

International Think-Tank: Access to Finance



Women's Enterprise Scotland
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Introduction

Since the financial crash of 2008, lending to the SME market has declined. Some financial institutions left the market, while banks acted to reduce risk exposure as they focussed on rebuilding balance sheets¹. Against this background, the UK is emerging as a leading market for alternative digital-based lending, with the value of these transactions, including peer to peer and crowd lending, totalling €2.3 billion in 2014².

Access to finance is a critical enabling resource for women-led businesses at all stages of the business journey, not just in the UK but globally. At a time when more women are starting up in business as a career option, access to finance continues to be reported as an important resource for business growth³. Few women-owned businesses are making it through to the growth pipeline and addressing this significant gender imbalance would add over £180bn to the UK economy by 2025⁴ and up to \$28 trillion to the world economy⁵.

This International Think Tank on Access to Finance was convened in London in November 2017 to mark Global Entrepreneurship week. International, UK and Scottish experts on women and enterprise were present, including women-owned businesses, and the aim of the Think Tank session was to:

- Hear the views of the expert participants, including women-owned businesses, relative to their experiences and area of expertise
- Consider access to finance in the context of current sources of business investment for growth and emerging funding and investment models
- Consider how developments in the policy and legislative context facilitate best practice
- Discuss what may be beneficial courses of action to facilitate greater access to finance in order to support optimal economic growth

¹ Lee, Neil, Sameen, Hiba and Cowling, Marc (2015) Access to finance for innovative SMEs since the financial crisis. Research Policy, 44 (2). pp. 370-380. ISSN 0048-7333

² Department for Business Innovation and Skills (2016) SME Lending and Competition: an International Comparison of Markets. BIS Research Paper No 270

³ Women Entrepreneurs Finance Initiative, World Bank (2017)
<http://www.worldbank.org/en/programs/women-entrepreneurs>

⁴ Women Entrepreneurs: developing collaborative ecosystems for success, Deloitte (2017)

⁵ The Power of Parity: How Advancing Women's Equality can add \$12trillion to Global Growth, McKinsey Global Institute (2015)

The international think-tank was convened by Women’s Enterprise Scotland (WES) and this report applies the insights from participating experts and identifies factors inhibiting access to finance. Proposing how such issues may be addressed and remedied, in order to ensure that women-owned businesses can grow and realise their full economic potential.

We are grateful to all the experts who participated in the think-tank and to NatWest who kindly sponsored the production of this report and to HIE who provided the venue.

Contents

| | |
|---|----|
| Introduction..... | 1 |
| Contents | 2 |
| Key Themes | 3 |
| General Funding Landscape | 3 |
| Attitude to finance | 4 |
| Gender characteristics and differences | 4 |
| Bank Lending | 4 |
| Case Study: Jeanette Forbes, founder of PCL Group | 6 |
| Angel Investment | 7 |
| Case Study: Vicky Brock, Founder of Clear Returns | 8 |
| New Models/Sources | 10 |
| Recommendations | 11 |

Key Themes

The think-tank began with participants being invited to speak briefly on what they considered to be the central issues for women-owned businesses seeking financial resources in order to grow. The discussion then focussed on those critical themes, harnessing the expertise to share insights and apply learnings to propose solutions.

General Funding Landscape

The following observations were made regarding the overall funding environment:

- The current funding landscape does not naturally align to the micro business profile of the majority of women-owned businesses.
- Labour market segregation continues on into enterprise segregation.
- Existing funding models are well-tuned to the economic value and needs of scale-up businesses.
- There is less targeting of micro businesses, where a large volume of lower level growth could deliver similar economic impact to lower volumes of high growth.
- This funding gap holds back post start-up micro businesses wanting to grow.
- The gap also causes large amounts of time to be spent seeking funding, reducing time spent on the business and creating a continual cycle of “crisis management”
- In the US, 45% of women-owned businesses have difficulty in accessing finance.
- In Scotland 50% of businesses receiving start-up support are women-owned, yet only 20% of women-owned businesses are making it into the growth pipeline and less than 5% are receiving account managed growth support.



