Gendered Access to Finance

The Role of Team Formation, Idea Quality, and Implementation Constraints in Business Evaluations

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Motivation: Female Entrepreneurship and Access to Finance

Access to finance crucial for unleashing the potential of entrepreneurship (Udry & Anagol, 2006; De Mel et al., 2009, Banerjee et al., 2015, Cai & Szeidel, 2022)

- Firms rarely grow beyond subsistence size (Hsieh & Olken, 2014)
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Women's access to finance is particularly constrained

- Equity Financing
    - Lack necessary financing to start a business (OECD, 2017)
    - Challenges in attracting external equity (Ewens & Townsend, 2020; Hebert, 2020)
- Debt Financing
    - Smaller loan amounts (Agier & Szafarz, 2013; Bellucci et al., 2010; Demirguc-Kunt et al., 2018)
    - Higher interest rates (Asiedu et al., 2012)
    - More likely to be denied a loan (Morazzoni & Sy, 2022)
    - Required to provide more loan guarantees (Brock & De Haas, 2023)

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    - Required to provide more loan guarantees (Brock & De Haas, 2023)

$\Rightarrow$ Is the gap driven by demand or supply factors?
   Is there potentially a gender bias and what are its underlying mechanisms?

Our project

- Study gender bias and its underlying mechanisms on the **supply-side** of access to finance
  - Cooperation with one of the largest commercial banks in Uganda
  - Pre-registered lab-in-the-field experiment with 451 loan officers (LO)

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  - Exogenous variation in the gender of the entrepreneurs and their team formation
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$\Rightarrow$ Do loan officers evaluate male and female business projects differently?
And if so, is the bias ...
    - ... located at the evaluation of business idea or the perceived implementation constraints?
    - ... more prevalent for teams or individual entrepreneurs?
    - ... driven by animus against female businesses?

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Contributions

Gender discrimination in entrepreneurial finance

- Gender bias in access to finance (Asiedu et al., 2012, Agier & Szafarz, 2013; Bellucci et al., 2010; Demirguc-Kunt et al., 2018, Ewens & Townsend, 2020, Morazzoni & Sy, 2022)
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Determinants and biases in predicting business success

- Prediction of entrepreneurial success is difficult, for both human experts and state-of-the-art machine learning approaches (Fafchamps & Woodruff, 2017; McKenzie & Sansone, 2019)
- Subjective evaluations and information-scarce credit markets allow for bias and favoritism (Blanchflower et al., 2003, Fisman et al., 2017; Beck et al., 2018; Macchi 2023)

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Underlying sources of gender bias in access to finance

- Taste-based (Becker, 1957) or belief-based (Arrow, 1973; Phelps, 1972) discrimination (Gonzales Martinez et al., 2020; Montoya et al., 2020; Macchi, 2023)

Experimental Design

Experiment: Overview

Setting

- Loan officers in Uganda evaluate a set of business pitch decks
- Pitch decks from real-life start-up businesses

Exogenous Variations

1. Gender of the entrepreneur
2. Formation of entrepreneurial teams
   ⇒ Disentangle gender bias in evaluation of business idea vs. implementation constraints

Business Evaluations and Outcomes

- Business evaluations incentivized using actual business performance
- Costly screening
- Non-incentivized beliefs about business idea quality and business performance

Conceptual Framework

- Business pitch is presented with **founder** and **implementer**
  - Founder and implementer may or may not be the same person
- Perceived success (B) as a function of initial idea quality (Q) and idea implementation (I)
- Both success parameters are gender-specific $g = M, F \Rightarrow B(Q_g, I_g)$

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Exogenous Variation

- We vary both **the founder's and the implementer's gender** (male/female)
- We vary whether the business is proposed by a **team of two entrepreneurs or an individual**

Founder

Founder

Green Market
Promoting agriculture through bringing Market closer to farmers

Founder

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Implementer

Founder

Implementer

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Revelation of Founder

Bin Daily is a business idea originated by ☐ during the entrepreneurship academy.

☐ is 27 years old and has a bachelor in business administration and information technology from Kampala International University.

In the next pages, you will able to see the idea that presented at the end of the entrepreneurship academy.

Take your time to go over 's idea.

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[←]   [→]

▶ Design Visual

[Similar revelation of the implementer.]

