

## Overview

This report is about how women entrepreneurs can contribute more to the quality and direction of economic and social development in the Middle East and North Africa region. Economic growth in the Middle East has been remarkable over the last four years, due mainly to higher oil prices. Rapid job growth has followed, driven mainly by the private sector. Yet the region still faces two important challenges: the first is to create better jobs for an increasingly educated young workforce; the second is to diversify its economies away from the traditional sectors of agriculture, natural resources, construction, and public works and into sectors that can provide more and better jobs for young people—sectors that are more export oriented, labor intensive, and knowledge driven. That can be achieved only by more innovative and diverse investors. In this, the private sector must play an even bigger role than in the past.

The region also faces another important challenge—empowering women—particularly in the economic and political spheres, where their participation remains the lowest of any region. Some decades ago women were less educated and constituted a mere fraction of the region’s human capital. Barriers that held them back levied a relatively smaller economic cost than today, when women, after decades of investment in their education, account for nearly half the region’s human capital, especially among the younger generations. The costs of gendered barriers are now larger.<sup>1</sup>

Promoting women’s entrepreneurship can partly address these three challenges—and produce a cadre of women leaders. Indeed, policymakers, governments, and donors have paid much attention to promoting women entrepreneurs, particularly given that women have strong economic rights in Islam and that there is a tradition of women in business. Islam has a powerful role model in the first wife of the Prophet Mohammed, Khadija, a wealthy trader and powerful businesswoman of her time who was pivotal in the rise of Islam.

### **What the report does—and what it doesn’t do**

The recent interest in women’s entrepreneurship in the Middle East and North Africa region has spurred a number of studies that aim to identify the challenges facing women entrepreneurs. In all these studies, women entrepreneurs felt empowered. Because the data in most of these studies did not cover male entrepreneurs, however, it is not possible to say for certain whether they faced gender-based barriers or barriers common to everyone.

This report is different. Its objective is to provide a better understanding of barriers to investment and doing business that may be common to all investors and those that affect women entrepreneurs disproportionately. The report examines newly available data from over 5,100 surveyed firms in the formal sector in eight Middle Eastern countries (Egypt,

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<sup>1</sup> “Gendered” in this report means phenomena that are gender differentiated between men and women.

Jordan, Lebanon, Morocco, Saudi Arabia, Syria, Gaza and the West Bank, and Yemen). These surveys detail firm characteristics and the responses of male- and female-owned firms to questions about perceived barriers along 18 categories of the investment climate. The purpose of the report is threefold.

- To provide an overview of the characteristics of female-owned firms in the region.
- To analyze gender-specific barriers that exist across the region or within countries.
- To identify other factors outside the business environment that might affect women's entrepreneurship.

The report finishes with policy recommendations on how to reduce the identified barriers and create a level playing field for women entrepreneurs.

The report acknowledges limitations from the availability and depth of data. It does not attempt to answer every question about women's entrepreneurship in the Middle East and North Africa. Indeed, it may raise more questions than it answers. The hope is to spur greater interest in the topic among researchers and policymakers.

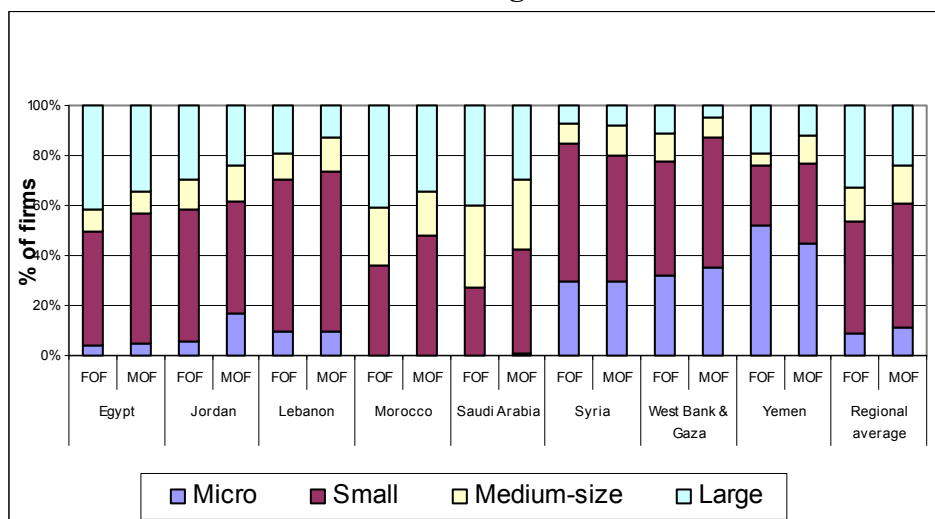
### **Female-owned firms are few—but they defy commonly held perceptions**

