

**Myths and Realities  
of  
Women's Access to Finance**

**WOMEN'S  
ENTERPRISE  
TASK FORCE**

**July 2009**



## Introduction

The Women's Enterprise Task Force (WETF) is a national body championing women's enterprise. It was set up by Gordon Brown to increase the quantity, scalability and success of women-owned businesses in the UK.

The Task Force believes there are five key areas, or Pillars, which must be addressed in order to achieve a strong pipeline of high growth, women-led businesses: gender-disaggregated business data, women-friendly business support, access to finance, supplier diversity and strategic influencing.

This paper was commissioned by the WETF to aid discussion around its third Pillar in order to examine the myths and realities of women's access to finance. Specifically, the WETF wishes to understand whether it is true that women are charged more for loan finance than men, and whether women are being disadvantaged when it came to access to finance.

This paper is set in a context of the economic downturn and financial crisis which have intensified the debate around small and medium sized business finance generally and women's access to finance in particular. It includes:

- An analysis of whether or not women find it disproportionately more difficult than men to raise money from banks.
- Some insights into whether or not women are charged differential rates to men for any bank lending.

This paper should be seen alongside WETF member Professor Sara Carter's "Access to Finance" paper prepared for the National Policy Centre for Women's Enterprise, which contains complementary recommendations building on specific areas.<sup>1</sup> These can be summarised as follows:

- Gender- and ethnicity-disaggregated data should be made publicly available across the business support sector under the Gender Equality Duty;
- The Department for Business, Enterprise and Regulatory Reform (BERR) should monitor take-up by women of the finance elements of 'Real Help for Business' and the Aspire women's co-investment fund;
- Banks should focus specific attention on the provision of funding for female entrepreneurs;
- Small business support agencies should develop women's enterprise information and education programmes around the theme of starting capitalisation; and
- Policy efforts should continue to strive to create economic equality between men and women, to enable women to accumulate resources for start-up.

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<sup>1</sup> Carter, S (2009): "Access to Finance", National Policy Centre for Women's Enterprise, Evidence Paper

## Overview of existing evidence, provided by Dr. Rebecca Harding, Delta Economics

The issue of women's access to finance to start and grow businesses has been the subject of debate for policy makers, business support professionals and academics for many years. Academic investigation has focused on women's access to finance at the start-up stage,<sup>2</sup> the access of women business owners and women entrepreneurs more generally to external finance,<sup>3</sup> and differences between men and women investors and professional support advisers (accountants, banks and business angels in particular).<sup>4</sup> To summarise:

- At the start-up stage, women's businesses tend to be under-capitalised relative to their male counterparts; are less likely to want to access external finance generally and equity finance in particular; and may experience gender-specific obstacles that create a perception that accessing finance is a barrier.<sup>5</sup> Indeed, the Annual Small Business Survey in 2006 argued that while 15.5% of all firms see access to finance as a barrier, the figure for women is higher at 16.2%.<sup>6</sup>
- More recent research on the nature of access to finance for women entrepreneurs and women-owned and -managed businesses does not suggest that there are material differences between men and women in their experiences of accessing finance. Women tend to use similar financing mechanisms at the start-up stage to men (friends and family, bank overdrafts and loans and personal savings)<sup>7</sup> and, where they do access these forms of finance, are likely to succeed at or above the rates of men.<sup>8</sup> This research is similarly focused on the start-up phase.
- Investor behaviours between male and female business angels are investigated. It is found that women investors are marginally more likely to invest in women-owned businesses, but that there are greater differences within the business angel community as a whole rather than between male and female business angels.<sup>9</sup> As female investors only represent 8% of the total

<sup>2</sup> Sena, V., Scott, J. and Roper, S. (2008): "Entrepreneurial Choice, Gender Differentials and Access to Finance." Paper prepared for the National Policy Centre for Women's Enterprise; Roper, S. and Scott, J. (2009): "Gender Differentials in Access to Finance for Business Start-up in the UK." *International Small Business Journal* forthcoming.

<sup>3</sup> Carter, S. and Shaw, E. (2006): *Women's Business Ownership: Recent Research and Policy Developments*, Small Business Service: Sheffield; Fraser, S (2005) *Finance for Small and Medium Sized Enterprises: A Report on the 2004 UK Survey of SME Finances*, Warwick University: Coventry; Carter and Rosa (1998): "The Financing of Male and Female-Owned Businesses." *Entrepreneurship and Regional Development* 10; 224-241; Carter, S., Shaw, E., Wing, L. and Wilson, F. (2007): "Gender, Entrepreneurship and Bank Lending: the Criteria and processes used by Bank Loan Officers." *Entrepreneurship, Theory and Practice* May 2007 pp 427-444. See also, Carter, S. (2009): "Access to Finance", National Policy Centre for Women's Enterprise. Policy Briefing. EOC. (2005). *Facts About Women and Men in Great Britain*. Manchester: Equal Opportunities Commission

<sup>4</sup> Kauffman Foundation (2006): "Women and Angel Investing: An untapped pool of equity for entrepreneurs." Ewing Manning Kauffman Foundation. Marlow and Carter (2006): "Women's Enterprise, Access to Finance and the Role of the Accountant." ACCA, 2006. Harrison, R and Mason, C. (2007): "Does Gender Matter? Women Business Angels and the Supply of Entrepreneurial Finance." *Entrepreneurship, Theory and Practice* May 2007 1042-2587; 445-472.

