Moniepoint

Funding Nigeria's women-owned businesses

A case study on Moniepoint's Working Capital Loans

Content

Introduction

In 2016, Rhoda saw an opportunity to supply healthy snacks to retail stores in her neighbourhood. After using her savings to supply the first batch, all efforts to secure further funding from investors and her bank proved abortive. Rhoda's struggle is familiar to women entrepreneurs in developing countries like Nigeria, where women-owned businesses account for 33% of the country's MSMEs (NBS).

Beyond the shores of Nigeria, this struggle to secure funding is universal. While women entrepreneurs account for 28% of MSMEs globally (UNIDO), they have an unmet financing need of $1.7 trillion. According to McKinsey, solving this inequality gap could add $12 trillion to the global economy by 2025. Sub-Saharan Africa is losing up to $95 billion annually by not closing the gender gap.

Moniepoint has been the banking partner to thousands of women-owned businesses. With products like our working capital loans, we've helped them grow and expand in diverse sectors. Our role in giving them these tools to help their businesses grow has given us insights into the nature of women-owned businesses in Nigeria.

When we analysed our credit data, the loan default rate for women was 2.5 times lower than for men, showing how efficient lending to women-owned businesses can be.

In this study, we frequently use two phrases, women-owned businesses and women entrepreneurs, so it would be helpful to understand what we mean by these.

The International Finance Corporation (IFC) defines women-owned businesses as firms with >51% female ownership. These are mostly led by entrepreneurs, whom we define as "women that participate in total entrepreneurial activities, who take risks involved in uniquely combining resources, to take advantage of the opportunities identified in their immediate environment through production of goods and services" (Okafor and Mordi 2010).

This case study uses relevant internal/external data and interviews to explore the landscape of women-owned businesses, the depth of the financing gap, the current solutions, and what we're doing about it.

What funding looks like for women-owned businesses today

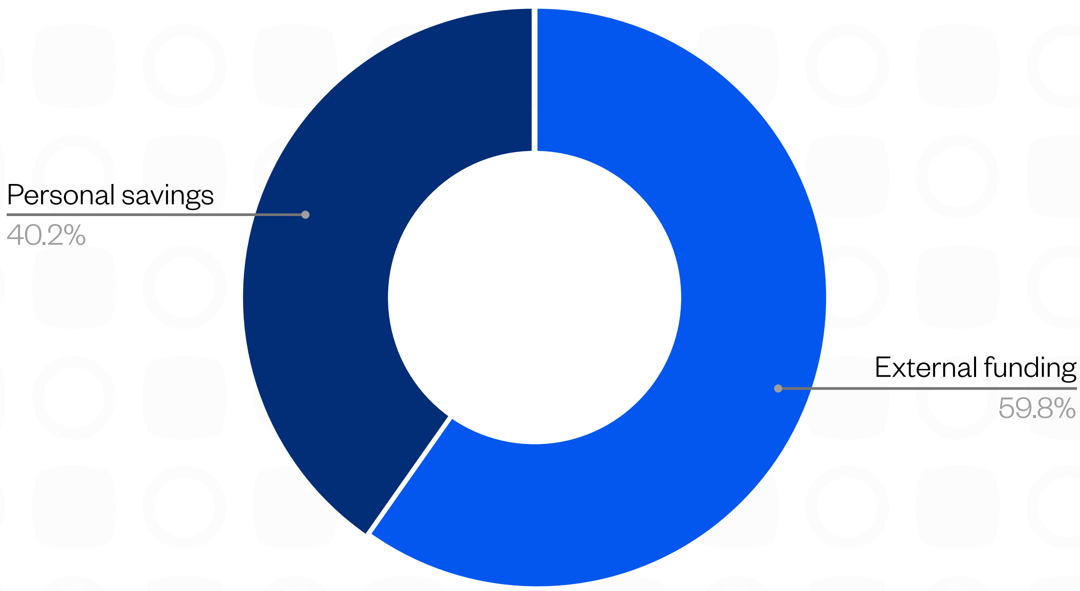
To make sense of the funding gap for women, we first need to understand the current landscape. In this section, we analysed the data from women entrepreneurs, diving into how these businesses are funded and the key factors influencing access to funding.