Of the 5,169 firms surveyed by the World Bank, a woman is the principal owner of about 13%—a little over one in eight. Women entrepreneurs are a minority everywhere. But their share in the Middle East and North Africa is far lower than in the other middle-income regions of East Asia, Latin America and the Caribbean, and Europe and Central Asia.

The widely held perception is that the few female entrepreneurs in the Middle East and North Africa region are mainly in the informal or formal micro sector (employing fewer than 10 workers), producing less sophisticated goods and services. This perception is wrong. Of the formal-sector female-owned firms surveyed, only 8% are micro firms (figure 1). More than 30% are very large firms employing more than 250 workers.

Female-owned firms are as well established as male-owned firms. About 40% of female-owned firms are individually owned—an impressive figure, even if less than the 60% of male-owned firms. And in Syria and Morocco, the two countries with relevant data, more than 65% of female-owned firms are managed by the owner, debunking the myth that women are owners in name only. In sectoral distribution female-owned firms are much like male-owned firms, with nearly 85% in manufacturing and 15% in services, compared with 88% of male-owned firms in manufacturing and 10% in services.

**Figure 1 Female-owned firms are often as large as male-owned firms**



FOF is female-owned firms; MOF is male-owned firms.

*Source:* Staff estimates based on Enterprise Survey data.

*Note:* Regional average is across firms.

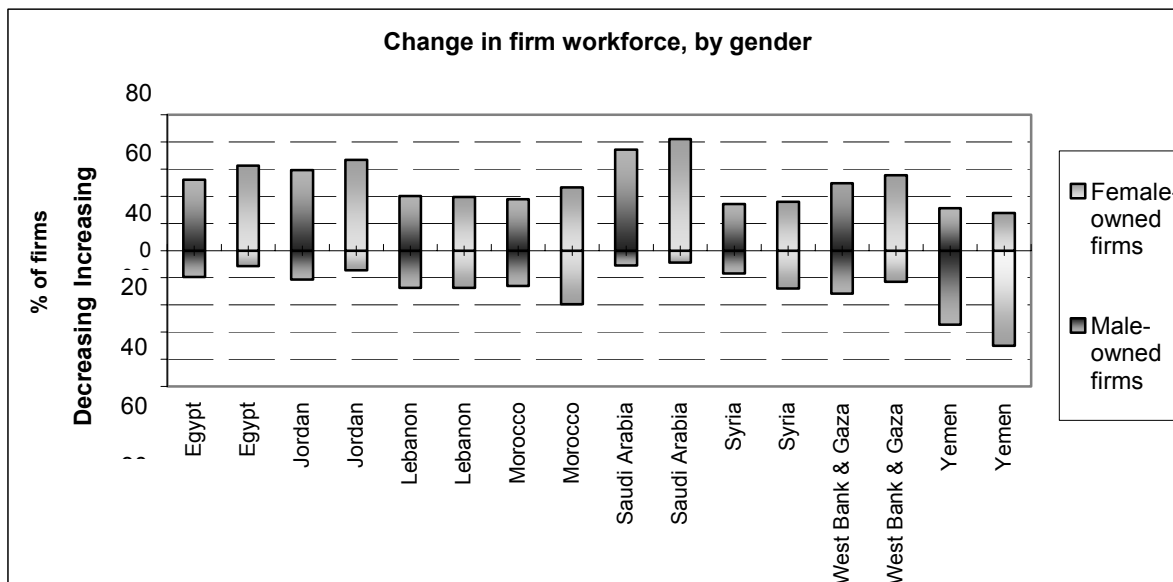
Female-owned firms are also active exporters, and a high share attract foreign investors and are heavy users of information technology—all key ingredients for global competitiveness. Regionally, female-owned firms are as frequently exporters as male-owned firms, and they are substantially more often so in Egypt, Jordan, and Morocco. In Morocco foreign investors have a more significant presence in female-owned firms. Female-owned firms are also more likely to regularly use email and websites in their interactions with clients.

