

1. The Middle East's Economic Challenges

Women's entrepreneurship is less common in the Middle East and North Africa than in other developing regions—but different from what stereotypes about the region might suggest. True, women own fewer firms in the Middle East than in other middle-income countries, but these firms tend to be as large, productive, and well established as their male-owned counterparts. In some countries they are more open to foreign investment and participation in export markets. The potential for female-owned firms to become an engine of growth and a tool for women's empowerment is great—but only if policymakers tackle the barriers that slow entrepreneurs from creating new firms and that affect firms currently operating, potentially preventing them from growing and achieving their potential. Such barriers hurt businesses throughout the region, but in some cases they affect women more, making it difficult for them to start businesses and to perform to their potential.

This report offers guidance for policymakers and stakeholders contemplating reforms to the investment climate. Its main finding: all entrepreneurs in the region face highly binding barriers in the investment climate, with few differences between male and female entrepreneurs. Even so, some elements of the investment climate are gender-differentiated. And women seem to face hurdles outside the investment climate—hurdles that hold them back from participating in the formal economy.

Studies of gender and economic development in the Middle East have focused on women mostly as economic agents in labor markets. But women are also producers, entrepreneurs, and direct or portfolio investors. This report sheds new light on women's entrepreneurship and female-owned firms in the Middle East.

The report presents newly available data on this topic, important given the paucity of statistics and research. It acknowledges the 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.

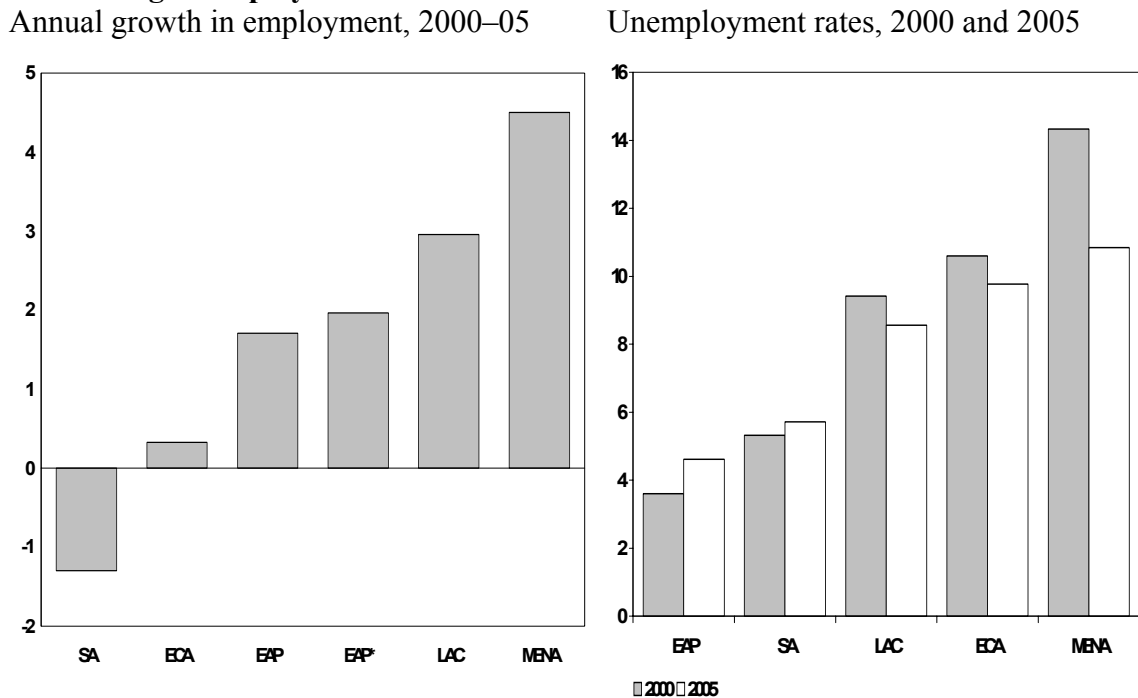
Recent developments

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. Between 2000 and 2005 annual employment growth reached 4.5% a year, adding 3 million jobs a year and outstripping annual labor force growth of 2.8 million. Unemployment fell from 14.3% to 10.8%. Algeria, Egypt, Iran, Morocco, Qatar, and Saudi Arabia (counting nationals only) have all seen large drops in unemployment. Employment growth in the Middle East and North Africa has been 50% higher than in Latin America—and more than twice that in other developing regions (figure 1.1).

