



WOMEN IN AFRICA
— PHILANTHROPY —
ENTREPRENEURSHIP
STUDY

**Stimulating women's entrepreneurship
in Africa**

Improving access to finance
for sustained growth in entrepreneurship

September 2020

Produced by



Introduction

Women are the backbone of Africa's economy. Their passion and energy have been the catalyst for new businesses across the world. Women have also gained a foothold in key sectors of the African economy such as agriculture, agri-food and service industries. Yet, despite their considerable economic contribution, female entrepreneurship in Africa remains an uphill struggle. Cultural norms, social conventions and the legal requirements for starting a business all play a role in frustrating the efforts of women entrepreneurs, often placing them in a vulnerable position.

Those who do start a business encounter difficulties in accessing finance at all stages of development; from start-up, through to launching and growing the business. Accessing finance is an issue across the continent, even in countries with relatively well-developed financial systems. Inequality between men and women is also evident in access to finance. How do we account for these differences?

For the third year running, Roland Berger and Women in Africa Philanthropy have teamed up to explore in detail the theme of women's entrepreneurship in Africa. Having looked at the macroeconomic effects of entrepreneurship in 2018 and the ambitions and obstacles faced by women entrepreneurs in Africa in 2019, this year we have explored the issue of business financing, in order to understand the existing frameworks and difficulties faced by African women who try to access them.

This study sets out to first of all to establish the reality of female entrepreneurship in the different regions of Africa, before assessing the level of access that women have to various sources of financing. We then put forward some recommendations to help reduce gender inequality of access to capital in Africa.

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1. Africa, where dynamic female entrepreneurs face tough challenges

Africa cements its status as the continent of female entrepreneurship

Average regional TEA rates for women and "Women Entrepreneurship Readiness" index [% of women aged 18-64; 2012-2017]

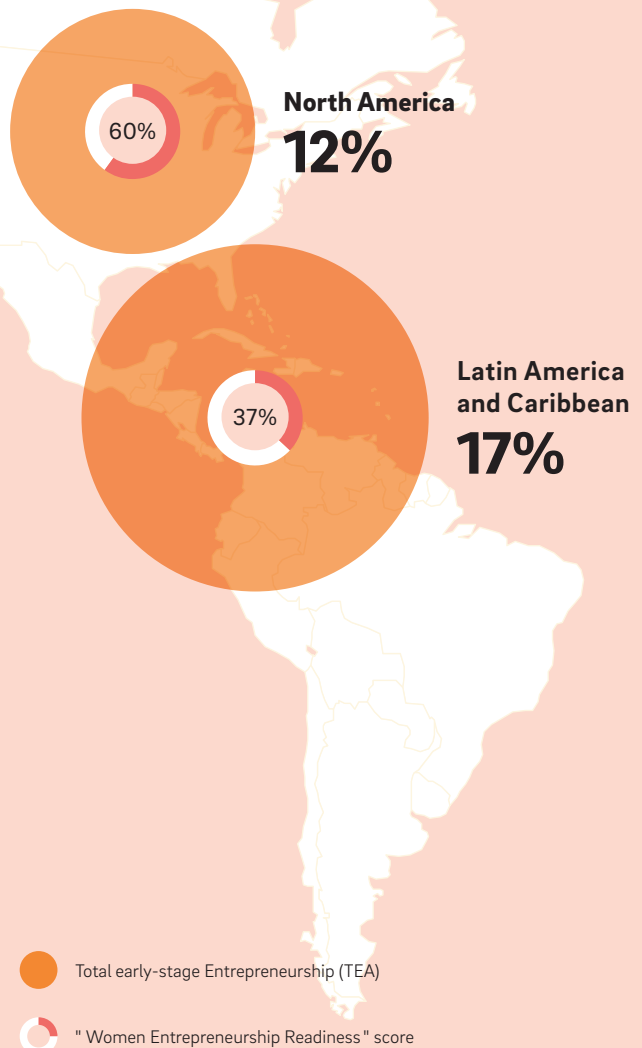
Methodology

The 2018 study focused on the socio-demographics of women's entrepreneurship in Africa. Using machine learning, the study's authors estimated the rate of Total early-stage Entrepreneurial Activity (TEA) and found that 24% of women in Africa had started a business – the highest rate globally by some margin. Estimates also revealed that women's entrepreneurship contributes between 7-9% of the continent's GDP, or USD 150-200 billion.

"WOMEN ENTREPRENEURSHIP READINESS" SCORE: CALCULATION METHOD

To disaggregate the phenomenon across the continent, a system was developed to score women's entrepreneurship prospects, using the following criteria:

- Size and growth of the local market
- Women's access to education
- Women's access to the labour market
- Women's access to financial institutions
- Women's access to entrepreneurship support systems
- Presence and level of discrimination in laws and regulations against women
- Degree of gender inequality, based on several indices
- Cultural acceptance of female entrepreneurship based on women's perception of entrepreneurship as an opportunity, and awareness of the related risks