Sources of funding for women-owned businesses

For many women-owned businesses, sources of funding are few. With a financing gap of 32%, women are either less likely to receive funding, or they receive smaller amounts when they do.

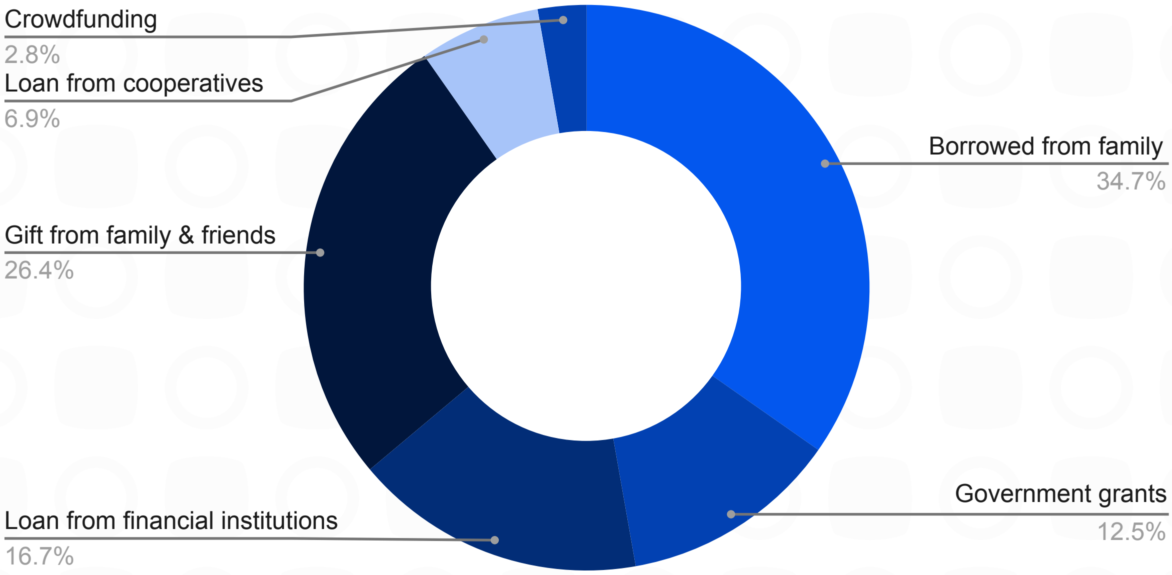
Our data paints a similar picture, as 40.2% of women use their personal funds and savings to run or start their businesses.

Women rely on personal funds and savings for their businesses



A closer look at the source of their "external funding", shows that a greater number of them access this from family and friends, either as loans or cash gifts. Only 16.7% of these women are able to get access to the loans their businesses need via financial institutions.

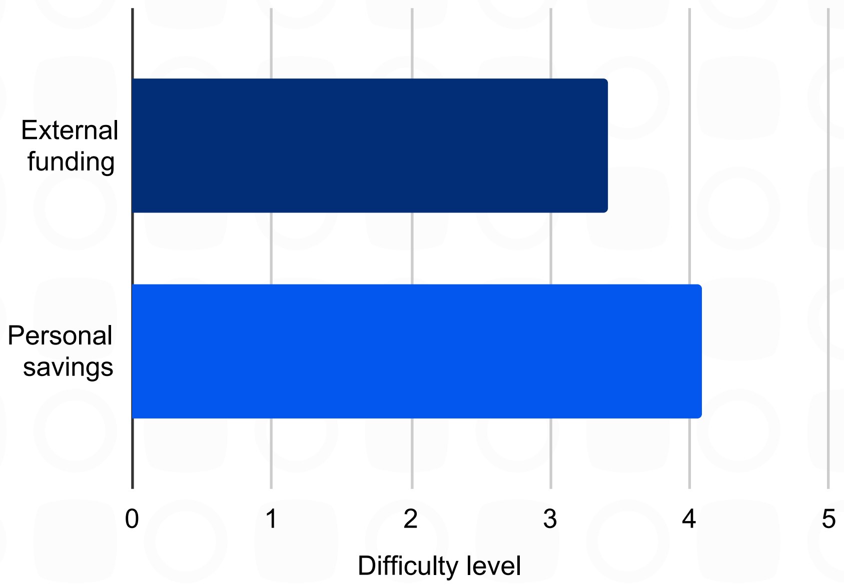
Women-owned businesses rely on family and friends for external funding