The private sector has become more important in recent job growth. In countries where employment data can be disaggregated, the private sector has accounted for about 20% of all net job creation, mostly in construction and public-works programs.

Less encouraging are the kinds of jobs created. In general, Middle Eastern countries have not made the dynamic shifts that occurred, for instance, in Ireland in the 1990s, where the sectors with the highest productivity gains also produced relatively more jobs, leading to rapid growth, declining long-term unemployment, and rising standards of living. By contrast, job growth from construction and public works is mainly cyclical and does not provide sustainable and high-quality jobs over the longer term. People working in such jobs are not likely to be more successful in joining the conventional labor market than before, risking a return to the pool of unemployed after the job ends.²

Figure 1.1 The Middle East is outstripping other developing regions in creating jobs and cutting unemployment



SA is South Asia; ECA is Europe and Central Asia; EAP is East Asia and the Pacific; LAC is Latin America and the Caribbean; MENA is the Middle East and North Africa.

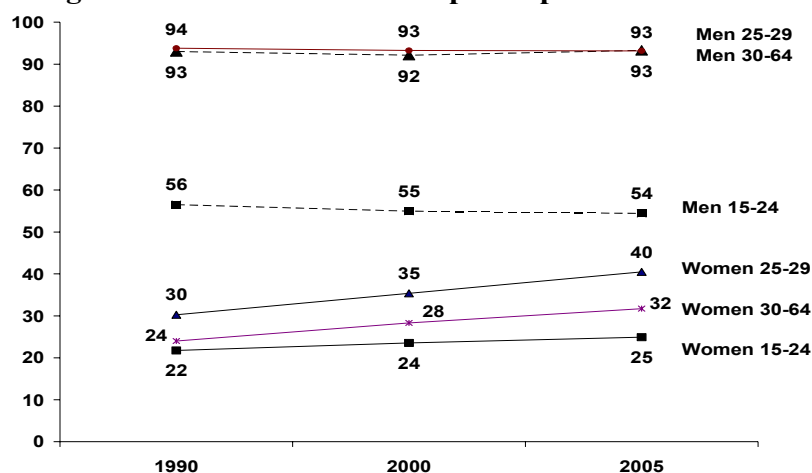
Source: World Bank (2007d).

The picture for women is similarly mixed. Progress in education has been impressive, and women outnumber men at universities in 11 countries of 18. Disparities in literacy, primary enrollment, and secondary enrollment have fallen dramatically since 1970. More women are now entering the labor market—due to rising education, falling fertility, and growing economies. Over 2000–05 the female labor force grew by 5.2%, compared with 4.7% during the 1990s. Women’s share in the labor force grew from 25% to 27%, and women accounted for 36% of new entrants in the labor market in 2005, up from 32% in

² World Bank (2007d)

the 1990s. Female employment grew from 10% to 16% over 2000–05. Meanwhile, men’s labor force participation stagnated (figure 1.2).

Figure 1.2 Rising education and labor force participation for women



Source: World Bank (2007d).

