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# The Women's Entrepreneurship Diagnostic

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*The views expressed are those of the author and do not represent the views of the U.S. Agency for International Development or the United States Government.*

## Why Women's Entrepreneurship?

In developed economies, women can help create new jobs and opportunities. Women-owned businesses in the U.S., for instance, contribute nearly \$3 trillion to the economy, and have been growing at more than twice the rate of businesses owned by men.<sup>1</sup> In developing countries, increasing women's entrepreneurship improves incomes while reducing poverty and inequality. For instance, there are nearly 6 million formal, women-owned small businesses in East Asia. In countries like Indonesia, Malaysia, Thailand, and Vietnam, women-owned small and medium enterprises (SMEs) are growing at a faster rate than men-owned firms.<sup>2</sup>

Expanding women's economic potential means expanding opportunities throughout the economy, with growing incomes and improved well-being. In contrast, limiting women's economic potential and the talents of half the population is like leaving money on the table. Studies have found that constraints to firms' investments as they seek to grow in emerging markets could lower aggregate economic productivity by as much as 25 percent.<sup>3</sup> Similarly, when many countries are seeking to grow their way out of the recent economic crisis, we need to reduce the barriers to women's economic participation and enhance their efficiency and productivity.

## Why a diagnostic?

The WED incorporates USAID's increasing focus on evidence-based policy-making to improve aid effectiveness, following the 2005 Paris Declaration on Aid Effectiveness, as well as the policy focus on inclusive growth following the 2010 Presidential Policy Directive for Global Development.<sup>4</sup> At the same time, aspiring women entrepreneurs face different barriers than do their male counterparts, warranting tailored designs for them. As with other development objectives, one key step to better designed programming is identifying the most binding constraints to the outcome, i.e. those constraints that, if overcome, will unleash the greatest impact. This diagnostic concludes with a prioritized short list of binding constraints, rather than a laundry list of all and sundry symptoms visible among would-be women entrepreneurs.<sup>5</sup>

The diagnostic concludes with a prioritized short list of binding constraints by applying the Hausmann, Rodrik and Velasco (HRV) decisional framework best known for its role in Growth Diagnostics<sup>6</sup>. These are most likely not the same binding constraints that one would find for

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<sup>1</sup> Center for Women's Business Research. October 2009. "The Economic Impact of Women-Owned Businesses in the United States."

<sup>2</sup> IFC. October 2011. "Strengthening Access to Finance for Women-Owned SMEs in Developing Countries."

<sup>3</sup> Hsieh, Chang-Tai and Peter J. Klenow. 2012. "The Life Cycle of Plants in India and Mexico."

<sup>4</sup> See Michael Crowell (2012) "Development Cooperation Approaches to Inclusive Growth" for a summary of the USAID policy framework for "broad-based" or "inclusive" growth with direct recognition of development outcomes relevant to disadvantaged groups such as women, the poor, and certain ethnicities.

<sup>5</sup> For one example of an evaluation recommending such donor diagnoses before designing projects, see:

[http://erc.undp.org/unwomen/resources/docs/genderequality/313\\_ILO\\_WEDGE\\_2011.pdf](http://erc.undp.org/unwomen/resources/docs/genderequality/313_ILO_WEDGE_2011.pdf)

<sup>6</sup> "Doing Growth Diagnostics in Practice: A 'Mindbook'." Ricardo Hausmann, Bailey Klingler, Rodrigo Wagner

overall growth and private investment in the country, nor indeed for women's economic empowerment, only those for gender gaps in small and medium enterprise (SME) entrepreneurship in the country.

Similar to the HRV framework, this one applies four tests of differential diagnostics for women entrepreneurs compared to men entrepreneurs to check for binding constraints at each node of the tree on the next page:

1. The shadow price (real economic cost) of the constraint is high
2. Women entrepreneurs seek to bypass or get around the constraint
3. Co-movement: when the constraint is relaxed, women entrepreneurs' investment increases
4. Constraint-intensive women-managed firms do worse