Ease of access to funding for women-owned businesses

When asked to rate the ease of accessing funding for their business, more than half of the women we spoke to found it fairly difficult. Personal savings are often considered as an alternative to external funding, but women who started with personal savings rated the difficulty of accessing funding even higher.

Women-owned businesses find it difficult to access funding regardless of the source



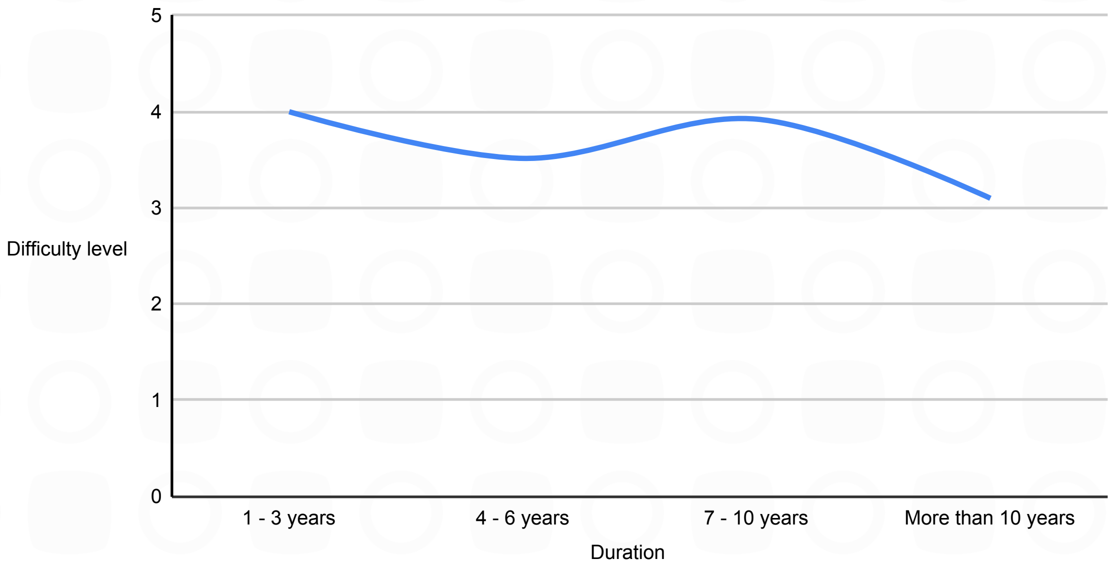
"Initially, I didn't see the role funding played at startup. I was three months in before I realised I made a fundamental planning mistake. Went back to the drawing board to start afresh and pivoted to the part of the business I could begin to generate immediate cash flow. When that wasn't forthcoming, I started the route of seeking funding through family and friends, the amounts were meagre, and it also meant increasing the pool of people I needed to speak with, which didn't sit well with me as I didn't want to have to borrow from over 10 people to raise the required amount. Luckily, we had our first client, a finance house, and through her, we got a direct loan. We haven't received any external loan since then. Overall, it took 8 months to access capital.

Sarah recounts funding experience.

Business lifespan and funding for women-owned businesses

Although, access to funding can positively impact a business's lifespan, women-owned businesses that are just starting out find it relatively harder to get funding compared to much older businesses.