KEY FIGURES

24%

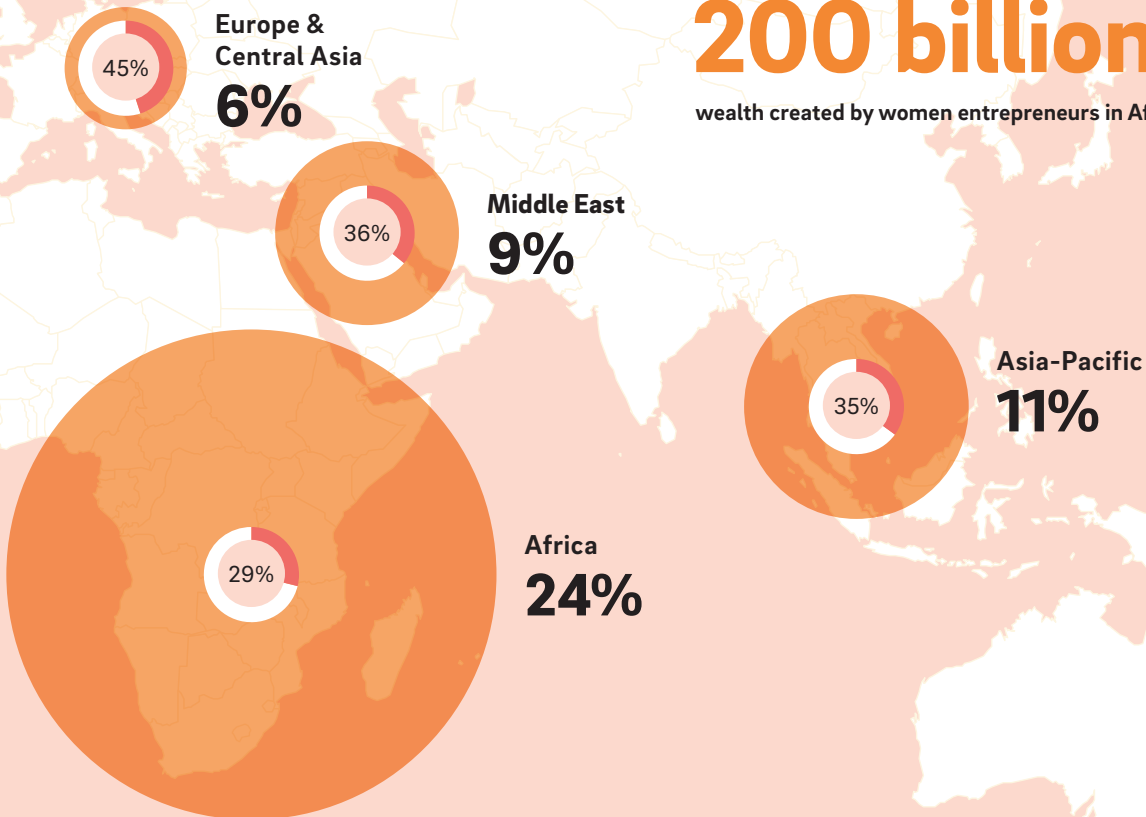
percentage of entrepreneurs in Africa who are women

+17pts

the difference in percentages of women entrepreneurs between Africa and the OECD countries

USD 150-200 billion

wealth created by women entrepreneurs in Africa



The paradox of female entrepreneurship in Africa: world-leading levels of entrepreneurship, frustrated by cultural and financial barriers

Africa is home to vibrant entrepreneurship among women, reflected in a rate of entrepreneurship not seen anywhere else in the world. Most women start businesses out of necessity, i.e. for subsistence, when faced with few alternatives due to limited educational opportunities, ingrained cultural factors and restrictive legislation. These structural barriers account for a low Women Entrepreneurship Readiness score (index used to measure preconditions to women's entrepreneurship).

By its nature, subsistence entrepreneurship tends to create small-scale businesses whose models require limited finance, signalling a potential lack of long-term stability to investors. Furthermore, women entrepreneurs are often discouraged from engaging in the often burdensome processes and formalities required to secure finance. → **A**

The extent of gender disparity among entrepreneurs in Africa is such that women have one sixth of the capital endowment of men, and record 40% lower profits.

The gender gap is considerable and calls for a detailed discussion about how women entrepreneurs in Africa can access finance.

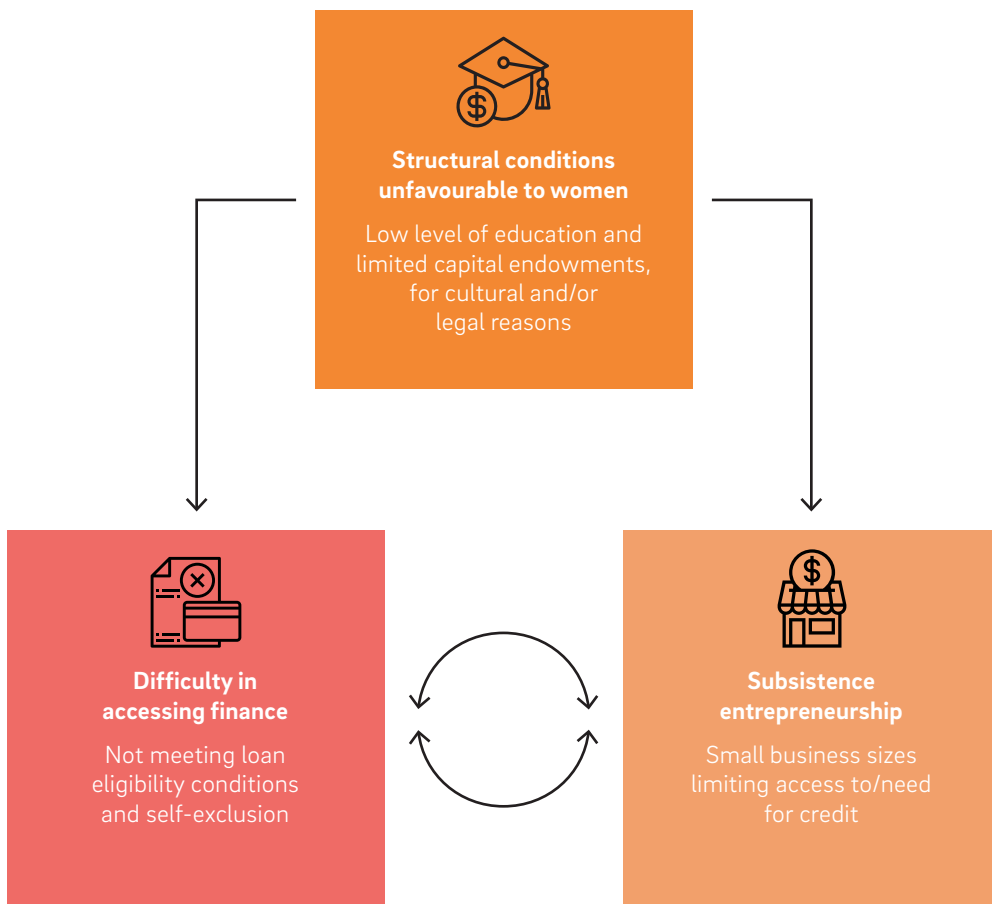
"Many women entrepreneurs in Africa did not apply for loans or lines of credit, they were discouraged by their own perception that their applications would be denied... Women managers of micro- and small firms are more likely than men to self-select out of the credit market."