Attitude to finance

- Not all women-owned businesses wish to grow in the same way as male-led businesses. Many look beyond turnover to broader measures of success such as pride in delivering a quality service or product; providing employment in their local area or the ability to work flexibly and juggle caring commitments
- A comparatively high degree of risk awareness is evident, with more women being prepared to take risks with their time, but not with their money
- In particular there is a general reluctance or aversion to taking on secured lending, where the main asset secured is the family home
- When funding is sought and applied for, women tend to ask for less capital – on average one third of the capital men ask for
- When considering funding, women are more likely to have a longer thought and assessment process before acting

Gender characteristics and differences

- The lack of women-owned businesses (especially higher growth businesses) and women in Executive roles and in the boardroom, restricts access to role models who can provide crucial insight and inspiration
- Women's reasons for starting up in business differ to men, so the view of borrowing and the growth path and timeline also differs
- The process to go through to gain funding can restrict the appetite for growth
- Not being taken seriously as a woman in business can affect credibility with associated impacts when seeking funding for growth
- Experiencing rejection can reduce confidence and the likelihood of future funding applications
- Better knowledge/support helps to create the confidence to build a personalised approach to sustaining/growing their own business
- Being able to access needs-based support helps with business sustainability

Bank Lending

- More banks are beginning to recognise women as a sector, 90 banks globally have a women-specific banking proposition. For example, NatWest in the UK and Westpac in Australia.

- Data shows that at start-up/lower turnover levels, women-owned businesses borrow less from banks than male owned businesses.
- Yet at over £250k turnover, lending amounts are broadly similar by gender, evidencing appetite yet barriers remain.
- Notably, the default experienced by banks is less for lending to women-owned businesses vs male-owned businesses
- Many women would regard a bank as a provider of business finance, but there can be a disconnect in expectations. Start-up business lending has a higher risk profile overall and banks have a low appetite for high risk borrowing. Once a business track record can be more established, viability can be evidenced and a wider range of borrowing accessed
- Overall, women are reluctant borrowers
- Where funding is accessible, the requirement for secured lending has heightened impacts for women, as collateral is often the family home. Men tend to regard the home differently to women, with women significantly more reluctant to grant security over the family home.
- The sectors where women are prevalent/starting up, tend not to be regarded as high value sectors and businesses in these sectors can be viewed as less valuable by funders
- Even in higher value sectors such as tech, examples were provided of difficulty accessing unsecured finance with a trading record – yet similar male competitors were accessing unsecured funding
- To overcome the challenges/barriers, some businesses are appointing men to specific roles to grow credibility and gain greater access to resources including access to finance
- There is evidence of more co-founded businesses coming through with a gender split

Case Study: Jeanette Forbes, founder of PCL Group

Jeanette Forbes founder of PCL Group, a total IT service provider to five industry sectors, offshore, marine, commercial, industrial and renewables became aware that competitor businesses were moving ahead faster than hers through accessing unsecured lending - yet she was unable to access that type of funding for her own business. She was regarded as high risk as a single parent and she refused to put the family home up as security for business lending.



As a result, she was unable to gain unsecured lending, even with a business track record. The lack of funding was restricting business growth - the business required short term finance to fund large project technology work and

contracts. Thinking more broadly about funding opportunities, she started to speak with peers who had sold out and exited their businesses. She successfully negotiated short term funding from them and has operated in this way for the past 18 years. More recently she has diversified into the hospitality and leisure sector and funded a significant business start-up in Aberdeen, a high end wine bar called Grape and Grain from her existing businesses without taking on bank funding.