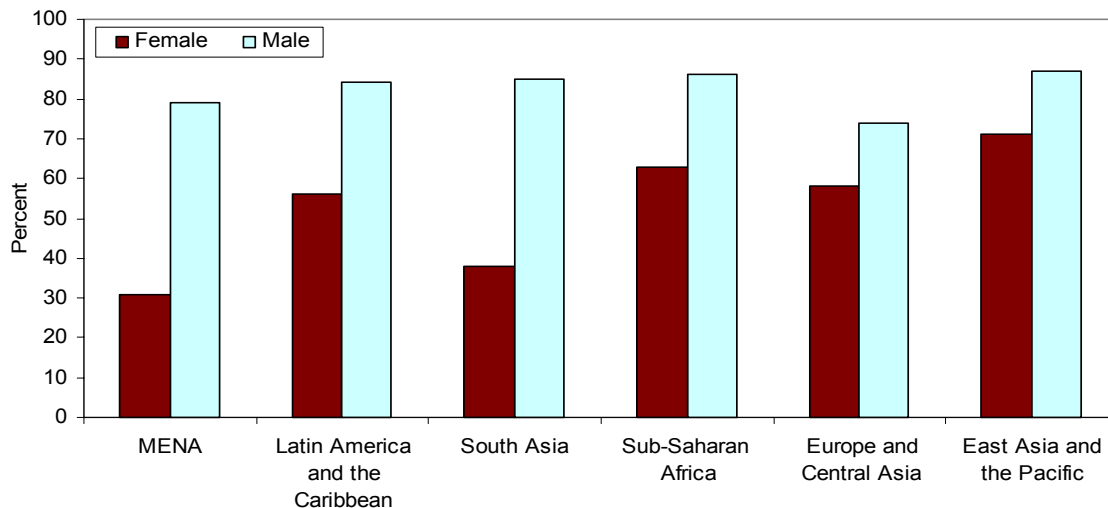
But female unemployment is high and rising, partly the result of women’s growing labor force participation, though the Middle East still lags behind other regions (figure 1.3). It has increased in 7 countries of 10, rising relative to that of men in all countries except Algeria and the United Arab Emirates. In Bahrain, Iran, Jordan, and Tunisia female unemployment has increased while that of men has fallen. In Iran and Jordan, it is now about twice that of men. In Egypt unemployment for women, though declining, is four times that for men—the largest gap in the region. Better news comes from Morocco and Algeria, where female unemployment has fallen, less than male unemployment in Morocco (mainly because of women’s falling participation rates) and more in Algeria (reflecting the inclusion of the “work at home” sector in the reporting).³

Unemployment is highest among the most educated. For women, medium and higher education is consistently associated with higher unemployment. The falling importance of public employment—more appealing to women than men—is a key explanation for the limited success of educated women despite economic growth.⁴ These trends also suggest that the jobs created could be in sectors or locations not easily accessible for women, such as in construction or public works.

³ World Bank (2007d).

⁴ Assad (2006). The public sector is often preferred by young women, due to such benefits as maternity leave, childcare facilities, and flexible work hours. The wage premium for public sector jobs relative to private sector jobs tends to be higher for women than for men. And in Egypt, for example, the gender wage gap has been smaller in the public sector than in the private (World Bank 2004a, 2004b).

Figure 1.3 Female labor force participation is lower in the Middle East than elsewhere (2005)



Source: World Bank staff estimates based on ILO 2005 and 2006a and national sources.

The challenges

To become more diversified and globally competitive, the Middle East and North Africa must address three challenges. The most important challenge is in two parts—creating more jobs and creating better jobs. The labor force will reach an estimated 174 million by 2020, so the region will have to create 54 million jobs over the next 15 years just to keep up. With unemployment now estimated at just above 12%,⁵ the more ambitious goal of creating jobs for the unemployed will take 68 million new jobs by 2020, or 4.5 million jobs a year. And to boost incomes, meet rising expectations, and avoid mounting social discontent, these jobs must be of high quality.

The second challenge is diversifying the economy by building a new class of entrepreneurs, innovators, and risk-takers, creating an environment where private investment and employment can prosper outside the traditional sectors of oil and agriculture and reducing the region’s dependence on natural resource rents. The need is to move into sectors that can provide more and better jobs for young people—sectors that are more export oriented, labor intensive, and knowledge driven.

The third challenge is empowering women. Women’s rising education has created a resource for development, but high unemployment among educated women means that this resource is underutilized. More opportunities for success in formal employment can benefit women—and the economy as a whole.