Hanan Morsy

Head of the Macroeconomic Policy, Forecasting and Research Department, African Development Bank¹

¹ *Access to Finance: Why aren't Women leaning in?*
Hanan Morsy, African Development Bank

**A: Causes of difficulties in accessing finance:
women entrepreneurs stifled by cultural norms and existing legislation**



2. Women entrepreneurs in Africa: the diversity of experiences



B: Differences in preconditions for entrepreneurship among country groups [2019 socio-economic data]

	Economic and political context	Cultural acceptance	Labour market access	Access to finance	Degree of inequality
Drivers	36	31	58	51	66
Challengers	31	28	58	40	56
Emerging	40	21	46	35	62
Resurgent	26	16	38	18	52
Africa	35	24	39	36	60

Source: World Bank, CIA World Factbook, Roland Berger

Drivers

9 countries

South Africa, Botswana, Ghana, Kenya, Malawi, Namibia, Nigeria, Uganda and Zambia

These English-speaking countries enjoy long-term political stability, the highest levels of gender equality in Africa and a legal and regulatory framework favourable to equality between men and women. Financial institutions operate within a well-developed system, and there is a higher level of female engagement with banks than elsewhere on the continent.

Challengers

4 countries

Algeria, Egypt, Morocco and Tunisia

Despite above-average economic growth and development, "challenger" countries record lower rates of female participation in entrepreneurial activity (10-13%) despite the removal of legal and regulatory barriers to economic activity among women, particularly entrepreneurship. Acceptance of female entrepreneurship remains hampered by cultural norms, and a considerable degree of gender inequality persists. This group of countries has well-developed financial markets; levels of engagement with the banking sector, including among women, as well as access to finance, are high.

Emerging

12 countries

Benin, Burundi, Ivory Coast, Ethiopia, Gambia, Liberia, Mozambique, Rwanda, Senegal, Sierra Leone and Tanzania

Disparate group of mid-ranking countries in terms of development and female entrepreneurship. Limited access to finance, along with high and entrenched gender inequality act as major restraints on female entrepreneurship; these challenges are more prevalent than in the first group (Drivers).

Resurgent

7 countries

Angola, Burkina Faso, Gabon, Libya, Mali, Mauritania and Chad

Group of countries characterised by limited economic development, high gender inequality and high political instability. Engagement with banking institutions is low and financial infrastructure is limited.

3. Accessing finance: the key to entrepreneurial success

On average, businesses started by African women are smaller (employing half as many people as their male-owned counterparts), have less funding and are less profitable than those started by men (with one sixth of the capital held by male-run businesses). This disparity highlights the effect of limited access to finance. The challenges that women face vary by country and funding source. While microcredit is allocated more equitably to women across the continent, significant differences emerge between country groups in relation to other sources of finance.

This section evaluates, for each group of countries, the level of access enjoyed by women entrepreneurs to four sources of finance: "conventional" financing from banks, microcredit, venture capital and mesofinance (see inset). A business may seek these products at different stages in their development. For example, banks are often the only source of finance in the start-up phase. Other financial institutions only start to become involved once the business is actively trading (launch phase). → C

Overarching inequality of access to bank finance in all countries

Limited engagement by women with the banking sector

Banks are a key source of financial support for business owners, due to their presence at different stages in a company's development. However, only 34% of women in Africa engage with the banking sector, as opposed to 47% of men. This difference is seen across all African countries regardless of grouping; in this case, the gender gap ranges from 11 to 18 percentage points, depending on the country group. → D

Mesofinance

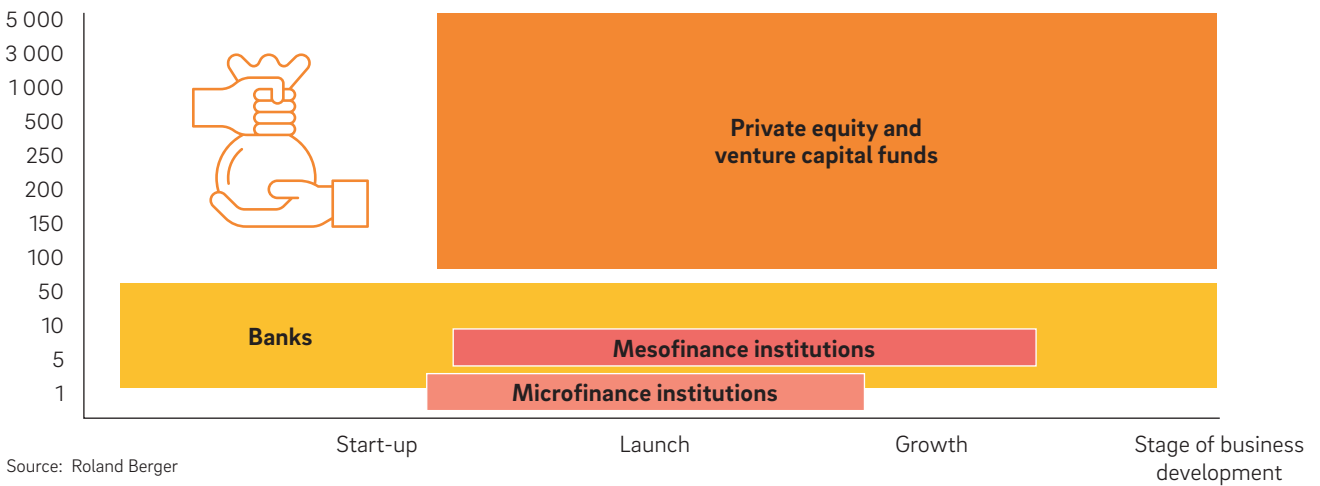
Term used to refer to the financial needs of very small and small and medium-sized enterprises (VSEs and SMEs) in developing countries. A number of formal definitions of mesofinance exist, in much the same way as the definition of a VSE or SME varies across countries. However, it is generally accepted that it refers to the lack of financial products available to medium-sized companies (i.e. too big for microcredit; too small to approach investment funds).