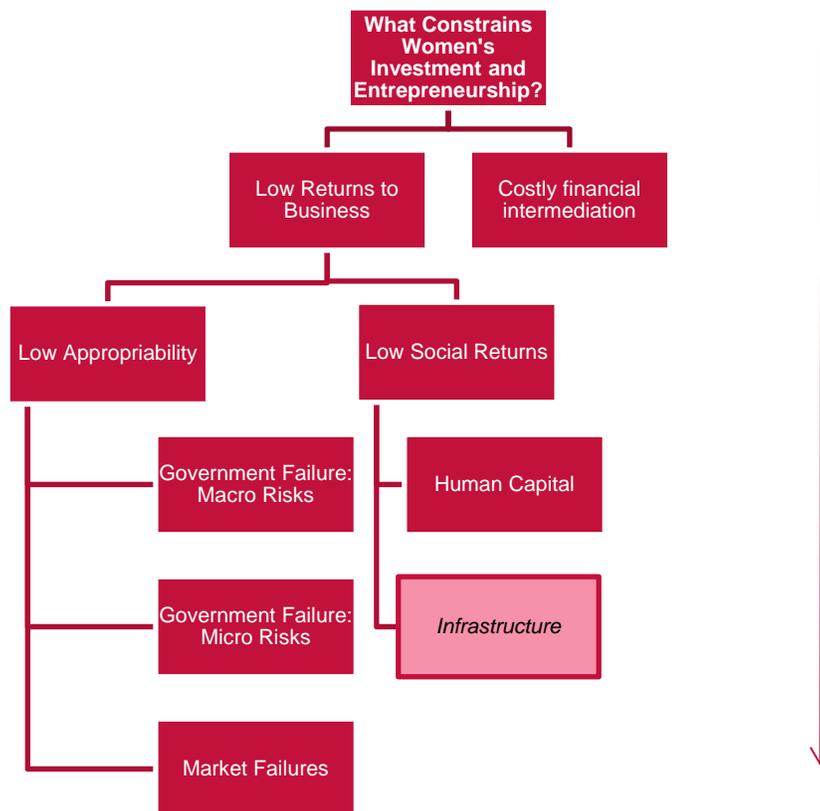
Going down the tree, there is then a process of elimination of what is or is not a binding constraint.

### **Data needs**

The tool uses gender-disaggregated data on the economy and firms, such as the World Bank's Enterprise Surveys, "Women, Business and the Law," national labor surveys, financial access data, the Babson/LBS Global Entrepreneurship Monitor, and other data. Specific stakeholders within the market system could also be useful sources, as described below. In many contexts, there is a dearth of gender-disaggregated data of firm performance over time and across different sizes, so that the diagnostic tests number 3 and 4 can seldom be used. At the same time, subjective perception alone is not sufficient to decide "bindingness". As with the HRV framework, ultimately the analyst needs to use good judgment as well as objective data and expert opinion to rank constraints. Part of this is asking why something is a constraint, and whether there is some other underlying causal relationship, although the tool does not delve into granular sectoral analysis deeper than the questions below.

### **The diagnostic: What constrains women's entrepreneurship?**

This diagnostic is based loosely on Hausmann, Rodrik and Velasco's (HRV) decisional framework and principles of differential diagnoses, but with the overarching question of what keeps women from investing to grow their businesses. The diagnostic focuses on those aspects that affect (would-be) women entrepreneurs differently from men entrepreneurs in the same



country, and then data allowing, can also be contrasted with selected comparator countries (e.g. those with similar cultural history, or economic structure.)<sup>7</sup>

The analyst would first look at gender-disaggregated patterns of firm ownership and management by firm size, using data from the past 5 years or so. Gender disaggregation of firms' real annual sales growth and productivity growth would also be useful, although more detailed looks at these indicators would come later on. The analyst could then look at women-led vs. men-led firms by firm age, to see if there were any significant events in the past that caused a change in these trends in either direction. Assuming that there is a gender gap in management and ownership of firms, especially SMEs, the analyst would go down the tree in order, answering the following questions as much as data allows. At the end the balance of evidence should point to a few constraints that are more binding than others.

The first question is, do businesswomen have the same level of investment demand or investment supply as businessmen? And if the former is the problem, is it because businesswomen face external governmental or market barriers realizing their business ventures? Or do businesswomen need better human capital themselves to succeed in their entrepreneurial endeavors?

<sup>7</sup> If the question is what constrains investment for growth, then an economy-wide Growth Diagnostic should be conducted. Note that some of the diagnostic tests of the HRV framework have to be skipped here, since gender-disaggregated data on firm-level characteristics and performance are often not available beyond one point in time.

