

Gender Gaps at the Enterprise Level: Evidence from South Africa

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Summary

Female-owned small to medium businesses in the Western Cape Province in South Africa are less productive, generate lower revenues and have less employees than male-owned enterprises. In this brief, we use the baseline survey for an impact evaluation of a business development services program to identify why these differences exist and explore paths towards policy interventions to overcome them. We conclude that the concentration of businesses in low performing sectors, the lack of commitment to the business, the intertwining of household and business responsibilities, and access to finance can be important barriers to the growth of women-headed enterprises. We suggest targeted alternative interventions to address these constraints and recommend comparing their effectiveness through rigorous evaluations.

Emerging small to medium firms in Sub-Saharan Africa are believed to play an important role in reducing poverty. In South Africa, where unemployment rates are as high as 25% (Stats SA, 2010), small businesses are seen as drivers for sustainable and inclusive economic growth (DTI, 2003). Small, medium, and micro enterprises (SMMEs) represent more than 95% of the total number of firms and employ more than 50% of the workforce (World Bank, 2007). However, they represent only about 35% of GDP (DTI, 2003). Given the relevance of SMMEs for employment in South Africa, identifying and addressing their constraints can be an important engine in the country's development path. In particular, due to higher female unemployment and the fact that women are more likely to hire other women, improving the competitiveness of female-owned enterprises can help reduce the high overall unemployment rates in the country.

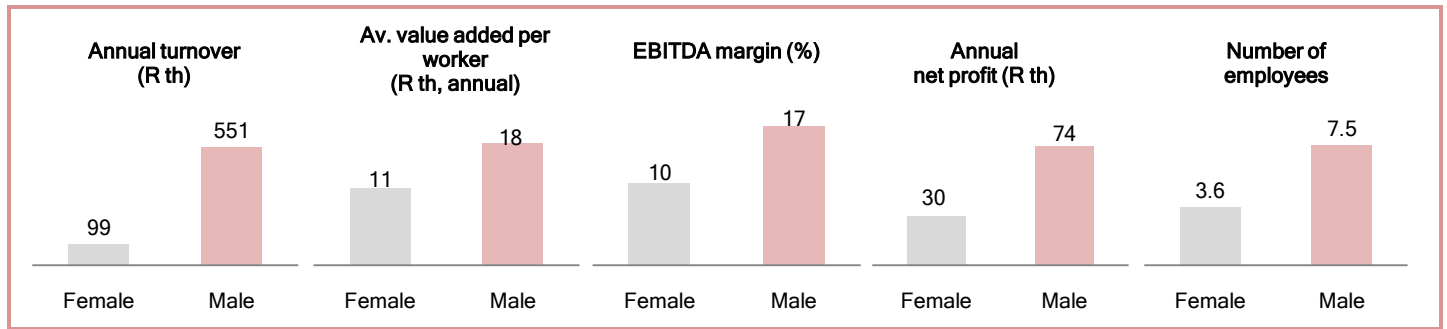
As such, we are using a rigorous impact evaluation to study the gender disaggregated effects of a government-led business development services (BDS) program in the Western Cape Province. This initiative aims to address market failures including lack of knowledge by small firm owners about the availability of BDS opportunities, difficulty by businesses in valuing the benefits of BDS before actually pursuing them, and credit constraints. The BDS hosted by an individual government agency include subsidized access to a set of service providers for technical skills upgrading, business advice and marketing tools.

Using the baseline data for the impact evaluation of this intervention, we estimate the size of the existing gender gaps in the performance of the businesses, provide potential justifications for those differences and recommend interventions to overcome them. We argue that the gender differences identified in the performance of SMMEs in this Province of South Africa can be due to a combination of (1) the concentration of women-entrepreneurs in a small number of low-performing sectors, (2) firms being seen by entrepreneurs as an interim solution, (3) the intertwining of household and enterprise money, and (4) credit constraints.



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Figure 1: Gender gaps for SMMEs in the Western Cape Province



*EBITDA= Earnings before interest, taxes, depreciation and amortization. Top and bottom percentile trimmed for data on annual turnover, profit and EBITDA.