Female-owned firms offer good jobs. Workers in female-owned firms are about as educated and as skilled as those in other firms. In Egypt, for instance, 19% of workers in female-owned firms have professional competencies, compared with just 16% in male-owned firms.

Female-owned firms hire more women. Women make up about 25% of the workforce in female-owned firms, compared with 22% in male-owned firms. This difference may not seem large, but female-owned firms also employ a higher share of female workers at professional and managerial levels. Male-owned firms employ more women in unskilled positions.

And female-owned firms are hiring more workers in general. In Egypt, Jordan, Saudi Arabia, and the West Bank and Gaza, the share of female-owned firms that have increased their workforces recently exceeds the share of male-owned firms (figure 2).

**Figure 2 Female-owned firms are hiring more workers in Egypt, Jordan, Saudi Arabia, and the West Bank and Gaza**



Source: Staff estimates based on Enterprise Survey data.

Note: Data refer to the enterprises workforce changes between 2001 and 2000. Data for West Bank and Gaza refer to 2001 and 1999.

The productivity of female-owned firms compares well with that of male-owned firms. There are only small differences between male- and female-owned firms in labor productivity (measured by value added per permanent worker) and in sales.

### **But women’s entrepreneurship isn’t reaching its potential**

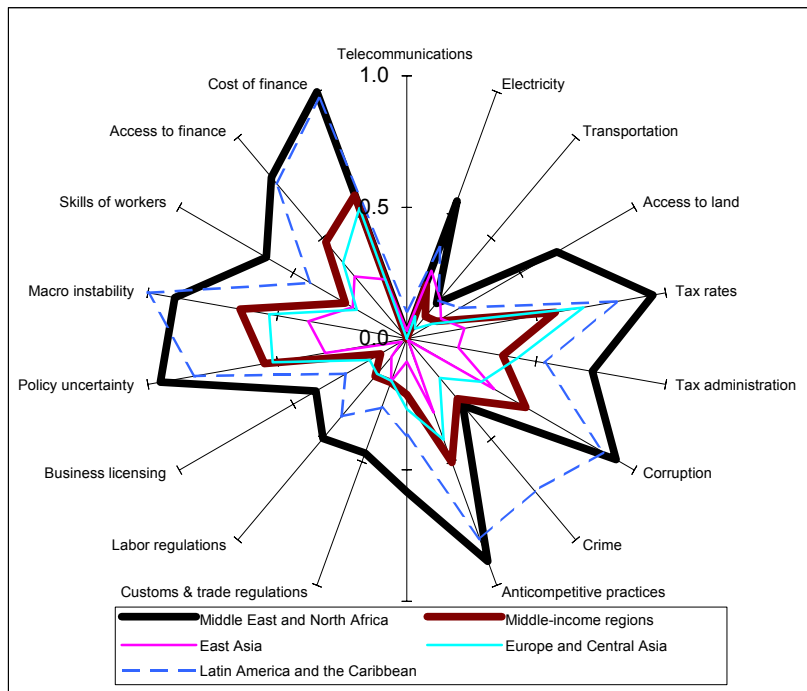
Given the promise and success of female-owned firms, why aren’t there more? Do female-owned firms face different and additional hurdles compared with male-owned firms?

Gendered differences across some countries and for some aspects of the business environment within countries suggest a degree of differential treatment of firms based on the gender of the principle owner. But the finding of this report is that the business environment in the Middle East and North Africa region is not itself systematically gendered for the category of firms in the sample.

More striking is that all firms in the Middle East and North Africa perceive the business environment as more cumbersome than do firms in other middle-income regions, regardless of the owner’s gender (in general and acknowledging issues of aggregation; figure 3).

### Figure 3 A binding investment climate for all firms in the Middle East and North Africa

(Barriers reported by firms as major or very severe constraints)



Source: Staff estimates based on Enterprise Survey data.

Note: Indices are based on Enterprise Survey data. Values are normalized by maximums and minimums for each indicator. The index ranges from 0 (best perception) to 1 (worst perception).

Country-level analysis confirms the perceptions of high barriers among both male- and female-owned firms in the Middle East and North Africa. No clear gendered pattern emerges in any of the categories—for no constraint do female-owned firms systematically report a worse perception across all countries in the region. Nor are there any countries where female-owned firms report all the constraints as more binding than do male-owned firms. Differences in firm perceptions do appear, however, in some countries and for some categories within countries.

