

**SOURCES OF FINANCE FOR WOMEN MICRO AND
SMALL ENTERPRISES (MSES) IN ZIMBABWE: A STUDY
OF SELECTED WOMEN MSES IN HARARE TOWN**

YEUKAYI DZAPASI; *(Master of Commerce in Finance)**

JEREMIAH MACHINGAMBI; *(Master of Commerce in Finance)***

Abstract

This research study was based on women Micro and Small Enterprises in Zimbabwe, in particular those based in Harare, the capital city of Zimbabwe. The emphasis was on their sources of finance. A random selection of the population was done to come up with a sample size of 50 respondents of women MSEs. The data collection was done using both primary and secondary data. The secondary data was used in the form academic journals, reports and books to come up with a comparison of the sources of finance also used by women entrepreneurs as per other scholars' perspectives. It was found out that Women MSEs used personal savings and Microfinance loans most as their sources of startup capital. The study further suggested that Retained earnings and Microfinance loans are also being mainly used as operational capital sources of finance, overlaps were noticed on women MSEs operational sources of finance thus confirming use of diverse sources of finance by Women entrepreneurs. The study recommended the government and the Central Bank to encourage the use of venture capital and business angels in funding of Women MSEs startups as well as use of other sources of capital like leasing. The building of formal and permanent structures for Women MSEs to use as business premises as well as financial management and bookkeeping training is also recommended.

Key Words: Micro and Small Enterprises; Sources of Finance; Women; Zimbabwe

* Teaching Assistant, Technoprenurship Development Centre; Harare Institute of Technology; Harare; Zimbabwe

** Teaching Assistant, Business Studies Department; University of Zimbabwe; Harare; Zimbabwe

1.0 Introduction

Women's entrepreneurship is an important factor for economic growth and development in both developed and developing countries. Increase in women's income at the end of the day results in higher family spending which impacts positively on the general welfare of the family and is also critical for the achievement of national development goals in the areas of social inclusion, infrastructural development, servicing of country's local and foreign debt, food security as well as financial inclusion. Researches on Women Entrepreneurs have shown that women around the world are increasingly venturing into entrepreneurship and are a lot more committed expanding their countries' economic prowess and enhancing job opportunities in their countries. Motivated by their desire to test a winning idea, opportunity to reach full potential and confidence in their ability to succeed as well as making their dreams a reality more and more women are overcoming barriers to entry in the entrepreneurship field. It has to be acknowledged however that the road is not easy, but many women have walked the uphill road to success and today, there are more women entrepreneurs than ever before as evidenced by a report produced on Women Entrepreneurs in the Asia Pacific Economic Cooperation (APEC) region, which ascertained that out that 'women own and operate approximately one-third of firms in the formal sector of the APEC economy: around 30% in Indonesia; 31% in Mexico; 32% in Korea; 33% in Canada; 34% in the Philippines; and 38% in the United States'. Women have generally shown great courage and perseverance in their efforts to face all overwhelming odds against them. A key challenge for most SMEs in general however is the problem of finance. Most SMEs usually face tight liquidity constraints thus consequently making finance a problem for them. The generation of an entrepreneurial idea is one thing but accessing the necessary finance to translate such ideas into reality is another. People; that is both men and women have come up with great entrepreneurial ideas but they die simply because their originators could not fund them and banks as well as other financial services providers could not be convinced that the ideas were worth investing in. Finance, be it equity or debt, internally or externally accessed is needed so as to enhance the growth and development of Small Businesses. It is against this aforementioned background that this study seek to find out the sources of finance which are being used by Women SMEs in Zimbabwe. This research study will go a long way to provide policy makers, financial institutions and entrepreneurial support organizations with new insights into the attitudes and finance needs of women business owners and their firms in Zimbabwe. Through surveys of 50

female business owners representing women businesses in Zimbabwe's Harare urban, the study identifies:

- ✓ Sources of Finance used by women Enterprises

2.0 Literature Review

Small to Medium Enterprises represent an exceptional vehicle for entrepreneurial activities. Most of the startup activity comes from the SMEs, they are an important source of innovation, new products and services and are a key element for regional development and the nation at large.

