

Financial Management Challenges: A Case of Women-owned SMMEs in Gaborone

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Abstract

The study seeks to investigate the causes of financial management challenges faced by women-run SMMEs in Gaborone, Botswana; given the background that the Government has established agencies and initiatives that support this sector financially and provide advisory services. Ways of mitigating the established challenges were suggested. Women entrepreneurs contribute immensely to Botswana's economy. The Government of Botswana, in its bid to assist economic diversification and citizen empowerment, had several programs to support SMMEs including Business Botswana and Women In Business Association (WIBA). These provide funds and business advisory services to women-run SMMEs. Research has shown that 80% of SMMEs in Botswana fail in the first 3 - 5 years of the establishment phase. Preliminary reviews of literature disclosed that poor financial knowledge proves a real obstacle to most of the small women-run business. This includes insight and skill on what to do when a payment is received, how to manage that money, and investment strategies for growth. The researchers used desktop research and questionnaire surveys. The sample was 41 women-run SMMEs in Gaborone and non-probability convenience was used to sample the women-run SMMEs. Most women entrepreneurs are not looking for external funding, which is an issue of concern to policy makers for women businesses that contribute significantly to the economy. Lack of basic financial management and record keeping skills are affecting women, hence relying on very minimal internally generated funds. Financial institutions and the government should encourage women in business.

Keywords: SMMEs, SMMEs finance providers, Financial Management challenges

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1. Introduction

The study seeks to identify the financial management challenges faced by women-owned SMMEs (Small, Medium and Micro Enterprises) in Gaborone, Botswana. According to Okpara (2011), SMMEs have been regarded as the driving force of economic growth and poverty reduction in Africa. He argued that any strategy for poverty alleviation in Africa must include support, encouragement and promotion of SMMEs. The Government of Botswana designed quite a number of programmes to assist SMMEs financially and to offer business advisory services since it recognizes the importance of the informal sector/SMMEs to the country's economy (BIDPA, 2007). According to Egg (2015), in 2012, 90% of registered businesses in Botswana were SMMEs and 70% of them were women-run. She added that these SMMEs contribute 75% of formal employment and in 1998, they contributed 30 – 45% of the country's GDP. More than 34% of registered businesses in developing countries are women-owned (World Bank Group's Enterprise Surveys (2007-2012)).

The Women's Affairs Department linked to the Ministry of Labour and Home Affairs runs the "Women's Fund" which offers financial aid to the tune of US\$25,000 to very small businesses (Egg, 2015). The Department also organises the "Annual Expo", where the Fund's beneficiaries showcase their businesses. The Department supports the implementation of the "Women Entrepreneurship Development (WED) Programme", an international cooperation initiative which aims to boost growth of women-owned businesses. The WED programme is implemented by the Centre for Development of Enterprise (intergovernmental agency), with support from the following organisations: WIBA, Local Enterprise Authority (LEA), Citizen Entrepreneurial Development Agency (CEDA), Business Botswana (formerly known as BOCCIM), Hospitality and Tourism Association of Botswana (HATAB), Botswana Exporters and Manufacturers Association (BEMA) and Botswana National Productivity Centre (BNPC).

Pule (2009), as quoted in Mwobobia (2012) adds that the Government is keen to have citizens in control of the dynamic sectors of the economy of Botswana and hence supports their training for such exercises. The Government has for a long time been emphasizing on the diversification of the economy and willing to give the necessary support (www.gov.bw, 2019). The Government of Botswana acknowledges the need to provide

appropriate incentives to attract foreign capital, but it is also imperative to ensure that local entrepreneurs are also empowered hence the formulation of Small, Medium and Micro Enterprises policy which is there to promote citizen entrepreneurship. (Botswana Business Guide, 2004). The Government promotes citizen economic empowerment by implementing programmes that encourage citizen participation in economic activities and business ventures (www.gov.bw, 2019). The achievement of good economic growth is anchored around an environment of well-focused policies aimed at poverty eradication through the empowerment of the people by availing them access to factors of production, particularly credit financing (Noruwa & Emeka 2012). Organisations like CEDA, LEA, Department of Youth, among others provide this support to SMMEs. It is, however, sad to note that approximately over 80% of these SMMEs fail in the first three to five years, (African Economic Outlook Report, 2016; Temtime and Pansiri, 2004) despite all these efforts.

The study therefore seeks to investigate the financial management challenges faced by SMMEs owned by women in Gaborone and recommend ways of mitigating these challenges.

2. Literature Review

2.1. Definition of SMMEs

Small and micro enterprises are businesses owned by an individual entrepreneur who employ one to twenty people as the business grows (Mugwara, 2000); or those entities employing less than 25 employees with an annual turnover of between P60, 000 and P1, 500, 000; while microenterprises have less than six workers including the owner and an annual turnover of less than P60, 000 (Government of Botswana, 1999). Bowen, Morara & Mureithi (2009) associates small and micro businesses with people with relatively low levels of education.