Only in "driver" countries do we see levels of female engagement with the banking sector above 40%, albeit with levels of engagement among men at around 60%, underlining a continued disparity between the sexes. The higher overall rate of engagement with the banking sector can be explained by a number of favourable economic and cultural factors.

As discussed in earlier studies, access to education and the labour market are determining factors in a country's economic development and growth in entrepreneurship. Countries in the "driver" group enjoy higher literacy rates, broader access to higher education, and a more developed financial system that is better geared to the needs of entrepreneurs than elsewhere on the continent.

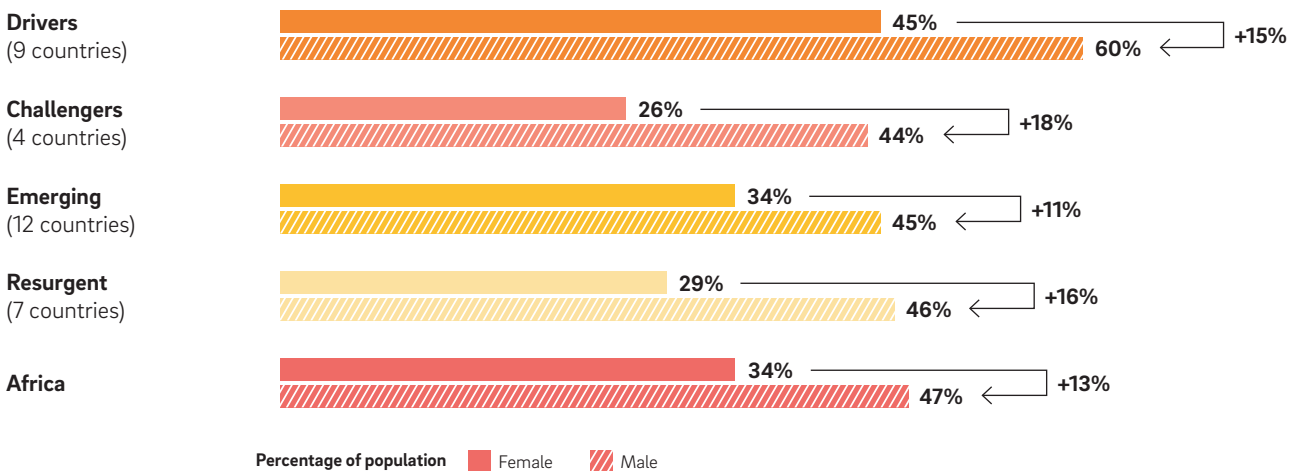
C: Financial institutions in Africa at different stages of business development

Typical amount invested (EUR '000s)



D: Less than half of Africa's population engage with the banking sector; only one third of women

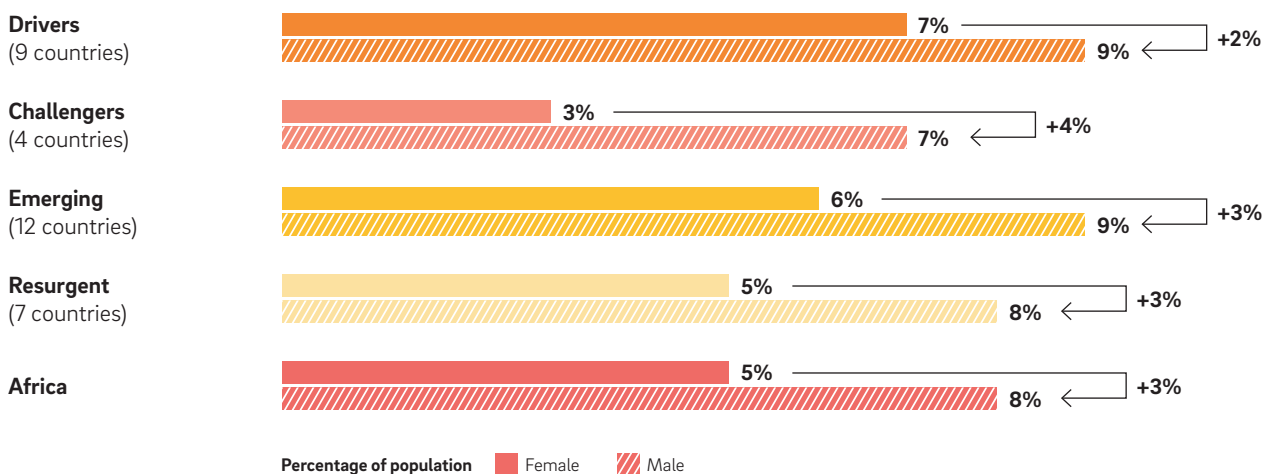
Percentage of women and men with an account at a financial institution (2017, % total population)



12 Stimulating women's entrepreneurship in Africa

E: Less than 10% of Africans have access to bank loans; only 5% of women

Percentage of women and men who have taken out a loan with a financial institution (2017, % total population)



Source: Roland Berger

As well as having more highly developed economies the leading countries have more equal provisions in law for building assets. For example, unlike other countries in Africa, women in these countries enjoy equal rights in relation to inheritances and estates, thereby allowing women to improve their creditworthiness through their assets.

