# 3. Investment climate barriers to female-owned firms

Female-owned firms in the Middle East and North Africa are as large, successful, well established, and tech-savvy as male-owned firms, at times even more so. Given their success—and their potential for stimulating economic growth—why aren't there more female entrepreneurs in the region? Does the investment climate pose greater challenges for female-owned firms than for male-owned firms?

To answer this question, the report looks at the empirical evidence about how key constraints to business operation and growth affect female-owned firms in the Middle East and North Africa compared with male-owned firms—and how the region compares with other middle-income regions.[31]

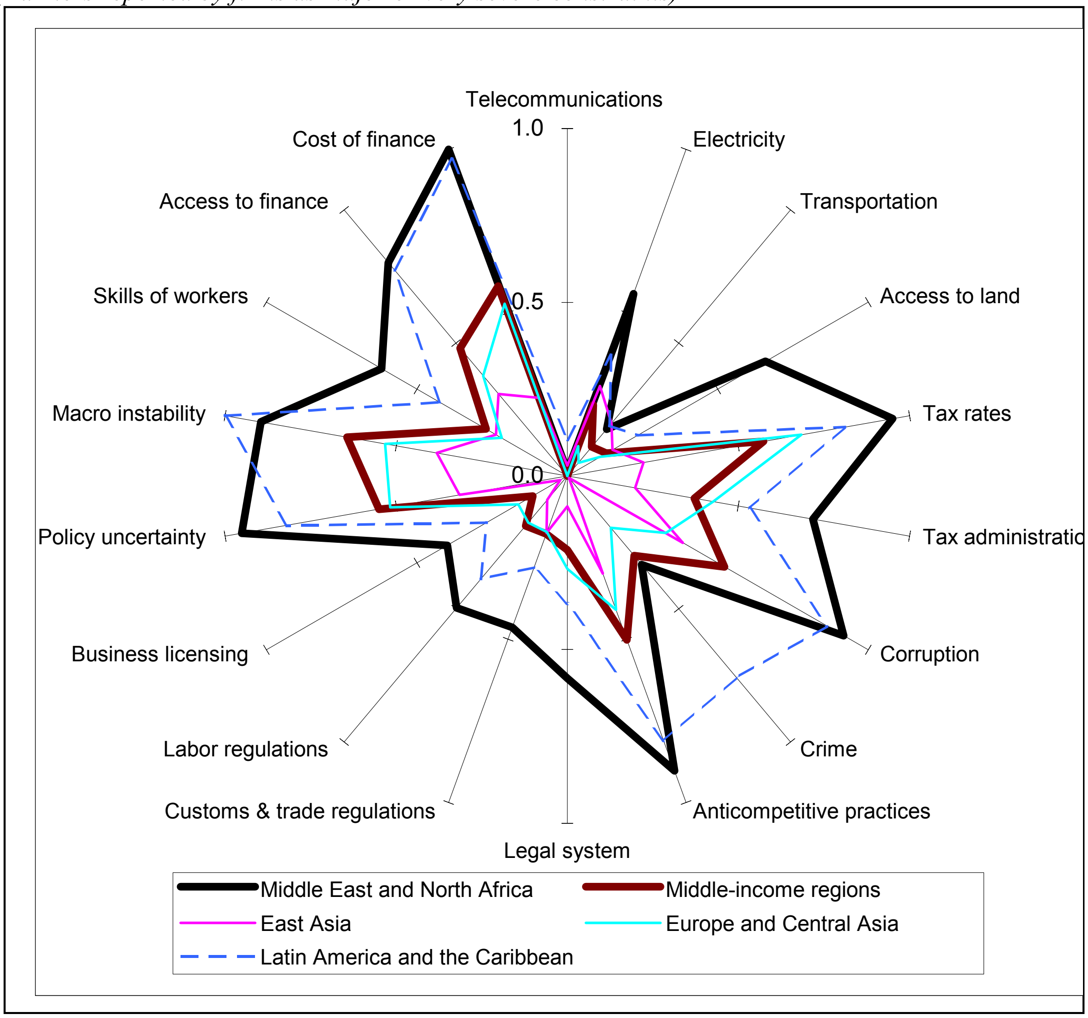
The analysis in this chapter is on two levels. First, the region's firms' overall perceptions of the 18 investment climate constraints identified by the Enterprise Survey data are compared with the perceptions of firms in other comparable middle-income regions—East Asia and the Pacific, Latin America and the Caribbean, and Eastern Europe and Central Asia. Second, the chapter compares the perceptions of female-owned firms in the Middle East with those of male-owned firms at the level of individual countries, analyzing firm-level perceptions of investment climate constraints as binding for business operation and growth. Binding obstacles are those reported as "major" or "very severe."[32] Data permitting, the analysis also looks at differences between male- and female-owned firms in the occurrence of events that support the perceived constraints (referred to here as objective responses). On electricity, for example, firms provided details about the frequency of black-outs and surges and the revenue lost because of them.