- Do venture capitalists and other investors come across profitable women-led investment opportunities, compared to men-led ones? Do women entrepreneurs know of attractive investment opportunities, to the same extent as do men, if capital were not a constraint? If yes, investment supply is likely a binding constraint. If no, the binding constraint is likely under investment demand, not investment supply.

### *1. Investment supply: cost of capital*

- Are businesswomen less likely to have loans from formal financial institutions than are businessmen?
- Do those businesswomen who have loans from formal lenders, compared to capital from family and friends, have higher revenues and productivity?
- Do those women who do borrow for their business pay higher interest rates and put down more collateral for smaller or shorter-term loans than do men?
- Do those who do not borrow from formal lenders need the financing, and seek it from family, friends, trade credit, and other sources than do men? To what extent do women not apply for loans because they do not need the financing, or because of loan application processes or loan terms?
- Do women entrepreneurs concentrate in non-capital-intensive sectors?
- If there has been a significant change in women's access to finance in the past years, e.g. a government loan fund, did this affect the number or performance of women-led businesses?

If finance is found to be a constraint for women entrepreneurs, then the next question is to understand why that may be the case:

- To what extent is this because the women have lower-value assets, less education, or work in a lower-profit sector, and therefore have less formal credit history—i.e. are actually riskier as a borrower?  
→ Issues under low appropriability or low social returns
- To what extent is it because women are excluded from male-dominated business networks and access to venture capitalists, for example?  
→ Issues under low appropriability
- To what extent is it because loan officers are predominantly male and lenders' underwriting policy and processes discriminate against women, beyond actual lending risks? Is there an anti-discrimination law for lending, and is it enforced? → Costly financial intermediation is a binding constraint

Depending on the conclusion from Node 1, the analyst could move to Node 2.

Investment demand:

a. **Low appropriability: Can businesswomen get or keep the returns from their businesses?**

**i. Macro risks: tax rates and administration**

- Do businesswomen spend more time or number of visits dealing with tax officials than do businessmen?
- Do more businesswomen cite tax rates or tax administration as a major constraint?
- Are more women-led businesses informal (unregistered), in order to avoid paying taxes?

If tax rates or administration are found to be a constraint, the next question is the underlying cause. To what extent is this due to the sector or size of women's firms, or is there a gap that sector or size cannot explain? If the latter, tax policy/administration may be a binding constraint.

**ii. Micro risks: corruption, registration, property rights**

Corruption and registration requirements

- Do businesswomen face more frequent or deeper corruption, including in the form of sexual harassment?
- Are businesswomen more likely to cite corruption, the court system, or business licenses and registration requirements as a major constraint than are businessmen?
- Do those businesswomen who do not see corruption, court systems, or business licenses and registration requirements as a constraint have higher revenues or productivity in their firms?
- Are more women-led businesses informal (unregistered), in order to avoid corruption and licensing requirements?

If corruption or registration requirements are found to be a constraint, the next question is what the underlying cause is. To what extent is this due to the sector or size of the women's firms, or is there a gap that sector or size cannot explain? If the latter, corruption or registration requirements may be a binding constraint.

## Property rights<sup>8</sup>

- Do women enjoy the same legal property rights as men in ownership, use and transfer, e.g. in commerce, marriage and inheritance, whether de jure or de facto? This is especially important for rights over land and real estate.
- Are daughters(-in-laws) bypassed as heirs of the family business?
- Where information is available, do women have as many economic assets (in type and value) as do men? Are those women with more assets more likely to own or manage a business, or a more successful business, than other women?
- Are businesswomen more likely to cite their own property rights as a major constraint?
- Do lenders require male co-signers on business loans regardless of collateral ownership, or do female borrowers do this as a practice?
- If there has been a significant change in women's property rights in the past years, did this affect the number or performance of women-led businesses?

### **iii. Market failures: sectoral segmentation, information and household demands**

#### Sectoral segmentation

- Are there proportionally more female owners and managers in certain sectors of the economy than male owners and managers?<sup>9</sup> If so, are these sectors more or less profitable than sectors where women are few?
- Do the few women-led firms in those unusual sectors have higher revenues, productivity, or profits than other women-led firms?

#### Networks and information

- Do general and industry chambers of commerce accept and seek female members? If so, does the proportion of female membership match the proportion of women entrepreneurs in that economy/sector?
- Do women form their own business associations and social networks? If any projects have supported this, how was uptake?
- Are women as likely as men to know an entrepreneur?