Limited access to bank loans, particularly for women

While only 34% of women in Africa have a bank account, they are even less likely to take out loans from a bank: just 5% of women have accessed loans (8% of men). Educational and cultural factors again play a role, but the trend is pronounced by economic characteristics that impair the creditworthiness of women entrepreneurs.

Their capital contributions are limited and their assets, particularly real estate, are deemed insufficient in the eyes of banks to ensure they can stay solvent and grow their business. Furthermore, they perceive themselves as uncreditworthy and lacking the legitimacy to apply for a bank loan, and do not want to assume the risk that comes with it. → **E**

Despite continuing gender inequality, "driver" countries show how increased female engagement with the banking sector can be achieved across Africa. The level of female engagement with the banking sector is in fact 30% higher than the average for Africa; and the

percentage of women who have taken out a loan, while still low, is twice the average for all African countries. These encouraging indicators are explained in part by the availability of banking services tailored to the needs of women entrepreneurs in search of a loan. These may include educational sessions on the loan application process, which have been introduced by Asba Bank in Ghana and the DFCU Group in Uganda. To improve access to finance, banks should adapt their offerings to the economic profile of women in Africa, who often have no real estate assets or claims to an inheritance as collateral, despite being an essential condition to gaining credit.

Cultural acceptance and risk perception as major factors in female exclusion from financial systems

Banking products and services aimed at entrepreneurs – specifically women entrepreneurs – are often lacking, inflexible or non-existent to varying degrees, depending on the country group. While this is a contributing factor to the difficulties encountered by women entrepreneurs in opening a bank account or taking out a loan, that alone cannot explain why less than half of Africa's population have a bank account (47% of men; 34% of women), or why less than 10% of the population have been approved for a bank loan (8% of men; 5% of women).

According to credit market data from 47 countries across Africa², women in Africa also tend to self-select out of the credit market, due to the risk incurred and a lack of knowledge of banks' eligibility criteria.

However, some studies have shown that businesses started by women in Africa are generally more credit-worthy than those run by men. The psychological barrier still persists, even in countries where discriminatory practices are not observed in the granting of loanable funds, highlighting how cultural factors play a major role in whether or not women entrepreneurs engage with the banking sector or attempt to access finance, to varying degrees depending on the country in question. → **F**

Women entrepreneurs are more likely to access microcredit, but receive lower amounts than men

Women are the main recipients of microcredit, but receive less on average than men

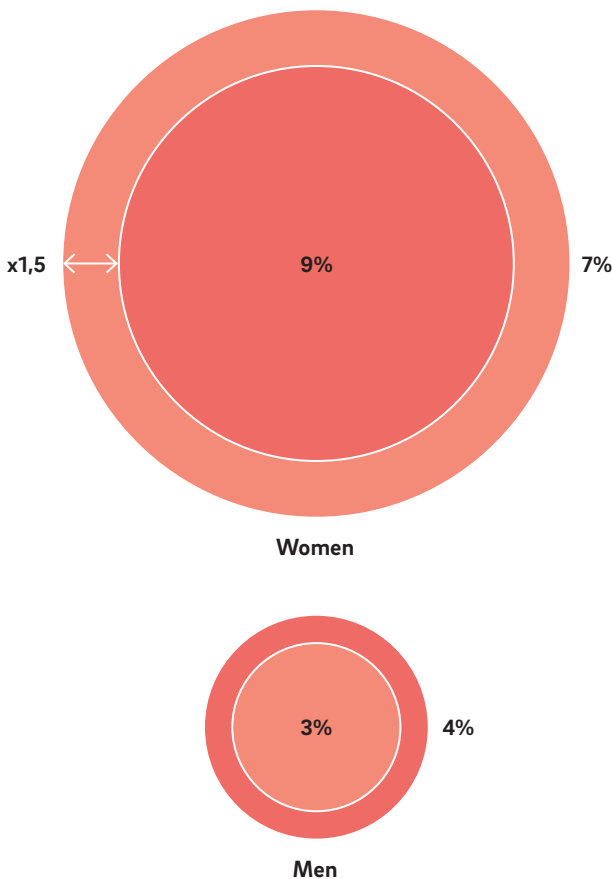
Microcredit meets a significant proportion of women entrepreneurs' funding needs. Women entrepreneurs tend to choose this facility as it meets the needs of subsistence entrepreneurship, a common phenomenon across Africa. Microloans are usually extended in amounts of less than EUR 1,000 to women entrepreneurs to help launch or develop a business plan, and the proceeds are then reinvested to sustain the growth of the business. The facility offers many women in Africa a route out of poverty and supports their emancipation.

Of the countries and institutions covered in the study (approx. 20 countries in Africa across four country groups), 72% of loans (by number) granted over the period 2016-2018 were to women. In the “drivers” and north-African countries, with higher urban populations, women enjoy the highest levels of access to microcredit. Even in “emerging” and “resurgent” countries, the average proportion of microloans to women was 50%. → **G**

² *Women Self-Selection out of the Credit Market in Africa*, Hanan Morsy, Amira El-Shaland, Andinet Woldemichael, African Development Bank, 2020

F: Female self-exclusion from bank finance is more common in north Africa

Percentage of women and men who do not apply for credit due to self-exclusion (2019; % total population)



● North Africa ● Africa

Source: Roland Berger

However, the amounts allocated to entrepreneurial projects vary greatly between men and women. Loans taken out by a woman were on average 47% lower than those taken out by men, and up to 53% lower in sub-Saharan Africa.