<sup>5</sup> Brush, C. (1997). Women owned businesses: Obstacles and opportunities. *Journal of Developmental Entrepreneurship*, 2(1), 1-25; Marlow and Patten (2005): "All Credit to Men? Entrepreneurship, Finance and Gender." *Entrepreneurship, Theory and Practice*, pp717-715, November.

<sup>6</sup> Small Business Service (2006) *Annual Survey of Small Businesses: UK 2004/05*, Small Business Service: London.

<sup>7</sup> Harding, R. (2007): "The State of Women's Enterprise in the UK." Prowess, 2007.

<sup>8</sup> Roper, S. and Scott, J. (2009): op cit; Harding, R., (2007): "Global Entrepreneurship Monitor, UK. Executive Report." London Business School.

<sup>9</sup> Harrison and Mason (2007): op cit

investor population in the US, for example, this represents in the view of the Kauffman Foundation an untapped potential for growth finance.<sup>10</sup>

This literature summary points to a general understanding of women's start-ups as smaller than men's, under-capitalised, less likely to want to take on debt finance, locally based, young (i.e. less than three years old) and operating in sectors where growth might be limited.

This report aims to contribute to a clarification of the issues around bank and other forms of financing for women's businesses in several ways:

- By looking at data on financing of start-ups from the Global Entrepreneurship Monitor (GEM) 2007 dataset. This data was collected in 2007 and reported in 2008. While it is not the most recent dataset, it is more recent than the latest publicly available household survey data and does provide some useful information about start-up capitalisation amongst men and women in the general adult population. It demonstrates that women's businesses are indeed capitalised on average at a lower level than those of their male counterparts. However, where women try to access finance, their failure rates are lower than those of men.
- By providing a summary of the most recent UK SME Finance study (aka Big Survey) that looks in detail at women's bank finance. The Big Survey was taken from a general population of women-led businesses (where greater than 51% of senior management roles are held by women) and covers a broad range of sizes and sectors. The principle conclusion of this survey is that the differences in the basic business characteristics of male- and female-led businesses goes a long way towards explaining the differences in their success rates in accessing finance.
- By examining data from a survey of 1,800 founders of businesses conducted by Delta Economics as the Challenges and Opportunities for Growth Study (COGS; sponsored by HSBC). This is a distinctive sample frame in that it spoke entirely to founders of businesses that were older than two years but less than ten years old, and that had turnovers of between £250,000 and £20m. They were, effectively, outside of the category of start-ups where attrition is highest (under three years old)<sup>11</sup>, had substantial turnovers and were hence categorised as "growth oriented." While this was a first study, it does provide some insights into the experiences of entrepreneurs in terms of their access to start-up capital. It is found that for this category of people, i.e. the entrepreneurs themselves, women and men have invested equal amounts in their businesses to start them. On average an entrepreneur has invested £120,000 altogether in their growth-oriented firm (a mean figure which is consistent with means in GEM) and put in over 70% of this themselves (through personal savings, credit cards and mortgages on their homes). The remainder is financed through various sources with women more likely to go to banks than men, and to be happier with the advice they receive from banks than men. In contrast, men are likely to go to a range of different financial sources and find the advice of informal investors particularly helpful.

The report covers these three areas separately because each sample frame for each study is very different. While only the UKSMEF looks specifically at costs of finance, by comparing what is available from all three it is possible to isolate the reason why there is some confusion around the issue of differential charging. For example, GEM is taken from a survey of the general adult population and

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<sup>10</sup> Kauffman (2006): op cit.

<sup>11</sup> According to internal bank data, the highest attrition for men and for women is between 0 years and 3 years. By taking a sample of companies with turnovers of more than £250,000, the study deliberately isolates those that are "survivors" while still being young enough to be in the growth phase.



therefore looks at all founders. These founders could be anything from very small and localised activities that for tax purposes count as self-employment, through to enterprises that have growth potential.

The Big Survey (UKSMEF) is of owners or those who make financial decisions and may therefore not always be looking at the process of start-up, but is instead looking at the issues of access to finance for general operations as well. Its sample frame is similar to that of the Annual Small Business Survey which is not covered here but which is a survey of senior managers and directors. The COGS study focuses on the growth experiences, challenges and motivations of entrepreneurs and was designed to provide insights into the question, "What makes an entrepreneur survive the first two years?"

In itself this goes some way to understanding why there is some debate around access to finance in the literature. First, the available datasets for research purposes are not comparable in terms of their sample frames and, because of this, are looking at different types of activity which may or may not require finance. Further, they are all proprietorial datasets thus open to different interpretations, weightings and control variables depending on the statistical approach taken by the authors.

Second, the definition of what constitutes a female business differs between each – the unit of analysis in GEM is the entrepreneur, and male and female entrepreneurs can be directly compared through this study. The unit of analysis in the Big Survey is managers, who may or may not have been entrepreneurs. The unit of analysis in COGS is the entrepreneur and their business with a gender disaggregation in the dataset.

