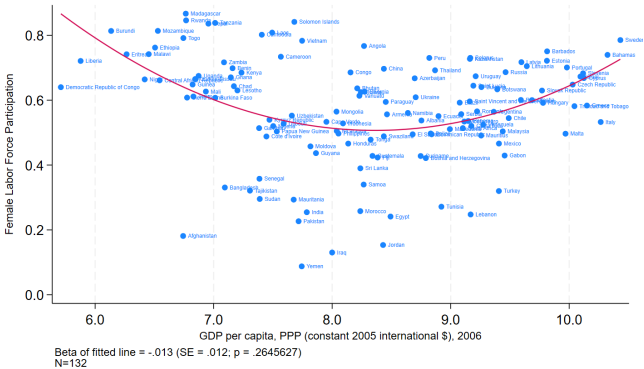# Rule of Law and Female Business Owners

Nava Ashraf   Alexia Delfino   Edward Glaeser
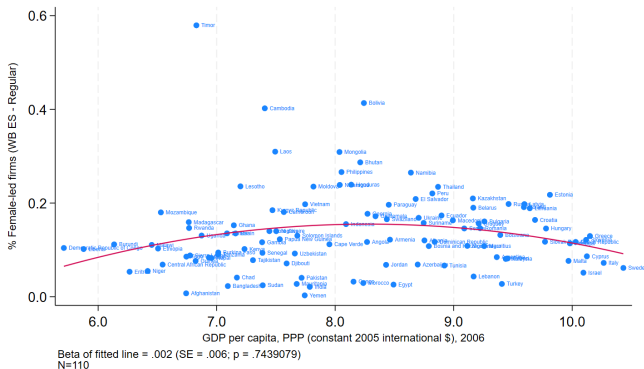
Kim Sarnoff   Irene Solmone

January 2025

Development and female labor force participation

Beta of fitted line = -.013 (SE = .012; p = .2645627)
N=132

Table

A Kuznets curve for female entrepreneurship?

Beta of fitted line = .002 (SE = .006; p = .7439079)
N=110

▶ In the middle region, strong positive relationship between female labor force participation and female entrepreneurship

▸ Table

Female entrepreneurs cluster

▶ Female entrepreneurs cluster into industries:
(e.g., food, personal services, retail)

   ▶ with low returns
      (De Mel et al., 2009; Nordman & Vaillant, 2014; Campos et al., 2015, 2019)

   ▶ With abundant female collaborators and customers

▶ Similar story for female economists or scientists (more likely to single author or coauthor with other women; cluster in fields with more women)
(Boschini and Sjogren, 2007; Bagues & Zinovyeva, 2022)

Collaboration brings opportunities...and vulnerability

▶ Contractual frictions make collaboration risky
  ▶ Possibility of hold-up and expropriation

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  ▶ Sexual harassment higher in male-dominated jobs and sectors
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- ▶ Under-represented groups may hold back from interacting with a more powerful majority, with potential losses in economic efficiency and growth

- ▶ Women may face expropriation in male-dominated sectors and therefore self-segregate into working with other women

Set-up: partnerships

Stage 1: A female entrepreneur (E) receives an opportunity to produce a product (e.g., order for school uniforms), but she must recruit a partner (P)

- ▶ P is randomly drawn
- ▶ If they partner, they agree on a share *s* of the product value for P
- ▶ No re-negotiation after this stage

Extension of Behrer et al. (2021)

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Stage 4: P or E can take the other to an adjudicator (e.g., court, local ruler)

Extension of Behrer et al. (2021)

Two sources of female disadvantage

1. Stage 1: male bargaining power

   If P is male, he receives a share $\beta > 0.5$ of the surplus

   ▶ Coming from social norms about gender or threat of violence
   ▶ In any within-gender partnerships, rents are split 50/50

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   When facts are disputable, adjudicators favour men

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A central point of this model: institutions operate amidst deeper and more permanent societal features

Predictions: from the theory to the empirics

▶ Incentive for women to partner with other women to avoid expropriation
  ▶ Women concentrate into industries that allow cooperation with each other

▶ Gender gaps in earnings and partnerships are mitigated in places with:
  ▶ Lower male bargaining power ($\beta \downarrow$)
  ▶ Stronger institutions ($\delta \downarrow$)

▶ Predicted interaction: female entrepreneurship (that works with men) requires both bargaining power and contract enforcement
  ▶ Validated using cross-country data