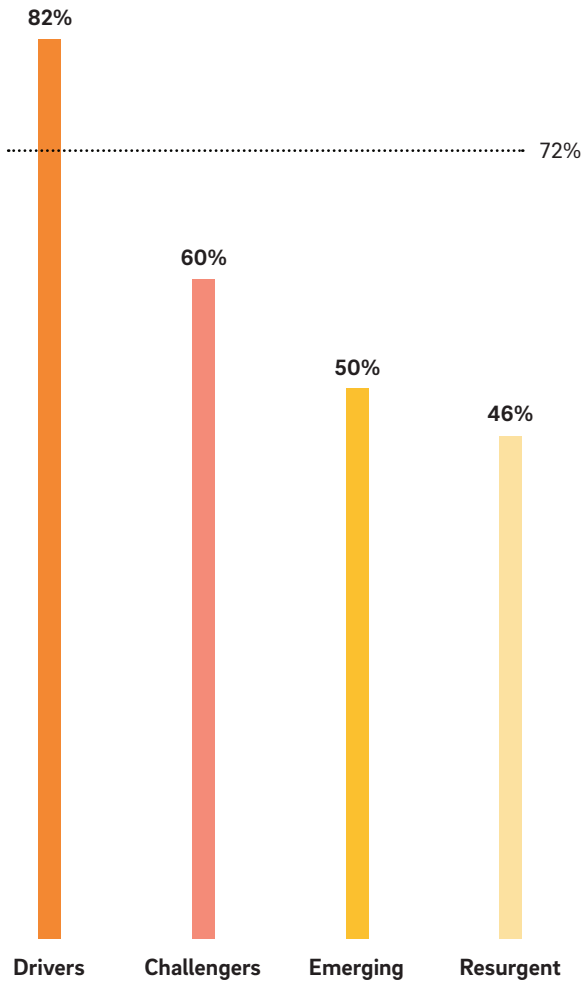
This difference can be explained by the nature of business proposals. Women are more likely than men to set up smaller businesses that are more geared to subsistence entrepreneurship in sectors such as retail. → **H**

Microfinance is not enough to facilitate economic and social emancipation of women

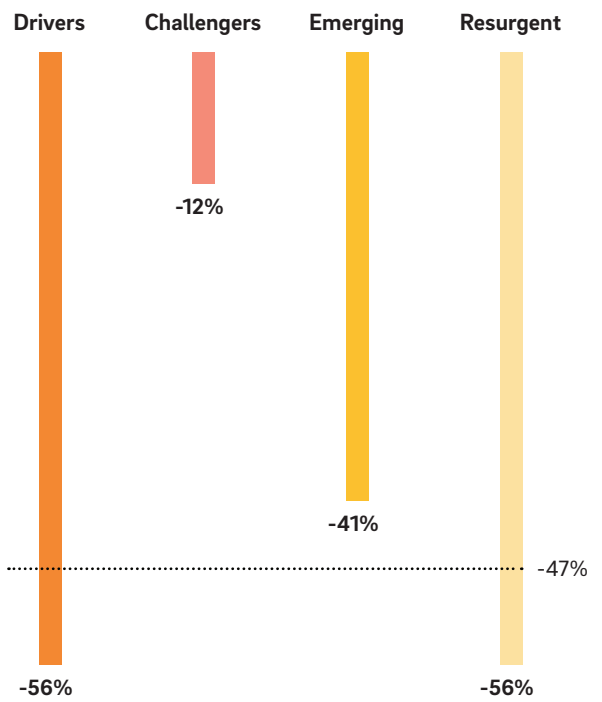
Forty years after its introduction, the role of microfinance in women's entrepreneurial development, as well as in their economic and social emancipation, remains unclear. Research carried out in south-east Asia has highlighted a number of drawbacks to microcredit. As a financial product, it is not proven to contribute significantly to increased profitability or growth. In most cases, microcredit finances a business' short-term operations. → **I**

In "driver" and "challenger" countries with more developed financial systems, entrepreneurs – male and female – are less likely to use microcredit than in "resurgent" or "emerging" countries. This finding supports the theory that microcredit is not key in funding the long-term growth of businesses. Therefore, new financial products would be necessary to facilitate business expansion over time.

G: Broad uptake of microcredit by women in Africa
 Percentage of loans granted to women
 (% total loans; 2016-2018 avg.)



H: Loan amounts to women are 47% lower than those to men
 Average difference in loan amounts granted to women compared with those granted to men
 (avg. % difference 2016-2018)



Mesofinance meets the needs of SMEs not covered by existing products and services

At present, SMEs in Africa often do not find financial products that suit their needs, which can often range from EUR 2,000 to over EUR 100,000. Mesofinance fills the gap in the loanable funds market between microcredit and more "conventional" bank loans.

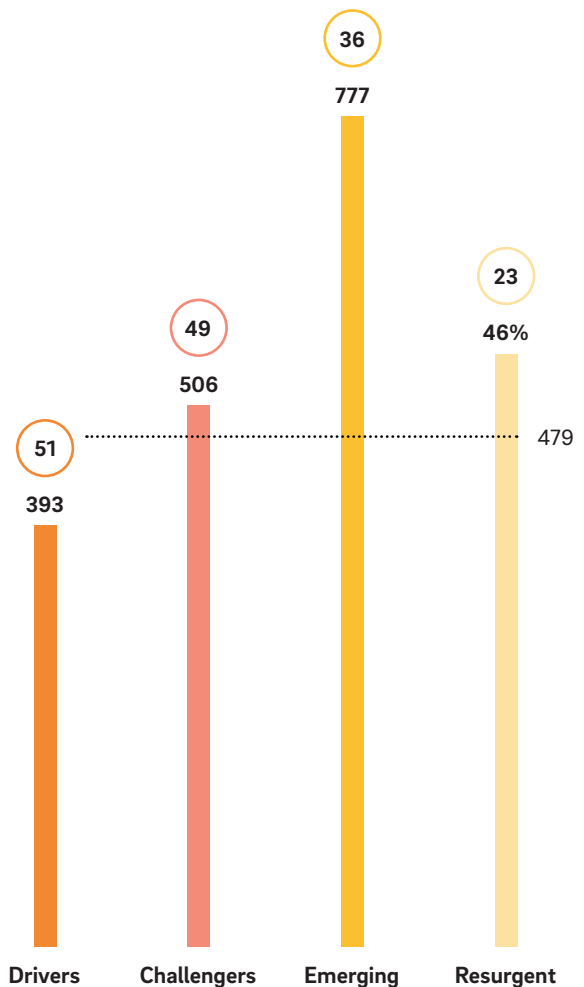
Microfinance meets the funding needs of SMEs that often cannot access conventional bank finance. Companies such as these are often considered too high a risk due to a lack of collateral. SMEs account for more than 90% of private enterprises on the continent, but only 10% of them have access to bank finance, while microcredit facilities are not enough to meet their long-term needs. → J

Self-employed persons, VSEs and SMEs are among those most likely to avail of mesofinance to grow their business. Mesofinance institutions provide loans, as well as savings and investment products similar to those offered by banks and microfinance institutions.