Experiment: Evaluation Metrics

1. Investment decision [for each pitch deck]
    - Invested amount [0-5,000 UGX]
    - Incentivized based on real-life business performance 1.5 years after pitching
    - Investment is doubled, if business reports positive profits; lost otherwise

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   - Acquire additional information on entrepreneur(s) and their business

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4. Secondary outcomes (non-incentivized)
   - Idea quality
   - Beliefs about profits

Results

Results: Gender Bias for Individual Entrepreneurs

Result 1: *Loan officers invest less in businesses of individual female entrepreneurs.*

Table 1: Investment Decision

Investment		Gender bias		LO gender		Experience	
	(1)	Low (2)	High (3)	Female (4)	Male (5)	Low (6)	High (7)
Female Entrepreneur	-245.24**	-139.47	-355.85**	-289.02	-202.74	-265.18	-233.11
	(119.28)	(169.03)	(170.25)	(179.75)	(160.33)	(184.96)	(161.94)
Mean Dep. Var.	3,490.7	3,342.1	3,656.9	3,333.3	3,609.8	3,442.7	3,529.2
Observations	451	234	217	201	250	199	252

Notes. OLS Regressions. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

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- Prediction of business failure 4 percentage point higher ($p=0.063$) for female businesses (18.2 % of the failure prediction of males)

▸ Prediction of Failure   ▸ Distribution

Results: Gender Bias for Individual Entrepreneurs

Result 2: *Female entrepreneur's business is less likely selected as the best business.*
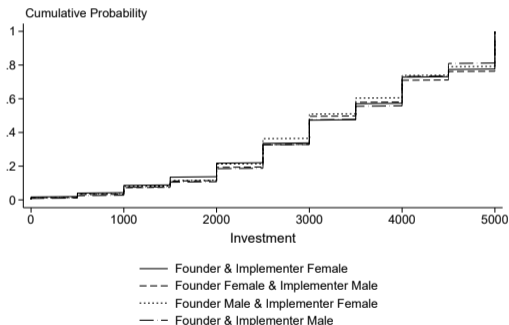
Probability: Best Business
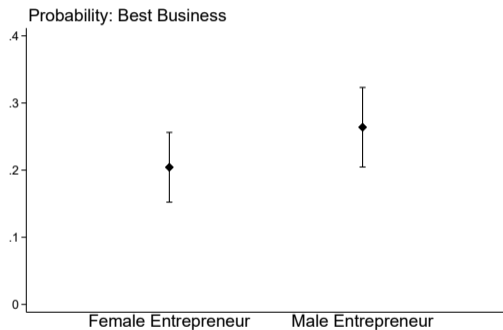
- Female businesses 7 percentage points less likely selected as the best relative ($p =$0.052)
- Reduction of 27 % of the average of a male entrepreneur's business (26 %)
- Results more pronounced for high gender biased, female and unexperienced loan officers

▶ Regression Analysis

Result 3: *No systemic gender bias of loan officers when evaluating entrepreneurial teams.*

Cumulative Probability

Investment

— Founder & Implementer Female
- - - Founder Female & Implementer Male
······ Founder Male & Implementer Female
— - Founder & Implementer Male

- No significant difference for
  - female founder
  - female implementer
  - female teams
- Very small point estimates ($< 2\%$ of the mean of the dependent variable)
- No heterogeneous effects by loan officer's gender bias, gender, or experience
  ▸ Regression Analysis

## Results: Gender heterogeneity affects selection of top-performing business

Result 4: *No systemic gender bias when selecting the best business of entrepreneurial teams.*

Result 5: *Loan officers prefer same-gender teams when selecting the best business.*

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Probability to Choose as Most Profitable

▶ Regression Analysis

Results: Robustness
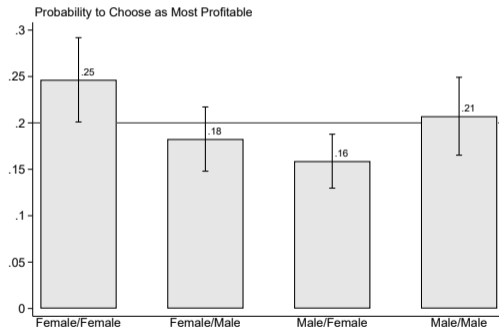
Patterns in responses consistent across different variables for project quality

- Positive correlation b/w investment, idea quality, and selecting the business as the most profitable (all $p <$0.01)
- Negative correlation b/w investment and the probabilistic belief of whether the business has failed ($p <$0.01)

Sufficient variation across pitch decks

- Investments ranging from 3,065 UGX to 3,460 UGX ($p < 0.01$)
- Ceiling or floor effects thus cannot explain the null result

Robust to only considering the first choice/pitch deck

Robust to excluding least accurate/attentive participants

Mechanisms

Taste-based vs. Belief-based Discrimination?