2.1 SMEs sources of Finance

2.1.1 Venture Capital

Mbemba et al; (2012); postulated that , Venture Capitalists are organized providers of financing for winning but risky business proposals by small and medium firms that have a promising but as yet unproven idea. They further suggested that,if the Venture Capitalists are convinced that a business idea is promising, they will take an ownership stake in the business and provide the needed fund while sharing the risk. Venture Capital firms finance firms which are high risk but with potentially rewarding projects thus they take an equity stake in the firms they finance, sharing in both the upside and downside risks (Gompers, 1994). Gompers further asserted that a substantial portion of high-techs start-ups have received venture capital including such present day industry giants such as Apple Computer , Lotus , Genentech among others.

2.1.2 Business Angels

Business Angels are usually in form of wealthy business people,doctors, lawyers and others who are willing to take an equity stake in a fledgling company in return for startup. (Gompers, 1994). Mullen (2012) stipulated that business angels are individuals who make equity investments in high-growth businesses, some invest on their own; some invest as part of a syndicate. Muller further ascertained that, investments by business angels tend to be smaller than those offered by VCs and tend to target businesses in the early stage of development or established businesses looking to expand.

2.1.3 Personal Savings and Loans from Friends and Relatives

Personal savings are usually used for startup when an entrepreneur injects his own funds in the business. This financing option is usually opted after an entrepreneur has exhausted his or her personal savings. There are things however the borrower (MSE) need to keep as guideline when borrowing from friends and relatives which include keeping the arrangement “strictly business”, creating a written contract and develop a payment schedule that suits both parties.

2.1.4 Bank Loan

Business Bank loan applications can be onerous and often require detailed financial projections and business plans. New enterprises and small firms typically lack the expertise to prepare detailed business plans. In Botswana and Lesotho, professional consultants are hired to prepare detailed business plans needed that are required as credit application by banks for a fee as much as 1% of the loan amount and up to 5% in Sudan. (World Bank; 2009).

2.1.5 Mezzanine Finance

Mullen (2012) ascertained that Mezzanine Finance is a term which refers to a form of debt which share the same characteristics with equity. He further highlighted that, it is a flexible product that can be tailor made to the repayment and risk profile of a transaction or the entire business. Mezzanine finance can also be simply referred to as debt capital that gives the lender the rights to convert it to equity if the loan is not repaid back in time or in full.

2.1.6 Debt Factoring

Debt factoring or invoice discounting can be used to raise capital by raising money against unpaid invoices. These sources of funding are collectively known as Asset-Based lending (ABL). Factoring is only available to businesses that sell products or services on credit to other businesses. It is potentially useful to businesses where turnover is growing by increasing cash flow. Debt factoring involves selling invoices to a factor which pays an advance – typically 85% – on all approved invoices. The factor will then work on behalf of the business – managing the sales ledger and collecting money owed by customers. Once a customer settles an invoice with the factor, the factor will release the remaining balance less their fees. (Mullen; 2012)

2.2 Women SMEs and Their Sources of Finance

Kharouf et al (2007) carried out a research study in five countries namely Bahrain, Jordan, Lebanon, Tunisia, and the United Arab Emirates and found out that Women business owners used different resources to meet the financial needs of their businesses. Their survey results highlighted that 20.9% relied on private resources (personal savings, friends and families) whilst 27% depended on the earnings of their business. Only 14.2% used business/commercial bank loans, 9.2% received micro-finance loans, and 8.1% took out personal bank loans. A small percentage used credit cards, business lines of credits and vendor credits (1.6%, 2.5%, and 2.9%, respectively).

A research study conducted by APEC 1999 confirmed that in Korea, about 10% of a businesswoman's assets are borrowed money. When asked which sources of money they used during the past 12 months, the businesswomen indicated the following sources in the order of frequency: their own savings (49.9%), borrowing from family, relatives or friends (39.1%), short-term loans from banks (23.1%), long-term loans from banks (19.9%), private lending (19.0%), and loans from non-bank financial institutions (17.2%).