The surprising finding is that the investment climate in the Middle East and North Africa is much less gendered than suspected. Female-owned firms perceive the investment climate as only marginally more difficult than do male-owned firms—and in only a few countries and sectors. More striking is the gap between firm-level responses in the Middle East and those in other regions. Firms in the Middle East and North Africa tend to perceive the business environment as more difficult than do firms in other regions, regardless of the owner's gender (in general and acknowledging issues related to aggregation across countries and regions; figure 3.1).

[31] The existence of a gender dimension in the investment climate is analyzed from a perspective different from that of previous work in the Middle East and North Africa region. Earlier surveys captured the responses of women entrepreneurs, showing that women entrepreneurs are optimistic about their businesses. Feeling successful and empowered, women entrepreneurs believe that, on balance, their gender does not hold them back in society or affect their businesses, though they acknowledge that they face some challenges (CAWTAR 2007).

[32] The survey asked responders to rate the severity of issues as constraints to operating in the formal business sector. Survey responders chose from a four-point scale: 0 was no obstacle, 1 was a minor obstacle, 2 was a moderate obstacle, 3 was a major obstacle, and 4 was a very severe obstacle. From these answers a categorical variable for each constraint has been built (0 if the answer is no obstacle, 1 if the answer is either a minor or moderate obstacle, and 2 if the answer is either a major or very severe obstacle).

**Figure 3.1 The investment climate is binding for both male- and female-owned firms in the Middle East and North Africa**
*(Barriers reported by firms as major or very severe constraints)*



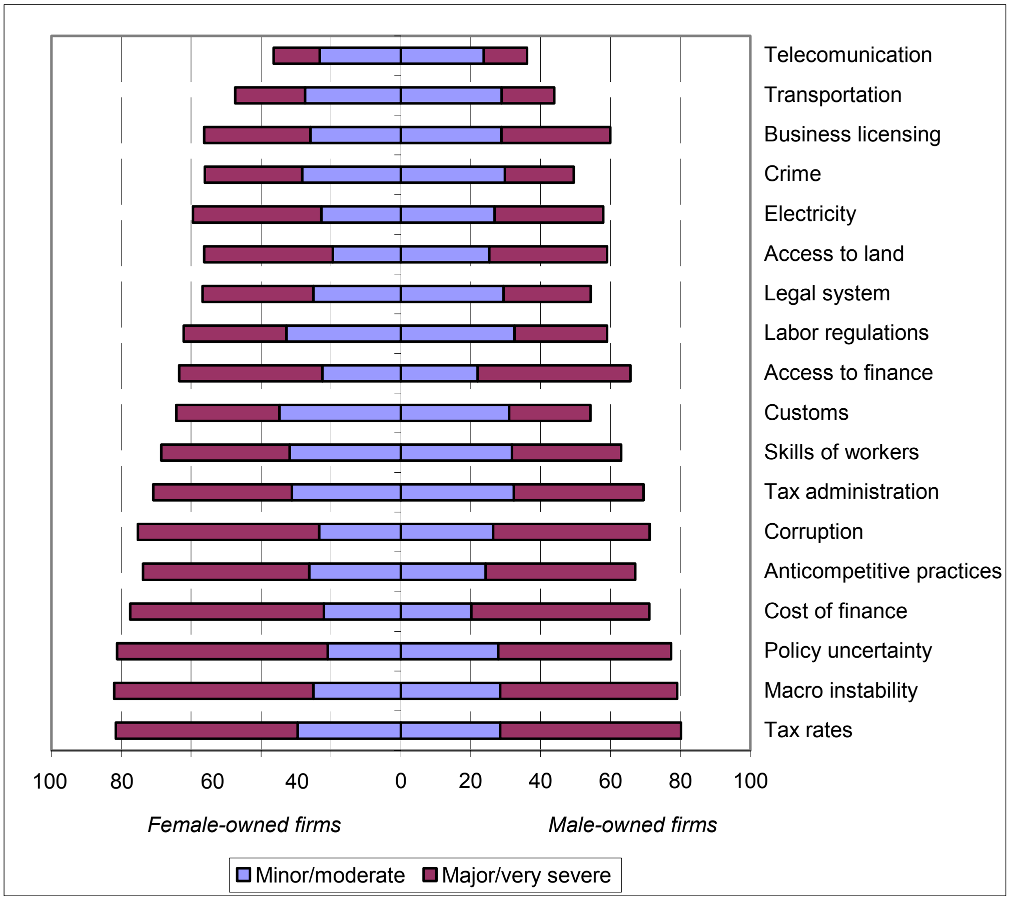

*Source*: Country Enterprise Survey data, 2003–06.
*Note:* Values are normalized by maximums and minimums for each indicator. The index ranges for 0 (best perception) to 1 (worst perception).

## *Investment climate barriers are not particularly gendered*

Firms in the Middle East and North Africa face a binding investment climate, regardless the gender of the firm's owner. Male- and female-owned firms tend to rate the same investment climate constraints as major and very severe obstacles and the same constraints as minor and moderate obstacles (figure 3.2).

The similar degree of barriers is confirmed at the country level, suggesting that there is no clear (statistically significant) evidence that the investment climate is gendered across all barriers in every country (see annex 3.1 at the end of this chapter for detailed country-specific results).[33] For no constraint do female-owned firms systematically report a worse perception across all countries in the region. Nor in any country do female-owned firms report all the constraints as more binding than do male-owned firms. Where there are differences, these are not always to the detriment of female-owned firms. In a few cases female-owned firms are less likely than their male counterparts to report constraints as major or very severe.