Angel Investment

- There is increasing awareness of this type of funding option from media coverage including programmes such as Dragon's Den
- More business support structures such as incubators and innovation hubs are offering pitching training
- Women's access to this type of business support can be limited due to business sectoral segregation and perceptions of lower value attaching to sectors where higher numbers of women-owned businesses are clustered
- This type of funding tends to be targeted at higher growth ventures, where women are significantly under-represented
- Where women have accessed the opportunity to pitch to investors, gendered traits and viewpoints can lead to a disconnect and a failure to gain investment
- Disconnects between a male/pale/stale angel or syndicate and the entrepreneur are not conducive to business growth.
- Pitch quality is critical to a successful funding outcome
- Women often do not raise enough money right from the start, men tend to ask for more
- The time taken to get a deal agreed and in place can be destructive to business progress and some may be reluctant to have less control over how the funding secured is then used
- Awareness is needed of the importance of building the management team around the female entrepreneur to achieve optimal growth, as opposed to making the entrepreneur fit business the stereotype
- In Canada, business angel funding has been adapted to encompass smaller donations and fund smaller investments, extending the reach of this type of model into more mass-market funding levels. This is the aim with the model being developed in Uganda.

Case Study: Vicky Brock, Founder of Clear Returns

Seeking Angel investor funding can produce unexpected requirements as Vicky Brock found out. Having identified a welcome source of business angel funding for the tech based data solutions business she founded, it transpired that the conditions for investment involved changing key staff within the business. In particular, removing the female Chair of the business and removing the husband co-founder.



As the business owner, Vicky was not prepared to agree to those conditions of investment, so went elsewhere to seek funding which took another 6 months. Additionally, because of the low amounts of angel funding available to an early stage female founder, Vicky was never able to raise the funding she needed in a single round. Instead she spent the best part of 3 years raising a series of smaller rounds, restricting the ability to grow and meaning Vicky's time and energy was continually focussed on fundraising rather than business development.



Best Practice Example

The Gateway to Investment programme was established by Edinburgh Business Gateway to improve business access to angel investors. The programme helps businesses to progress beyond the investor gatekeepers and open up dialogue with the investors. Working with LINC, the industry body for business angels in Scotland, the training programme has attracted a 50:50 gender split. A deal has recently been completed for a woman-owned business.



Initiatives under Development

Women's Enterprise Scotland are partnering in the delivery of a similar programme across Europe, including Scotland. The South Eastern Europe Woman's Business Angel Network (SEEWBAN) programme will provide free training for women-owned businesses and prospective investors. Building relationships between women-owned businesses seeking investment and both existing and prospective investors.

HIE is working to help businesses raise investment in order to scale and achieve accelerated growth. To do this, HIE is working closely with Scottish Investment Bank and are looking to utilise the new Scotland House facility in London to help build relationships with London investor network, in collaboration with Scottish Government and Scottish Enterprise.

New Models/Sources

- Useful strategies/tactics include leveraging the value of sales through use of advanced payment, boosting available funds for re-investment
- Crowdfunding is growing in popularity and success - BrewDog has raised £50m via crowdfunding from almost 70,000 investors
- Crowdfunding has worked well for women as an accessible model. The language and approach is less intimidating
- Women are more successful at crowdfunding than men with 17% of men reaching their target vs 22% of women
- ITAU in Mexico offer app based pre-approved lending limits. 90% of male-led businesses banking with ITAU have drawn down lending via the app, but just 30% of women have used the facility
- Peer to peer lending has grown and women account for 20% of borrowers
- Funding models with short lead times are valuable. For example, the new PayPal working capital app took 9 minutes to approval, using autofill to minimise time filling in application details. The loan works on a fee basis charging less for shorter repayment durations, with lending limits linked to PayPal sales levels.