LARGE GENDER GAPS IN FIRM-LEVEL PERFORMANCE

The impact evaluation design allowed us to use a representative sample of 906 SMMEs in the Western Cape Province (47% female-owned) and identify the existing gender gaps. As per Figure 1, **the gender gaps between female and male owned enterprises are very large** for the most commonly used outcomes of interest: average labor productivity, number of employees, turnover, profits, operating margins and proportion of formal enterprises. Female-owned firms are more likely to be smaller, informal, with lower productivity, with lower sophistication than male-owned enterprises. These gaps are prevalent within sector, race, and level of education of the entrepreneurs.

Nonetheless, once we account for a set of enterprise (sector, investment, etc) and business owner observable characteristics (race, education, etc), the gender gaps found in the main outcomes of interest are substantially reduced - becoming statistically insignificant - and in some cases fully disappear. This implies that if the right constraints are addressed, there is an opportunity for meaningfully reduce the differences in the performance of male and female enterprises.

WHY WOMEN-OWNED SMMEs ARE LESS PRODUCTIVE

Identifying these bottlenecks is hence crucial for addressing the problems faced by women-entrepreneurs in South Africa. We identify four potential determinants, which combined, are likely contributing to the lower productivity and size of women-owned enterprises.

1. Concentration of women entrepreneurs in a small number of low-performing sectors

One important factor for the lower performance of female entrepreneurs is the concentration of women in a few sectors, usually with low levels of productivity, often using a limited number of managerial and technical tools, and regularly targeting small markets.

When analyzing the concentration of businesses at a gender disaggregated level, we detect that while women own enterprises in 35 sub-sectors, male are present in 49. More importantly, the five most important sub-industries for women - the sectors where women mostly operate - account for 75% of women's activities distribution, compared to 60% for a similar account for male-owned enterprises. While female business owners are highly concentrated in the retail, personal services and hotel and restaurants sectors, male entrepreneurs tend to take part in other modes of business including agriculture, manufacturing and transportation services.

The problem with the limited "choices" of activities is that the productivity levels are significantly lower in the sectors where women are concentrated than in the remaining industries. In the activities where women operate their business, the initial investments are low, but the market potential is also limited. For instance, 85% of retail customers¹ in the Western Cape are concentrated within a radius of 50 km, over 10 percentage points more than for the remaining sectors.

The female concentration in limited sectors could be due to specific constraints that women face. These include credit constraints and the lack of knowledge about the benefits of experimenting with new activities, which can be linked to limited access to business skills. Theoretically, it could also be due to the need to balance work with family life, although, as discussed later in this brief, this seems to be a problem for only a small proportion of female entrepreneurs.

2. Enterprise as an interim solution

Secondly, firms in the Western Cape, especially women-owned, have very low levels of sophistication and initial capital investment, which could indicate - in addition to credit constraints - a lack of commitment to the business. Banerjee (2010) mentions that firm-level activity could be a way of "buying" a job or, in other words, a means of remaining occupied with a firm instead of unemployed. Women may face the barrier of having no valid alternative to starting a business.

PROFILE:

SMALL BUSINESSES IN THE WESTERN CAPE

Over 85% of the SMMEs in the Western Cape are micro-enterprises (with less than 5 employees) and approximately 45% of the firms are self-employed individuals (no workers). The median number of years of operation of SMMEs in the Western Cape is three and approximately 70% of the enterprises invested less than R10,000 (\$1,500) to start the business.

The main sector of activity for SMMEs is the retail sector, which represents 51% of the SMMEs in the Province. Other relevant sectors include hair salons and other personal services enterprises, followed by agriculture, and hotel and restaurants. Businesses in the retail sector are mostly operating as informal *spaza* shops, taverns and 'fruit & veg' stalls in townships and suburban areas.

Seventy one percent of the SMMEs in the Western Cape are not registered with CIPRO (Companies and Intellectual Property Registration Office). For female-owned businesses, the proportion of unregistered businesses is 80%, 16 percentage points above that of male-owned enterprises. Approximately 80% of the businesses report not paying taxes - an additional indicator of informality.

enterprises. To assess sophistication levels, we segmented the firms in our sample into five groups in accordance with the degree of sophistication of the business (A to E, where A is the highest level of sophistication). In this segmentation, businesses were grouped by the equipment, tools and resources used.ⁱⁱ Almost 80% of women-owned enterprises are concentrated in Segments D and E (compared to 67% for male), where very limited sophistication seems to be the norm. A further illustration of the potential lack of commitment of women to their current businesses is that for the lower segments of sophistication within each sector, women invest less than men.