The essence of the problem, then, is that we lack consistent and comparable data that has a time series element and that allows us to look specifically at entrepreneurial finance by gender. This is partly a data problem and partly a definitional problem, since women-led or women-owned businesses are not the same as women-founded businesses. Similarly, we should not confuse start-up capitalisation in the general business population, as illustrated by GEM, the Household Survey or even business bank account data, with the start-up capitalisation of growth-oriented firms or the growth finance needs of established micro and small businesses.

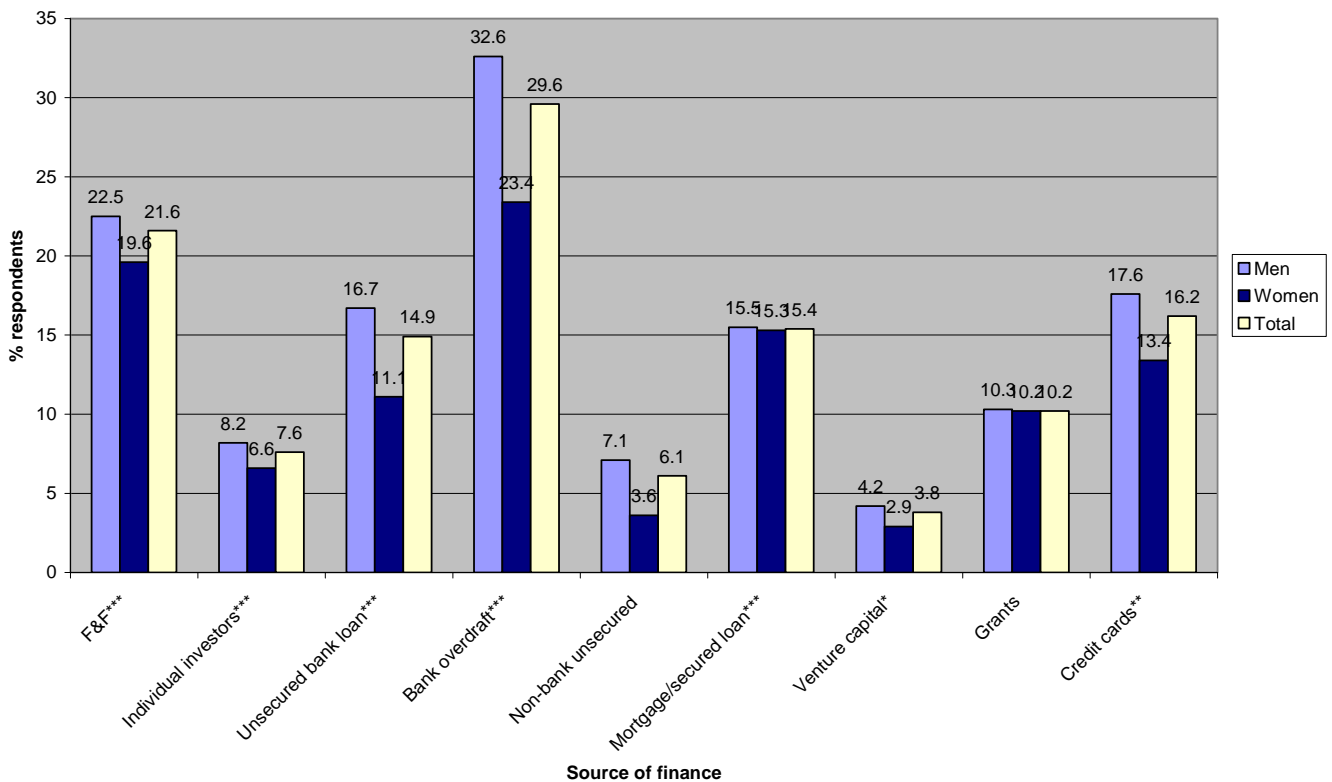
The following analyses and summaries of the available data are also provided by Dr Rebecca Harding of Delta Economics.

**Start-up finance in the general entrepreneurial population: data from the GEM 2007 study**

The Global Entrepreneurship Monitor (GEM) data is based on a sample of 42,500 adults in the general population taken in 2007. It therefore does not reflect recent changes to the Small Firms Loan Guarantee Scheme (SFLGS) and new initiatives to widen access to finance for women, such as the Aspire fund. The survey is a household survey of adults – i.e. these are not all formally registered businesses and, indeed, are more likely to be self-employment/labour market substitution activity (Harding, R 2007) than an accurate reflection of registered businesses.

The questions on access to finance were asked only of those who were active as entrepreneurs, in other words, they were in the process of setting up and running a business that had not been running for more than 42 months. This is total early stage entrepreneurial activity (TEA) and in 2007 represented some 5.8% of the total adult population. This represents just over 2,400 individuals in the total dataset.

Figure 1 shows the sources of finance used by men and women to start up their businesses.