A more clearly gendered pattern emerges in Yemen and Lebanon, which have the most statistically significant gendered constraints. This is surprising: Yemen and Lebanon are on opposite ends of the spectrum in their social configurations, confessional diversity, degrees of economic and social openness, and (above all) per capita incomes.

In other countries differences between male- and female-owned firms exist but are less systematic. Moroccan female-owned firms disproportionately perceive the availability of skilled and educated workers as a major constraint; in Jordan female-owned firms are more likely to perceive labor regulation and policy uncertainty as binding constraints. In the West Bank and Gaza female-owned firms are more likely to perceive as binding telecommunications and access to land and to workers (in terms of both labor regulation and the availability of skilled and educated workers).

In Egypt female-owned firms are more likely than male-owned firms to perceive access to land and electricity as constraints—factors that are statistically significant. Female-owned firms in Egypt report a yearly average of 40 percent more power interruptions and losses of sales due to power outages or surges from the public grid. They also report higher legal constraints than do male-owned firms—an average of eight months longer to resolve disputes over overdue payments.

By contrast, the responses of male- and female-owned firms in Syria are similar, indicating that none of the constraints are significantly gender-biased. Perhaps surprisingly, the business environment does not appear to be gendered in Saudi Arabia either. This could indicate that the business environment in Saudi Arabia is indeed gender neutral—or that there are no differences between male- and female-owned firms because both are managed by men with mainly male employees, given that the share of female employees in Saudi firms is low. Female-owned firms do, however, still report transportation as a statistically significant barrier. Male-owned firms do not.

Not all the differences go against female-owned firms. The responses of female-owned firms are more positive for labor regulations in Egypt and Saudi Arabia. This could suggest that female-owned firms are more willing than male-owned firms to work within the tight labor regulations of the region. It may also explain why female-owned firms hire more women—normally perceived as more costly and constraining due to gender-specific protective benefits and regulations. Transportation is also less often reported as a binding problem in Lebanon and Yemen, an interesting finding given that in Yemen female-owned firms are more often located outside the capital.

Even more surprising is that access to finance, long touted as a gendered barrier, is not significant in any of the countries except Yemen. This finding does not mean that finance is not a considerable barrier to businesses. It just means that male- and female-owned firms face the same high barriers.

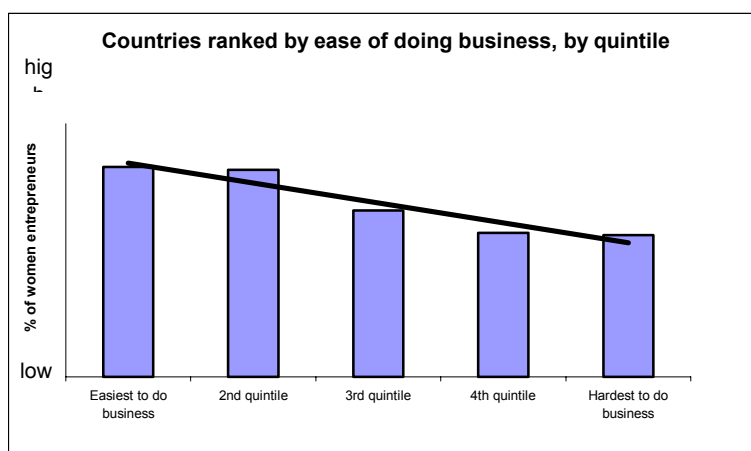
### **Is it more difficult to start female-owned firms?**

The business environment in the Middle East and North Africa region may not be as gendered as presumed for this sample of formal firms, with the exception of selected barriers in some countries. These barriers could still impact the performance of female-owned firms. But women also face gender-based barriers outside the business environment that discourage them from starting a business. The report identifies three factors that may explain why there are fewer women entrepreneurs in this region than in others.

First, attitudes toward women and work may be less favorable to working women and, by extension, to female entrepreneurship. In some parts of the region there is still stigma attached to women's employment (as a poor reflection on her male kin's ability to provide) or belief that men are more deserving of scarce jobs, especially given the region's past high unemployment. The analysis in this report shows that attitudes toward working women—and women's work more generally—are less favorable in the Middle East and North Africa than in other regions. Across regions attitudes toward women's employment and women's work outside the home are correlated with entrepreneurship outcomes.