The Canadian Bankers Association 31 as cited in the APEC report, 1999 conducted a comprehensive national study on small business financing and their results were as indicated in Table 1 below:

Table 1: Current Sources of Financing: Percent of Business Owners Indicating Use of Source

Source of Financing	All respondents indicating use of the source	Male-owned only	Female-owned only
Borrow from a bank or financial institution	51%	50%	39 %
Credit cards (personal and business)	44%	46%	42 %
Government loans or grants	15%	14%	11 %
Supplier credit	38%	38%	28 %
Public equity	1%	1%	1%

Venture capital	1%	1%	1%
Export financing corporation	1%	2%	less than 0.5%
Personal Savings	39%	40%	46 %
Personal loans	28%	29%	27 %
Loans from friends and relatives	12%	12%	12 %
Loans from unrelated individuals	4%	3%	3%
Retained earnings	40%	40%	32 %
Do not have business financing	9%	9%	12 %

Source: Thompson Lightstone, pg. 47 as cited in APEC Report 1999

This study reported that women business owners were less likely to borrow from banks or other financial institutions (39%) than male business owners (50%) (Table 1). New start-ups were less likely to use bank financing (31%), relying more heavily on personal savings (69%) and credit cards (52%). In addition, businesses owned exclusively by women were less likely to have sought financing from a financial institution in the past year (25%) than businesses owned exclusively by men (36%) or jointly owned (42%). Overall, it is clear that men are more prone to financing their businesses through debt and women have a higher tendency to use personal sources of financing.

2.3 SMEs in General and Their Sources of Finance

The European Central Bank Survey (2012) claimed that the composition of SMEs sources of external financing changed though by a little margin between October 2011 and March 2012. The results of their survey highlighted that the percentage of Euro area SMEs using bank loans increased to 35% from 33% and that of bank overdrafts increased to 42% up from 40%. Though the study also evidenced the increase in the use of trade credit, the importance of leasing, hire purchase and factoring appeared to have declined.

Mabhugu et al , (2012) examined the sources of finance used by Micro and Small Enterprises in Zimbabwe from the period when the country began using the Multi-currency system at the beginning of 2009 up to end of 2011. The research study found out that Micro and small Enterprises in Zimbabwe had to use mainly owners' personal savings and retained earnings as start- up capital when the country adopted use of multi -currencies in 2009. The study further suggested that the use of multi-currency system has negatively affected the ability of MSEs to access external finance and the only readily available external source of finance is trade finance. The researchers recommended that MSEs should use alternative means to finance their businesses such as sharing resources, delaying payment, reducing accounts receivables.

Munanga (2013) examined the financial challenges faced by retail SMEs operating in a multi-currency environment and used Gweru urban Zimbabwe as a case.. The researcher found out that 46.67% of the owners of the SMES raised capital through personal savings and the second major source of capital was retained profits. The research study also revealed that 13.33% of the SMEs were financed using money borrowed from relatives and friends while 3.33 were financed using bank loans and overdrafts. Equity capital, lease finance and trade credit were not used at all.

3.0 Research Methodology

The research study made use of both primary and secondary data sources. Data were collected from 50 respondents who were drawn randomly from Women MSEs in Harare Town. A questionnaire with closed ended questions in part adapted and modified from a research study by Kihimbo et al , 2012 was developed as an instrument. The questionnaires were hand delivered to the respondents and collected after a period of one week. The data collected were analyzed using Microsoft excel, 2013. Thirty nine (39) out of fifty (50), questionnaires were returned representing a 78% response rate. Secondary data sources were in form of published academic journals, books and conference papers among others.