⁵ For the 12 countries of the Middle East and North Africa region and Iraq, Lebanon, and Republic of Yemen, for which there are point estimates.

Female entrepreneurs can become an engine of growth

The Middle East is already benefiting from female entrepreneurship, rooted in a long tradition of women doing business (see box 1.1 at the end of the chapter). There is room for expansion.

Across regions and eras the quality of entrepreneurship makes a major difference in economic growth, explaining much of the difference between developed and developing economies.⁶ And a robust entrepreneurial climate—integral to an innovative, adaptable, and growing private sector—needs to include all potential players. Female entrepreneurship can also be important for economic diversification. The data show that as more women entrepreneurs enter the economy, greater economic diversity follows.

The gender deficit in entrepreneurship, a challenge everywhere, is particularly important in the Middle East. Women's entrepreneurship could help the region meet its challenges, because empowering women and diversifying the economy can go together—and help the region meet the critical challenge of creating more and better jobs. 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.

Countries across the world are benefiting from female entrepreneurship. During the 1990s the number of female-owned businesses in the United States increased 16%, more than 2.5 times the rate of establishment of new businesses generally. In the United Kingdom female-owned businesses made up a quarter of new businesses during the late 1990s, and growth was substantial in France, Germany, and Italy as well.⁷ More female entrepreneurs increase economic diversity.⁸

Consider, for example, the 20% productivity gap between the United Kingdom and the United States. The UK Department of Trade and Industry traced the productivity gap to slower business formation. The rate of business formation by male entrepreneurs is roughly the same in United Kingdom and the United States. But the gap in the rate of business formation by women entrepreneurs is large—and about the same magnitude as the productivity gap (figure 1.4).⁹

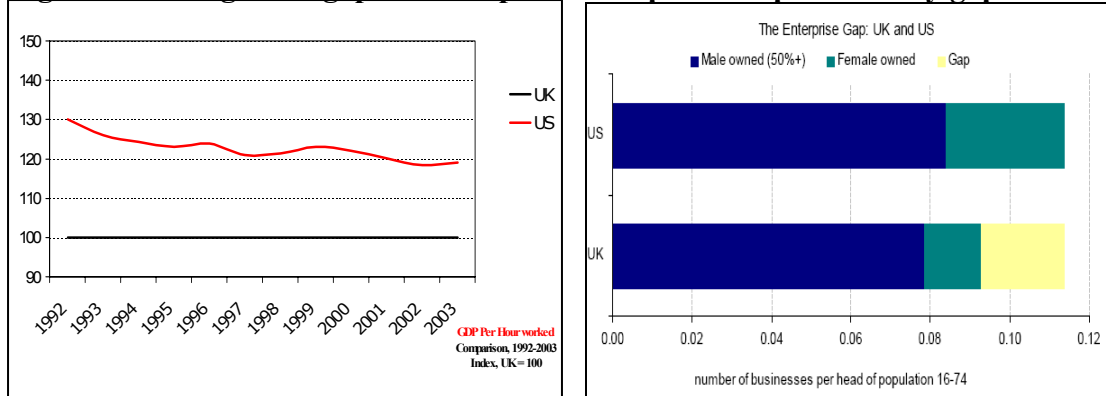
⁶ Schumpeter (1975).

⁷ UNECE (2002).

⁸ Verheul, Van Stel, and Thurik (2006). The Global Entrepreneurship Monitor's Report on Women and Entrepreneurship (2006, p. 8) finds that there is little evidence to support the hypothesis that women and men may open different types of businesses, with different structures, in different sectors, selling different products, and ultimately chasing different outcomes and that "women's businesses show many of the same patterns as those of their male counterparts, in particular [t]he distribution of women entrepreneurs across broad industrial sectors... is comparable to those of men." Because they are in the same sectors as male-owned businesses, this is good for the overall competitive environment, leading to greater efficiency and productivity

⁹ World Bank (2006e). Discovering that the productivity gap was essentially a gender gap, policymakers enacted measures to support greater female entrepreneurship

Figure 1.4 Can gender gaps in entrepreneurship lead to productivity gaps?