Recommendations

- **Language**

Develop a fresh communications approach based on the needs of the women in business sector and apply language which engages women well

- **Awareness**

Map existing sources of funding and identify gap/opportunity areas, constraints and potential collaborators – from small scale to VC

Offer a funding bootcamp to start-up businesses to assist with awareness and insight. Cover all sources of funding and how to identify best sources for your business. Include an investor panel to provide feedback on business ideas and viability – suggest next steps and help with signposting

- **Best practice**

Identify international models of best practice/exemplars

- **Bootstrapping**

Identify tools and case studies to help businesses capitalise on leveraging sales and cost control to fund growth

Develop tools to identify where bootstrapping is being used to fund growth and develop a pipeline into funding options via the trading track record being established

- **Innovation**

Assess the opportunity for innovative new approaches to funding (in conjunction with mapping funding sources/identifying gap areas detailed under “Awareness” above)

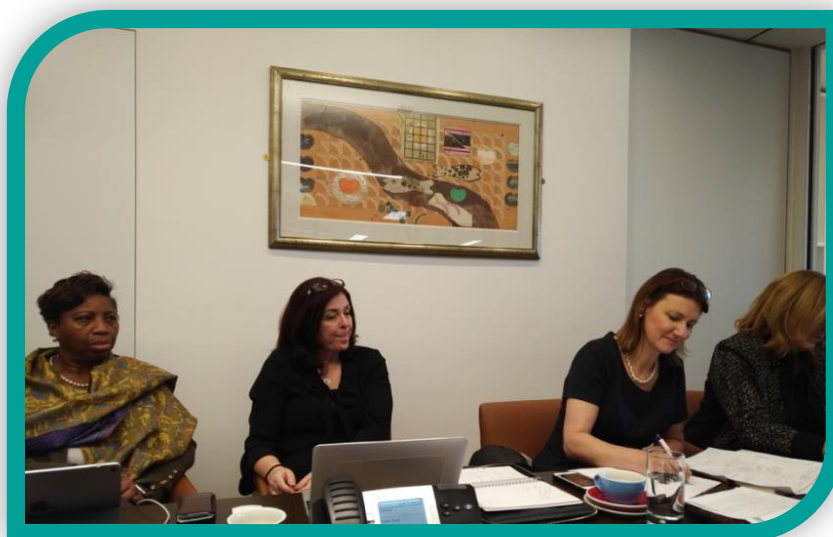
- **Women’s Fund**

Review models to create a women’s fund – for example, via a micro-crowdfunding approach which could then seek match funding via private, public and/or third sector

- **Measurement**

Apply a two-tiered approach of seeking greater gender-disaggregated data from existing sources, while also developing a new suite of measures which are more representative of the value created by the women’s sector. For example, measures of impact at community level.

- **Women's Banking Support**
Provide more women-specific banking support covering the whole of the lending journey from application to post drawdown and repayment. Capitalise on the strong risk profile of the sector, in terms of repayment and lower bad debt. Boost the economic engagement and output from sub-sectors such as single parent families and over 50's
- **Women's Scorecard**
Develop a lending scorecard which caters for the specific characteristics of the women's sector. For example, catering for maternity leave within business cashflow data gives a much more accurate reflection of business performance and potential
- **Sub-sectors**
Target the over 50's age market as this shows positive indications for growth and sustainability eg 70% survival rate for this demographic
- **Microfinance**
Establish microfinance models funded by microfinance peer to peer lending
- **Business Angel Fund**
Widen access to business angel funding via a fund offering smaller investment amounts and micro funding, in addition to larger more traditional business angel type investing. Capitalise on the opportunity to establish women for women initiatives.



Appendix

Participant List

Julie Baker, Head of Enterprise, NatWest

Yvonne Greeves, Head of Women in Business, NatWest

Nicola Douglas, Highlands and Islands Enterprise

Susan Smith, Highlands and Islands Enterprise

Lina Tsaltampasi , Oecon Group

Sonia Brown, National Black Women's Association

Christine Atkinson, University of South Wales

Helen Walbey, Women's Enterprise Policy Chair, FSB

Carol Cooke, Founder, Barefoot in Business

Dr Margo Thomas PhD, Founder, Women's Economic Imperative

Susan Harkins, Chair, National Business Gateway Operations Committee

Jeanette Forbes, Founder, PCL Group

Vicky Brock, Founder, Clear Returns

Prof Lynne Cadenhead, Chair, Women's Enterprise Scotland

Carolyn Currie, Chief Operating Officer, Women's Enterprise Scotland