4.0 Data Analysis

4.1 Characteristics of Women MSEs

The Table below is depict the characteristics of women MSEs as found in the survey;

Table 2: Characteristics of Women MSEs respondents

Characteristics	Frequency	Percentage
<u>Number of Employees</u>		
0 – 9	34	87.18%
10 -49	5	12.82%
50 -299	0	0%
<u>Number of Years in Operation</u>		
Less Than 1 Year	5	12.82%
1 to 3 Years	6	15.38%
3 Years +	28	71.79%
<u>Forms of Business</u>		
Sewing	15	38.46%
Knitting	4	10.26%
Catering	13	33.33%
Crafts	7	17.95%
<u>Premises Used</u>		
Business Premises	8	20.51%
Residential Premises	5	12.82%
Semi –Structured	26	66.67%
<u>Motivation of Venturing into Business</u>		
Economic Situation	21	53.84%
Desire to test a winning Idea	6	15.38%
Opportunity to reach full potential	4	10.26%
Confidence in the ability to succeed	8	20.51%
<u>Did you receive any Training in Financial management & Bookkeeping?</u>		
Trained	11	28.21%
Not Trained	28	71.79%

Source : Research Data : February 2014

Number of Employees: Only 5 respondents had employees between 10 and 49 in number whilst 34 respondents representing 87.18% had less than 10 employees. The results implies that the respondents fall in the Micro enterprises and Small Enterprises according to the World Bank Definition which defines Micro Enterprise and Small Enterprises as those firms having less than 10 and between 10 and 49 employees respectively . (Ayygari et al ,2005).

Number of Years in Operation: The respondents were also asked about the number of years they have been operating. As depicted in Table 2 above, the bulk of the respondents, (71.79%), had more than 3 years in operation. Only 6 respondents representing 15.38% had between 1 to 3 years in operation whilst a minute 12.82% had less than one year in operation. The results reflects that there is low business failure in Women MSEs in Zimbabwe as evidenced by the majority of MSEs who have survived for three years and above in business. The results are in contrary with by Kangasharju (2000) who argued that 48% of the SMEs closed business in the first three years of operation

Business Industry: Of the 39 respondents, 38.46% of the respondents asserted that they were in sewing business whilst 10.26% were in knitting business. 13 (33.33%) respondents claimed that they were in catering business whilst 7(17.95%) were in crafts business.

Premises Used: Themajority of respondents were using semi-structured premises (66.67%) whilst 12, 82% and 20.51% were using residential and business premises as their workplaces respectively. The results highlight that most women MSEs are using semi structured premises as their workplaces. This may act as a hindrance to access to bank loans since most banks require collateral in form of tittle deeds of business premises.

Motivation of Venturing into Business: More than half of the respondents ventured into business due to the economic situation prevailing in the country. Only 8 respondents representing 20.51% of the respondents ventured into business due to their confidence in the ability to succeed. About 15.38% ventured into business due to the desire to test a winning idea whilst a minute 10.26% believed that they wanted an opportunity to reach full potential.

Financial Management Training: Only 28.21%, confirmed that they had received training in financial management and bookkeeping whilst 71.79%, had not received any training. Lack of financial management training might be one of the issues hindering MSEs access to debt finance like bank loans as banks are keen to lend to trained MSEs.

4.1 Women MSEs Sources of Startup Capital

The respondents were asked to indicate the sources of finance they used for startup capital and the results are as shown in the Table below:

Table 3: Sources of Startup Capital for Women MSEs.

<u>Source of Capital Used</u>	<u>Proportion of Total Capital Used</u>	<u>Frequency</u>	<u>Percentage</u>
<u>Personal Savings</u>			
	Over 70%	34	87.18%
	1 – 29%	2	5.13%
	0%	3	7.69%
	Total	39	100%
<u>Loan from Banks</u>			
	Over 70%	2	5.13%
	1 -29%	1	2.56%
	0%	36	92.31%
	Total	39	100%
<u>Microfinance Loans</u>			
	Over 70%	0	0%
	1 -29%	22	56.41%
	0%	17	43.59%
	Total	39	100%
<u>Loan from Friends</u>			
	Over70%	2	5.13%
	1- 29%	10	25.64%
	0%	27	69.23%
	Total	39	100%
<u>Trade Credit from Suppliers</u>			
	Over 70%	1	2.56%
	1 –29%	4	10.26%
	0%	34	87.18%
	Total	39	100%
<u>Venture Capital & Business Angels</u>			
	Over 70%	0	0%
	1 – 29%	0	0%
	0 %	39	100%