**Figure 1: Sources of finance accessed and used**

Source: GEM UK Adult Population Survey 2007

\*\*\* Significant at 1% level; \*\* Significant at 5% level; Significant at 10% level

Figure 1 shows that, for TEA-active individuals, women are less likely than men to use all types of finance, although differences in grant access are not statistically significant. This finding is similar to that of other academic studies.

Figure 2 illustrates the estimated annual turnover in the first full year of trading of TEA-active entrepreneurs. It also shows the attitudes towards the adequacy of start-up finance in the respondent's region:

	Men	Women	Both
Mean turnover after first year of trading***	£188,172	£48,106	£143,235
Median turnover after first year of trading***	£20,000	£5,000	£15,000
	% male respondents	% female respondents	% all respondents
Adequacy of finance in region of respondent***	35.0	28.6	33.4

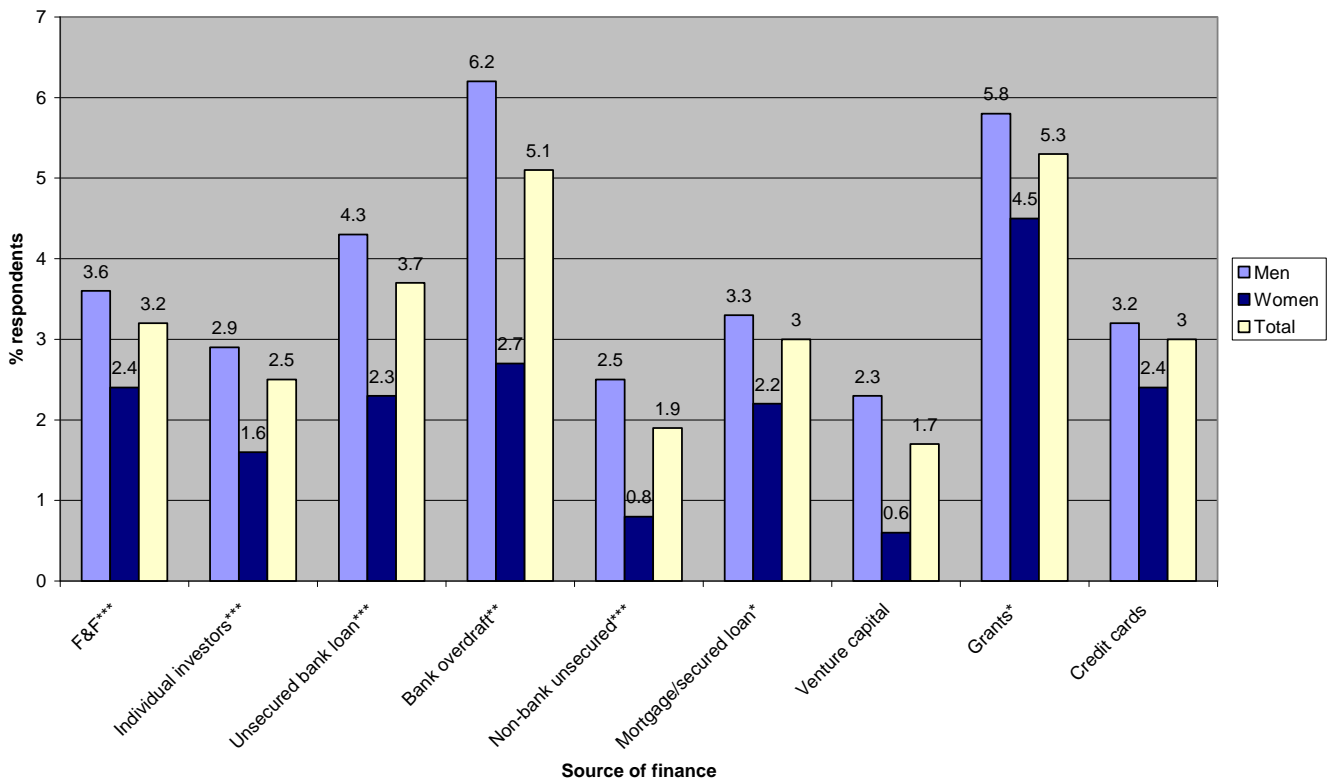
**Figure 2: Estimated annual turnover in 1<sup>st</sup> full year of trading and adequacy of finance**

Source: GEM UK Adult Population Survey 2007

\*\*\* Significant at 1% level; \*\* Significant at 5% level; Significant at 10% level

Figure 2 suggests that women entrepreneurs run businesses that have means and medians that are significantly smaller than men's. Women are significantly less likely to think that regional finance is adequate. Again, this is consistent with other academic studies and with internal bank documentation that suggests that women are likely to run smaller businesses.

Figure 3 shows the sources that entrepreneurs have accessed but failed to gain finance.