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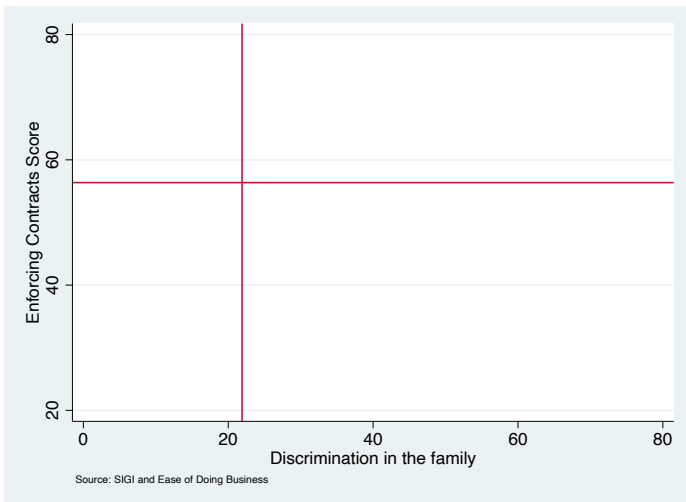 ► Validated using cross-country data

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Enforcement + norms ↑↑ female entrepreneurship

Source: SIGI and Ease of Doing Business

Red squares = Countries with above median female manufacturers

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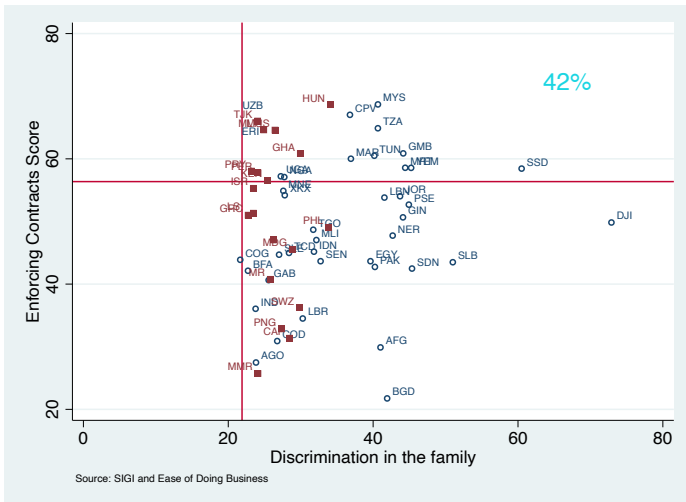
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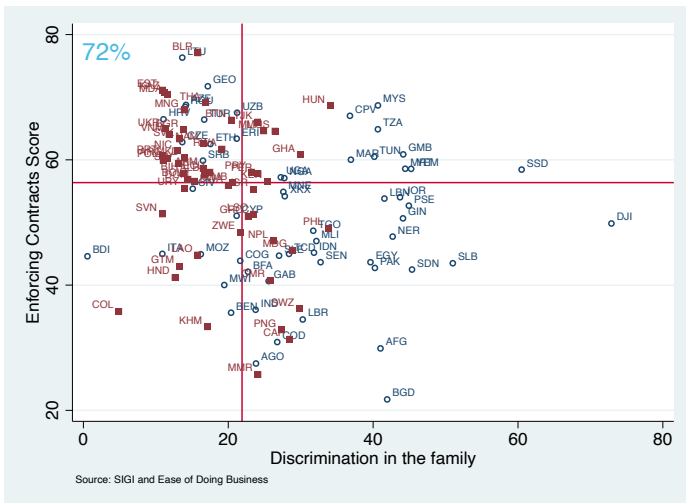
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Zambian Context

Male bargaining power and adjudication in Zambia

- ▶ High level of gender discrimination
  - ▶ 68% of World Value Survey (WVS) respondents think that it's justifiable for men to beat wives in some circumstances

- ▶ Justice is biased against women
  - ▶ One of the lowest scores in the World Justice Project's overall index of gender equality in sub-Saharan Africa

- ▶ Low trust
  - ▶ One of the lowest in sub-Saharan Africa, especially in growing urban areas