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<sup>8</sup> This constraint is harder to link directly to firm performance, since most business surveys do not collect demographic information about the entrepreneur, including their ownership of different assets. Household or labor market surveys, or better yet, individual-level surveys, might be better sources for this node.

<sup>9</sup> Ideally this question could be asked below the agricultural/ manufacturing/services level, since women tend to concentrate in retail, personal services and agriculture globally. See IFC, October 2011. "Strengthening Access to Finance for Women-Owned SMEs in Developing Countries."

- Do any of these questions vary specific to the region or ethnic group of interest?

### Women and work

- Do potential businesswomen have limited geographic mobility outside the home, e.g. because of few safe transportation options?
- Are potential businesswomen responsible for household, childcare, or eldercare tasks that take away from their business efforts?
- Do businesswomen seek ways to work around these constraints?

If any of these is a constraint, the next question is whether there are underlying cultural norms limiting women's engagement in specific sectors (e.g. construction), specific occupations (e.g. as a manager over others), and specific networks (e.g. business networks), and ability to outsource household duties. Or is it because women have less access to information about profitable sectors? Do these norms only affect women when they try to start or grow their business as adults? Or are women constrained to specific sectors and roles because of what and how much they studied from a young age? If the first two, market failure in social norms is a binding constraint. If the last, this points to the human capital constraint.

#### b. **Low social returns**

##### i. **Infrastructure**

Infrastructure includes access to transportation such as roads and ports, electricity, and also telecommunications. Infrastructure has not generally been found to be a constraint that is more severe for women entrepreneurs than men; but where that may be the case for specific countries, the question could be examined here with relevant data.

##### ii. **Human Capital**

Do businesswomen have the human capital to maximize commercial returns?

- Do women and girls have the same levels of education as do men and boys? Are there certain tracks where women and girls are concentrated, and others where they are fewer women and girls, especially in business, science and technology?
- Are women entrepreneurs also more concentrated in those sectors where more women and girls are educated, compared to men?
- To what extent do female business track graduates actually end up owning or managing firms, compared to their male peers?
- Is there other gender-disaggregated data on women's business skills, technical skills and financial literacy?

- If there is data on a past change in education for women and girls in business, science or technology, has this resulted in changes in women's entrepreneurship?

If human capital is found to be a constraint, the next question is why. Do family members encourage girls to pursue certain tracks for economic or cultural reasons? Do educational spaces, timing or transportation modes need to be made safer or more appropriate for women and girls? Are female students not learning as much in their courses as are male students? Or are there some other reasons?

### **The diagnosis: a syndrome**

The conclusion of the above analysis, considering the balance of evidence according to the four tests of differential diagnostics as well as the causal linkages between different issues, will generate a short list of the top binding constraints for women's entrepreneurship in the country. It should also yield a coherent, broad picture of how these binding constraints relate to one another, or potentially share an underlying root cause (such as cultural norms entrenched in social institutions.) This "syndrome" diagnosis then allows policy-makers to make informed decisions about prioritizing different solutions, and also what they might expect to see in other issue areas when they address one binding constraint.

## **Annex: What constrains women's entrepreneurship?**

*(Reproduced from unpublished presentation given by Elena Bardasi, World Bank, 2012)*

- Women tend to have less relevant education (for example in science and technology, business training);
- Women tend to operate in few industrial sectors, with smaller firms with low value added and low growth potential;
- Several studies indicate that women have more difficult access to credit and face a higher cost of credit. Women may be less likely to apply for a loan when they need it;
- Women are less likely than men to personally know an entrepreneur who started a business and have greater difficulties in breaking into men's networks (GEM data);
- Cultural, institutional, and legal constraints also penalize women in particular (inheritance laws, property laws, etc., Hallward-Driemeier, 2011);
- Women may have a higher aversion to risk. Evidence is mixed (GEM data on fear of failure; Bruhn, 2009 found no difference);
- Conflicts between family responsibilities and need/desire to work may push women into entrepreneurship, but may be a constraint to grow their enterprise (Bruhn 2009; World Bank, 2008; Cunningham and Ramos Gomez, 2004);
- Adherence to culture, female roles and image shapes expectations (Field et al., 2010).