- Is there gender bias in costly screening?
- Is idea quality rated differentially by gender?
- Is there a general bias against individual entrepreneurs as opposed to teams?

Result 6: *No gender bias in requesting additional information.*

Costly screening

- Surprise chance to re-evaluate investment decision for payoff-relevant project
- Option to request additional information, e.g., external finance, sales
- Lack of information about female businesses should lead to costly screening on information deemed relevant IF prior beliefs can be adjusted

No difference between female and male entrepreneurs (individuals AND teams)

▸ Regression Analysis: Individuals   ▸ Regression Analysis: Teams

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We cannot detect belief-based discrimination ....

Results: Gender Bias for Individual Entrepreneurs

Result 7: *No different perception of quality of male and female business ideas.*

Table 2: Idea Quality [Individual Entrepreneurs]

	Idea Quality (0-100)				
	Round/Deck 1 (1)	Round/Deck 2 (2)	Round/Deck 3 (3)	Round/Deck 4 (4)	Round/Deck 5 (5)
Female Founder	.6 (4.1)	-1.8 (5.2)	-4.9 (4.8)	4.6 (4.0)	-6.2 (3.9)
Mean Dep. Var.	69.12	63.30	71.05	74.05	75.85
Observations	86	81	92	85	107

Notes. Idea quality is an index based on two questions: *1) Does this business idea meet a need or solve a problem in Uganda?* and *2) Is there a market for this business idea in Uganda?* Participants rated their agreement on a scale ranging from 0 (*completely disagree*) to 100 (*completely agree*). *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

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... BUT no indication for taste-based discrimination for the business idea itself
$\Rightarrow$ Strong beliefs about gender differences in **implementation ability and constraints**!

Result 8: *No difference in the evaluation between individuals and teams.*

Table 3: Teams vs. Individuals

	Investment (1)	Best Business (2)	Requested Info (3)	# Info (4)	P[failure] (5)	P[small profits] (6)	P[large profits] (7)
Individual	46.62	.04	.04	.07	-.69	.39	.29
	(62.18)	(.03)	(.06)	(.17)	(1.10)	(1.20)	(1.36)
Mean Dep. Var.	3317	.19	.39	.72	25	40	35
Observations	2255	2255	451	451	2255	2255	2255

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Results: No Difference in the Evaluation of Individuals and Teams

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Mean Dep. Var.	3317	.19	.39	.72	25	40	35
Observations	2255	2255	451	451	2255	2255	2255

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Team formation alleviates concerns about female implementation ability and constraints

Conclusion & Implications

Conclusion

Take-Aways

1. Gender-bias in evaluation of individual female entrepreneurs, not of entrepreneurial teams
2. No gender bias in costly screening or subjective idea quality assessment
$\Rightarrow$ Gender bias due to differential assessment of individual women's entrepreneurial ability and external constraints

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Why is there gender bias only for individual female entrepreneurs?

- Team signals commitment to business (Kelly et al., 2016)
  - Women more likely to open business out of necessity, teams less so
- Team overcomes gender incongruence-based bias (Brock & De Haas, 2023)
  - Positive selection? Signal cooperativeness? (Goldin, 2020; Ashraf et al., 2023)

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Generalizability of results

- Selection, attrition, naturalness, and scaling satisfied (List, 2020)
- Results comparable to Brock & De Haas (2023) in Turkey, scoring higher on financial development and gender equality indices

Policy Implications

Implications

- Belief-based discrimination on women's capabilities and implementation
  - ⇒ Are these beliefs correct or biased? If biased, how?
  - Crucial questions for designing policies to reduce bias!
    - If beliefs are correct: need to reduce structural disadvantages of female entrepreneurs
    - If beliefs are biased: need to provide information to correct beliefs

- Different gender bias for individual entrepreneurs vs. teams
  - ⇒ What drives this penalty? What are the implications?
  - Teams vs. individual entrepreneurs in general:
    - Start-ups of entrepreneurial teams are more profitable in high-income countries
    - Accelerators and incubators promote team creation
  - Credibly signalling team compositions becomes important
  - Possibilities to apply jointly for funding as an entrepreneurial team

I look forward to your questions and comments!

