Promoting Networking, Gender Parity & Shared Prosperity in India

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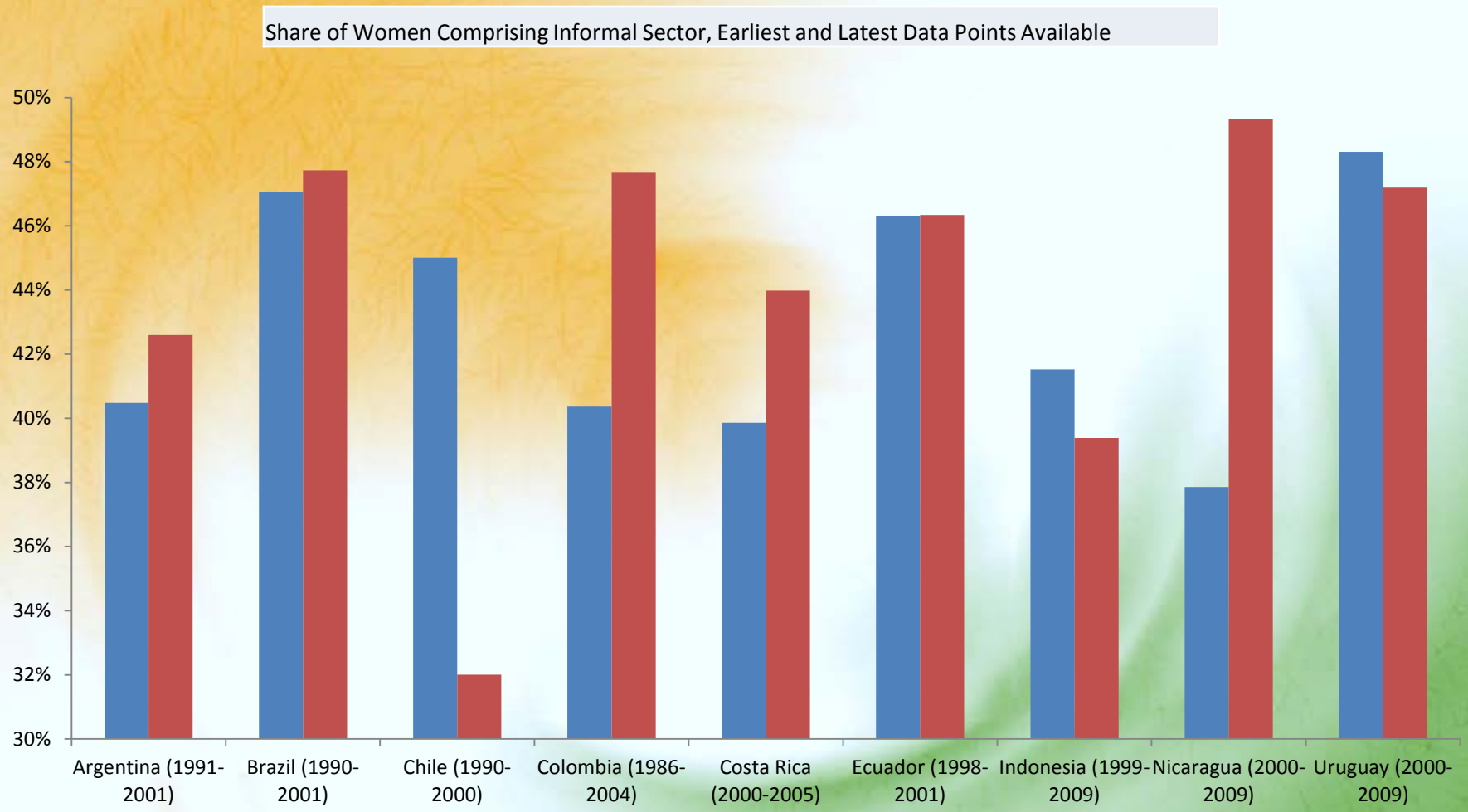
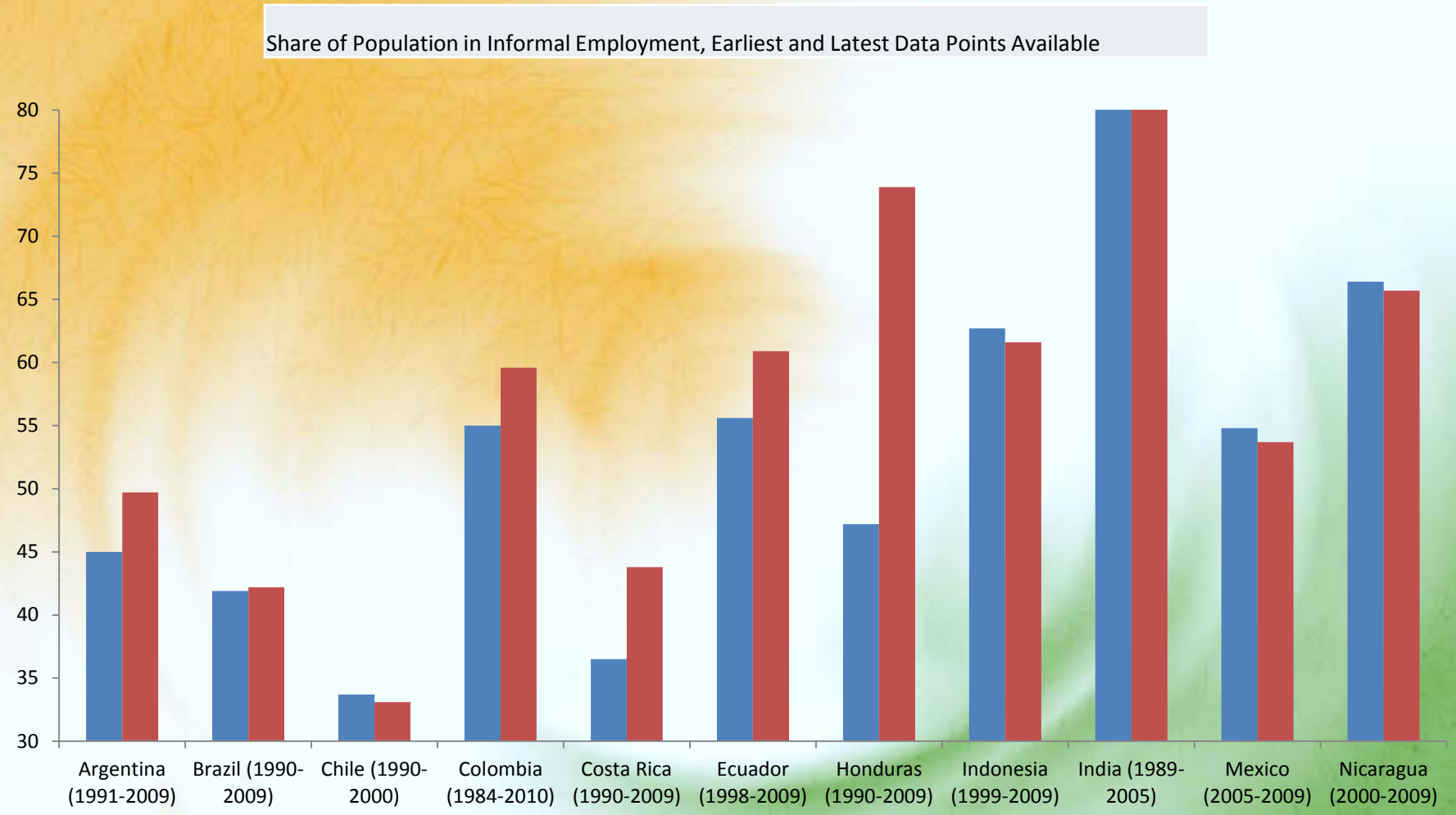
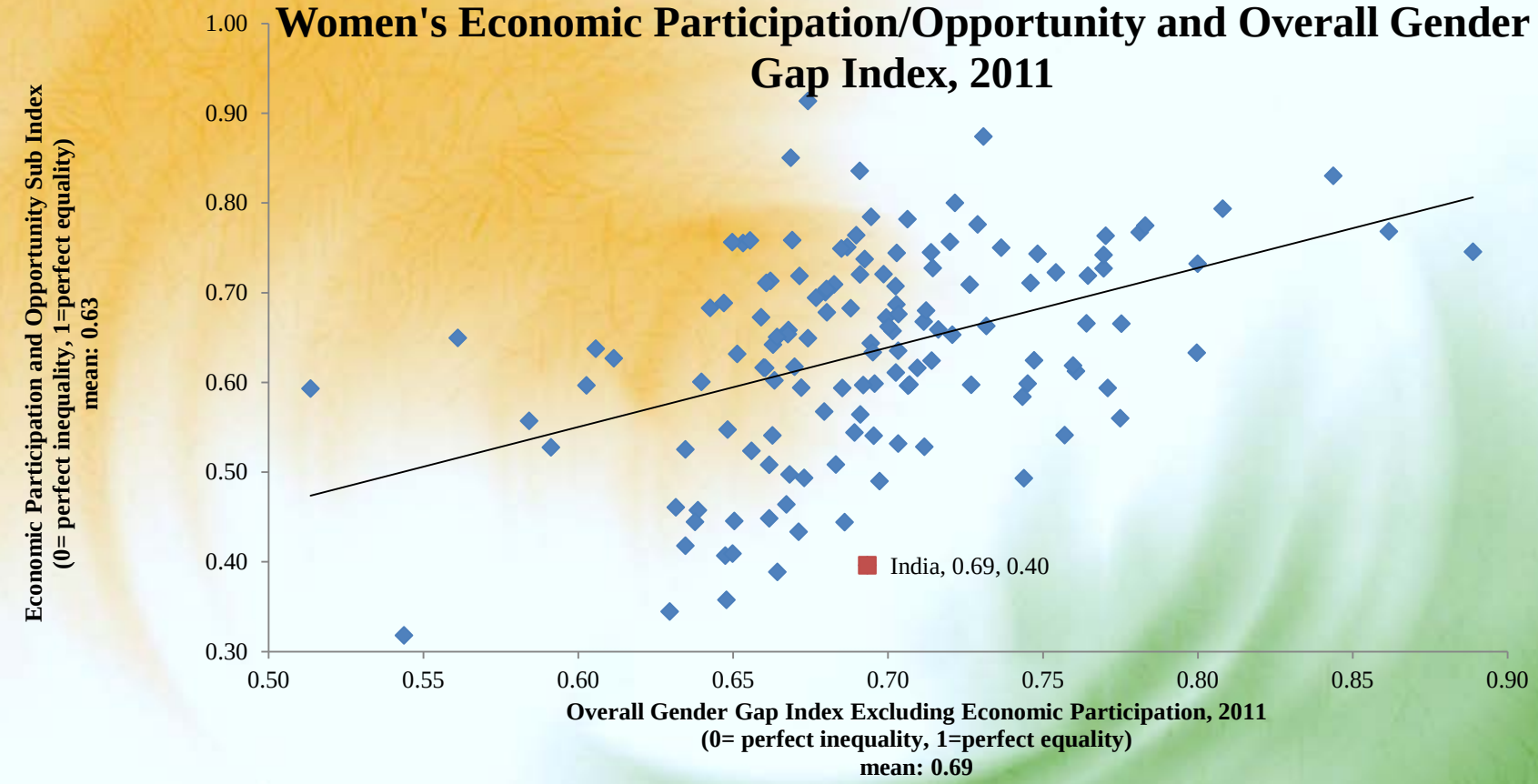
Most women work in the informal sector. Millions more have joined the labor force during last two decades.



