



Political reservations and women's entrepreneurship in India



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ARTICLE INFO

Article history:

Received 27 October 2012

Received in revised form 13 January 2014

Accepted 20 January 2014

Available online 28 January 2014

JEL classification:

D22

E26

H11

J16

L10

L26

L60

M13

O10

R00

R10

R12

Keywords:

Women

Female

Gender

Entrepreneurship

Political reservations

Development

Informal sector

India

South Asia

ABSTRACT

We quantify the link between the timing of state-level implementations of political reservations for women in India with the role of women in India's manufacturing sector. While overall employment of women in manufacturing does not increase after the reforms, we find significant evidence that more women-owned establishments were created in the unorganized/informal sector. These new establishments were concentrated in industries where women entrepreneurs have been traditionally active and the entry was mainly found among household-based establishments. We measure and discuss the extent to which this heightened entrepreneurship is due to channels like greater finance access or heightened inspiration for women entrepreneurs.

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1. Introduction

The implementation of political reservations for women in India has been proven to affect many aspects of the economic, political, and social lives of women. A brief review, which we expand upon further below, links these reservations to greater local investment in infrastructure and related public goods valued by women (Chattopadhyay and Duflo, 2004b), improved perceptions of women by men when exposed to

women in leadership roles and greater aspirations for younger women (Beaman et al., 2009, 2012), greater reporting of crimes against women (Iyer et al., 2012), and more. Moreover, the available evidence suggests that these effects persist (e.g., Deininger et al., 2011). This literature is among the most powerful evidence assembled for the significant economic benefits of gender equality (Duflo, 2005, 2011; Klapper and Parker, 2011; World Bank, 2012).

This paper contributes to the literature by looking at an under-explored issue of the link between political and economic empowerment. What role, if any, have these political reservations had for women's participation in the workforce? Despite the many positive impacts associated with these reforms, their contributions to promoting women's engagement in the local economy remain uncertain. These

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relationships are critical for identifying the short- and long-term impact of such policies. Significant empowerment of women in the workforce and as business owners may be the strongest mechanism possible for entrenching and amplifying the positive impacts associated with these political reservations.

We consider in particular the role of women in the manufacturing sector from 1994 to 2005. The unorganized sector of Indian manufacturing is comprised of establishments with fewer than 10 employees (or fewer than 20 if the establishment does not use electricity). Our data report gender-based ownership and employment in unorganized manufacturing establishments by state and industry in 1994, 2000 and 2005. The unorganized sector is of particular interest as it has constituted approximately 99% and 80% of total manufacturing establishment counts and employment in India consistently since the early 1990s. We also observe gender-based employment in the organized sector, which is comprised of all plants above the indicated employment thresholds. On the whole, the female ownership share of Indian manufacturing business more than doubled during our period of study: in 1994, female-owned businesses comprised 9% of total manufacturing employment; by 2005, this share had grown tremendously to 19% (Ghani et al., 2013c). Therefore it is of crucial importance to understand more deeply the factors that have contributed to this sharp emergence of female entrepreneurship and business ownership over a relatively short time period.

Our empirical strategy follows Iyer et al. (2012) by using differences in the timing of the implementation of reservations across Indian states. We conduct a panel analysis at the state-industry level that allows us to exploit this state-level timing variation and differences in traits across industries. Industries are defined at the three-digit level within the manufacturing sector. Empirical results yield a mixed message regarding the extent to which these reforms improved women's participation in the workforce. On one hand, we do not identify that women's employment in manufacturing increased after the implementation of reservations. This limited response is true in both the unorganized and organized sectors, is observed in multiple datasets, and it holds for employment in both female- and male-owned establishments.

On the other hand, we find significant evidence that women's entrepreneurship in India increased with the implementation of political reservations. This increase occurs with a state-level timing that follows the implementation of the reservations, and the growth persists even after controlling for contemporaneous male entrepreneurship by state-industry. We also show that the state-level timing of the implementations was not linked to pre-existing differences in entrepreneurship by state, further adding to the plausible exogeneity introduced by Iyer et al. (2012), and that there is no evidence of pre-trends in the age structures of women-owned manufacturing businesses in 1994. We describe below, however, some important limitations in the degree to which we can fully measure pre-trends, with our evidence often being indirect.