2.2. Women-owned businesses

Women entrepreneurs around the world are making a difference. (Mwobobia, 2012). Their businesses contribute a great deal of ideas, energy, capital resources to their communities; create employment, additional work for suppliers and other spin-off business linkages (Commonwealth Secretariat, 2002). Siwadi and Mhangami (2011) argue that women entrepreneurs contribute significantly to economic development and they have increasingly become visible in the local economies of developing countries.

2.3. Financial Management Challenges

Brigham et al (2016) defined financial management based on functions and responsibilities of financial managers. They identified the main functions of the financial managers as planning for, acquiring, and utilizing funds in ways that maximize the efficiency of the organization's operations. The main decisions in financial management are investment decisions, financing decisions and dividend decisions (Brigham et al, 2016). Gitman et al (2015) suggested that finance managers make many decisions, but their primary activities are financing and investing decisions. This paper will therefore focus on only financing and investing challenges faced by women-owned SMMEs. Investment decisions consist of how businesses utilise financial resources but financing decisions consist of how the business sources finances for the business while dividend decisions considers dividend pay-out issues. (Gitman et al, 2015).

2.3.1. Financing Challenges

According to Zororo (2011) and Brush (1992), the biggest obstacle to setting up a business is the financial aspect. Banks need collateral and most women do not own properties and therefore they find it difficult to secure loans from banks (Richard 2014). They added that women also lack information about how to get a loan. Kinyanjui (2006) found out that some entrepreneurs found it difficult to obtain loans because they had no credit records required by the bank and they lack full knowledge of the requirements for obtaining and paying loans.

Women also face credit discrimination laws and/or practices (Gray, 1996). Research has shown that when women approach banks for loans, bank officials tend to ignore them, preferring to talk to their husbands or male partners. This discourages them from approaching banks for loans and eventually, they seek other alternatives (Richard 2014). Non-payment of outstanding accounts by clients is also a challenge faced by women-owned businesses (Kapunda et al, 2007). This leads to severe cash flow challenges for the women entrepreneurs. Hinton et al (2006) suggested that increasing SMMEs' access to finance could improve the growth of SMMEs in Botswana and hence women-run entities will benefit greatly from increased access to finance.

2.3.2. Growth of women-owned businesses

Financing challenges is one of the major obstacles to the growth of women-owned enterprises (Commonwealth Secretariat, 2002). Mboko and Smith-Hunter (2009) concluded that female entrepreneurs have strong entrepreneurial competences, but they lack abilities like, management of financial resources needed to develop their firms to their full potential. They can easily spot business opportunities with potential but lack management capabilities that would result in significant growth of their businesses.

According to Nyamwanza et al (2012), women entrepreneurs in general, find it difficult to manage their profits. Most of their businesses make profits but they do not reinvest their money in the business, and this is

evidenced by the lack of growth in the majority of the businesses they surveyed. This confirms the observations by Makokha (2006) and Okparah, (2011), who argued that women entrepreneurs divert business capital to meet financial social demands.

Many businesswomen find it difficult to access commercial credit and as a result, women-owned businesses have a low growth rate and are limited because of the type of business they operate (Siwadi and Mhangari (2011). In Botswana, most women businesspeople mostly run micro enterprises within food, handcraft and textile sectors (Egg, 2015).

Okpara (2011) stipulates that some women entrepreneurs do not keep financial records and they do not have bank accounts. This results in them being unable to differentiate between capital and profits leading to financial distress and lack of growth.

3. Methodology

The sample of the study was 60 women-owned SMMEs from various sectors of the economy in Gaborone. As such, 60 questionnaires were distributed to the business owners to find out the financial management challenges that they face using convenience sampling. 41 questionnaires were returned giving a 68% response rate. According to Fincham (2012), a response rate of 60% is acceptable for many researches. Data was analysed using SPSS. The analysis was descriptive with the use of frequency tables.

4. Research findings and analysis of data

Of the 41 responses that were given, the majority which constituted 45% of the women, were in the retail sector. This was followed by hair and beauty at 15%, while the remainder were spread across other disciplines of catering, media, agriculture, education and Laundromat. Average annual turnover was very low, with more than 58% making below P100,000 in the year. Only 17% were making above P250,000 turnover annually. This agrees with the observation made by Egg (2015) that most women-owned businesses are micro-enterprises within food, handicraft and textile sectors. This shows that the majority of female-run enterprises are struggling to earn sustainable revenues for growth or even covering business operational costs. A research carried out by Nyamwanza et al (2012), in Gweru, Zimbabwe, showed that the majority of women in small scale businesses do not have formal education and this impact negatively on their performance. External funding is therefore likely to be a challenge in the absence of adequate working capital to run the business.