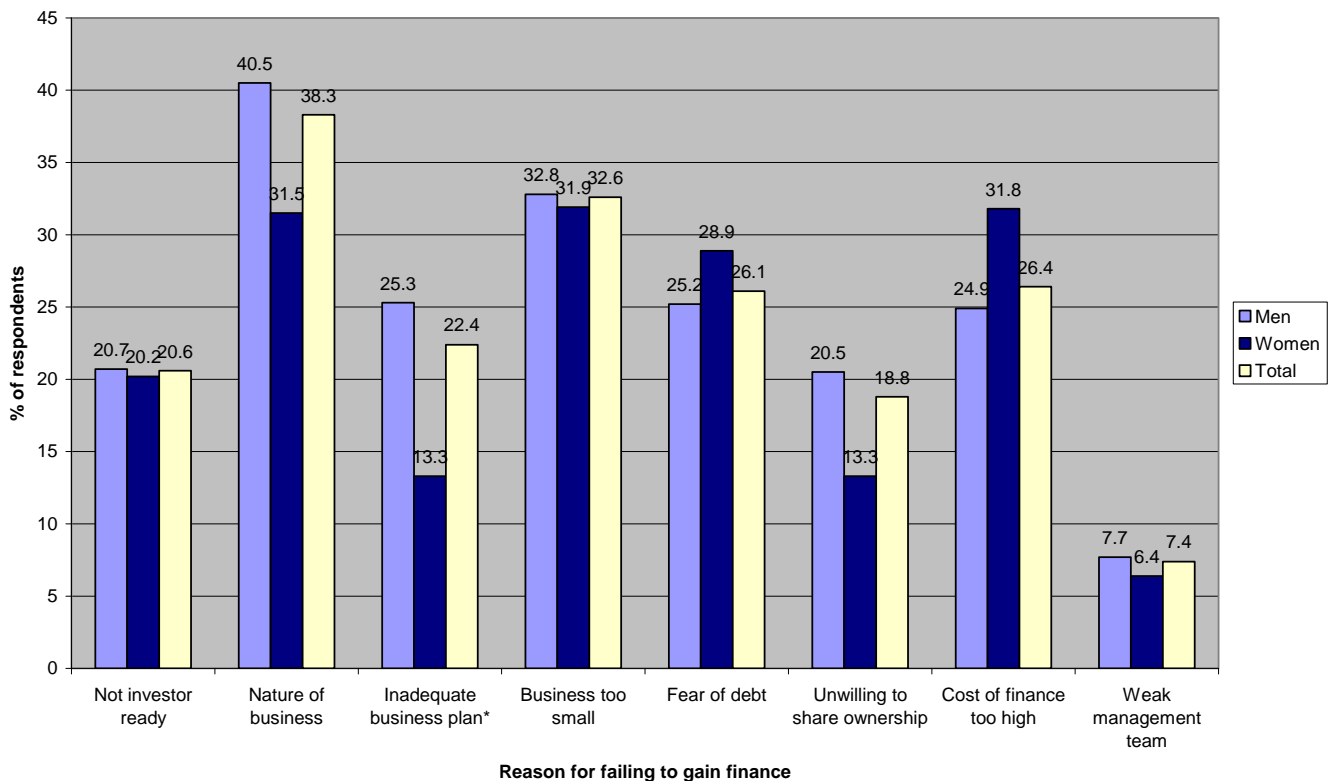
**Figure 3: Sources of finance accessed but failed**

Source: GEM UK 2007 Adult Population Survey

\*\*\* Significant at 1% level; \*\* Significant at 5% level; Significant at 10% level

Figure 3 suggests that male failure rates in accessing finance are much higher for all types of finance. The results are statistically significant for all types of finance except venture capital and credit cards, where numbers are small and the results not statistically significant.

Finally, Figure 4 gives the reasons for not being successful in accessing finance. The number of respondents is very small; therefore, results are generally not statistically significant so care should be taken in interpreting this table – it is used for illustrative purposes only.



**Figure 4: Reasons for failing to access finance**

Source: GEM UK 2007 Adult Population Survey

\*\*\* Significant at 1% level; \*\* Significant at 5% level; Significant at 10% level

As noted above, numbers are small. However, in line with other studies, women appear more likely to have been rejected because of their own fear of debt or because the costs of the finance itself were too high. They are significantly less likely than men to have been rejected because of inadequate business planning, which corroborates the discussions held with bankers as part of the research for this paper that suggested that women were often perceived as a lower risk.

**Summary**

This overview of the available GEM data suggests that women are less likely to access all types of finance but have lower failure rates when they do access finance. Their first year turnover is smaller. This is in line with general findings, both internally from banks and externally by academic researchers, that they are “less profitable” as customers because their businesses are local and unscalable. They do appear to fear debt more and to fear the costs of debt, but these are perceptual rather than actual problems. They are significantly less likely to be rejected because of inadequacies in their business planning.

## Summary of the UKSMEF / Big Survey gender disaggregation

The Big Survey was conducted between 17 September and 15 November 2007. The total sample was of 2,514 firms, of which 17% were female-led.