We also see evidence of this entrepreneurship response when looking along state borders as to how long adjacent district pairs have been exposed to the reservations. This state border strategy helps with omitted concerns, but it is not a panacea for all potential identification challenges. The approach better controls for local differences in income, climate, culture, social norms, and demographics, for example, to the degree to which these factors are common between neighboring districts. Also, the approach requires that identification come through differential changes for states on one border versus another that are appropriately timed with the adoption of reservations. However, the approach may not isolate the impact of the reservations from other changes that states may have made with similar timing. Thus, if the political reservations were consistently bundled into a package of reforms implemented by states (e.g., alongside large independent investments in women's education), the border approach will not be able to differentiate the specific role of the reservations.

We further investigate the channels through which this entrepreneurship flourishes. The heightened start of women-owned establishments is

concentrated in industrial sectors in which women have traditionally owned establishments. Equally as important, the greater entrepreneurship is mostly concentrated in household-based enterprises, rather than establishments opening as independent facilities.

We then discuss the potential channels through which this effect occurs, providing both quantitative and qualitative evidence. We do not find much evidence that the entrepreneurship is linked to changes in reporting or to greater access to government-sponsored contracts and business. Likewise, improved financing conditions appear to play a modest role, as the increase in female-owned loan-holding establishments is weaker than the total effect registered and suggests that financing accompanied the increased entry rather than caused it. We then discuss how entry patterns could be consistent with increases at the local level of public goods and infrastructure favored by women (e.g., Besley et al., 2004; Chattopadhyay and Duflo, 2004a, b; Pande, 2003) or greater aspirations of women towards entrepreneurship (e.g., Beaman et al., 2012). We discuss how these stimuli could have produced the industry patterns observed, to the extent that women entrepreneurs built upon sectors where women have traditionally been active (e.g., Ghani et al., 2013b) and at a household-based scale of operation that was feasible to achieve.

This study contributes to three strands of academic literature. Most directly, our work connects to prior studies of the impact of political reservations for India and women's economic outcomes. To our knowledge, we are the first in this literature to quantify the entrepreneurship effects in a panel setting that uses state-level variation in implementation timings for identification, with Beaman et al. (2010) providing related evidence using micro-data from West Bengal.¹ Second, our work builds upon prior studies of gender differences in entrepreneurship² and studies of the spatial distribution of entrepreneurship in India.³ Third, and more broadly, we contribute to a larger literature on women's advancement.⁴

These findings are also important for Indian policy makers and business leaders. By 2011, India had achieved significant acknowledgement for the level of gender parity in political participation and empowerment. For example, India ranked 19th out of 135 countries in women's political empowerment in the 2011 Global Gender Gap Report (Hausmann et al., 2011). Yet despite India's many economic advancements since liberalization began, the role of women in the Indian economy still lags well behind that of advanced economies. This paper quantifies the strengths and limits of the political reservations in closing this gap.

The next section of this paper describes the political reservations enacted in India and the state-level implementations that we exploit. Section 3 outlines our data and provides some basic descriptive statistics, and Section 4 provides evidence on the exogenous timing of the political reservations to the women's entrepreneurship that we study. Section 5 provides our core empirical analysis, and Section 6 discusses the potential mechanisms behind our results. The last section concludes.

¹ Beaman et al. (2010) show an increase in the number of self-help groups with their own bank accounts after the implementation of reservations, and that these groups had on average larger bank accounts. To the extent to which these self-help groups are associated with more entrepreneurship, this increase would be consistent with our findings. We further discuss this study below.

² Examples of this work include Rosenthal and Strange (2012), Estrin and Mickiewicz (2011), Minniti (2009, 2010), and Minniti and Naudé (2010). Parker (2009) and Klapper and Parker (2011) offer a comprehensive review of this literature and further references.

³ Ghani et al. (forthcoming) and Mukim (2011) provide spatial analyses of manufacturing entrepreneurship in India with our data, and Ghani et al. (2013a) consider gender differences in entrepreneurship for India specifically.

⁴ Examples include Mammen and Paxson (2000), Dhaliwal (2000), Mitra (2002), Ghosh and Cheruvalath (2007), Amin (2010), Field et al. (2010), Pillania et al. (2010), Jensen (2010), Verheul et al. (2006), Bruhn (2009), Munshi (2011), Kobeissi (2010), and World Bank (2008).

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