How to grow women-owned businesses

Female entrepreneurs play an important role in creating economic opportunities and growth, despite facing many constraints. Unleashing their full potential will demand both targeted interventions and changes to broader conditions and norms that hold women back.

WHAT’S AT STAKE?

Women-owned businesses represent enormous upside potential for economies around the world. The ILO estimates that 50 per cent of women’s productive potential is underused, compared with 22 per cent of men’s.

According to the International Finance Corporation (IFC), one in three formally registered businesses are owned by women. Eighty per cent of jobs world-wide are in small and medium-sized enterprises (SMEs), which are disproportionately owned and run by women. Yet 70 per cent of women-owned SMEs in developing countries are underserved or not served at all by financial institutions. They have on average lower sales and assets, and are often clustered in saturated and low-profit sectors and markets.

Unlocking women’s economic potential will require addressing the many intersecting constraints they face.

CONSTRAINTS

- Women in business face many overlapping barriers that demand layered responses.
- The constraints on women in business are compounded by discriminatory laws and the burden of care.
- Training and services can help close the gender gap, but standalone efforts show limited impact.

WOMEN-OWNED BUSINESSES CAN BE EMPOWERED THROUGH:

- In-depth and longer training programs and mentorships
- Backing legal reforms to strengthen enforcement and shift biased norms
- Strengthening women’s role in value and distribution chains
Research Approach

The lessons presented here are based on literature review and consultation with 25 experts from the public, private, and academic sectors. The consultation was organized by the International Development Research Centre (IDRC), WEConnect International, and Urban Institute in Washington, DC, on May 17, 2016. The analysis covers evidence on women-owned enterprises and how their productivity can be enhanced, with particular focus on SMEs.

While much of the available information, including IFC databases, focuses on formally registered enterprises, this review also addresses unregistered businesses, by tapping data from the Global Entrepreneurship Monitor (GEM) and training program evaluations, which are not exclusive to the formal sector.

Key Findings

Rates of female business ownership are on the rise globally, but vary widely by region. According to GEM data for 61 economies, entrepreneurial activity among women increased by seven percent between 2012 and 2014. Africa boasts the highest rates of female entrepreneurship, with women representing half of non-farm business ownership.

While there are important regional differences and data gaps in key areas, several broad findings emerge on the trends, motivations, barriers, and opportunities for women-owned businesses:

- Levels of female entrepreneurship vary widely across regions, and appear to correlate with rates of labour force participation. Women-owned businesses tend to be more often motivated by necessity, rather than opportunity, even in advanced, innovation-based economies.

The constraints on women in business are compounded by discriminatory laws and the burden of care.

Women entrepreneurs in developing countries face many concurrent barriers, at various levels. For example, they have less recognition of their formal rights and unequal access to training and market connections. They tend to be overrepresented in smaller, unregistered, and less productive enterprises and more driven by economic necessity than men. They are often drawn to self-employment in the hope of juggling care responsibilities with their economic needs. And their businesses are more likely to be in sectors that are crowded and have the least growth potential.

Female entrepreneurs have less access to land, capital, and other productive resources. According to McKinsey Global Institute, for example, women globally have only 77 per cent of men’s access to bank accounts, credit, and mobile banking. They also tend to network through family connections rather than business associations.

While gender gaps in education are closing in many countries, skills and business training remain targeted mainly towards men. These constraints are further compounded by barriers women face more broadly, particularly the unequal distribution of domestic responsibilities.

Training and services can help close the gender gap, but standalone efforts show limited impact.

Despite targeted efforts, the impact of business training and financial services on the growth of women’s businesses tends to be limited. Improving access to credit has seen some success in developing countries. In Latin America, for example, efforts by Proyecto Capital to promote financial services alongside cash transfers were shown to help small businesses expand. However, numerous case studies suggest the impacts of credit access for women-led enterprises are varied, and often small.
Many interventions combine financial services with business training and services. Program monitoring data shows that while many training programs do work, they often have low rates of uptake and high drop-out rates, perhaps because of the time investment needed. Longer-term and ongoing assistance may be more effective, but is expensive. Training for larger enterprises may also have a better chance of success than those targeting smaller businesses.

Legal barriers remain widespread, and are reinforced by gender-biased norms.

Women face inequitable laws and regulations in almost all countries. As of 2015, the World Bank found that of 173 economies, 155 had at least one barrier to women preventing gender equality. These included gender-based restrictions on jobs in 100 countries, and laws that allow husbands to prevent their wives from working in 18 countries. Less common restrictions applied to business and banking. Women are also penalized through their prevalence in unregistered businesses, which can be seen as operating outside the law.