The Big Survey corroborates the findings of GEM, other bank data and other academic research that female business leaders tend to be running smaller businesses, tend to be running younger companies and are predominantly in service sectors. Legal form does not differ significantly by gender, although there is a "slight tendency" for female business leaders to "run partnerships and incorporate less" than their male counterparts. Interestingly, though, the survey finds that women-led businesses are more likely to be growth-oriented – this is something that was also picked out by the recent NatWest-Everywoman survey of small businesses.<sup>12</sup>

Central to this paper is the issue of access to finance and use of banking services. The following is a bullet point list of the material findings:

1. Women-led businesses tend to have shorter banking relationships than male-led businesses.
2. Women-led businesses are more likely to have free banking, but this may be because of the higher number of start-up bank accounts in the female population (following from the fact that closure rates are higher and banking relationships shorter).
3. There are no differences in the median level of bank charges by gender, although men pay a higher mean of bank charges reflecting the larger average size of their businesses.
4. Men tend to make greater use of all types of bank finance, while women tend to make greater use of deposit accounts and grants.
5. Men felt it had become easier to obtain commercial loan finance. It should be noted that this result does not take into account any changes that have arisen from the current macroeconomic climate as the survey was conducted in late 2007.
6. Women-led businesses tend to have smaller overdrafts and fewer require security or an arrangement fee.
7. Use of the Small Firms Loan Guarantee Scheme is very low for both men and women (this is corroborated by COGS later): 2% for female-led and 1% for male-led businesses.
8. Women-led businesses were less likely to have been unable to make a repayment in the past 12 months than male-led businesses. There is no gender difference in late payments on overdrafts, but men are more likely to have made late payments on loans and mortgages.
9. Women-led businesses appear to pay lower fixed and variable interest rates on their overdrafts than male-led businesses.
10. Women-led businesses appear to pay lower rates for loans and mortgages.
11. Frequency of credit card usage does not differ by gender and appears unimportant in the overall portfolio of products, but women-led SMEs tend to spend less on average than men.
12. Women-led businesses were less likely to have sought new funds in the last three years; 8% of women compared to 4% of men were discouraged from seeking finance.
13. There were no differences in partial and outright rejection of finance by gender when taken together, but women were more likely to have been rejected outright for overdrafts.
14. Women seek significantly less in finance compared to men (median of £5,000 compared to median of £17,000).
15. Equity finance was not used frequently by male- or female-led businesses. Women were more likely than men to say that they did not know how to go about getting equity finance (17% compared to 4% of men).

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<sup>12</sup> <http://www.everywoman.com/ResourcesAdvice/Finance/?id=5253>

16. The authors controlled for sector and found that, by doing this, the size differences between male and female businesses seeking finance disappear.
17. Females are more likely to seek less finance but there is no difference in the percentage of funds received by men and women.
18. There is no evidence, on the basis of a multivariate analysis, of any difference by gender in the decision to seek external finance, although amongst younger firms there are more female leaders and these are less likely to have a financially qualified person managing their finances.

### **Summary**

The Big Survey is the best coverage of access to finance since it is a large sample and contains a good representation of women-led businesses. It finds that there are no reasons to suggest that women are charged more for finance and, indeed, there are specific circumstances where women-led businesses may pay less. The difference between this and the UKSMEF of 2005 is that the analysis controls for risk this time.

## The Challenges and Opportunities of Growth (COGS) Study

The COGS survey, conducted by Delta Economics and sponsored by HSBC, is a first attempt to capture the motivations of entrepreneurs, how their businesses grow, the value they create and the challenges and opportunities which that value affords. We interviewed 1,800 founders of companies between 20 August and 30 November 2008. The founders had set up companies that were older than two years but younger than ten years and had turnovers of between £250,000 and £20m. It finds that nearly 60% of entrepreneurs will produce a return on investment in the early development phase of their business of more than 1,000%. 73% of them have created up to ten jobs since they started and 10.5% of them have grown exceptionally to create more than 25 jobs since they started. On average, the founder required £120,000 in start-up finance and the entrepreneur themselves put in 72% of this amount. Nearly 40% of the entrepreneurs had set up a business before.

Case studies were conducted alongside the survey work and suggest that a large amount of the money supplied by the entrepreneur comes from their own assets (such as a house). In the words of one, "I was really lucky. I had a house with a lot of equity in it and I managed to access that before the credit crunch. I don't know what I would have done without that asset as no-one would have lent me the whole amount against the business as I had no track record." The over-riding picture that comes out from the case studies is one of personal risk: a common theme to all is the fact that until they had put their own financial survival on the line, it was hard to make a case for further investment.

Figure 5 illustrates where the remainder of the start-up money came from. Asterisks are used to denote statistically significant results.

	Total	Men	Women
<b>Family and friends **</b>	8.7	9.4	3.0
<b>Other private investors (not family/friends)***</b>	32.9	36.1	7.7
<b>Bank ***</b>	37.9	34.0	68.2
<b>Credit card</b>	0.3	0.4	0.0
<b>Formal equity finance/venture capital</b>	0.2	0.2	0.0
<b>Small Firm Loan Guarantee Scheme *</b>	3.3	3.5	1.5
<b>Other Government or public sector grant***</b>	4.0	2.7	13.6
<b>Other partners and directors*</b>	15.3	16.5	6.1

**Figure 5: Access to finance: men and women compared**

(\* = significant at 10%, \*\* at 5%, \*\*\* at 1%)

Immediately obvious from Figure 5 is the fact that the patterns of access to finance are quite different between men and women. Women are far more likely to use bank finance for plugging the gap between what they will invest and what they need, while men make substantially greater use of private investors outside of their personal network – i.e. business angels. One business angel who runs a network and who we interviewed as part of the study said, "I try to be as accessible as possible so that anyone can access finance. I don't charge a commission and I like to think that we help people through the process in a non-intimidating way. But I only get 7% of women through the door. This makes me sad."