**Figure 3.2 Perception of the investment climate in the Middle East and North Africa, by gender of the principal owner**
(percentage of firms citing constraint)




*Source*: Country Enterprise Survey data, 2003–06.

Some differences do emerge, however. The investment climate is more gendered in Yemen and Lebanon, where there are statistically significant gender differences across

[33] Differences in male- and female-owned firms' perceptions are tested by a binary chi-squared test, which verifies the hypothesis that the rows and the columns in a two-way table are independent. The hypothesis tested is that there is no relationship between the gender of the enterprises' owners and their perceptions of barriers. Whenever possible, the robustness of the results is checked by multivariate analysis controlling for female ownership, size (number of workers employed), location (whether the enterprise is located in the capital city), sector of activity (textile, agro-food, other manufacturing, or services), experience in the market (logarithm of years of activity), and managerial skills (logarithm of years of education for the top manager).

more barriers. 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 both countries female-owned enterprises are more likely to perceive as a binding constraint anticompetitive and informal practices. Lebanese female-owned firms also have higher perceptions of crime, corruption, and policy uncertainty as particularly binding obstacles, while in Yemen differences are relevant and statistically significant in perceptions of the legal system, tax administration, customs and trade regulations, and macroeconomic instability. In Yemen access to land, access to finance, and cost of finance are also significantly more often reported as binding constraints by female-owned firms. Differences on a few other constraints are relevant but not statistically significant. Transportation is less often reported as binding problem in Lebanon and Yemen (though only slightly)—an intriguing finding in Yemen because female-owned firms there are less likely than male-owned firms to be located in the capital.

Gender-related differences affect the investment climate in the West Bank and Gaza as well, with female-owned firms more likely to perceive binding constraints related to telecommunication, access to land, and the labor force (in terms of both labor regulation and the availability of skilled and educated workers). Interestingly, female-owned firms seem to perceive corruption as a less binding obstacle.

### Table 3.1 Percentage of male- and female-owned firms reporting the actual occurrence of selected constraints

| | Egypt | | Jordan | | Lebanon | | Morocco | | Saudi Arabia | | Syria | | Yemen | | West Bank & Gaza | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms |
| **Electricity** Days of power outages or surges from the public grid over the last year | **10**** | **14**** | na | na | 25 | 24 | 8 | — | 6 | 6 | 30 | 29 | 26 | — | na | na |
| Losses of value due to interruption of power outages *(% of total sales)* | **5**** | **7**** | 2 | 3 | 7 | 8 | 1 | — | 4 | 2 | 9 | — | — | — | 5 | 4 |
| **Legal system/conflict resolution** Average weeks needed to resolve disputes related to overdue payments in court | **54*** | **86*** | 45 | — | 111 | 89 | 45 | — | 27 | 29 | 12 | — | 43 | — | — | — |

** is significant at the 5% level; * is significant at the 10% level.
— indicates that observations are less than 25; na indicates that data are not collected in the survey.
*Source:* World Bank Enterprise Surveys, 2003–06.

There are some gender-related differences in Egypt's investment climate. Egyptian female-owned firms are more likely than male-owned firms to perceive access to land and electricity as problems.[34] This finding is confirmed by additional analysis, which substantiates differences for electricity through the objective occurrence of problems. Egyptian female-owned firms report a yearly average of 14 days of interruption from power outages or surges from the public grid, compared with 10 days reported by male-owned firms.[35] It is difficult to explain the root causes. More interesting is that female-owned firms report higher losses because of these problems (7% of total sales, compared with 5% for male-owned firms). Egyptian female-owned firms also report higher legal constraints. This difference, though not statistically significant, is confirmed by the occurrence of objective obstacles. On average female-owned firms need 86 weeks to resolve disputes over overdue payments, eight months longer than the 54 weeks for male-owned firms. That difference is statistically significant (table 3.1).

[34] Slightly different findings about perceptions of constraints to business development were stressed in the Investment Climate Assessment for Egypt in 2005. Based on the Enterprise Survey carried out in 2004, the 2005 Assessment found no significant differences between male- and female-owned firms. The data in this report are for 2006.
[35] No objective indicators are available for access to land.