Gender gaps in entrepreneurship

1. Women concentrate in the least profitable sectors
   - 75% of women work in apparel, 18% in food manufacturing

2. Women have lower sales than men
   - Sales in good weeks: 226 USD for men vs 130 USD for women

3. Women's firms are smaller than men's
   - Full-time employees: 1.052 for men vs 0.68 for women

Evidence aligned with work in this area: Campos et al., (2019), Hardy and Kagy (2018), Alibhai et al. (2017), Campos et al., (2014)

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5. Women trust others less than men
   - Most people can be trusted: 10% of men vs 4% of women

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Women business owners trust others less than men

Table: Trust in other people by gender

	Male Mean	Fem Mean	Diff
Agree with: Most people can be trusted	0.07	0.03	-0.04*
	(0.26)	(0.18)	(0.02)
Observations	229	238	
Agree or strongly agree with: Comfortable			
leaving shop unattended for 30 mins	0.72	0.84	0.13***
	(0.45)	(0.36)	(0.04)
Observations	229	238	

Notes. Standard errors in parenthesis. * p<0.10, ** p<0.05, *** p<0.01

Challenge of trusting men?

"I had some big contracts for hotel uniforms in the past, around 50 to 100 pieces. I was working with some man [...]. I was going back in the morning to check his work and he would always be at the same point. That's because men start doing their own jobs when you are not there."

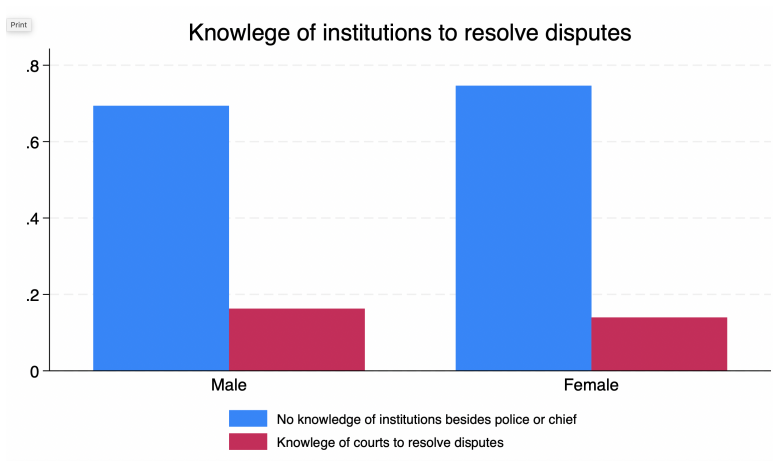*"Men steal and run away, they drink a lot. It's a challenge with men, I don't like working with them"*

Female tailor located just outside City Market, May 2018

Which contract enforcement institutions can help?

Knowledge of the formal legal system is limited

Especially among women

Knowlege of institutions to resolve disputes

Knowledge of the formal legal system is limited

Especially among women
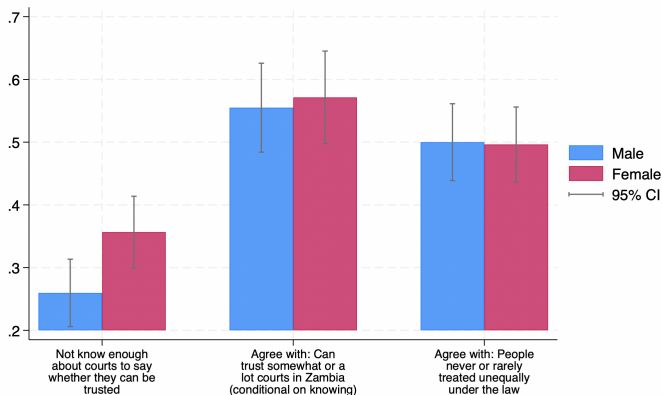
Usage of the court system is limited

Especially among women

Table: Usage of Courts to Resolve Disputes

	Male Mean	Fem Mean	Diff	Male N	Fem N
Panel A: Usage of Courts					
Never used a court for a dispute	0.80	0.86	0.06*	229	238
	(0.40)	(0.35)	(0.03)		
Knows someone who used a court for dispute (any type)	0.47	0.53	0.06	229	238
	(0.50)	(0.50)	(0.05)		
Knows someone who used a court for business dispute	0.11	0.07	-0.04	229	238
	(0.31)	(0.25)	(0.03)		
	Male Mean	Fem Mean	Diff	Male N	Fem N
Panel B: Type of Dispute resolved in Court					
Have you ever used court?: Yes, for a business dispute	0.06	0.01	-0.05***	229	238
	(0.24)	(0.09)	(0.02)		
Have you ever used court?: Yes, for a dispute with a family member	0.09	0.10	0.01	229	238
	(0.28)	(0.30)	(0.03)		
Have you ever used court?: Yes, for a dispute with a non-family member	0.04	0.03	-0.01	229	238
	(0.19)	(0.17)	(0.02)		