Despite addressing a proven and growing need for finance, mesofinance has yet to take hold in Africa, according to a MIX (microfinance information exchange) survey. Of 1,308 microfinance institutions surveyed, only 3%, or 40 institutions, offer mesofinance. Yet, in order for entrepreneurship and business development to take off in Africa, mesofinance still has a crucial role to play.

! Women more likely to use microcredit in countries lacking a well-developed financial system

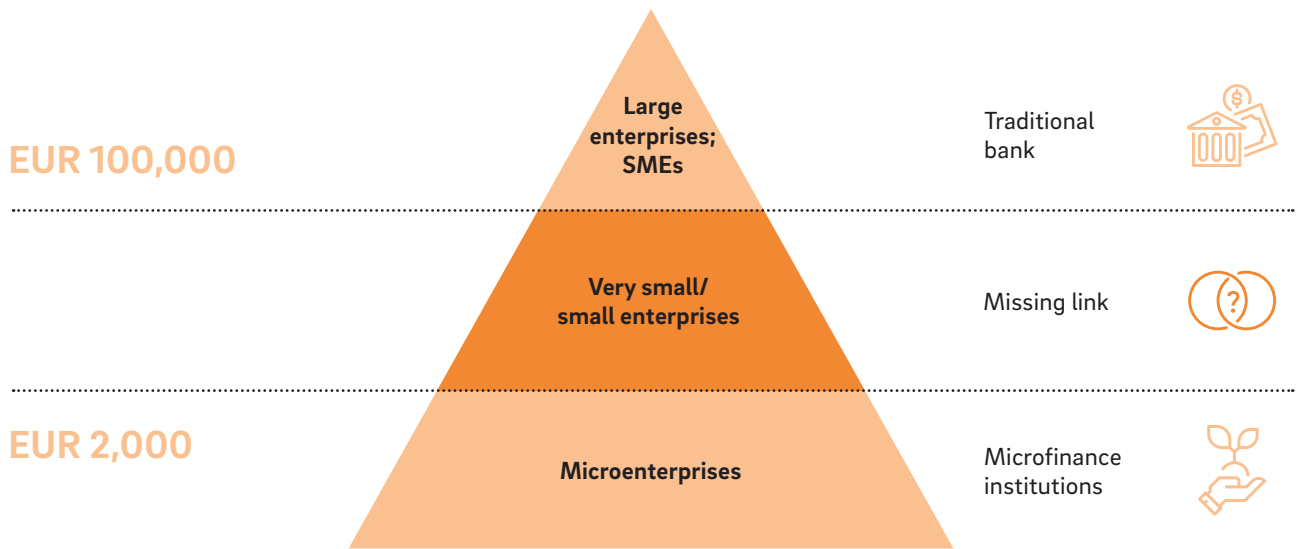
Average loan amount received by women (2016-2018; USD)



○ Financial Development Index (score 1-100)

Source: Roland Berger

J: Meeting the finance needs of VSEs and SMEs: shortage of loan options between EUR 1,000 and EUR 100,000



Source: Roland Berger

THERE ARE THREE TYPES OF INSTITUTION OFFERING MESOFINANCE IN AFRICA AT PRESENT:

- **Microfinance institutions (MFIs)**, among which some products target SMEs looking to develop their business (e.g. Microcred – Baobab). In most instances, the MFI supports those customers with the greatest need for funding in order to expand their business from inception.

- **Traditional banks** that have expanded into mesofinance (e.g. Advanc, Bank of Africa). In Africa, banks face heavy competition from other banks, as well as increasingly from other financial institutions, in the VSE-SME market segment.

- **Mesofinance institutions** serve VSEs and SMEs whose borrowing requirement ranges between EUR 5,000 and EUR 300,000.

Why has Africa been slow to adopt mesofinance?

The roll-out of mesofinance in Africa has encountered a number of obstacles.

REASONS LINKED TO FINANCE AND CREDIT SYSTEM OPERATIONS

- Lack of reliable information on SMEs
- No SME-specific risk assessment tools relevant to mesofinance products
- Lack of understanding of SMEs' demand for finance (no expert knowledge in how to meet SME funding needs)
- Lack of, or poorly-functioning, credit institutions
- Lack of secure transaction facilities
- Centralised decision-making for loans, making it more difficult to provide banking products to SME

REASONS LINKED TO BUSINESS OWNERS AND HOW BUSINESSES ARE RUN

- Lack of knowledge of mesofinance facilities and lenders, and the distinction between mesofinance and other facilities (e.g. microcredit and bank loans)
- Importance of the informal economy in women's business operations
- Discouragement arising from bureaucracy and administrative formalities (e.g. acquiring permits, business registration and start-up procedures, etc.)
- Lack of financial education
- Insufficient or limited management skills and policies, and lack of a strategic vision
- Lack of governance and leadership in businesses that are often family-run

4. What can be done to stimulate and support entrepreneurship in Africa?

MICROCREDIT, MESOFINANCE AND BANK FINANCE

Having examined the range of facilities available to entrepreneurs in Africa, new opportunities should be explored to further develop the entrepreneurial base and allow African companies to flourish.

