

# GIL TOP POLICY LESSONS ON EMPOWERING WOMEN ENTREPRENEURS

**Women make up more than half of the total number of entrepreneurs in Africa. Yet, on average, for every dollar of profits men entrepreneurs earn, women entrepreneurs earn 66 cents.** Supporting women to grow their firms would translate into higher economic growth for Sub-Saharan Africa.

## WHY IS IT IMPORTANT TO UNLOCK THE POTENTIAL OF WOMEN ENTREPRENEURS?

- In Sub-Saharan Africa, women are more likely to be entrepreneurs than men. In fact, 58% of the self-employed are women, and 45% of employers are women<sup>1</sup>. In light of such figures, expanding opportunities for women entrepreneurs could have a substantial impact on Africa's growth.
- But there are still major gaps. While both male and female entrepreneurs in Sub-Saharan Africa face such constraints as a lack of capital, women are particularly affected by a number of obstacles. Many women in the region become entrepreneurs out of economic necessity and do not intend or have the skills to build large and successful companies. Once they start their business, women also make or are obliged to make different decisions than men because they are constrained by gender-specific factors that hinder the growth of their businesses. Central constraints include the fact that women tend to be confined to smaller, less profitable sectors, face lower access to medium-sized loans that are key for business growth, and often have lower skill levels.

## GENDER INNOVATION LAB

The Gender Innovation Lab (GIL) conducts impact evaluations of development interventions in Sub-Saharan Africa, seeking to generate evidence on how to close gender gaps in earnings, productivity, assets, and agency. The GIL team is currently working on over 70 impact evaluations in more than 25 countries with the aim of building an evidence base with lessons for the region.

The impact objective of GIL is increasing take-up of effective policies by governments, development organizations, and the private sector to address the underlying causes of gender inequality in Africa, particularly in terms of women's economic and social empowerment. The Lab aims to do this by producing and delivering a new body of evidence and developing a compelling narrative, geared towards policymakers, on what works and what does not work in promoting gender equality.

<sup>1</sup> In nonagricultural sectors. Source: World Bank Group. 2019. "Profiting from Parity: Unlocking the Potential of Women's Business in Africa." World Bank, Washington, DC. World Bank.

- As a result, the performance of businesses owned by women – including SMEs – consistently lags behind male-owned businesses. They have fewer employees, and lower average sales and profits. For example, women entrepreneurs in the formal sector have 38% lower sales than men. These gaps in firm performance emerge even within households. In DRC for instance forthcoming GIL research shows that when the husband and wife both own a business in the same sector, the wife still earns far less.

## WHAT WORKS TO EMPOWER WOMEN ENTREPRENEURS?

### FACILITATING WOMEN'S ACCESS TO CAPITAL

Women entrepreneurs own fewer assets – like land or a house – that can be used as collateral for business loans. On average, male-owned enterprises have six times more capital than female-owned enterprises. This affects women's ability to obtain medium-sized loans and, in turn, impacts the growth of their enterprises. This problem can be counteracted in two ways: by giving women more control over assets through, for example, the granting of joint property rights (as is the case in Rwanda) or by reducing the need for collateral, for example through psychometric testing in Ethiopia.

Women's ability to finance their business activities is also undermined by the additional pressures they face (relative to men) to spend their income on domestic needs. Evidence shows that supporting women with secure savings mechanisms and providing large cash grants as part of business plan competitions help to promote savings and relax capital constraints among female-owned, growth-oriented firms.



### Policy in Action: Introducing Innovative Psychometric Tests to Ease Women's Access to Larger Business Loans<sup>2</sup>

In Ethiopia, the Gender Innovation Lab and the Finance, Competitiveness and Innovation Global Practice partnered with a leading fintech company to design an innovative psychometric test that can ease women's access to larger business loans, as an alternative to traditional collateral. This test predicts the likelihood that an entrepreneur will repay a loan. In this pilot, customers who scored at a high threshold on the test were seven times more likely to repay their loans compared to lower-performing customers. Following this proof of concept, the psychometric test began serving as an alternative to asset collateral for women entrepreneurs, with financial institutions providing unsecured loans up to \$7,500 for women entrepreneurs who scored highly on the test. The technology is now being scaled up in Zimbabwe, Madagascar, and even Indonesia.

<sup>2</sup> Alibhai, Aly Salman; Buehren, Niklas; Coleman, Rachel Dawn; Goldstein, Markus P.; Strobbe, Francesco (2018) "Disruptive Finance : Using Psychometrics to Overcome Collateral Constraints in Ethiopia", World Bank.