Notes. Standard errors in parenthesis. * p<0.10, ** p<0.05, *** p<0.01

Incidence of disputes and usage of institutions to resolve them

Table: Disputes and Usage of Legal Institutions in the Past Year

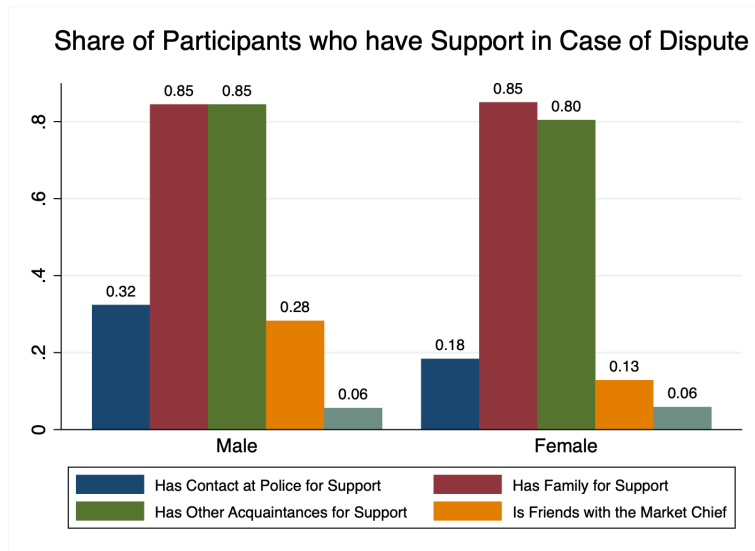|	Male Mean	Fem Mean	Diff	Male N	Fem N
Panel A: Disputes					
In past 12 months had workplace dispute	0.24	0.16	-0.07*	229	238
	(0.43)	(0.37)	(0.04)		
In past 12 months had dispute over a collaboration	0.21	0.09	-0.13***	229	238
	(0.45)	(0.28)	(0.03)		
In past 12 months had dispute over unpaid business debt	0.31	0.28	-0.04	229	238
	(0.48)	(0.46)	(0.04)		
In past 12 months had dispute over undelivered incomplete goods or services	0.23	0.09	-0.14***	229	238
	(0.42)	(0.28)	(0.03)		
If had at least a dispute: Person went to any institution	0.19	0.23	0.04	118	94
	(0.40)	(0.43)	(0.06)		
Panel B: Institutions to resolve disputes					
Went to Formal Institution to Resolve Dispute	0.08	0.04	-0.05*	134	166
	(0.28)	(0.19)	(0.03)		
Went to Informal Institution to Resolve Dispute	0.10	0.11	0.01	134	166
	(0.30)	(0.31)	(0.04)		
Went to Market Chair to Resolve Dispute	0.57	0.73	0.16	23	22
	(0.51)	(0.46)	(0.14)		

Notes. Formal Institutions include local courts, commercial arbitration, police or government office. Informal institutions include chief or traditional ruler, market chair, civil society organization or other third parties. Standard errors in parenthesis. * p<0.10, ** p<0.05, *** p<0.01

Men more likely to have an institutional contact for support in case of a dispute

Share of Participants who have Support in Case of Dispute

Legend:
- Has Contact at Police for Support
- Has Other Acquaintances for Support
- Has Family for Support
- Is Friends with the Market Chief

Market Chiefs

▶ Each market is led by a market Chief (appointed and/or elected)
  ▶ Functions are guided by legislation and market unit guidelines
  ▶ Involved in dispute resolutions among marketeers (or with clients)

▶ Example of market disputes:
  ▶ Someone bought another marketeer's machine but didn't pay
    Chief ordered to pay in three weeks and issued fine

  ▶ Customer complained marketeer promised to fix TV but hadn't
    Chief gave two days to fix or pay a fine. Person ended up fixing the TV.

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Market Chiefs are well-known and commonly-used

Think about an average marketeer in this market. Another person in the market buys items on credit from him and does no pay back. Which person or group would the person owed money most likely go to?