63% of the women entrepreneurs responded to not having applied for a loan before; leaving only 37% answering that they had applied for a loan before. This could have been a result of perceptions of inadequacy, lack of know-how or guidance, unwillingness or other factors' influence to the women. Among the challenges normally faced by women-run enterprises, 80% admitted that access to finance is a major obstacle for growth of women-owned businesses while more than 36% were not sure if they have all the information required in order to get a loan. Just over 24% believed they had all the information required to acquire a loan and the remainder believed they did not have the information needed. 44% of the women believed that the process of acquiring a loan is too long, hence the low number of attempts on acquiring loans by women entrepreneurs stated above. Also, 20% were not sure of the process, since a significant number had never applied for a loan before. Mwobobia (2012) states that most women entrepreneurs lack information about how to get a loan and this was also supported by Chimucheka and Rungani (2011) who attribute this to entrepreneurs' ignorance about the functions of banks and unwillingness to learn from the banks themselves. However, it was pleasing to note that 49% of the women disagreed to the financial institutions' officers having negative attitude over women when they need loans. Only 10% said they faced attitude against women when acquiring loans with the rest not sure of this. 68% were not sure if they would be charged high interest rates than their male counterparts and 27% strongly disagreed to being charged higher interests than males. They believe there is fairness in interest charges by financial institutions. This is contrary to what Gray (1996) and Richard (2014) found out that women entrepreneurs are discriminated against by bank officials. In Botswana, this seems not to be the case. Both men and women are charged interest not based on gender.

78% responded to mostly using internal funds for business financing and grants were on average rarely or never used. Above 80% indicated that they never used short-term sources of funding such as bank overdraft, credit line, trade credit, hire purchase as a source of business funding. More than 95% had never used subordinated loans and other long-term sources of funding including debt securities and equity. Other additional sources such as from friends and family had also been rarely or not been used by 83% of the women. It seems both short-term and long-term sources of funding have not been used; most are using internally generated funding which is very minimal as indicated by modest revenues that the majority of the women are making. This could be explained by the lack of information alluded to above and lack of confidence that they will be able to repay the loans considering their annual turnovers.

Lack of collateral is one of the challenges faced by women-owned businesses in Botswana. 63% did not have property or collateral to use to secure a loan from financial institutions. This might further explain why most of

them do not even bother to apply for loans in the first place. Richard (2014) also found out that this is one of the major challenges that women face in trying to finance their businesses. 68.3% strongly disagreed to having been denied a loan because of no security. Notably, most of these respondents had not applied for a loan before and similarly not been denied.

The majority or more than 50% of the women attested to not having knowledge of basic bookkeeping and not keeping proper financial records needed for applying for a loan. This explains the inadequacy felt by most of the women to apply for a loan. 41% confirmed to ploughing back 50% of their profits into the business while 25% use above 50% of profits in the business. The other 34% brought back less than 50% of their profits back in the business. Of the reinvested profits, they agreed to using the money mostly towards investment in other assets and then also for savings, promotion and advertising or spending on other miscellaneous expenses. More than 62% agreed to pay themselves a salary. Probably the remainder could be reinvesting funds, not making enough to afford a regular monthly salary or worse still, randomly dipping in business funds with no proper assessment of income. Nyamwanza et al (2012) also found out that most female business owners lack financial management skills and do not keep proper business records. The fact that they did not know that promotion and advertising expenses form part of a business' expenses say a lot about their basic knowledge of bookkeeping. This may explain a high rate of failure of female run enterprises due to lack of reinvestment of funds for business growth.

5. Conclusions

From the findings above, the researchers concluded that:

- Most of the women-owned small businesses have never approached financial institutions and Government institutions that support small businesses. This should be a matter of concern to policy makers.
- Lack of collateral could be one of the reasons why women business owners do not attempt to apply for finance to facilitate growth of their businesses. Most women do not have property to use as collateral at financial institutions.
- Most of the owners lack basic financial management and record keeping skills to an extent that they could not differentiate between business expenses and non-business expenses.
- Most women run businesses are only relying on internally generated funds and lack requisite skills to negotiate, initiate or confidence to seek after external funding.

6. Recommendations

The following recommendations are therefore made:

- Financial institutions should run some promotional campaigns targeting this sector of the economy to allow its growth and sustainability.
- Government of Botswana funded institutions that assist citizen owned businesses and Women in Business Association should reach out to this sector and help them financially and with the business acumen that they need to run successful businesses.
- The Government should run radio and television programs targeted at this sector advising them of the different sources of finance at their disposal and how to access those funds.

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