Duration in business vs Access to funding

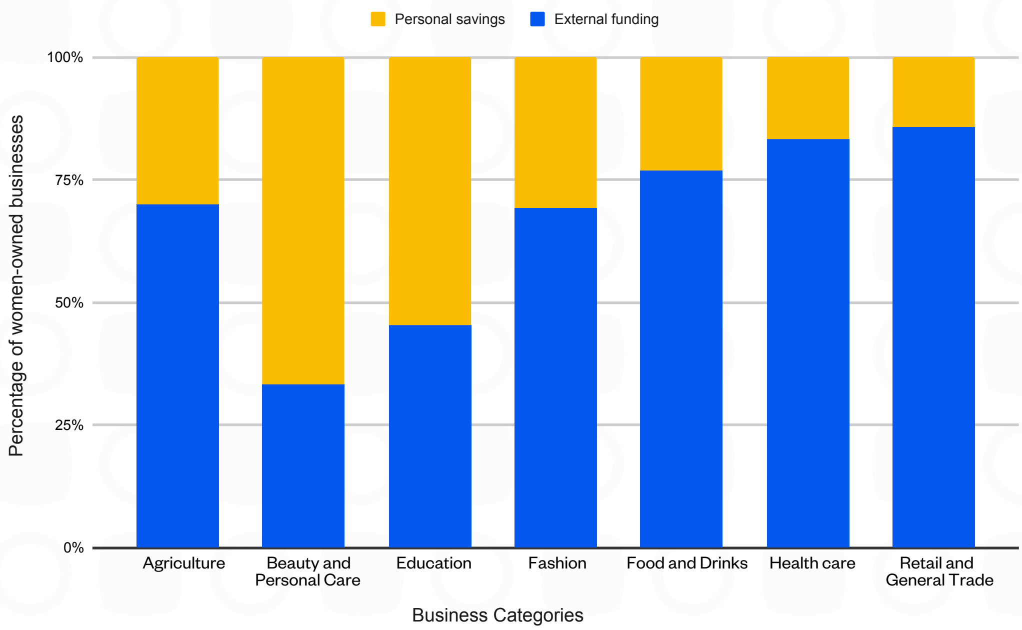


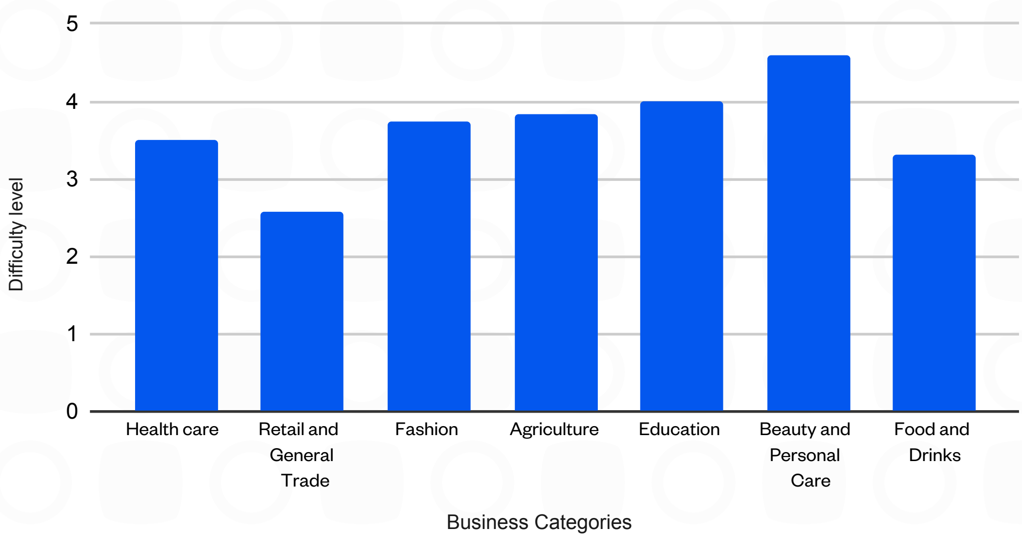
Funding sources for women by sector

Retail and general trade is the leading industry for MSMEs in Nigeria so it is not surprising that they reported getting external funding more easily.

Interestingly, most women in the beauty and personal care industry find it hard to get external funding, and have to rely on their savings to kickstart their businesses.