	Male Mean	Fem Mean	Fem-Male Diff	Male N	Fem N
Choice of Institutions					
Market Chief	0.73	0.68	-0.05	346	128
	(0.44)	(0.47)	(0.05)		
Police	0.17	0.17	-0.00	346	128
	(0.38)	(0.38)	(0.04)		
Court	0.04	0.11	0.07***	346	128
	(0.20)	(0.31)	(0.02)		
Heard of Court	0.22	0.20	-0.02	347	128
	(0.41)	(0.40)	(0.04)		

Market Chiefs have the highest reputation

Think about an average marketeer in this market. Another person in the market buys items on credit from him and does no pay back. If the person owed money goes to the [INSTITUTION], how often do you think the process would be fair/slow?

	Male Mean	Fem Mean	Fem-Male Diff	Male N	Fem N
Opinion on institutions					
Market Chief Fair	0.55	0.50	-0.05	347	127
	(0.50)	(0.50)	(0.05)		
Police Fair	0.21	0.24	0.03	347	128
	(0.41)	(0.43)	(0.04)		
Court Fair	0.52	0.65	0.13	77	26
	(0.50)	(0.49)	(0.11)		
Market Chief Slow	0.18	0.24	0.06	347	127
	(0.39)	(0.43)	(0.04)		
Police Slow	0.29	0.41	0.12**	347	128
	(0.45)	(0.49)	(0.05)		
Court Slow	0.43	0.42	-0.01	77	26
	(0.50)	(0.50)	(0.11)		

Especially among women

"You go to the chairman, and you take it from there, you do not go to the police. They are helpful".

"Women would be better at convincing the chairman. Market chiefs listen more to women, even male chiefs."

▶ Does the protection provided by the Market Chief benefit women?

To conclude

▶ Collaboration needed for business ownership and growth is risky, particularly for less powerful party.

▶ Institutions are important in ameliorating this friction
  ▶ but it's hard to introduce or improve trust in institutions, particularly for the less powerful

▶ Informal intermediaries can play a large role in protecting minorities and thereby enhancing economic gains from collaboration

Appendix

Female labor force participation and GDP

VARIABLES	(1) Female LFP
2006 log GDP per capita	-0.874***
	(0.160)
2006 log GDP per capita squared	0.052***
	(0.010)
Constant	4.161***
	(0.655)
Observations	126
R-squared	0.183

The dependent variable is country-level female labor force participation. Robust standard errors are in parentheses. Significance levels: *, **, *** indicate 10%, 5%, and 1%, respectively.

Female entrepreneurs and GDP

VARIABLES	(1) % Female-led firms
2006 log GDP per capita	0.237***
	(0.078)
2006 log GDP per capita squared	-0.014***
	(0.005)
Constant	-0.824**
	(0.315)
Observations	106
R-squared	0.048

The dependent variable is the share of female-led firms, calculated by country from the World Bank Regular Enterprise Survey. Robust standard errors are in parentheses. Significance levels: *, **, *** indicate 10%, 5%, and 1%, respectively.

Female entrepreneurs, GDP and religion

VARIABLES	(1) % Female-led firms
2006 log GDP per capita	0.287***
	(0.059)
2006 log GDP per capita squared	-0.018***
	(0.004)
Share Buddhists over total religions (2010 Pew)	0.150***
	(0.039)
Share Muslims over total religions (2010 Pew)	-0.131***
	(0.019)
Constant	-0.952***
	(0.235)
Observations	106
R-squared	0.475

The dependent variable is the share of female-led firms, calculated by country from the World Bank Regular Enterprise Survey. Robust standard errors are in parentheses. Significance levels: *, **, *** indicate 10%, 5%, and 1%, respectively.

▸ back

Female labor force participation, GDP and religion

VARIABLES	(1) Female LFP
2006 log GDP per capita	-0.789***
	(0.171)
2006 log GDP per capita squared	0.046***
	(0.010)
Share Buddhists over total religions (2010 Pew)	0.122**
	(0.059)
Share Muslims over total religions (2010 Pew)	-0.235***
	(0.040)
Constant	3.961***
	(0.708)
Observations	126
R-squared	0.458

The dependent variable is country-level female labor force participation. Robust standard errors are in parentheses. Significance levels: *, **, *** indicate 10%, 5%, and 1%, respectively.