Furthermore, female entrepreneurs are more likely than male (49% vs. 38%) to justify having started the business out of reasons of necessity such as "couldn't find a job" rather than having identified an opportunity such as "found a gap in the market." Women are also more willing to accept a formal job if offered one, notably within the group of self-employed (36% vs. 30% for male). Furthermore, firms' death rates in South Africa are high.ⁱⁱⁱ There are strong indications that women start their businesses in the Western Cape without very large commitments, which naturally reduces their investment and potential for growth.

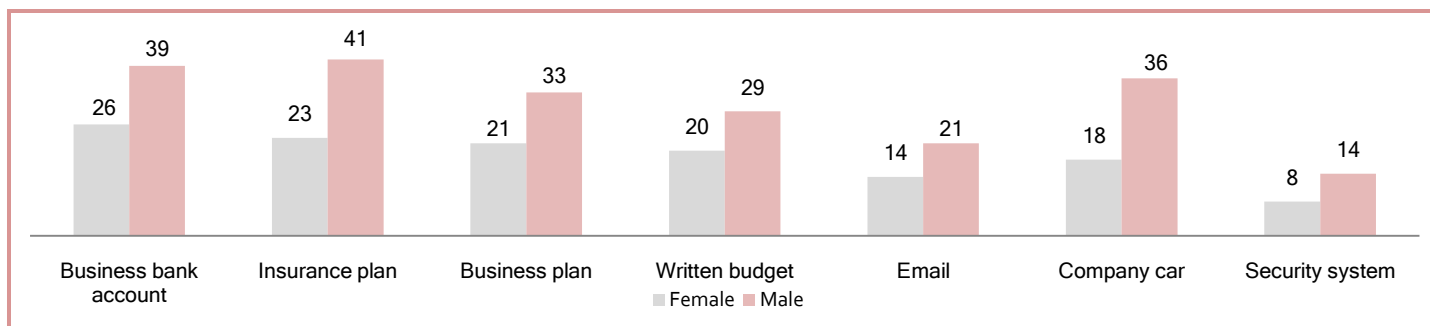
3. Intertwining of household and enterprise money

A third related factor is that it seems that female enterprises are more likely to intertwine household and business money, which can negatively impact their financial management and hence their business competitiveness.



We compare male and female investment in businesses and their degree of sophistication to understand whether men and women demonstrate different levels of commitment to the business. In terms of capital investment, more than 80% of the female entrepreneurs invested less than R10,000 (\$1,500) to start the business, compared to 59% for male-owned

Figure 2: Proportion of SMMEs with access to the following tools and equipment



While recent research suggests that general financial literacy knowledge is not a binding constraint for small entrepreneurs (Cole et al., 2009), experiments on access to financial services suggest that this can have large positive effects on firms' performance, particularly for women. For instance, Dupas and Robinson (2009) find that simple savings accounts can significantly improve the welfare of self-employed female entrepreneurs while Ashraf et al. (2008) find that they can increase women's household decision-making power. Although these studies were not necessarily addressing the effects of separating business from household money, it is generally believed that there is value in having money solely used for business purposes. These benefits include tracking revenue and costs accurately, managing working capital better, and reducing the risk of lack of self-control on the usage of money. This last factor was identified by Fafchamps et al. (2010) as a key reason for why there were limited returns to grants given to entrepreneurs in Ghana, where 83% of women and 69% of men operate businesses from home.

In the Western Cape, as per figure 2, only 26% of female-owned firms have a business bank account compared to 39% of male-owned enterprises and, concurrently, female entrepreneurs are more likely to use their personal accounts for business (70% vs. 59% of male-owned). Furthermore, 79% of the female-owned SMMEs are managed from home (vs. 64% for male). These numbers indicate that women are more likely to intertwine household and enterprise responsibilities, which can have important effects on the success of the business.