Source : Research Data ; February 2014

The results as depicted in table 3 above reflects the assertion of 39 respondents on the sources of finance they used for startup capital. Close to 90% of the respondents used personal savings for 70% + of their startup capital. The results also showed that more than half of the MSEs funded the most of their remaining startup capital (1-29%) using Microfinance loans .About 92.31%, 87.18% and 100% of the respondents never used Bank loans, Trade Credit from Suppliers and Venture Capital respectively as their startup capital. The results are in line with the study by Mabhugu et al (2012), which stipulated that Micro and small Enterprises in Zimbabwe used mainly owners' personal savings and retained earnings as start- up capital when the country adopted use of multi -currencies in 2009

4.2 Women MSEs Sources of Operational Capital

The Women MSEs respondents were asked to identify the sources of finance they are using for operational purposes the results are as depicted in Table 4 below:

Table 4 Showing Women MSEs Sources of Operational Capital

Sources of Finance	Frequency	Percentage
Retained Earnings	31	79.49%
MFI Loans	18	46.15%
Friends & Relatives	11	28.21%
Bank Loans	10	25.64%
Personal Savings	6	15.38%
Government Grants	2	5.13%
Trade Credit	1	2.56%
Venture Capital	0	0%

Source: Research Data, February 2014

Retained Earnings (79.49%) followed by MFI loans (46.15%) topped the list of sources of finance which were being used by Women MSE owners as operational capital. Overlap between various sources of finance reflected that Women MSEs are using diverse sources of operational capital to sustain their businesses.. A significant number of MSEs indicated using loans and friends and relatives (28.21%) and bank loans (25.64%) as their sources of finance .The results however to some extent contradicts with APEC report of 1999 which claimed that In Korea , when Women SMEs were asked which sources of money they used during the past 12 months, the businesswomen indicated the following sources in the order of frequency: their own savings (49.9%), borrowing from family, relatives or friends (39.1%), short-term loans from banks

(23.1%), long-term loans from banks (19.9%), private lending (19.0%), and loans from non-bank financial institutions (17.2%).

4.3 Women MSEs Sources of Operational Capital according to Number of Years in Operation

The findings of the research study were further analyzed by matching the sources of finance being used by MSEs in relation to the number of years the firms had been operating and the results are as shown below:

Table 5 Showing Women MSEs Sources of Operational capital according to Number of Years in Operation