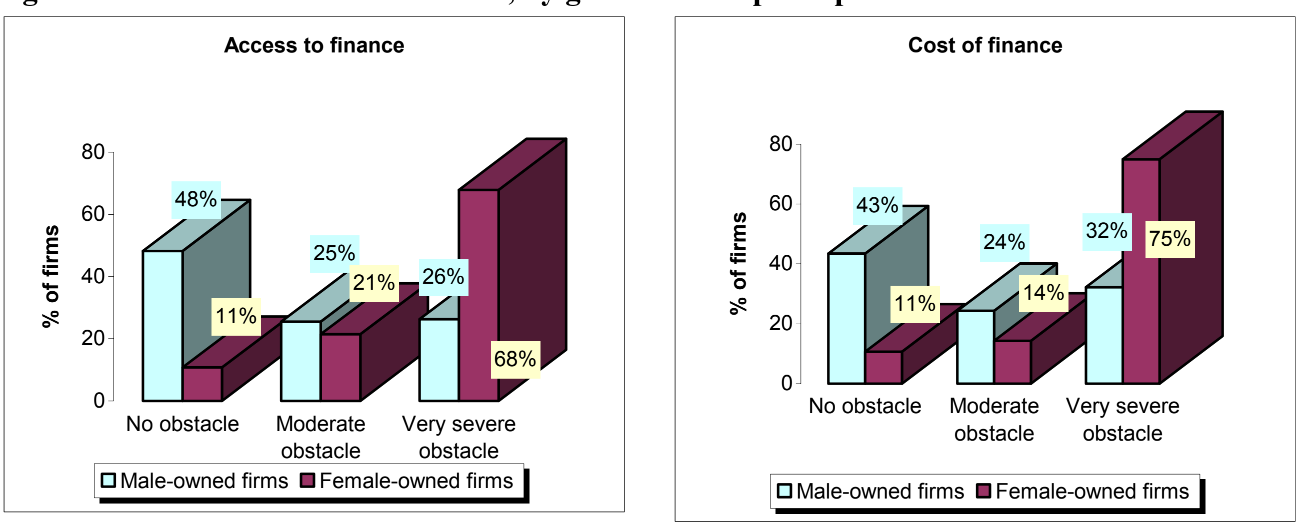
Moroccan female-owned firms seem to have a harder time finding skilled and educated workers, while in Jordan female-owned enterprises are more likely to perceive labor regulation and policy uncertainty as binding constraints. By contrast, the responses of male- and female-owned firms in Syria are similar, indicating that none of the constraints are significantly gender biased.

An interesting finding is that Saudi Arabia's business environment does not appear to be gendered. 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.

Surprisingly, access to finance, commonly considered a gender-based barrier, is not perceived as any more binding by female-owned firms. This might be due to these firms being established and in operation. The data in this report could not be used to analyze whether firm startup is gender differentiated. Only in Yemen do the responses of existing female-owned firms suggest gender-differentiated access to finance. There, the gap is not only statistically significant but also particularly wide (figure 3.3). 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.

In some countries (Egypt and Saudi Arabia, for example) female-owned firms deal better than male-owned firms with the tight labor regulations, seeing them as less of a constraint than do male-owned firms. This perception may partly explain why female-owned firms hire more women, who are normally perceived as constraining employers because of a host of gender-specific protective benefits and restrictions. Once again, the results are not consistent across countries. In Jordan and the West Bank and Gaza labor regulations are more often reported as binding obstacles by female-owned firms.

**Figure 3.3 Finance barriers in Yemen, by gender of the principal owner**




*Source*: Country Enterprise Survey data, 2003–06.

### *The nongendered business environment raises questions about the scarcity of female entrepreneurs*

The findings in this chapter raise their own questions.

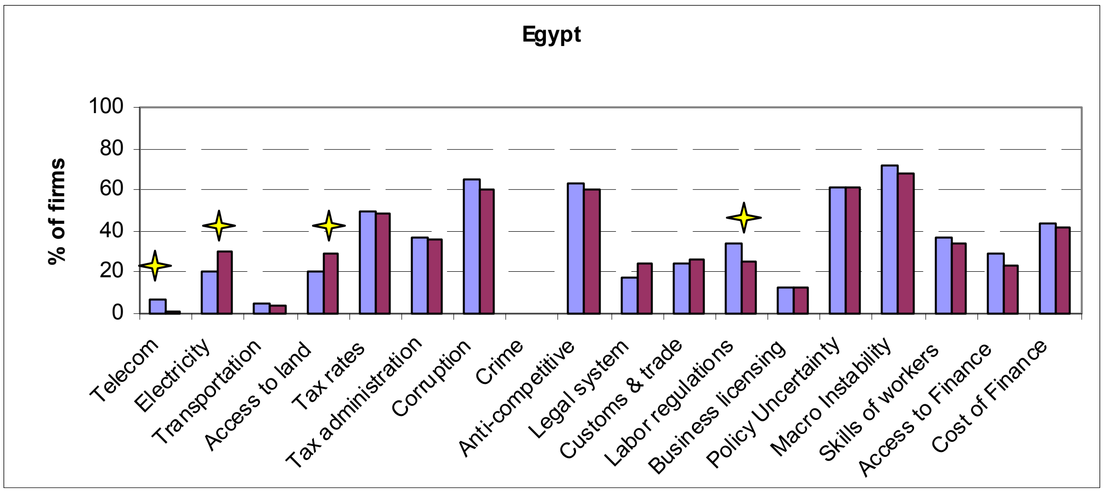
The first set of questions concerns the absence of data on the effect of gender on firm startups. Although the investment climate for firms in operation is not particularly gendered, whether gender-based barriers hinder starting-up new firms is unknown. Generally high barriers discourage all prospective entrepreneurs from starting new businesses in the formal sector. But the barriers may hinder women more. However, women may have some "risk capital"—inheritance or income—because men bear the responsibility for supporting the family. Data are unavailable on how many men and women try to start new businesses and how many succeed, as are data on the impact of barriers to starting, operating, and closing a business. It is thus impossible at present to say whether there are so few female-owned firms in the Middle East and North Africa because female entrepreneurs are unable to enter markets or because they find it too difficult to stay in the market once they overcome the high entry barriers.