SIX RECOMMENDATIONS to leverage mesofinance to drive entrepreneurship among women in Africa

- 1 Facilitate applications and introduce incentives to lift collateral restrictions demanded by financial institutions as a condition for loans.** Central banks play an important role in creating favourable economic and financial conditions for SMEs, for both the banking sector and small enterprises. They could broaden the notion of what constitutes acceptable securities, for example by allowing owners of small businesses to use movable assets such as plant and equipment, or their own credit history, as collateral for bank loans. A broader definition of acceptable collateral would help small business owners meet the bank's security requirements while improving credit market conditions for SMEs.
- 2 Develop national databases** on VSEs and SMEs to facilitate risk assessments by financial institutions to make processes more transparent and efficient.
- 3 Centralise VSE and SME supports** by reducing the number of people and institutions involved in the application process.

- 4 Educate entrepreneurs about mesofinance** through SME finance units set up in the relevant government department (e.g. employment, economy).
- 5 Encourage banks and institutions** to develop products and offer mesofinance loans to women entrepreneurs.
- 6 Apply subsidies and establish loan collateral requirements** for banks which, in return for this support, agree to grant a given number and volume of mesofinance loans.

FOUR WAYS to increase awareness of, and thereby democratise, mesofinance

- 1 Develop a female entrepreneurial culture through:**
 - Targeted sessions on organisational and financial aspects of entrepreneurship
 - Development of women VSE and SME networks
 - Establishment of a women's mentorship scheme aimed specifically at women VSE and SME owners.
- 2 Provide guidance to women entrepreneurs** in how to set up a business and negotiate the administrative processes (e.g. completing loan applications) to win over banks and institutions..
- 3 Educate VSEs and SMEs about the risks associated with multiple financial partners**, often presented as beneficial by maximising the chances of securing finance. This practice can ultimately prove harmful for financial partners, especially in situations where client risk information sharing between financial institutions does not cover the whole financial sector.

- 4 Remove inequality of access to finance** by addressing structural differences in perception and technical knowledge that cause women to self-select out of credit markets and mesofinance in particular, through large-scale delivery of educational programmes addressing women's specific needs (microenterprises and VSEs in sectors dominated by women and rooted in the local economy).

International examples

In Malaysia, the Women Entrepreneur Financing Programme is an innovative model that equips women with the skills and knowledge they need to adopt a strategic approach to essential functions such as financial management, marketing, leadership and technology. The programme has helped to close the gender gap in lending in Malaysia.

A number of African banks, including Access Bank in Nigeria and Equity Bank in Kenya, have introduced financial and commercial educational programmes for women entrepreneurs.

FIVE ACTIONS

to align mesofinance with women entrepreneurs' socio-economic circumstances

- 1 Adopt a targeted approach** to accessing finance among women entrepreneurs, by dedicating funds to targeting VSEs and SMEs run by women.
- 2 Develop robust mesofinance products** to facilitate medium- and long-term business development (as opposed to the short-term dimension of microcredit) with flexible collateral conditions suited to women's circumstances. For example, Access Bank has launched targeted products that account for the economic profile of women entrepreneurs, with lower collateral requirements.
- 3 Introduce monitoring tools and methods** tailored to managers of VSEs and PMEs, most of whom would like to see daily tracking, including in real time.
- 4 Increase dialogue with SMEs** and raise awareness about good financial practices.
- 5 Increase VSE/SME engagement** with central banks.

Example of business support through mesofinance³

A new initiative to improve access to mesofinance in Europe and North America is the "viability-based approach", based on the viability of financing tailored to SMEs' cash flow (liquidity loans). As the viability-based approach is business-focused, it offers targeted support to businesses in their development, in order to minimise risk and maximise returns. This involves an in-depth review and assistance in preparing a strategic business plan. Obtaining the necessary data to assess viability, transfer costs, and the costs of assisting company development, have all impeded this approach in the past. However, advances in information and communication technology have made the process more straightforward and less costly. As technology improves and information sharing increases, the approach could become much more profitable and attractive to investors, some of whom have promoted this approach as a way of attaining greater social benefits, while others have sought to leverage it to generate higher financial and economic returns for shareholders, investors, employees and clients.

³ "The Potential of Mesofinance for Job Creation in Mediterranean Partner Countries", 2020

Conclusion

Women's entrepreneurship is instilling a new dynamic in Africa's economy. While numerous social and cultural obstacles to development remain to be tackled, improving access to finance is one way to develop entrepreneurship and facilitate the long-term viability of businesses. Microenterprises currently receive financial support through microcredit and large firms have access to banks, but VSEs and SMEs remain a weak link not well catered for by financial institutions. Mesofinance can fill the gap and address the needs of businesses that seek to expand. Those products offered by microcredit institutions and traditional banks for this cohort tend to fall short in terms of loan amounts and/or overly stringent conditions. Furthermore, women entrepreneurs in Africa are often put off by the application process, and efforts are needed to educate women entrepreneurs about these processes and to address the psychological barriers to applying for finance that prevail among this section of the population. These and other actions should help instil fresh impetus towards developing a solid entrepreneurial base in Africa. Banks, institutions and women entrepreneurs can all play a role in building a framework that can support the growth of Africa's economy.

About us

Roland Berger, founded in 1967, is a world-leading global advisory firm and the only one with its origins in Europe. Employing 2,400 people across 35 countries, we have a presence in all major world markets. Since opening in France in 1990, our Paris office has set the standard in consulting for the largest manufacturing and service industry groups.

WIA Philanthropy: Women in Africa (WIA) promotes education as an integral part of economic development, providing guidance to the creators of the innovative businesses of the future. We provide the tools, contacts, training and long-term growth opportunities. WIA Philanthropy is a pillar of the global Women in Africa initiative founded by Aude de Thuin, who has spent 20 years addressing the challenges faced by women. WIA Philanthropy aims to become the world's leading platform for the economic development of women leaders in Africa.

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