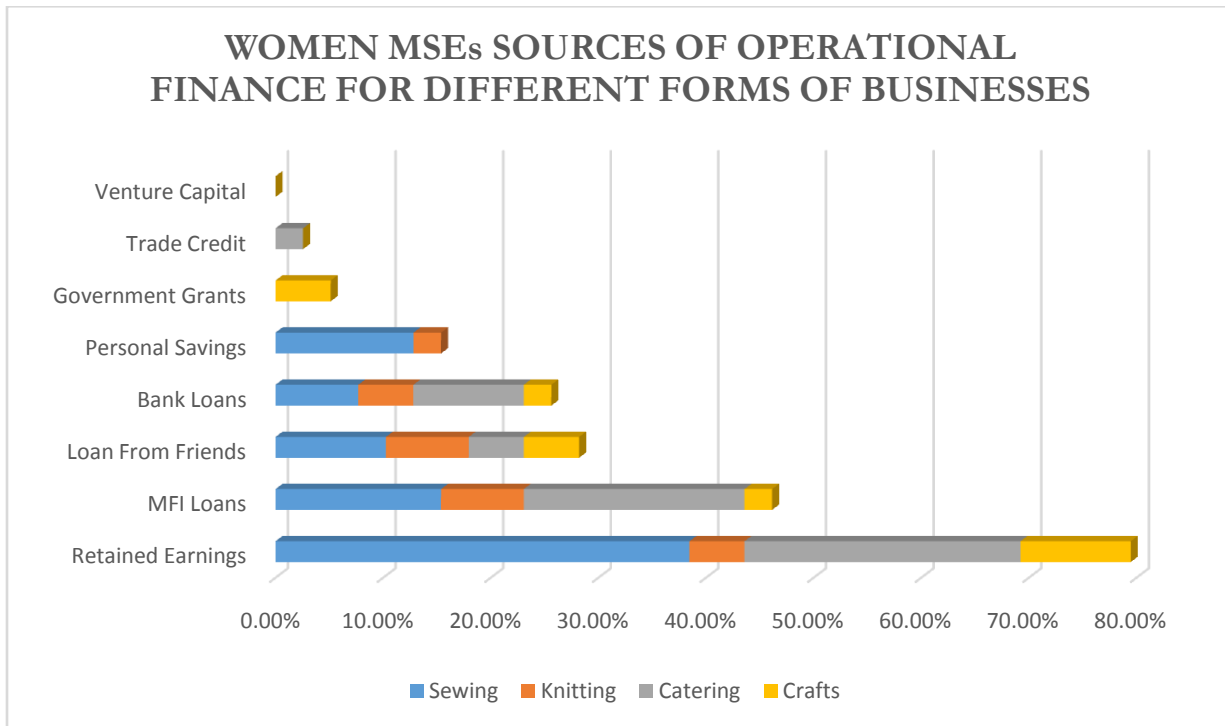
	All Respondents indicating Use of Source	Less than 1 Year	1- 3Years	More than 3 Years
Retained Earnings	31 (79.49%)	0 (0%)	3 (7.69%)	28 (71.79%)
MFI Loans	18 (46.15%)	2 (5.12%)	3 (7.69%)	13 (33.33%)
Loan From Friends & Relatives	11 (28.2%)	2 (5.12%)	2 (5.12%)	7 (17.95%)
Bank Loans	10 (25.64%)	0 (0%)	2 (5.12%)	8 (20.51%)
Personal Savings	6 (15.38%)	5 (12.82%)	1 (2.56%)	0 (0%)
Government Grants	2 (5.12%)	0 (0%)	0 (0%)	2 (5.12%)
Trade Credit	1 (2.56%)	0 (0%)	0 (0%)	0 (2.56%)
Venture Capital	0 (0%)	0 (0%)	0 (0%)	0 (0%)

Source: Research Data, February 2014

The results as depicted in Table 5 showed that 28, representing 71.79% of the respondents who had been in operation for more than 3 years used retained earnings as their source of finance. On MFI loans, those MSEs which had more than 3 years in operation (33.33%) had access to bank loans as compared to 7.69 (1 – 3years) and 5.12 (Less than 1 year). The results also reflected that MSEs which have more than three years in operation had more access to Bank loans 20.51% as compared 5.12% (1 to 3 years) and 0% those which are less than one year. The results implies that debt finance providers like banks and MFIs prefer to give out loans to older MSEs than newly established ones. The study also confirms a positive correlation between firms with less than one year in operation and use of personal savings and also a positive correlation between MSEs operating for than three years and use of retained earnings.

4.4 Women MSEs Sources of Operational Capital for different forms of Business

Women MSEs, sources of finance were further analyzed by matching their sources of finance to the forms of business or industry they are in and the results are as in Figure 1 below:



Source: Research Data, February 2014

Though retained earnings was the main source of finance being used by Women MSEs during the past 12 months, the catering industry is receiving more bank loans and MFI loans (debt finance) than other industries. The results also confirmed that catering industry is using trade credit whilst all other industries are not using trade credit. The crafts industry as shown in Figure 1 above received government grants whilst other industries did not receive any grants. The results reflect that debt finance providers are keen to fund the catering industry the reason being that they sell fast moving products. The support of the tourism sector in addition may be the reason for the crafts industry receiving government grants whilst others are not receiving.