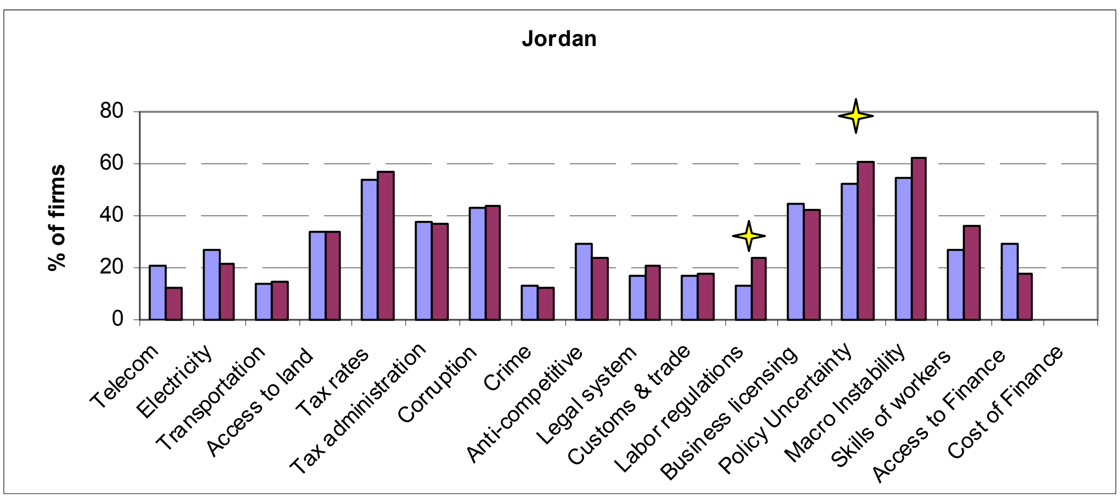
The second set concerns the effect of social norms. The characteristics and performance of female-owned firms cannot explain why there are not more female entrepreneurs, especially given that the investment climate is not particularly gendered. A similar mystery is evident in female labor force participation. The characteristics of today's women—younger, more educated, and with fewer children—cannot explain why female labor force participation remains lower in the Middle East than in any other region. A possible explanation for both phenomena is that social norms still create barriers to women joining the labor force and becoming entrepreneurs. The next chapter takes some first steps toward addressing these questions.

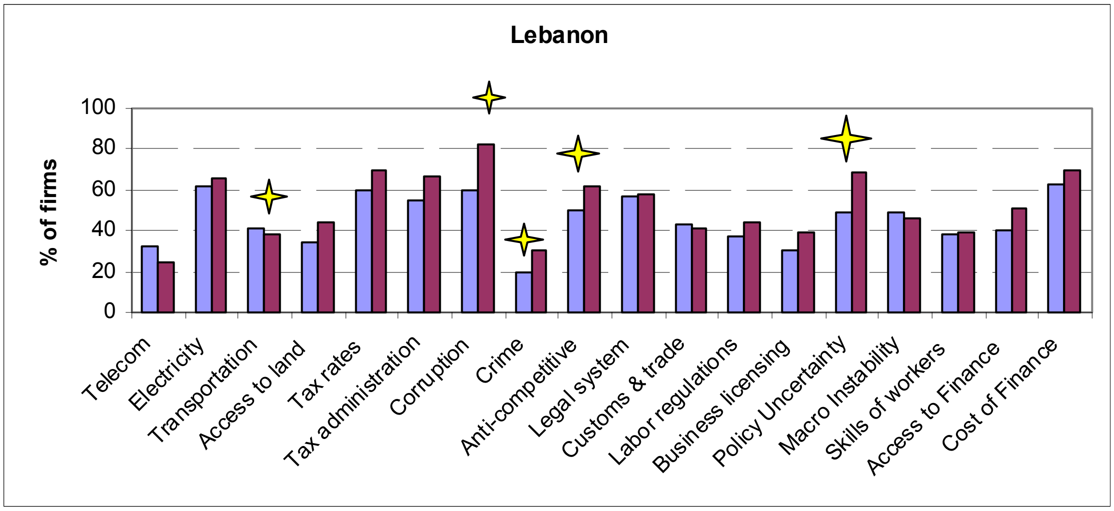
## *Annex 3.1 Country-specific results on perceived investment climate barriers*