While there have been notable legal reforms in several countries aimed at removing gender barriers, their effect is limited by a lack of enforcement – in part due to the persistence of gender-biased cultural norms and expectations.

There is some evidence that supplier diversity programs, targeting SMEs and minority-led businesses, are “win-win” — generating better returns for companies and opportunities for target groups. According to WEConnect International and Walmart, the demand for products by women-owned companies outstrips supply, especially in emerging economies. Documenting and comparing experiences across countries and sectors will help to validate this approach to creating opportunities.

A range of new business and investing models — such as impact investment and social investment bonds — aim to generate not just financial returns but social and/or environmental gains. While these investment approaches hold promise, there is yet little evidence of how they support women’s economic empowerment.

Lucrative trade and public procurement frameworks remain difficult for women to access.

Available evidence on what is effective in promoting trade opportunities for women shows the importance of capacity building and institutional accountability. For example, there is a need to address potential gender discrimination in organizations responsible for trade logistics and risk management systems. And new market opportunities linked to trade demand registration and adherence to strict standards, which many small businesses find challenging to comply with. Research on trade reforms highlights the need to anticipate and monitor their potential impacts on women in business. Public procurement, which makes up a significant proportion of a country’s GDP, is an area where governments can intervene to increase opportunities for women.

Women don’t fully benefit from global markets.

Global value chains, which have enabled many smaller firms to ride the success of larger companies as suppliers and service providers, have been widely studied to see how women can benefit from improved market access. Yet findings point to several limitations, including the fact that the uptake and benefits of value chain participation are gendered. Women contribute greatly to value chains, but disproportionately as small producers, often with low returns.
WHAT WORKS TO EMPOWER WOMEN-OWNED BUSINESSES?

Realizing the full potential of women-owned enterprises demands change at various levels, ranging from direct interventions such as training, to changes in attitude and greater gender-sensitivity within macroeconomic frameworks. Based on the available evidence, promising areas for intervention include:

- **In-depth and longer training programs and mentorships**
  Training programs have demonstrated positive impacts on business behavior even while their longer-term outcomes and impacts on growth are not fully known. In-depth and longer training appear to have larger impacts than short-course, stand-alone training programs. And new types of mentoring programs may also be of value, given women’s overreliance on personal networks.

- **Backing legal reforms with efforts to strengthen enforcement and shift biased norms**
  Discriminatory legal measures need to be reversed. Policies to support the growth of women-owned businesses also need to address gendered roles and cultural norms that undermine enforcement and hold women back across society.

- **Strengthening women’s role in value and distribution chains**
  While results are mixed, value chain approaches to enhancing women’s role in markets have shown some positive results. This is particularly true for small rural producers who are given support to commercialize production. A growing number of global companies are also diversifying their supplier and distribution base by engaging women-owned businesses. A range of measures are needed to enable women to succeed within value chains, such as creating supportive legal frameworks and enhancing their organizational capacity.

- **Applying a gender lens to trade and procurement**
  To offset the trade barriers faced by women, the differential impacts of trade regimes on men and women in business likewise need to be better understood. Gender-disaggregated data is a priority. Women-owned businesses will need finance, training, and information to register for, comply with, and benefit from new market opportunities linked to trade. Measures that can help women access lucrative public procurement contracts include favouring women-owned businesses within supplier evaluation criteria, and making public tender processes more transparent and accessible.

- **Investing in closing data gaps**
  While the evidence base on women’s economic empowerment is growing, there are considerable gaps in data and analysis:

  - There is limited understanding of which types of businesses grow, and why, in developed and developing countries.
  - Little is known about why some businesses formalize, while others remain informal. This question is especially pertinent with regard to women entrepreneurs, and their ability to access promising value chains.
  - Practical lessons on how policy constraints facing women entrepreneurs in different regions have been addressed, and reforms successfully implemented, can galvanize broader advocacy for change.
  - More and better data, including labour force and enterprise surveys, are essential to inform public policies and strengthen private sector approaches.

This brief highlights key findings from “Enhancing the productivity of women-owned enterprises: The evidence on what works, and a research agenda,” a discussion paper prepared in 2016 by Arjan de Haan, Alejandra Vargas, and Rachel Kalbfleisch for the United Nations High Level Panel on Women’s Economic Empowerment.

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