The informal sector is much larger in India



But women's economic participation still remains low in India. Very low.



Source: Hausmann, Ricardo, Laura D. Tyson and Saadia Zahidi, The Global Gender Gap Report 2011. World Economic Forum. Geneva, Switzerland (2011).

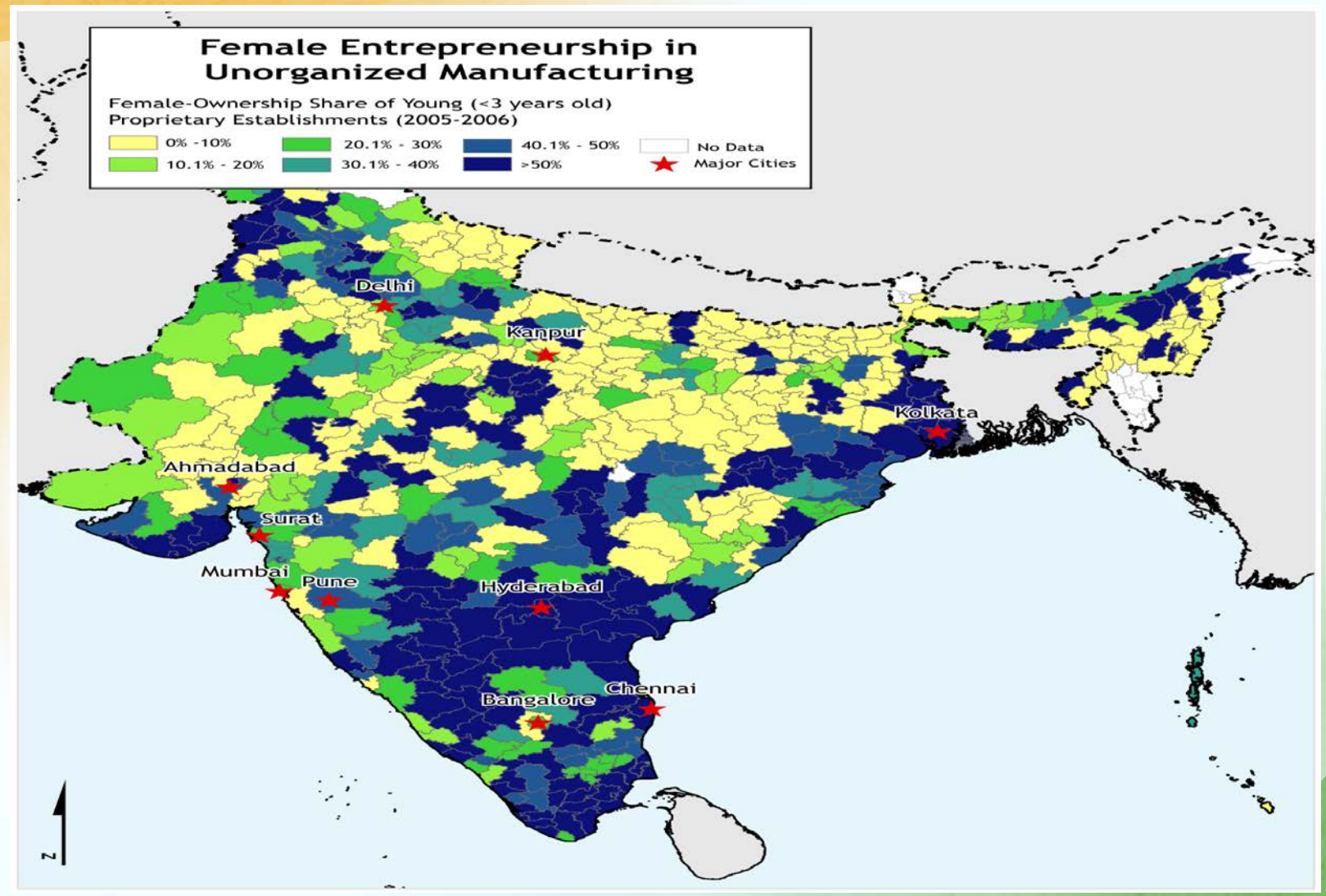
Why such huge gender disparities despite rapid economic growth?

- **India's score for women's economic participation and opportunity is worse than 95% of all countries.**
- **Why does India, despite being the second fastest growing economy in the world, suffer from deep and persistent gender disparities**?
- **What explains these gender disparities**? Is it poor infrastructure, limited education, or the composition of the labor force and industries?
- **Is it deficiencies in social and business networks** and a low share of incumbent female entrepreneurs?