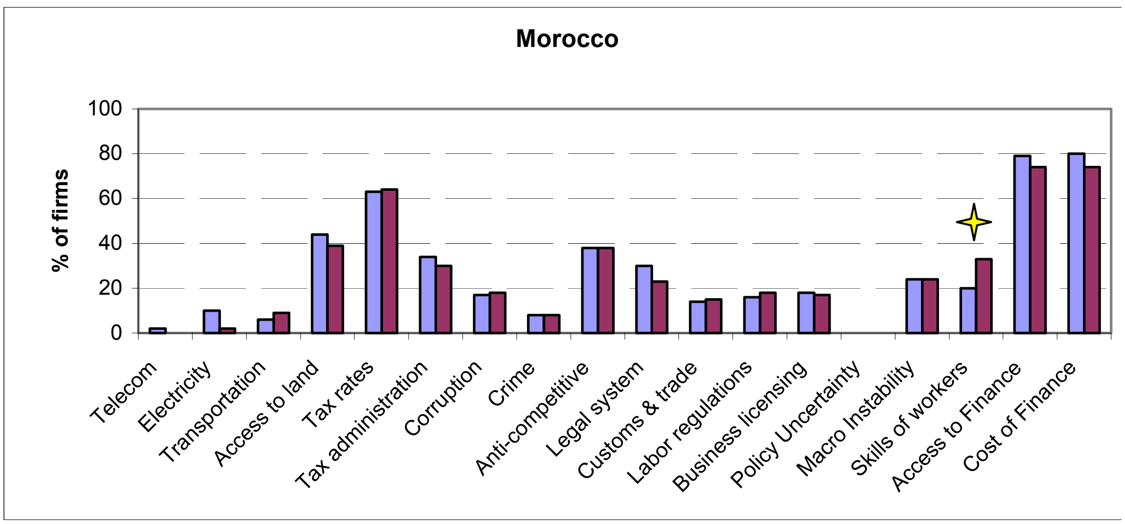
This annex details complete country results on perceived investment climate barriers (figure 3A.1 and table 3A.1).

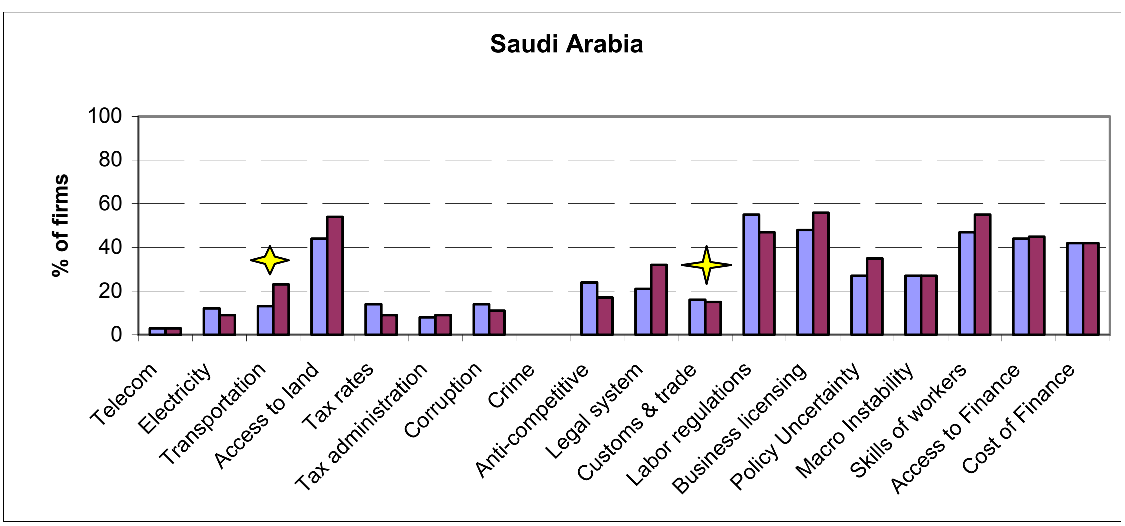
**Figure 3A.1 Percentage of male- and female-owned firms reporting investment climate constraints as major or very severe obstacles to business operation and growth**




Lebanon
% of firms
100
80
60
40
20
0
Telecom
Electricity
Transportation
Access to land
Tax rates
Tax administration
Corruption
Crime
Anti-competitive
Legal system
Customs & trade
Labor regulations
Business licensing
Policy Uncertainty
Macro Instability
Skills of workers
Access to Finance
Cost of Finance


Morocco
% of firms
100
80
60
40
20
0
Telecom
Electricity
Transportation
Access to land
Tax rates
Tax administration
Corruption
Crime
Anti-competitive
Legal system
Customs & trade
Labor regulations
Business licensing
Policy Uncertainty
Macro Instability
Skills of workers
Access to Finance
Cost of Finance