In fact, men are more likely to use their networks and a greater variety of funding sources than women, according to the data presented in Figure 5. A higher number access finance from family and friends, other investors and, interestingly, other partners and directors than do women. Women's access to finance is heavily dominated by bank finance. Although there is greater access of public sector grants by women, this is still only a small proportion of those who will get their additional finance from the bank.

One other point of contrast to the two other surveys should be mentioned here. At the very earliest stages, it might be expected that more of the entrepreneurs would have used credit cards or family and friends to finance their businesses. This is an interesting contrast with, say, GEM data. However, the reason why the sources of finance may differ is entirely to do with the sample frame which is of established businesses and the funding pattern of these may differ to those entrepreneurs who are at an earlier and less secure stage of development.

Access to finance is only part of the story. Many entrepreneurs we interviewed were profoundly influenced by the advice given to them by a mentor, by families or by Government support agencies. The case studies and other entrepreneurs and professional advisers interviewed as part of the study argue that keeping a good personal relationship with the business's bank in the current environment was imperative. One professional advisor commented, "There is no need for a company to go bankrupt unless it wants to. The banks are there to help. They don't want your house because they won't be able to sell it again and, because they are assessed on how many successful companies they have on their books, they aren't going to want you to go bust either."

We asked the founders about the sources of business advice and how useful they had found it. The results are presented in Figure 7 again with asterisks to denote significant differences between men and women.

	Source of advice used (% respondents)			% responding that advice has proved to be useful or very useful
	Total	Men	Women	
<b>Personal friend</b>	29.8	29.9	29.5	54.8
<b>Mentor or coach</b>	9.1	9.5	6.3	81.3
<b>Another entrepreneur</b>	22.5	23.0	19.3	79.9
<b>Business or entrepreneur support network **</b>	6.4	5.2	14.0	46.9
<b>Bank**</b>	32.6	31.2	40.6	34.0
<b>Potential investors</b>	6.1	6.2	5.3	47.2
<b>Work colleagues</b>	25.7	25.6	26.1	48.8
<b>A professional (lawyer, accountant or consultant)***</b>	45.3	44.1	52.7	69.3
<b>Family member ***</b>	27.5	25.8	38.2	28.8
<b>Business link or other Government business support agency **</b>	21.0	21.2	19.8	78.2
<b>Nobody **</b>	17.2	17.8	13.0	n/a

**Figure 7: Sources of advice used and their usefulness**

Figure 7 demonstrates several things:

1. Both men and women surveyed used many different sources for business advice in both the private and the public sector. This demonstrates the scale and breadth of the support structure that entrepreneurs utilise when they are setting up and growing their businesses.
2. "Professional" advice, either from banks or from lawyers, accountants or consultants are the most frequently accessed sources of advice. Women are more likely to access advice from

both sources and are proportionately more likely than men to find their advice useful or very useful.

3. Women are also more likely to find advice from business or entrepreneurial support networks, from families and from Government agencies such as Business Link useful than men.
4. Men are not statistically significantly more likely to access advice from potential investors, but they are more likely to find it useful.
5. Men are significantly more likely to access advice from nobody.

The responses on the usefulness of business support were on a 1-5 scale (where 1 = not at all useful and 5 = extremely useful). This allows all the support routes to be grouped into one business support index (ranked out of five for convenience). A mean of 3.0 suggests that the advice given has been neutral and not especially useful to the entrepreneur: The results of this are as follows:

1. The mean response for the whole population is 3.67, suggesting that entrepreneurs do value and find useful the advice that they seek.
2. Women are significantly more positive about the advice they receive than men (3.82 compared to 3.65).

#### **A note on the cases**

Delta Economics is tracking ten women entrepreneurs taken from the sample of 1,800 and also has a bank of other women entrepreneurs who have agreed to be followed as they grow, totalling 15 cases. For the purposes of this study, we asked them specifically about whether they had experienced any issues that could be attributed to gender when accessing finance. Every respondent was adamant that they had not experienced any gender issues at all in accessing finance and all seemed slightly bemused that we were asking the question.

#### **Summary**

The research for COGS, which combines with the analysis of growth potential of women entrepreneurs conducted for the National Policy Centre for Women's Enterprise, does not suggest that there is discriminatory behaviour by financial institutions and does suggest that women are more likely to use bank finance than men. Similarly, women are more likely to feel that the advice they receive from banks is good compared to men.