Examining micro data on female entrepreneurs

- In a recent paper, Ghani, Kerr, and O'Connel, we explore the factors that encourage female entrepreneurship in India. A representative sample of the Indian economy was captured using micro-data on the unorganized manufacturing and services sectors during 2000-01 and 2005-06, respectively.
- From the survey data, we are able to identify the presence of new entrants as well as the gender of the owner of proprietary establishments. This information was analyzed to develop relative rates of female entrepreneurship and business ownership at the district-industry-year level, visually represented in Figure 2 by district.
- The female ownership rates across major cities have a distribution that is mostly similar to the distribution across states.
- The districts containing India's major cities have higher than average rates of female entrepreneurship. Karnataka, Kerala, and Tamil Nadu have relatively high female business ownership rates in unorganized manufacturing, with an average female establishment ownership rate exceeding 45 percent. In contrast, Delhi, Bihar, Haryana, and Gujarat have low female ownership and entrepreneurship shares.
- Within the manufacturing sector, female ownership shares are highest and typically exceed 50 percent in industries related to chemicals and chemical products, tobacco products, and paper and paper products. At the opposite end, female ownership shares are 2 percent or less in industries related to computers, motor vehicles, fabricated metal products, and machinery and equipment.

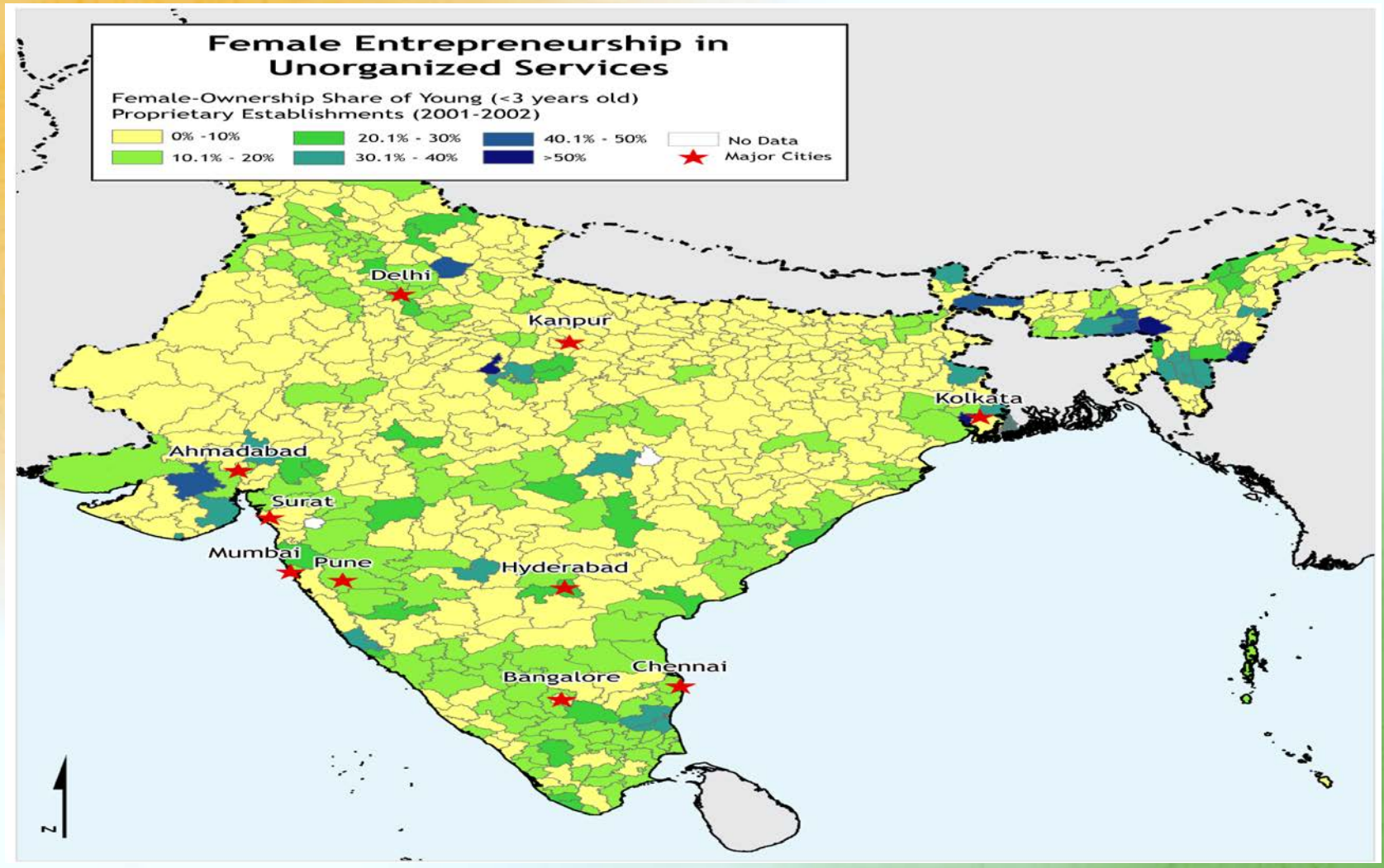
Female Entrepreneurship in Unorganized Manufacturing