4. Credit constraints

Coupled with the limited number of activities where women operate and the low investments in the business, access to credit seems to help explain the differences between male and female-headed enterprises. Access to credit is disproportionately identified by women within both micro and medium enterprises as the main obstacle for the growth of their businesses.

The discussion on the importance of access to finance has been vast but far from conclusive. On the one hand, micro-lending does not seem to address any major barrier to growth (Banerjee et al., 2009, for example), on the other, access to finance continues to be commonly identified as a key constraint for small business development (Beck, 2007). Additionally, there are indications that expanding credit to new borrowers can have positive effects for individuals (Karlan and Zinman, 2008). In spite of access to finance being advocated in all private sector development forums - in a recent World Bank IEG workshop in South Africa, government delegations from a number of African countries identified access to finance as the main aspect to focus on for women's economic empowerment. Issues like cost of financing, informational problems and costs of screening have prevented more businesses from accessing credit.^{iv}

While the rates of formal loans for both male and female entrepreneurs are too low to draw any definitive conclusions in the Western Cape,^v being well-financed is identified by women as a relatively more important factor than by men. Additionally, women rate loans as the most useful service for a development agency to provide their business with while male entrepreneurs prefer business advice followed by legal support.

The combination of limited access to financial services, constrained opportunities for investment and barriers in accessing credit seem to help explain the lower productivity of women within all sectors of activities in the Western Cape.

PERHAPS NOT AS IMPORTANT

Other factors could be raised as well to explain the differences in productivity and size of the male and female-headed businesses in the Western Cape. In this section, we mention two common explanations and why we believe they are not as relevant in this setting.

PROFILE: ENTREPRENEURS IN THE WESTERN CAPE

Forty seven percent of the owners of SMMEs in the Western Cape are female. That compares with a 52% female population in the Province (Stats SA, 2009). Female entrepreneurs are younger and less experienced than male business owners.

In terms of population group, 39% of the SMME entrepreneurs are African, 35% are Coloured and almost 24% are White. The latter are older than entrepreneurs from other population groups.

The average age of small business entrepreneurs in the Western Cape is 41. This is older than the age range of the adult population in the Western Cape. Although 50% of the adult population in the Province is between 15 and 34 years old (Stats SA, 2009), only 29percent of the SMMEs' business owners are in that age group.

More than 96% of SMME owners in the Western Cape have completed primary school and half of them have completed at least high-school (with Matric or above). Forty eight percent of female business proprietors have completed high school, which compares to 54% for male entrepreneurs. Approximately 8% of SMME owners have a university degree. In addition to the formal education received, 22% of the entrepreneurs report having completed other training, and around 50% of this additional training was of at least one-year long..

Informality

Informality, defined as not being registered as a business or not paying corporate taxes, is greatly associated with lower business performance in the Western Cape. Eighty percent of female-owned firms are not registered versus 64% of those

that are male-owned. Nonetheless, there is no indication that informality is a determinant for the lower performance of women-owned firms. It seems more the other way around: small firms with low productivity cannot afford becoming formal. Usually firms do not register and do not pay taxes because they believe their business is too small. There is no difference between male and female owned-enterprises in terms of the proportion of firms that claim they do not register due to the process being too complicated or the costs associated with registered being too high. Still, there may be a lack of knowledge about any potential positive benefits of formality.^{vi}

Work-life balance

Another common explanation for why women-owned firms are operated with low sophistication levels and a low productive nature is the need to balance the management of business with personal life. While the fact that they operate at home may indicate that this factor seems to matter, the analysis of the baseline data in the Western Cape indicates that women and men dedicate the same amount of time to the business (approximately 45 hours on average per week). As discussed above, women are also more willing to accept a formal job - by definition outside the home - if offered one. The work-life balance could be a constraint though for a sub-group of women-owned entrepreneurs with children and elderly care responsibilities and without much family support (over 40% of women entrepreneurs have young children and operate from home, and out of these, approximately 20% are not married).^{vii}

POLICY IMPLICATIONS

In sum, the combined effect of limited commitment to the business, credit constraints, lack of variety in type and size of business, and difficulties in managing resources can deter the success of women entrepreneurs in the Western Cape Province. However, this is not sufficient to rigorously determine which barrier is most binding. These constraints should be tested through pilot experiments, ideally by comparing different alternative programs to overcome them. Cost-benefit analyses of distinct interventions will allow for the identification of the most important obstacles faced by women-owned entrepreneurs in improving their productivity, as well as ascertain which policy initiatives are worth scaling-up.

