women entrepreneurs on how to access credit from FFIs in South Africa, thus reducing their dependency on personal/family saving. Academics could also use the findings of this study to improve on the curriculum of finance and entrepreneurship modules, and to improve the education of young aspiring women entrepreneurs in accessing credit from FFIs. Further research should be conducted in the other FFIs operating in South Africa that did not participate in this study for comparative purposes and for extending the study's transferability.

Summarily, this study investigated the financing of women-owned SMEs in South Africa from a supply-side perspective. The study focused on employees at the banks' head office of the eight largest commercial banks responsible for about 85% of all liabilities and about 91% of all assets in the commercial banking sector in South Africa. A qualitative research approach was used, and data was collected from participants using face-to-face, in-depth interviews conducted in English. Using the five-step process of content analysis described by Terre Blanche *et al.* (2006), the study findings revealed that FFIs are most often willing to finance women-owned businesses, provided they can contribute about 30% to 40% of the starting capital and a collateral. The findings are limited to the eight FFIs that took part in this study, and cannot be generalised to other FFIs operating in South Africa. Further research could be conducted on the financing of immigrant women-owned businesses in South Africa. In addition, further research could be conducted to compare the financing criteria and challenges experienced by FFIs in other developing nations.

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