Female Entrepreneurship in Unorganized Service

- In the service sector, female ownership rates in major cities tend to be higher than overall state averages.
- The states with the highest female service sector ownership rates are Kerala, Tamil Nadu and Andhra Pradesh, with average female ownership shares exceeding 12 percent.
- The lowest female ownership rates are in Rajasthan, Bihar, Orissa and Uttar Pradesh, each with 6 percent or less. The average female business ownership share, with and without employment weights, was between 8 percent and 9 percent for 2001 and 2006, respectively.
- Among service industries, female ownership shares exceed 30 percent in industries related to sanitation and education. Industries related to research and development, water transport, and land transport have the lowest female ownership rates, at 1 percent or less.

Female Entrepreneurship in unorganized Services



So what drives the gender balance of new enterprises in informal sectors?

- The data on female business ownership was translated into metrics that combine the incumbent industrial structures of cities, with the extent to which industries interact through clustering or agglomeration mechanisms (Marshall 1920).
- Essentially, these metrics condense complex local industrial structures and agglomeration economies into simple indicators, looking at the suitability of a given area for an industry in terms of local labor force compatibility or input-output relationships. T
- The metrics are developed separately using female- and male-owned incumbent businesses to identify how gender-specific agglomeration benefits affect new enterprises

Drivers of new female entrepreneurship in India

Unconditional estimations of female entrant share manufacturing and service sectors

	Manufacturing (2005-06)	Services (2001-02)
log female-owned incumbent businesses in district	+++	++
log female-owned incumbent businesses in district-industry	+++	+++
District Traits:		
Female literacy rate	0	++
Sex ratio	+++	0
Population density	---	--
Education level	0	0
Age profile	+	+
Infrastructure level	+++	++
Labor regulations stringency	+	++
Local Industrial Conditions of Incumbent Firms:		
Index of labor market strength, female-owned businesses	+++	n/a
Index of input-output strength, female-owned businesses	+++	n/a
Observations	4,336	4,458
Adjusted R-squared	0.328	0.220

Source: Authors.

Infrastructure matters for women entrepreneurs

- Inadequate infrastructure affects women more than men, because women often bear a larger share of the time and responsibility for household activities.
- While the within-district infrastructure quality is important, access to major cities is not found to influence the gender balance. Transport infrastructure and paved roads within villages are especially important.
- Better transport infrastructure may alleviate a major constraint for female entrepreneurs who wish to access markets.

Networking is even more important.