## Summary of the data examined by Dr. Rebecca Harding, Delta Economics

The material covered in this discussion paper can be summarised as follows:

### Earliest stage companies (0-42 months)

1. There is some evidence that women are more likely to see access to finance as an obstacle in starting their business (Roper et al 2008).
2. Roper argues that the sources of finance for men and women are identical. However, his analysis is based on household survey data from 2003 and may need updating.
3. GEM UK 2007 data suggests that women in the earliest stages of entrepreneurial activity (up to three years old and not necessarily formally incorporated) have median turnovers that are  $\frac{1}{4}$  of those of their male counterparts, and are less likely to access all types of finance except mortgages/secured loans and grants.
4. GEM UK 2007 data also suggests that women are less likely to try but fail to get finance from all external sources except equity and credit cards.

### Established companies (i.e. incorporated and older than 1 year)

The data from the Big Survey suggest that where women are majority leaders/owners:

- Women business leaders and owners are lower users of external finance generally for all types of finance except grants.
- Women tend to have shorter relationships with banks.
- Women are charged less for banking (this looks like a change on the 2004 data) and are more likely to receive interest on credit balances.
- Women are slightly more likely to have a deposit account for their business with more cash in it.
- The debt margin is the same for men and women but women tend to pay lower fixed interest (again, this looks like a change on the 2004 data).

### High growth companies (older than two years with turnovers of more than £250,000)

- No statistically significant differences between men and women in terms of what they invest in their business themselves (require £120k total to start up of which they put in around £86,000). It may be true that women's businesses are under-capitalised (see first section) for earliest stage businesses and self-employed women, but the differences do appear to diminish as companies grow (as, unfortunately, do the number of women involved).
- No statistically significant difference between men and women in terms of turnover or employment growth (although there are differences in three-year growth expectations: women predict lower turnover and employment growth).
- 60% of women get their external start-up finance from banks, while men are significantly more likely to use a range of sources of finance (34% from banks, 36% from informal investors, for example).
- 40% of women compared to 31% of men value the advice they get from banks.

It follows that any assumptions about lower levels of confidence, turnover or growth aspirations apply to the earliest stages of business development but appear to disappear as companies grow.

There is no evidence of discriminatory financing but there is evidence of lack of coherence in data and definitions that cloud the issues around women's access to finance. Until these issues are addressed, any progress in terms of evidence-based policy will be limited.

**WETF conclusion: the myths and realities of women's access to finance**

Based on the above findings provided to the WETF by Dr Rebecca Harding, the WETF has concluded the following. There is currently a general understanding that women's start-ups are smaller than men's, under-capitalised, less likely to want to take on debt finance, locally based, young (i.e. less than three years old) and operating in sectors where growth might be limited. These are the "riskier" areas of business where any interest payments are inevitably higher, irrespective of gender. In that women are more heavily concentrated in this segment of the market, this in itself explains why, when risk is excluded from any analysis, there are more women paying higher rates of interest.

The myth that women pay more for bank finance than men originated in the 2004 UK Small and Medium Enterprise Finance (UKSMEF) Survey, which suggested that female businesses were charged differential rates above base rates for term loans compared to men.<sup>13</sup> However, as WETF member Professor Sara Carter points out, there is no subsequent evidence of this. As Cosh et al (2008) demonstrate, if risk is taken into account in any analysis and like is compared with like, the result is that there are no differences in interest payments. This is corroborated by the banks' own internal research which suggests no differences between men and women when risk is taken into account.

The latest UKSMEF Survey, which controls for the risk of the business, suggests that, if anything, women are charged lower rates than men.<sup>14</sup> This ties in with interviews conducted for this paper with senior bankers who argued that women are often better at repaying their loans than men and therefore lower risk. This myth gave rise to the further myth that banks discriminate against women. However, COGS does not suggest that there is discriminatory behaviour by financial institutions and does suggest that women are more likely to use bank finance than men.

The WETF therefore concludes that both these myths are false. However, there are still issues around women's access to finance which the WETF believes need to be addressed, namely:

1. At the most basic level, there is a lack of consistent and comparable data that has a time series element and that allows researchers and policy-makers to look specifically at entrepreneurial finance by gender. This is partly a data problem and partly a definitional problem, since women-led or women-owned businesses are not the same as women-founded businesses. More robust gender-disaggregated data is therefore needed to enable policy developments in this area. This would enable essential further research, particularly into women's growth patterns and their access to business support.
2. Financial literacy has continually been highlighted as an issue for small businesses, so the right support and education needs to be available for women to access finance. Even though growth business performance shows no marked gender differences, the attrition rate of women out of entrepreneurial activity in the critical growth phase is high. We need better research to understand why this is, and more clearly targeted support to encourage women to grow their businesses.
3. Although this report suggests that banks are, if anything, more likely to loan to women than to men, women are still more likely to perceive access to finance as a barrier. There is therefore a need for changing these perceptions and increasing the confidence of female entrepreneurs in their ability to finance and grow their businesses. Women need better access to finance in order to contribute to the economic upturn by fulfilling their growth potential.

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<sup>13</sup> Fraser, S. (1995): *Finance for Small and Medium-Sized Enterprises: A Report on the 2004 UK Survey of SME Finances.* Warwick Business School.

<sup>14</sup> Cosh, A., Hughes, A., Bullock, A., and Milner, I. (2008): *Financing UK Small and Medium-Sized Enterprises, The 2007 Survey. A Report from the Centre for Business Research.* Centre for Business Research, University of Cambridge.