Source: UK Department of Trade.

Women’s entrepreneurship can be a valuable tool for promoting gender equality and empowering women, helping to achieve the third Millennium Development Goal target. Middle Eastern countries have achieved important results in reducing gender disparities in education and human capital investments. Female enrollment in all levels of schooling rose significantly over the last decade, with notable gains in secondary school enrollment, showing the high responsiveness of education to gender-informed policy interventions.¹⁰ Advances have been more modest, however, in gender equality in the economy and society. Greater women’s participation in the economy through women’s entrepreneurship can bring more women into leadership positions in society.

How the report is organized

This report is different in two ways from previous studies that have surveyed women entrepreneurs. First, it examines the environment for entrepreneurship in greater detail, going beyond gender-neutral business and investment laws to investigate attitudes, procedures for opening and closing businesses, and laws outside business and commerce, assessing whether such factors have gendered effects on women entrepreneurs. Second, it examines male- and female-owned firms, rather than relying on surveys of women entrepreneurs themselves. It identifies investment climate barriers and examines whether male- and female-owned firms perceive them differently.¹¹

Chapter 2 employs data from the World Bank’s Enterprise Surveys to detail the characteristics and performance of female-owned firms in the region, comparing them with male-owned firms and with other regions. It finds that female-owned enterprises are more widespread, larger, older, and more globally open than expected.

Chapter 3, also based on the Enterprise Surveys, compares how key constraints to business operation and growth affect female-owned enterprises and male-owned enterprises. It assesses the severity of such constraints and (when possible) the existence

¹⁰ World Bank (2007c).

¹¹ The analysis is based on survey data collected at the firm level. As a result, neither the person who completed the survey nor that person’s gender are identified.

of objective obstacles to business. It finds that only some elements of the investment climate in the Middle East and North Africa are gender-biased, and those are only in some countries. Differences between male- and female-owned firms, however, are critical in Lebanon and Yemen.

Chapter 4 draws on Doing Business data and the World Values Survey to identify the underlying causes of the gender-based differences in how female entrepreneurship is viewed, encouraged, and influenced by social attitudes. It finds that most business laws are gender neutral but that social norms and traditions, facets of the business environment, and discriminatory laws and regulations outside business law may limit the growth of female entrepreneurship and the success of female entrepreneurs.

Chapter 5 offers policy recommendations, arguing that gender-intelligent reforms in the business environment will benefit women entrepreneurs and open new channels for empowering women in the Middle East and boosting economic growth.

Box 1.1 Historical perspective on women's economic activity in the Middle East and North Africa

In nearly all societies, the gender division of labor associates women with family maintenance. Overwhelmingly, gender segregation and domestic subsistence production have characterized the lives of women in the economic sphere, although before industrialization there was little distinction between the private and public economic spheres, as most production took place in the family and in and around the home.¹²

In pre- and medieval-Islamic society, women engaged in a variety of economic activities in agriculture, craft and textile production, the tending of livestock, trade, and other areas. In fact, many women engaged in economic activity that not only supplied subsistence but also generated wealth, especially in agricultural and trade sectors of the economy. In some cases, women were engaged in trade that included the large scale buying and selling of commodities. One such example is Khadija, the first wife of the Prophet Mohammed, who was a renowned and wealthy businesswoman—though by no means the only one of her time—and incontestably an important female role model in Islam. Even where women engaged in local, small-scale trade, they could be very important to the growth and development of long-distance trade and of port towns and urban centers.¹³

Because Islamic law permits women to inherit and independently own property, women of the middle class often had property and engaged in various business activities, such as selling and buying real estate, renting out shops, and lending money at interest. A host of evidence attests to these activities. Studies of women in 16th and 17th century urban centers of the Ottoman Empire, 18th century Aleppo, and 19th century Cairo show that they inherited in practice, not merely in theory, and they were able and willing to go to court if they thought themselves unjustly excluded from inheriting estates.¹⁴

The absence of male heirs or widowhood could also create economic opportunity for women. Under such circumstances women ran businesses and participated in trades. In Syria the *gedik*, a license that allowed one to practice a trade, was normally inherited by sons from their fathers. In

¹² Johnson-Odim and Strobel (1999, xiv–xvii).