Appendix
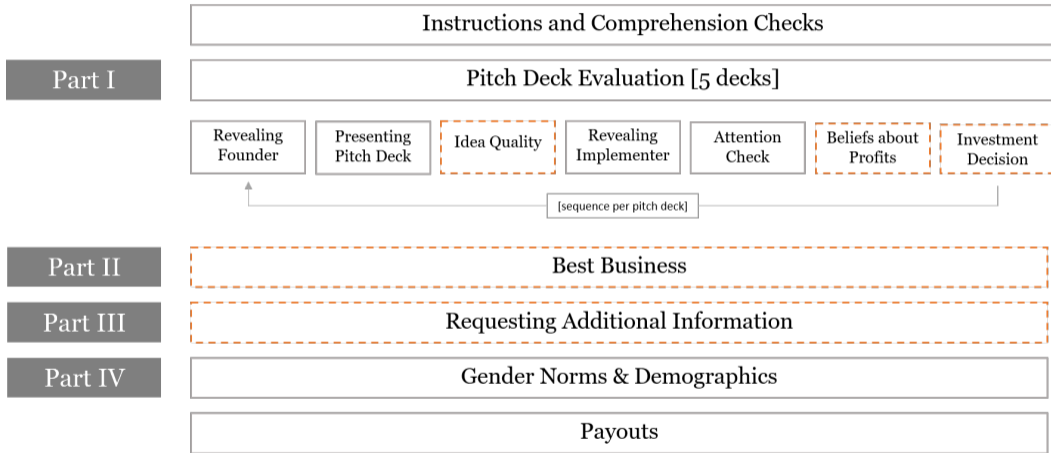
Result 1: *Loan officers invest less in individual businesses of female entrepreneurs than of male entrepreneurs.*

- Prediction of business failure 4 percentage point higher (p=0.063) for female businesses (18.2 % of the failure prediction of males)

Table 4: Beliefs about Business Success [Individual Entrepreneurs]

	P[failure] (1)	P[small profits] (2)	P[large profits] (3)
Female Entrepreneur	4.081*	-2.858	-1.223
	(2.187)	(2.210)	(2.568)
Mean Dep. Var.	22.47	41.80	35.73
Observations	451	451	451

Notes. 100 points could be allocated among the three different scenarios. The question was phrased as follows: *What is the chance that this business idea will 1) fail within the first year, 2) survive the first year, but only make small profits, and 3) survive the first year and make large profits. Mean Dep. Var* indicates the mean of the dependent variable of the reference group. Standard errors are heteroskedasticity-robust and reported in parentheses. The table includes pitch deck FE in both Panels. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.
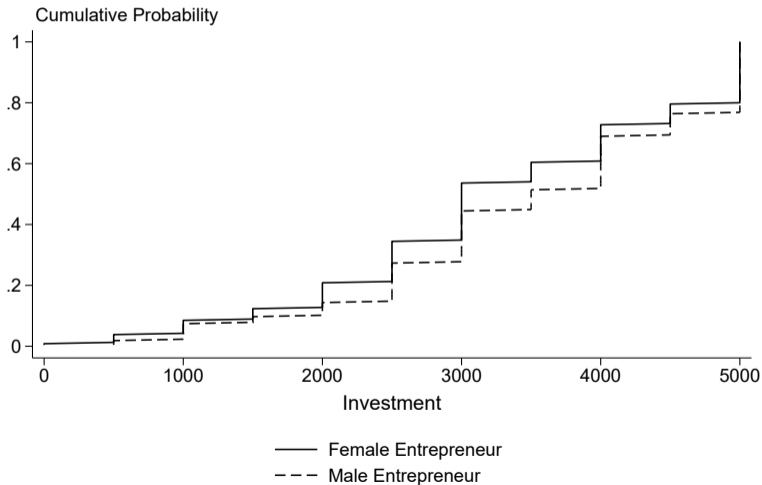
Result 2: *A female entrepreneur's business is less likely selected as the best relative to an otherwise identical business with a male entrepreneur.*