One option to address the first constraint concerning the concentration of women in a limited number of business activities with low productivity levels is to establish a risk-sharing mechanism like a fund dedicated to investing in new sectors of activities or in methods of re-targeting current business activities. The objective is to reduce the risk for entrepreneurs and limit the need for outside capital. This idea could mean, for example, supporting a caterer to reposition her business and start servicing hotels through capital investment. This fund could also be focused on supporting entrepreneurs so that they try to penetrate unexplored industries in their market.

In terms of the enterprise being an interim solution, it is important to explore alternatives to household-entrepreneurship as the apparent 'single' solution to the unemployment problem. As an increased number of people initiate self-employed activities due to lack of alternatives (Fox, 2011) with the increased risk of over-supplying the market, one solution, as per Gelb et al. (2009), is to expand formal job opportunities in the more-established segments of the economy through initiatives like temporary wage subsidies. This is about to be launched in South Africa in 2012 (MoF Budget Speech, 2011) under a new large youth wage subsidy. An alternative to this would be training programs to teach new technical skills.

Aimed at reducing the strong interconnection between household and enterprise usage of money, one option is a training program on the benefits of separating resources (addressing the potential information problem). A second, perhaps complementary, intervention is a financial incentive to open a business-specific bank account (addressing the eventual cost problem), which could drive a change in behavior, and spur improved management of enterprise resources.

To provide increased opportunities to entrepreneurs in accessing finance - not only microfinance but larger scale loans - one possibility is to implement new methods of screening. An example is an entrepreneur-level automated test that replaces credit history, need for detailed business plan, and need for collateral. Incentives like credit guarantees for banks to reach new entrepreneurs could also be useful.

Testing these different options through pilot interventions will help shed light on the most important barriers faced by women-owned firms and contribute to finding sustainable solutions that will promote the development of small businesses in South Africa and other countries in the region.

ⁱ Fifty six percent of women operate in the retail sector.

ⁱⁱ The segmentation was produced using a range of information including whether the SMMEs have access to electricity, telephone, Internet, bank accounts, budgets, among a number of other variables. The segmentation process was conducted from top to bottom, grouping the businesses in accordance with the tools and equipment available.

ⁱⁱⁱ Some references suggest numbers as high as 90% of SMMEs die in the first two years of operation.

^{iv} The share of new enterprises with loans in Africa is less than 10%, according to Hallward-Driemeier (2010).

^v This led us to change the access to finance modules in other studies we are conducting in South Africa and other countries in order to improve the measurement of informal mechanisms of accessing credit. A similar conclusion was taken by Collins et al. in the "Portfolios of the Poor" book (2009).

^{vi} We are conducting an impact evaluation in Malawi on the value (benefits-costs) disaggregated by gender for enterprises of becoming formal.

^{vii} Women with young children not married and operating from home (just 38 observations) work less 25% less than women in similar situation working outside the home (with only 13 observations).

Private Sector Development & Gender in Africa

This brief is part of on-going analytical work on gender and private sector development by the Africa Region Gender Practice seeking to identify gaps that persist across gender in this sector and provide rigorous evidence on effective interventions to reduce those gaps. Working in partnership with governments and the Africa Region FPD Unit, the interventions under study - matching grant, technical and entrepreneurial skills training, transition to formality, financial literacy, microfinance, and networking platform - aim to address specific barriers to development faced by businesses and their entrepreneurs, particularly by women, including credit constraints, limited access to markets, poor access to business services and to skills upgrading opportunities, and restrictions in accessing technology. The impact evaluations under this work program include on-going studies in DRC, Ethiopia, Ghana, Malawi, Mozambique, Nigeria, Tanzania, Togo, South Africa,

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