Women in beauty & personal care had the highest difficulty accessing funds



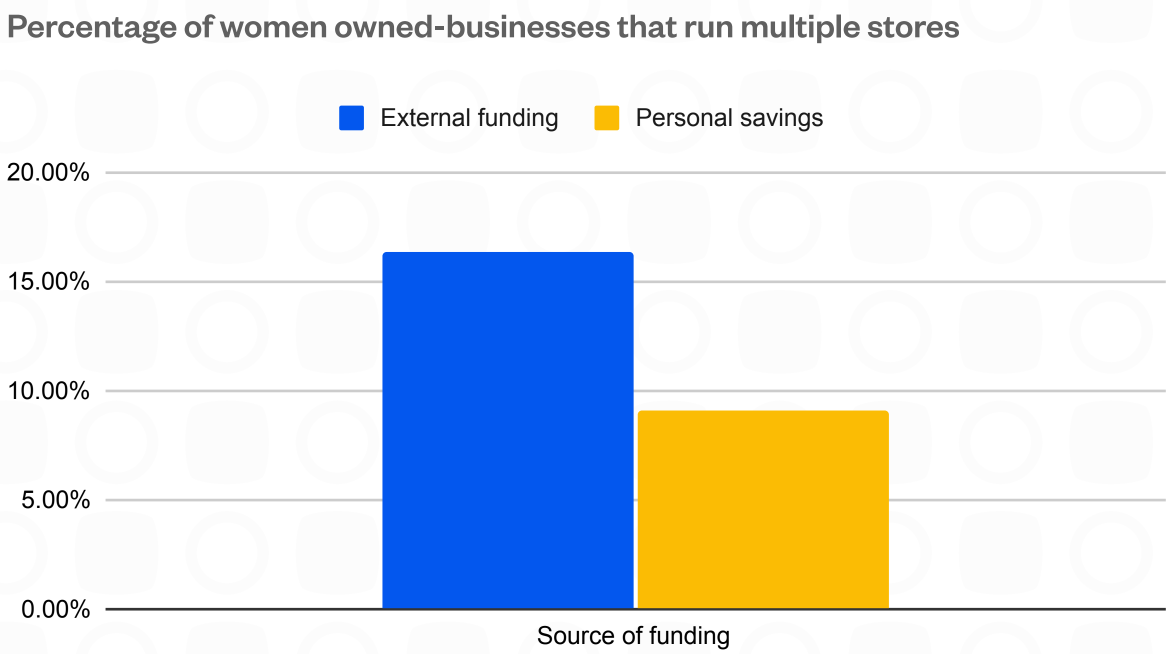


I started rice milling in 2019 with personal savings and a salary from a paid Job. However, the demand for local rice increased in Nigeria, and I obtained micro traders loans from commercial banks for working capital. Bank of Industry provided an equipment loan, which we have fully paid back.

- Theresa, a Plateau-based entrepreneur

Impact of funding on expansion for women-owned businesses

Our interviews revealed that women who had access to credit and other external funding sources were more likely to have multiple stores. This emphasises the importance of credit access for businesses, particularly women-owned businesses looking to expand their market share.



Oluremilekun's funding story

Oluremilekun runs Glasshouse, a hospitality business. She spares no expense or effort to ensure the quality and timely offering of services for her clients. She started with just 18 rooms and started growing little by little. At some point, she needed to fund renovation projects for multiple rooms.

"I'm always afraid of loans and the stress involved," she confesses. However, she could not ignore the need to renovate 13 rooms.

Oluremilekun was a bit skeptical about getting a loan, but she was motivated by the Moniepoint process. ***"It wasn't so difficult anyway. It wasn't what I was expecting at all."***

The loan facilitated the progress of the project, showing how much fears like this can often be mitigated by an efficient process. It made the renovation project successful and allowed her expand Glasshouse into a chain of hotels in several locations spanning 54 rooms.

The funding challenge for women-owned businesses

Nearly every study on businesses points to lack of or insufficient funding as one of the major challenges entrepreneurs face. Access to funding is even harder for businesses in Africa, especially women-owned businesses.

Barring a few exceptions, such as family businesses or trust funds, it's difficult to scale businesses with funds from personal savings or family and friends. Formal investment sets businesses up for faster growth and expansion. Sadly, not having the right documentation and collateral make it difficult for small businesses to scale. However, the funding gap between women and men-owned businesses persists regardless of size, education level, industry and financial status.