Table 5: Best Business Decission

Best Business		Gender bias		LO gender		Experience	
	(1)	Low (2)	High (3)	Female (4)	Male (5)	Low (6)	High (7)
Female Entrepreneur	-0.07*	-0.03	-0.11**	-0.10*	-0.04	-0.13**	-0.04
	(0.04)	(0.05)	(0.05)	(0.06)	(0.05)	(0.06)	(0.05)
Mean Dep. Var.	0.26	0.25	0.21	0.24	0.28	0.33	0.21
Observations	451	234	217	201	250	199	252

Notes. OLS Regressions. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Result 3: *No systemic gender bias of loan officers when evaluating teams in incentivized investment decisions.*

Table 6: Investment Decision

Investment		Gender bias		LO gender		Experience	
		Low	High	Female	Male	Low	High
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Female Founder	7.27	-179.28	201.81*	-86.33	77.00	-59.94	64.89
	(86.11)	(120.96)	(121.12)	(123.87)	(118.89)	(123.70)	(119.37)
Female Implementer	-59.54	-97.11	-27.13	-188.07	38.94	-110.85	-12.41
	(83.68)	(126.27)	(108.70)	(130.93)	(106.57)	(123.38)	(116.28)
Female Founder&Implementer	40.33	137.75	-54.46	209.18	-93.08	85.75	5.38
	(120.58)	(181.80)	(157.82)	(190.10)	(154.91)	(182.20)	(163.65)
Mean Dep. Var.	3,352.2	3,395.6	3,308.3	3,353.5	3,351.2	3,303.0	3,393.4
F-Statistic	.017	1	.91	.25	.031	.43	.2
P-value	.9	.31	.34	.62	.86	.51	.66
Observations	1804	936	868	804	1000	796	1008

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Result 4: *No systemic gender bias of loan officers when evaluating teams in best business decision.*

Result 5: *Loan officers are more likely to select an idea as the best when it comes from a team of the same gender.*

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	(0.03)	(0.04)	(0.04)	(0.05)	(0.04)	(0.04)	(0.04)
Female Implementer	-0.02	-0.04	-0.00	-0.09*	0.03	-0.06	0.01
	(0.03)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Female Founder&Implementer	0.08**	0.14**	0.03	0.18***	0.00	0.08	0.09
	(0.04)	(0.06)	(0.06)	(0.06)	(0.05)	(0.06)	(0.06)
Mean Dep. Var.	0.21	0.23	0.18	0.27	0.16	0.21	0.21
F-Statistic	2.4	.27	2.5	.43	2.2	.15	3
P-value	.12	.6	.12	.51	.14	.7	.086
Observations	1804	936	868	804	1000	796	1008

Notes. OLS Regressions. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Standard errors clustered at the individual level.

Table 8: Requesting Information Items [Individual Entrepreneurs]

	1[Request additional information]								
	Requested info (1)	# items (2)	Team Member (3)	References (4)	Experience (5)	Network (6)	Family F. (7)	External F. (8)	Sales (9)
Female Entrepreneur	.061 (.104)	.043 (.264)	-.009 (.064)	-.027 (.041)	-.007 (.056)	-.029 (.052)	.040 (.055)	.062 (.058)	.011 (.073)
Mean Dep. Var.	.37	.72	.12	.1	.1	.097	.046	.097	.15
Observations	86	86	86	86	86	86	86	86	86

Notes. OLS Regressions. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 9: Requesting Information Items [Teams of Entrepreneurs]

	1[Request additional information]								
	Requested info (1)	# items (2)	Team Member (3)	References (4)	Experience (5)	Network (6)	Family F. (7)	External F. (8)	Sales (9)
Female Founder	-.10	.08	.05	-.03	.06	.05	.02	.00	-.07
	(.08)	(.23)	(.05)	(.05)	(.05)	(.04)	(.03)	(.04)	(.06)
Female Implementer	-.09	-.04	-.01	-.04	-.01	.02	.01	.02	-.03
	(.07)	(.19)	(.05)	(.05)	(.04)	(.04)	(.03)	(.04)	(.06)
Female Founder&Implementer	.17	.11	-.02	.01	-.00	-.04	.01	-.01	.15
	(.11)	(.34)	(.07)	(.06)	(.07)	(.06)	(.05)	(.07)	(.09)
Mean Dep. Var.	.39	.75	.13	.094	.097	.083	.055	.1	.19
F-Statistic	.0335	.342	.168	1.03	.82	.382	.934	.126	.364
P-value	.855	.559	.683	.311	.366	.537	.334	.723	.546
Observations	365	365	365	365	365	365	365	365	365

Notes. OLS Regressions. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

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