- **The agglomeration metrics suggest that female connections in labor markets and input-output markets contribute to a higher female entry share**. A one-standard deviation increase in either of these incumbent conditions correlates with a 2%-3% increase in the share of new entrants that are female. This compares to a base female entry ratio of 21%.
- **Most of the basic district-level linkages observed for manufacturing continue for services**. Somewhat surprisingly, a higher female entry ratio is not associated with a greater female sex ratio in the district, but female literacy rates and general education levels are more predictive. This link may be due to services being more skill intensive than manufacturing in India (Ghani 2010). Stronger female-owned incumbent businesses again predict a greater female entrepreneurship in service industries.
- **Female entrepreneurship follows from incumbent female-owned businesses in a district-industry that encourages subsequent entry**. 'Marshallian channels' are important.
- **Cities provide the ecosystem and generate agglomeration economies in the informal sector**. Most empirical studies on cities and agglomeration economies have focused on developed economies and formal sectors. But there is emerging evidence that agglomeration economies in developing countries also operate in the informal sector. Perhaps even more strongly.
- Related to the agglomeration economies, is the fact that entrepreneurs often find it difficult to work with large, vertically-integrated suppliers, and small entrepreneurs work better with many more small entrepreneurs.
- **A diverse and large number of entrepreneurs in garment industry in New York made it more competitive. Pittsburgh with one large and vertically integrated steel factory has become a ghost town**.

Just like what happened in USA.

Chinitz contrasted agglomeration in textile industry in New York and steel production in Pittsburgh. Latter became a ghost town

SOURCE: Ed Glaeser

Gender awakening, urbanization, network effects, and informal sectors

- The networking **effects** of potential labor/input/output networks is higher for women owned enterprises.
- **Networking makes up for market failures and exclusion faced by informal sectors and women owned enterprises**.
- Can high agglomeration economies co-exist with low productivity in women owned informal sectors?
- These networks are not LARGER for women than men, although the impact of network is much larger for women owned enterprises.

Promoting networking to promote shared prosperity

- Informal sector firms get excluded from markets, technology, inputs, etc. that are accessible to organized sector firms
- So informal firms rely on local networks to get over this market failure.
- This is especially important for female entrepreneurs— women may rely especially heavily on local networks to overcome various dimensions of exclusion they face.
- High networking can coexist with low productivity (actually, due precisely *to* the low productivity induced by market exclusion faced by informal and/or women-owned enterprises).
- Promoting networking in women owned enterprises can provide effective mechanisms to get over exclusion/market failure.

Conclusions

- Higher female ownership among incumbent businesses within a district-industry predicts that a greater share of subsequent entrepreneurs will be female.
- Higher female ownership of local businesses in related industries – e.g. similar labor needs, input-output markets – predict greater relative female entry rates even after controlling for the focal district-industry's conditions.
- The traits of local business owners in incumbent industrial structures thus influence the types of entrepreneurs supported and can help explain gender differences in Indian entrepreneurship.
- Women benefit from better access to education and infrastructure.
- Due to the nature of household responsibilities, inadequate infrastructure particularly affects women. The lack of specific transport infrastructure and paved roads within villages is a bottleneck, given the constraints in geographic mobility imposed by safety and social norms. Investment in local transport infrastructure may thus directly alleviate a major constraint to female entrepreneurs in accessing markets.

Conclusions

- More research is needed to understand how gender networks influence aggregate efficiency. An important message is that these links and spillovers across firms can depend a lot on common traits of business owners. Likewise, interactions between the informal and formal sectors may not be as strong as interactions within each sector. Further research needs to identify how these economic forces vary by the composition of local industry. This will be especially helpful for evaluating the performance of industry concentrations in developing economies and guiding appropriate policy actions.
- India's economic growth and development depend upon successful utilization of its workforce, both male and female.
- This note emphasizes the connection that female entrepreneurs have to favorable incumbent industrial structures, and the high degree to which existing female business ownership enables future female entry.
- While achieving economic equality sometimes requires tough choices (e.g., progressive taxation that may discourage effort), the opposite is true in the case of gender. Unlocking female empowerment and entrepreneurship is a direct path to a more dynamic economy and sustainable growth.
- The lesson from many developed and developing countries is that underinvestment in infrastructure, human capital, institutions, and networking reduces long-term growth. It also blocks gender parity.

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