Saudi Arabia
% of firms
100
80
60
40
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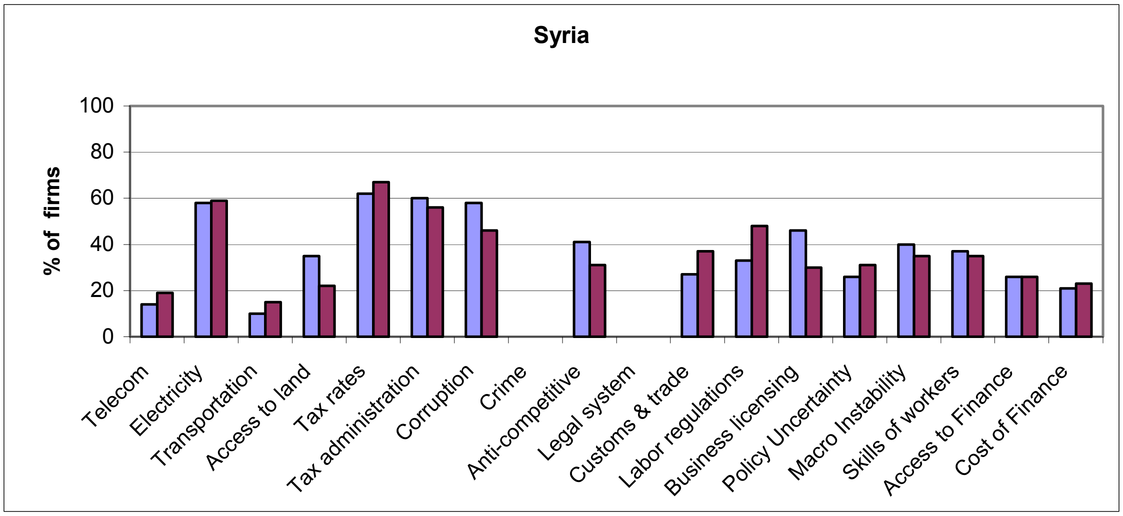
Telecom
Electricity
Transportation
Access to land
Tax rates
Tax administration
Corruption
Crime
Anti-competitive
Legal system
Customs & trade
Labor regulations
Business licensing
Policy Uncertainty
Macro Instability
Skills of workers
Access to Finance
Cost of Finance


Syria
% of firms
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80
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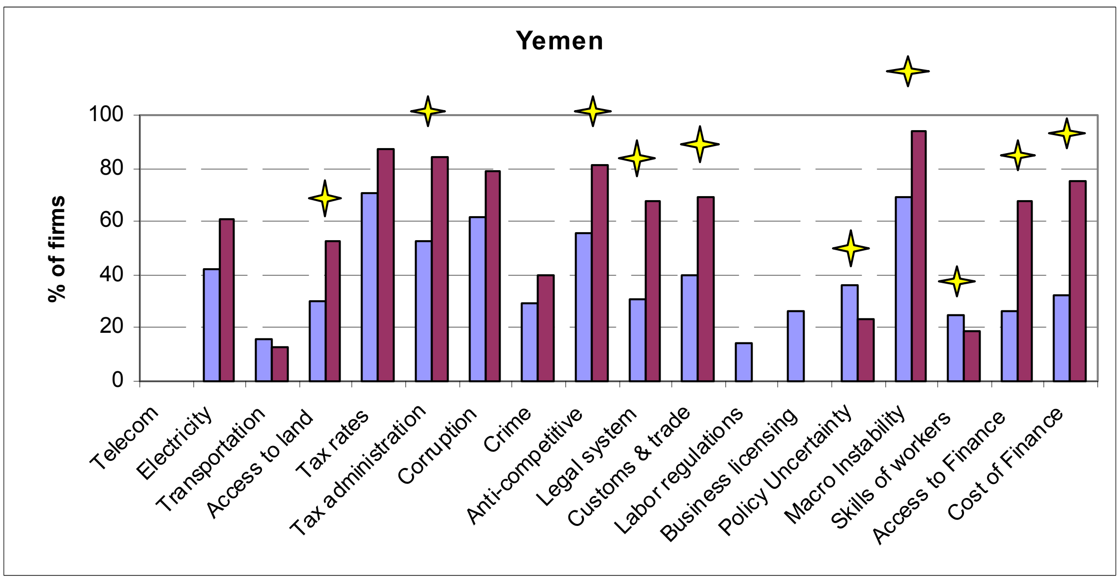
Telecom
Electricity
Transportation
Access to land
Tax rates
Tax administration
Corruption
Crime
Anti-competitive
Legal system
Customs & trade
Labor regulations
Business licensing
Policy Uncertainty
Macro Instability
Skills of workers
Access to Finance
Cost of Finance


Yemen
% of firms
100
80
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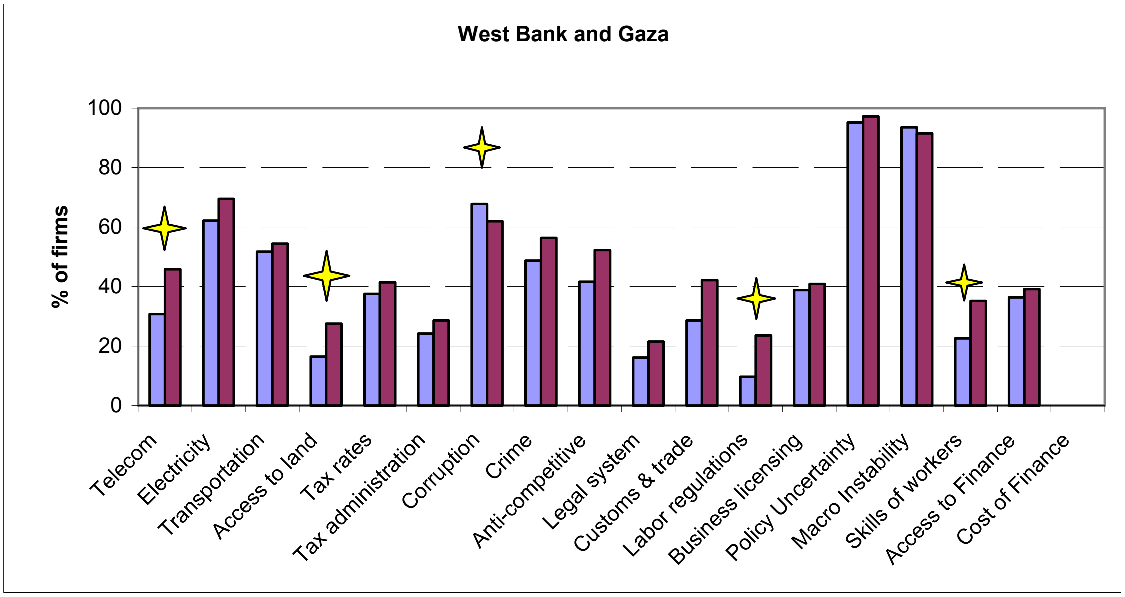
Telecom
Electricity
Transportation
Access to land
Tax rates
Tax administration
Corruption
Crime
Anti-competitive
Legal system
Customs & trade
Labor regulations
Business licensing
Policy Uncertainty
Macro Instability
Skills of workers
Access to Finance
Cost of Finance