Female entrepreneurship

- ▶ Globally, only 1 in 3 businesses are owned by women
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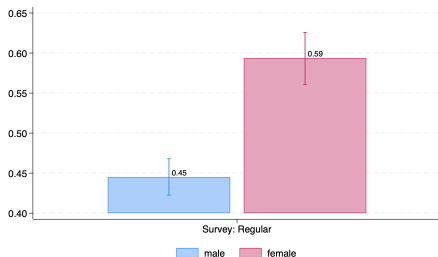
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- Similar story for female economists or scientists
 (Boschini and Sjogren, 2007; Bagues & Zinovyeva, 2022)

Industry segregation is widespread

Female entrepreneurs are in a few sectors almost everywhere in the world, and more likely to cluster into three/four sectors than men.

Industry segregation is persistent

More female entrepreneurship is only weakly related with a more even
distribution of women across industries (only in more formal sectors)
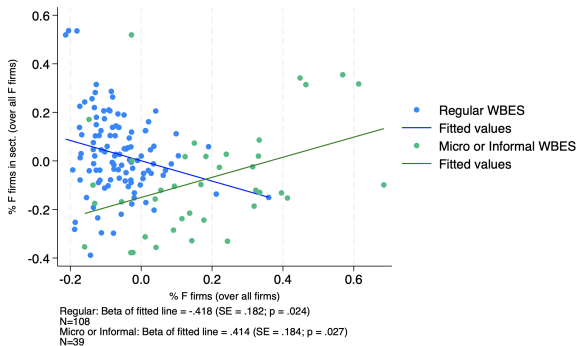
Gender norms and discrimination

Norms constraining women's choices: decreases FLFP and entrepreneurship

Female economic participation and WVS attitudes

Variable: Female firms	(1) All	(2) Regular	(3) Informal	(4) Micro	(5) FLFP
Men better business executives	-0.293**	-0.237***	-0.642**	-0.667**	-0.481***
	(0.116)	(0.070)	(0.248)	(0.243)	(0.148)
Men better political leaders	-0.152	-0.182***	-0.143	0.876	-0.469***
	(0.147)	(0.066)	(0.405)	(1.285)	(0.132)
Men should have more right to a job than women	-0.170	-0.153**	-0.467	-0.493	-0.581***
	(0.121)	(0.058)	(0.349)	(1.231)	(0.116)
Justifiable: For a man to beat his wife	-0.001	-0.075	-0.093	0.256	-0.120
	(0.171)	(0.067)	(0.702)	(0.451)	(0.183)
Observations	52	51	13	7	58
GDP controls	Yes	Yes	Yes	Yes	Yes

Notes: Robust standard errors in parentheses, clustered by country. The dependent variable in columns 1-4 is the % of female-led firms, overall (1) and dividing the sample by survey type (1-3). In column 5, the dependent variable is female LFP. *** p<0.01, ** p<0.05, * p<0.1

Female-dominated industries offer flexibility of schedule and location

Female firms are more likely to operate from household

Business location

WBES Regular and Informal, N=17921
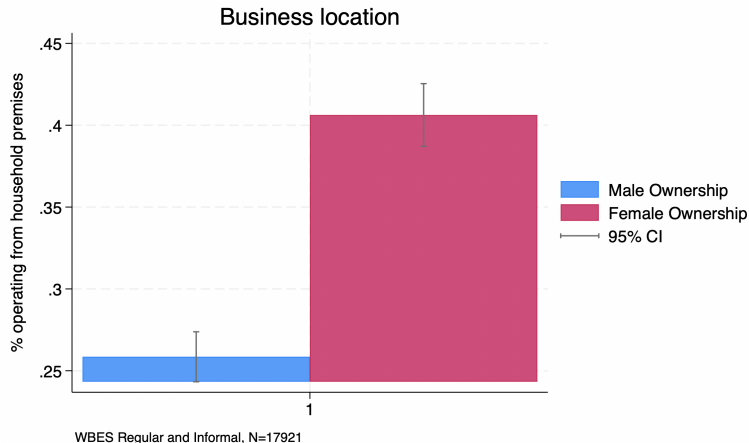
Ancient cultural variables are important

Ancient cultural variables (religion, kinship) which constrain the network accessible to women