5.0 Conclusions and Recommendations

This research study sought to ascertain the sources of finance which are being used by Women MSEs in Zimbabwe using a sample case from Harare Town. The study confirms that majority of the Women MSEs funded more than 70% of their startup capital needs using personal savings

followed by Microfinance Loans which covered nearly 1- 30% of most Women MSE owners' startup capital needs. The study also concluded that Retained earnings followed by Microfinance loans are being used as operational capital sources for the Women entrepreneurs. A notable overlap was noticed on sources of operational capital indicating a diverse use of operational capital sources by Women MSEs. The study recommends the government and the Central Bank to encourage the use of venture capital in funding of Women MSEs startups. The study also further suggest the use of other sources of capital like leasing. Commercial banks are also recommended to set aside funds meant to prioritize Women MSEs funding. The building of formal and permanent structures for Women MSEs to use as business premises as well as financial management and bookkeeping training is also recommended.

Areas of Further study

- ✓ An assessment of challenges faced by Commercial banks in financing Women MSEs.
- ✓ An analysis of the Impact of integration of Microfinance and Women MSEs to the Financial Sector
- ✓ Relevance of Small Businesses to Economic Development

References

- Ayyagari , Meghana , Beck , Demircuc-Kant (2005) ; Small and Medium Enterprises Across the Globe , World Bank Policy Research Working Paper 3127 , World Bank , August 2005 , Washington DC
- APEC Project (SME 02 / 98) ; (19990 ; Women Entrepreneurship in SMEs in the APEC Region ; Asia-Pacific Economic Cooperation Policy Level Group on Small & Medium Enterprises, Coordinated by Bang Jee Chun of Hoseo University and Small & Medium Business Administration Republic of Korea
- European Central Bank (2012) ; Survey on the Access to Finance of Small and Medium Enterprises in the Euro Area
- Gangata; Matavire (2013) ; Challenges facing SMEs in accessing finance from financial institutions: The case of Bulawayo, Zimbabwe ; International Journal of Applied Research and Studies (iJARS) ISSN: 2278-9480 Volume 2, Issue 7 (July- 2013)
- Gompers P A (1994) ; The Rise and Fall of Venture Capital , Business History Conference ; Vol 23 ; No 2
- Gono G (2006) ; Developmental SME Projects Intervention to Support the Youth , Women and Other Disadvantaged Groups ; Supplement to the First Half Monetary Policy Review Statement

Latif A et al (2011); Women Entrepreneur in Small Medium Enterprises (SMEs) and their Contribution on Sustainable Economic Development in Sindh; Journal of Sustainable Development Vol. 4, No. 4.

Kangasharju, A. 2000. Growth of the Smallest: Determinants of Small Firm Growth during Strong Macroeconomic Fluctuations. International Small Business Journal 19 (1), 28-43.

Kharouf et al (2007) ; Women Business Owners in Jordan ; Charecteristics , Contributions and Challenges ; The Center for Arab Women for Training and Research and the International Finance Corporation (Gender Entereprenurship Markets).

Kihimbo B W et al (2012); Financing of Small and Medium Enterprises (SMEs) in Kenya: A Study of Selected SMEs in Kakamega Municipality; International Journal of Current Research, Vol 4 (4).

Mabhugu et al (2012) ; Sources of Finance for Micro and Small Enterprises (MSEs) since the use of Multi Currency System in Zimbabwe, Global Journal of Business , Management and Accounting , Vol 2 (1)

Malhotra M, Chen Y, Criscuolo A, Fan Q, Hamel I A, Savchenko Y (2007); *Expanding Access to Finance - Good Practices and Polices for Micro, Small and Medium Enterprises*; World Bank

Mbemba S F et al (2012) ; Venture Capital : Its Impact on Growth of Small and Medium Enterprises in Kenya ; International Journal of Business and Social Science , Vol 5 ,(6)

Mullen (2012) ; Best Practice GuideLine : SME Finance ; icaew / cff

Munanga E (2013); Financial Challenges Faced by Retail SMEs operating in a Multi- Currency Environment. A Case of Gweru Urban, Zimbabwe;Asian Economic and Financial Review, 2013, 3(3):377-388

Pangestu M , Hendytiyo M K (1997) ; Survey Responses from Women Workers in Indonesia's Textile , Garment and Footwear Industries , Policy Research Papers 1755 ,World Bank