### Policy in Action: Increasing Financial Deepening through a Low-Cost, Simple Tweak in Project Design

In a project aimed at encouraging women-owned firms to formalize in Malawi, GIL found that simply encouraging women to register their firms did not have an impact on their profits. Interestingly, when we complement registration with a simple information session at a bank including the offer of a bank account, their use of formal financial services increases, which in turn helps increase their profits by 20% on average. And this can be done at a cost of only \$27 per firm.<sup>3</sup>

### SUPPORTING WOMEN ENTREPRENEURS TO BUILD THE RIGHT SKILL SETS

- While most African countries have achieved gender parity in access to primary education, a persistent gap remains in educational and skill attainment between male and female entrepreneurs, particularly at the secondary level and beyond.
- In Africa, self-employed women have overall completed fewer years of education than self-employed men. Male entrepreneurs often have higher technical skills, sometimes have higher financial literacy, and are sometimes more likely to participate in training or offer training.
- Differences between women and men in formal

education, management skills, and socio-emotional skills likely influence women's business decisions and contribute to the performance gap. For instance, women are less likely than men to use certain business practices associated with firm profitability.

### Policy in Action: Increasing Entrepreneurs' Profits Through Soft-Skills Training

GIL helped scale up a successful personal initiative training program in nine countries—including DRC, Ethiopia, Mauritania, Mexico and Jamaica—after showing that it resulted in a 40% increase in profits for female entrepreneurs in Togo, compared to those who followed a traditional business training. The idea is to teach small entrepreneurs to show initiative, be proactive, and demonstrate perseverance. GIL partnered with the World Bank Togo Private Sector Development Support Project to pilot and rigorously evaluate the personal initiative training. One participant was a female entrepreneur in Togo who, prior to the training, rented wedding dresses. After receiving the personal initiative training, she decided to expand her clientele by selling dresses and offering such accessories as veils and gloves. She now owns boutiques in several African countries.

GIL has also worked with partners to adapt this curriculum for women farmers and is now testing its effectiveness in Mozambique.

<sup>3</sup> Campos, Francisco; Goldstein, Markus; McKenzie, David. 2018. "How Should the Government Bring Small Firms into the Formal System? Experimental Evidence from Malawi." Policy Research working paper 8601.



## ENCOURAGING WOMEN TO ENTER MORE PROFITABLE, MALE DOMINATED SECTORS

- Female entrepreneurs build more profitable companies when they operate in male-dominated sectors. In Uganda, for instance, only 6% of women operate in male-dominated sectors<sup>4</sup>, but these “crossover” firms are just as profitable as those owned by men in those sectors and are larger than female-owned enterprises in traditional sectors. A World Bank study shows that female-owned enterprises in Africa that operate in female-dominated sectors are 56% smaller than those in male-dominated sectors<sup>5</sup>. The fact that women work in fewer sectors is a manifestation of a fundamental distortion in the economy, which constrains growth. Correcting this inefficiency in the marketplace would enable a more efficient allocation of productive resources across the economy.
- Research suggests that providing information on earnings in traditionally male-dominated sectors and linking them to male role models through apprenticeships can encourage female entrepreneurs to enter these sectors.

### Shedding Light on Underlying Constraints: the Surprising Reasons Why Women Confine Themselves to Traditionally Female Dominated Sectors

Two GIL studies in Uganda and Ethiopia revealed that female entrepreneurs tend to confine themselves to traditionally female sectors not because of a lack of skills or access to capital, but rather a lack of information (women are often unaware of the fact that they earn less than men) and social factors. In Uganda, women who, during their youth, had male mentors who encouraged them to consider sectors reserved for men were more inclined to make a foray into these sectors. Those who did succeed in crossing over benefitted from similar earnings as men in those sectors<sup>6</sup>. These GIL findings subsequently led to pilot World Bank interventions and evaluations in the Republic of Congo and Guinea.

FOR MORE INFORMATION,  
PLEASE CONTACT

Markus Goldstein  
mgoldstein@worldbank.org

Fannie Delavelle  
fdelavelle@worldbank.org

1818 H St NW  
Washington, DC 20433 USA  
www.worldbank.org/africa/gil

4 Campos, Francisco Moraes Leitao; Goldstein, Markus P.; McGorman, Laura; Munoz Boudet, Ana Maria; Pimhidzai, Obert. 2014. “Breaking the metal ceiling : female entrepreneurs who succeed in male-dominated sectors in Uganda” Africa region gender practice policy brief; no. 9. Washington, DC ; World Bank Group.

5 Bardasi, Elena & Sabarwal, Shwetlena & Terrell, Katherine. 2011. “How do female entrepreneurs perform? Evidence from three developing regions.” Small Business Economics.

6 Alibhai, Salman; Niklas Buehren; Sreelakshmi Papineni; Rachael Pierotti. 2017. “Crossovers: female entrepreneurs who enter male sectors – evidence from Ethiopia.” World Bank Policy Research Working Paper Series.

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