What isn't behind the funding gap?

Studies from various reputable bodies have pointed to different factors contributing to the lack of funding but first, let's clear up doubts about what is not responsible.

Myth 1: Lack of education causes the funding gap

Nigerian women's literacy rates are 74% and 35% in urban and rural areas, respectively. The education gap prevents several women entrepreneurs from creating high-value ventures, but that doesn't explain the funding gap with women entrepreneurs with higher educational qualifications. We spoke to around a hundred well-educated women entrepreneurs who still rated the difficulty in accessing credit and other external funding very highly.

In BCG's survey, they noted very few differences in profile, level of education, and company performance of companies led by women, and those led by men. Still, in 2023, women-led startups accounted for just 7% of the funding for African startups.

For every $1 raised by African startups, women founders raised 7.6 cents.

Myth 2: They are not in lucrative industries

In the past few years, the fastest-growing business lines for women entrepreneurs have been food and drinks (30%), retail and general trade (29%), and beauty and personal care (24%). Nigeria's retail and general trade industry is valued at $109 billion and is the second-highest contributor to the country's GDP, with 15%. At 4.12%, the Food and drinks sector is the seventh-highest GDP contributor.

The Beauty and Personal care industry in Nigeria is worth $9.7 billion, and the fashion market in sub-Saharan Africa is worth $31 billion.

With these highly valued industries also being the ones women play in, the link between their industries and the lack of access to credit is only a myth.

Nneka's funding story

Nneka inherited a massive drinks distribution business from her father, but that did not shield her from the funding problem. With a rich history spanning over 3 decades, Angelek Simadik Enterprises partners with prominent international breweries such as Guinness and Nigerian Breweries, distributing their products to wholesalers and retailers.

To meet the monthly targets set by their partner companies and maintain sufficient stock levels, the business required substantial funding. ***"The companies set out targets for us every month. To be able to meet our volume and also make sure that we have all the products necessary to satisfy our customers,"*** she explained.

The efficient loan process allowed them to repay previous loans and secure new ones, supporting continuous business growth. ***"It wasn't like other banks that say three weeks for what we did in one week,"*** she said, noting how fast and easy the loan process was.

The loan product provided the necessary capital to meet these targets and ensure customers would always find what they needed in stock. ***"The loan has made our business grow from where it used to be. At least it has come to a certain stage. We started with a smaller loan, and we've been growing as we increased in the amount we took each time."***

Myth 3: Women-owned businesses don't generate much revenue

Again, BCG's research shows a funding gap even when women-owned businesses perform better. According to City AM, female-led businesses receive 96% less funding than their male counterparts.

Stories like Grace's in the section below, are very common among women-owned businesses. Even when they're largely successful, it's still relatively difficult to access the funding they need to scale.

Grace's funding story

Grace started an agriculture-based business with her personal savings, specialising in poultry farming, offering high-quality poultry products to her customers. Although her business was successful, she still struggled to access funding.

Despite being an ex-banker, Grace was scared of taking loans to run her business. But she needed to grow her business even further, so she got over the fear and took the leap when she found Moniepoint.

Taking the loan helped transformed her operations. ***"Now I have two trucks that I use for my business. So before, if you raise an order, you'd be looking for a truck for one or two weeks. But now I have my own trucks. I can tell the driver to go load my goods, and within three or four days, the driver has returned."***

The loan not only improved her logistics but also significantly boosted her income, raising her monthly earnings 5x, from less than ₦2 million to around ₦10 million.

What is behind the funding gap?

Seeing as performance, scale and entrepreneurial profile alone do not explain the gender funding gap, what then is responsible? The reasons are quite complex, but some studies narrow things down to unconscious bias, business size, societal constraints and lack of awareness.

Unconscious Bias

Studies by the IFC show that investors or credit providers typically have an unconscious bias toward women entrepreneurs. In the startup world, this points to a 'perceived risk' for investors associated with women-owned startups pre-acceleration.

A research at Harvard, MIT and Wharton School points this even further. They pitched the same idea to investors with different voices, and 66% of the investors chose to invest in the startup with a male voice.