Table 16: Cultural variables (from Enke, 2019) - univariate relationships

Variable: Female firms	All	Regular	Informal	Micro	FLFP
Urbanization					
Population density 1500	-0.003***	-0.002***	-0.008***	-0.009**	-0.002
	(0.001)	(0.000)	(0.002)	(0.004)	(0.001)
Population density 1950	-0.000*	-0.000**	-0.000*	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Fraction urban pop. 1950	-0.515**	-0.144**	-3.250**	-1.537	0.084
	(0.202)	(0.072)	(1.582)	(2.031)	(0.205)
Obs.	113	110	31	29	134
Religion					
% Catholics 2000	0.029	0.053**	0.060	-0.217	0.050
	(0.037)	(0.024)	(0.111)	(0.177)	(0.036)
% Muslims 2000	-0.085	-0.130***	-0.027	-0.064	-0.296***
	(0.055)	(0.014)	(0.159)	(0.180)	(0.039)
% Catholics 1900	0.014	0.049**	0.114*	0.031	-0.010
	(0.032)	(0.021)	(0.065)	(0.086)	(0.029)
% Muslims 1900	-0.080	-0.113***	0.042	-0.046	-0.291***
	(0.053)	(0.018)	(0.177)	(0.182)	(0.046)
Obs.	113	110 0	31	29	134
Kinship, locality, nepotism in business					
Kinship tightness	-0.066	-0.096***	-0.317**	-0.695***	-0.015
	(0.052)	(0.031)	(0.127)	(0.179)	(0.045)
Obs.	113	110	31	29	134
Joint residence	-0.069*	-0.095***	-0.322**	-0.420	-0.022
	(0.036)	(0.022)	(0.123)	(0.341)	(0.033)
Obs.	112	109	31	29	133

Notes: Robust standard errors in parentheses, clustered by country. The dependent variable in columns 1-4 is the % of female-led firms, overall (1) and dividing the sample by survey type (1-3). In column 5, the dependent variable is female LFP. *** p<0.01, ** p<0.05, * p<0.1

Female entrepreneurship is related to better legal equality for women

VARIABLES	(1) Regular	(2) Informal	(3) Micro	(4) FLFP
Women, Business and the Law - Index	0.003***	0.006	0.001	0.006***
	(0.000)	(0.004)	(0.003)	(0.001)
G6: ENTREPRENEURSHIP	0.001***	0.002	-0.001	0.001
	(0.000)	(0.002)	(0.001)	(0.001)
G6: Sign a contract	0.014	0.080	-0.181***	0.011
	(0.018)	(0.157)	(0.052)	(0.043)
G6: Register a business	0.016	0.122	-0.040	0.044
	(0.022)	(0.140)	(0.129)	(0.060)
G6: Open a bank account	0.034	0.063	0.020	-0.030
	(0.024)	(0.082)	(0.111)	(0.041)
G6: Law prohibits discr - access to credit	0.060***	0.044	-0.148	0.039
	(0.019)	(0.201)	(0.127)	(0.028)
G7: ASSETS	0.002***	0.002	0.000	0.003***
	(0.000)	(0.002)	(0.002)	(0.001)
G7: Ownership rights immovable prop.	0.030	0.055	-0.010	0.009
	(0.020)	(0.078)	(0.102)	(0.035)
G7: Equal rights to inherit assets (children)	0.080***	0.086	-0.062	0.197***
	(0.014)	(0.055)	(0.083)	(0.042)
G7: Equal rights to inherit assets (spouses)	0.092***	0.096	-0.022	0.196***
	(0.014)	(0.061)	(0.093)	(0.042)
G7: Equal adm. authority (spouses)	0.018	0.055	-0.010	0.013
	(0.020)	(0.078)	(0.102)	(0.040)
G7: Valuation non-mon. contr.	0.087***	0.038	0.138*	0.162***
	(0.016)	(0.060)	(0.071)	(0.039)
Observations	162	22	26	1,848
Year FE	Yes	Yes	Yes	Yes
Gdp FE	Yes	Yes	Yes	Yes

Notes: Robust standard errors in parentheses, clustered by country. The dependant variable in columns 1-4 is the % of female-led firms, overall (1) and dividing the sample by survey type (1-3). In column 5, the dependent variable is female LFP. *** p<0.01, ** p<0.05, * p<0.1

Female segregation also declines with better legal equality for women

Beta of fitted line = -.003 (SE = .001; p = .055)
N=114