is female-owned firms ; is male-owned firms

Stars indicate differences that are statistically significant at the 1% level or the 5% level.

*Note*: Given the small sample size, it is not possible to determine in countries with a relevant but not statically significant difference if the result is due to the small sample size or whether it reflects a lack of economic difference between male- and female-owned firms.

**Table 3A.1 Percentage of male and female-owned firms reporting investment climate constraints as major or very severe obstacles to business operation and growth, by the gender of the owner and country**

| | Egypt | | Jordan | | Lebanon | | Morocco | | Saudi Arabia | | Syria | | Yemen | | West Bank & Gaza | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms | Male-owned firms | Female-owned firms |
| Telecommunications | 7** | 1** | 21 | 12 | 32 | 25 | 2 | 0 | 3 | 3 | 14 | 19 | na | na | 31** | 46** |
| Electricity | 20** | 30** | 27 | 22 | 62 | 66 | 10 | 2 | 12 | 9 | 58 | 59 | 42 | 61 | 62 | 69 |
| Transportation | 5 | 4 | 14 | 15 | 41** | 38** | 6 | 9 | 13** | 23** | 10 | 15 | 16 | 13 | 52 | 54 |
| Access to land | 20*** | 29*** | 34 | 34 | 34 | 44 | 44 | 39 | 44 | 54 | 35 | 22 | 30** | 53** | 16** | 28** |
| Tax rates | 50 | 49 | 54 | 57 | 60 | 70 | 63 | 64 | 14 | 9 | 62 | 67 | 71 | 87 | 38 | 41 |
| Tax administration | 37 | 36 | 38 | 37 | 55 | 67 | 34 | 30 | 8 | 9 | 60 | 56 | 53*** | 84*** | 24 | 29 |
| Corruption | 65 | 60 | 43 | 44 | 60*** | 82*** | 17 | 18 | 14 | 11 | 58 | 46 | 62 | 79 | 68*** | 62*** |
| Crime | — | — | 13 | 12 | 20** | 30** | 8 | 8 | — | — | — | — | 29 | 40 | 49 | 56 |
| Anticompetitive practices | 63 | 60 | 29 | 24 | 50*** | 62*** | 38 | 38 | 24 | 17 | 41 | 31 | 56** | 81** | 42 | 52 |
| Legal system | 17 | 24 | 17 | 21 | 57 | 58 | 30 | 23 | 21 | 32 | — | — | 31*** | 68*** | 16 | 22 |
| Customs and trade | 24 | 26 | 17 | 18 | 43 | 41 | 14 | 15 | 16 | 15 | 27 | 37 | 40** | 69** | 29 | 42 |
| Labor regulations | 34** | 25** | 13** | 24** | 37 | 44 | 16 | 18 | 55** | 47** | 33 | 48 | 14 | — | 10*** | 24*** |
| Business licensing | 13 | 13 | 45 | 42 | 30 | 39 | 18 | 17 | 48 | 56 | 46 | 30 | 26 | — | 39 | 41 |
| Policy uncertainty | 61 | 61 | 52** | 61** | 49*** | 69*** | — | — | 27 | 35 | 26 | 31 | 36** | 23** | 95 | 97 |
| Macro instability | 72 | 68 | 55 | 62 | 49 | 46 | 24 | 24 | 27 | 27 | 40 | 35 | 69** | 94** | 94 | 92 |
| Skills of workers | 37 | 34 | 27 | 36 | 38 | 39 | 20** | 33** | 47 | 55 | 37 | 35 | 25*** | 19*** | 23** | 35** |
| Access to finance | 29 | 23 | 29 | 18 | 40 | 51 | 79 | 74 | 44 | 45 | 26 | 26 | 26*** | 68*** | 36 | 39 |
| Cost of finance | 44 | 42 | — | — | 63 | 70 | 80 | 74 | 42 | 42 | 21 | 23 | 32*** | 75*** | — | — |

** is significant at the 5% level; *** is significant at the 1% level.
— indicates that data are not collected in the survey
*Source*: World Bank Enterprise Surveys, 2003–06.