This suggests that women are less likely to get access to credit or funding, even though their business ideas and needs are just as valid as those of their male counterparts.

Diversity in leadership composition & structure

Studies show that women only account for 15% or less of board seats worldwide. A 2022 survey by the IFC showed that the share of businesses owned by women decreased with size, with 48% of micro businesses owned by women compared with 38% and 27% for small and medium-sized businesses, respectively.

With such little representation in key business and leadership positions, women are less likely to be seen as people that can run successful companies, and are less likely to get credit or other forms of funding.

Societal constraints and financial habits

Investors and loan providers typically demand stringent requirements and collateral when funding businesses. Historically, women have been less likely to own major assets like lands, which, in turn, limits their opportunities to obtain the credit they need.

An IMF study also shows that women are more likely to save informally. Hence, formal investors cannot access much financial information.

Lack of awareness

Even beyond the bias, business size, and societal constraints, a lack of awareness of possible funding sources is arguably one of the biggest reasons for the funding gap.

A study by the African Development Group on 47 African countries showed that women tend to exclude themselves from the credit market. They didn't apply for loans or credit because they felt they would be denied. This aversion likely has close ties with an aversion to credit, as some of the women entrepreneurs we spoke to mentioned seeing it as "going into debt."

This points to the need for more financial literacy and awareness and encourages women to seek funding for their businesses despite the seeming odds.

Adeola's funding story

When Adeola, the founder of a beverge supply company, first got a loan from Moniepoint, she was in disbelief. ***"It was like a miracle. I love it… I just saw money. I said can I touch it? Is it money? So to me, it was like a miracle."***

Adeola worked in Lagos, Nigeria but had to move to the city of Ibadan when she got married. She found the slower pace jarring and decided to channel her energy into entrepreneurship. She started small, and the company grew consistently over the next few years.

When she signed fresh deals with drinks distributors, she realised she needed extra support for her growing business. But she didn't expect anyone to approach her with an offer to get credit for her business.

"My Moniepoint account manager approached me and said with my turnover I qualify for a loan, and I said really? Are you sure? I applied and before I knew it, my loan got disbursed.

Now, her company has grown to multiple outlets with monthly earnings of over a hundred million (Naira).

How Moniepoint is solving access to credit for women-owned businesses.

A Guardian Nigeria report states that just about 4% of Nigeria's 40 million MSMEs have access to credit, an issue that plagues women-owned businesses even more, due to some of the issues mentioned above.

Our focus on powering business dreams, especially those of MSMEs, therefore, meant closely understanding their challenges and how to solve them.

The majority of MSMEs in Nigeria are informal, and this informality has a few costly implications. Traditional financial institutions see them as risky. This limits their access to credit, as without a financial history, it's difficult, and often impossible, to accurately or effectively give them credit.

Even for formal businesses, it's difficult for many financial institutions to get quality data on their credit history and lending behaviours.

Moniepoint's Working Capital Loans

Our approach to solving this problem began with our commitment to banking businesses, no matter their size. By supporting them with the tools they need to accept payments digitally, we began to gain insights into their spending that made it possible to build a credit profile for these businesses.

With the data we get from businesses, we analyse them in a prequalification process to understand their health and growth rate. We understand that providing credit isn't just about giving businesses money; it is about doing so sustainably for their business' health. Our assessment system helps us estimate their capacity and provide them with access to loans that meet their needs without overleveraging them.

Our system is based on real data we get from these businesses, so we avoid many of the biases that deprive women of the credit they need. Women-owned businesses who request loans on Moniepoint can access them without the fear of being discriminated against because of their gender.

Moniepoint has disbursed hundreds of millions($) in loans to women-owned businesses across different sectors, helping to ease the critical funding gap without the hassle of typical loan applications. With 99.9% of them being able to pay their loans back, it shows the system we built with their business' health in mind, actually works.

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Moniepoint is Africa's all-in-one financial ecosystem, empowering businesses and their customers with seamless payment, banking, credit, and management tools. In 2023, we processed $182 billion and are Nigeria's largest merchant acquirer.

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