¹³ Tucker and Nashat (1999, 73–84).

¹⁴ Ahmed (1992, 63).

the absence of a male heir, women could inherit the *gedik*, and although prevented from practicing the trade, they could sell, rent, or bequeath the license.¹⁵

Other forms of investment included making loans at interest, often to family members, frequently to husbands, and sometimes to other women. Such loans were secured in court, and if necessary, women went to court to reclaim them, whether from husbands or other family members or from anyone else. Sueres or sued, women represented themselves in court and their statements had equal weight with men's.¹⁶

Whereas very wealthy women might invest in trade—often the spice trade—or in commercial ventures as silent partners, middle-class women apparently invested largely in real estate. The pattern of women's involvement in property in the region shows their consistent involvement in real estate. In Aleppo and in Kayseri, women were involved in 40% of all property transfers. They actively bought and sold commercial as well as residential property. They probably rented out shops (as women shopkeepers were rare). In Aleppo a third of those dealing in commercial property were women, and a third of these were buyers.¹⁷

Residence in a harem and the practice of seclusion placed restraints on women's ability to engage directly in public-arena economic activity, forcing them to use intermediaries to conduct their business operations. This use of intermediaries, and the higher economic status that seclusion usually implied, meant women sometimes held considerable wealth and became significant economic actors. In the 19th century in parts of the Middle East (notably Cairo, Istanbul, Aleppo, and Nablus), upper-class women employed agents to conduct their business transactions in the public arena.

In some places, however, the strict gender segregation of Islamic societies in fact expanded women's economic alternatives because only women could perform certain services for other women. In 19th century Egypt women of lower economic status served as entertainers, cosmologists, and midwives to women of higher economic status who were in seclusion. Strict gender segregation opened up the professions (medicine, education, and the like) to women in the late 20th century, especially in countries where economic resources are plentiful, such as Saudi Arabia.¹⁸

Women also undertook various kinds of manufacturing activities. In 18th and 19th century Egypt, women were important in the textile crafts, though they were squeezed out by industrialization. In the 19th century, partially due to the demand created by a European market, women became important to the growth of the silk industry in Lebanon and in the carpet industry in Iran. Yet women's tremendously varied and important roles in economic activity did not translate into economic, legal, or political equality with men. The more economic autonomy women had, however, the greater their freedoms. In some writings, though, elite urban men are cautioned not to marry women who engaged in economic activities in the public arena.¹⁹

The sweeping economic transformations of the 19th century—including the commercialization of agriculture and erosion of indigenous craft industry as a result of European competition or outright control of local economies—held special implications for women and the family. Much of the historical literature on the period, however, insofar as it alludes to women at all, emphasizes one of two points about the impact of the economic transformation. First, many authors simply have assumed that women and the family were largely untouched by the economic changes of the period: women remained in the inviolate world of harem or in the "traditional" confines of the peasant family, pursuing an existence on the margins of economic life, making few contributions

¹⁵ Ahmed (1992, 110).

¹⁶ Ahmed (1992, 111).

¹⁷ *ibid*

¹⁸ *ibid*

¹⁹ *ibid*

outside of the admittedly often strenuous work performed in the home. Second, this pattern of female marginality was disrupted by modernization and westernization: women began to undertake broader economic activities, to enter the professions or the working class, for example, only in the context of westernization and industrialization of the late-19th and 20th centuries. Both of these points have come under close scrutiny recently, and studies of women's economic activities in the 19th century now suggest the complexity of women's roles in the pre-capitalist era and contest the idea that 19th century developments brought automatic improvements.²⁰

Excerpted from Ahmed (1992), Johnson-Odim and Strobel (1999), and Nashat and Tucker (1999).

²⁰ Nashat and Tucker (1999, 83–84).