Second, gender-neutral barriers could have gender-differentiated effects. Cumbersome and costly procedures for opening a business and uncertain chances of recovering assets from a failed venture may be more difficult for women to overcome. Numerous and complicated procedures provide more opportunities for rent-seeking and corruption, which both male- and female-owned firms rate as more problematic than in other regions. Corruption is negatively correlated with women’s entrepreneurship, and empirical evidence demonstrates that women are averse to risk and loss and that cumbersome procedures increase their perceptions of risk. According to the World Bank’s *Doing Business 2008*, countries with more cumbersome business environments have smaller shares of women entrepreneurs and vice-versa (figure 4), and simplifying business processes is likely to create more first-time female business owners at a rate 33% faster than that for their male counterparts.

**Figure 4 A lower share of women entrepreneurs where doing business is more difficult**



Source: Doing Business database and Enterprise Surveys.

Note: Relationships are significant at the 1% level and remain significant controlling for income per capita.

Third, a survey of business lawyers conducted for this report indicates that the region’s business and investment laws are largely gender neutral or gender blind. Laws in other areas, however, are gendered and can influence the implementation and interpretation of business laws, further reinforced by gender-based perceptions and attitudes. This happens despite unequivocal constitutional statements that women are equal citizens and despite their strong economic rights under the shari`a.

According to this report’s survey of lawyers, family laws and regulations can influence economic legislation, as women are sometimes considered “legal minors.” An example is that women entrepreneurs consistently cite as a hurdle the requirement to obtain a male relative’s permission to travel, which can result in additional bureaucratic steps. And the implementation of business and economic laws can be influenced by interpretations of gender roles, especially by conservative judiciaries. Judges may rule in favor of male plaintiffs even in such cases as settling firm receivables, on the basis that men are responsible for the family.

The combination of these forces can create ambiguities, leading to gendered interpretation and implementation of gender-neutral economic laws.

## **How to promote women's entrepreneurship**

Consider female labor force participation in the Middle East and North Africa. The parallels with women's entrepreneurship are striking. Female labor force participation is low despite significant gains in education. Women still do not join the labor market because of a variety of social norms. Those who do, find few opportunities, evident in discouragingly high female unemployment rates—suggesting that women still face barriers inside and outside the labor markets. Those who overcome the barriers, however, are able to do well.

The same pattern holds for women's entrepreneurship: the characteristics and performance of female-owned firms do not explain why there are not more. And those that overcome barriers do well.

Women entrepreneurs can play a greater role than in the past—creating more and better jobs, diversifying economies into modern sectors, and empowering women. By contributing new ideas, technologies, and production methods, these businesses can boost productivity growth across the economy, even spurring existing firms to raise their productivity. This report proposes two policy pillars to support women entrepreneurs:

- *Reform the business environment to help create opportunities for all investors, especially women.* Most Middle Eastern and North African economies are still dominated by the state sector. Although the last few years have seen rapid growth and job creation in the private sector, the private sector remains hindered by high barriers to firm entry, operation, and exit. The need for region is to draw in all potential entrepreneurs, producers, and investors. Women with education, ideas, aptitude, and financial resources want to join in.

Governments might consider such proactive policies as including more women in unions and associations. Doing so is also necessary so that these organizations reflect the perspective and gain the support of women entrepreneurs. And women's advocacy groups, rather than focusing on narrow gender issues, might join forces (and voices) with those pushing for overall reforms of the business environment.

- *Mitigate social norms and gender-differentiated legal treatment that affect women in particular.* As more and more families depend on two paychecks to make ends meet, women's work outside the home is increasingly a necessity for families in the Middle East and North Africa. Attitudes toward women's work need to change from considering it unnecessary and detrimental to family welfare to seeing it as a valuable contribution to society. Promoting the environment and the infrastructure to better balance work and family is crucial.

Economic and business legislation are gender blind. So though a woman has full rights to manage her finances and business independently, as stipulated by the shari'a, in other areas of the law she is considered "legal minor," and her interactions with the state must be mediated through her male kin. The result is additional uncertainties faced by female entrepreneurs but not their male counterparts. Such requirements also lead to legal inconsistencies and opaqueness, whether stemming from state regulations to protect the family or measures to uphold family law. Legal opaqueness translates into gendered legal interpretations and differential treatment.