



Risk tolerance, gender and entrepreneurship : the Palestinian case

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In 2012, with the support of UK Department for international Development (DfID or UK Aid) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities for "Policy Analyses on Growth and Employment" (PAGE) in developing countries.

This brief summarizes the main features and outcomes of one of the projects selected for support under the 1st round of PAGE funding (2013-2014).

Researchers in Palestine seek to understand the causes of low entrepreneurial activity rates and related gender differences in Palestine

Entrepreneurship in Palestine

The current and particular situation of Palestine - in terms of geographic and political divisions, security controls, movement restrictions (on both people and goods/services), etc. - makes investment and entrepreneurship a high risk endeavour, especially for the poor. Moreover, the multiple layers of bureaucracy that result from such restrictions contribute to a higher cost of doing business and supply bottlenecks for start-ups, which lowers the expected rate of return on investment.

In face of so many obstacles, people are thus reluctant to invest and/or start a business, which may explain both the very low entrepreneurial activity rates and the very high rates of "fear of failure" (fof) in Palestine (see figure 1 below, sourced from GEM country reports 2009, 2010, 2012). Due to lack of available data, however, variables such as "fear of failure" are difficult to determine and analyze. The inclusion of countries similar to Palestine (in various aspects) may contribute to shed light on differences in the results.

According to further data from GEM reports, it seems that gender differences in both measures (of entrepreneurial activity and fear of failure) are also very large - where TEA rates for women are lower than men's, and women are relatively more afraid of failure. Investigation of the causes of these low activity rates and gender differences is an important issue to both policy makers and

investors alike. On the one hand, policies promoting entrepreneurship are currently at the heart of development strategies, in all regions of the world, because of the relation with and potential impact on innovation, job creation and growth. On the other hand, the role of women as entrepreneurial force, especially in developing regions, is crucial for both the social and economic development of a country.

In 2013, a team of local researchers were granted support from PEP to conduct a rigorous analysis of available data in order to understand the causes of low entrepreneurial activities and related gender differences in Palestine.

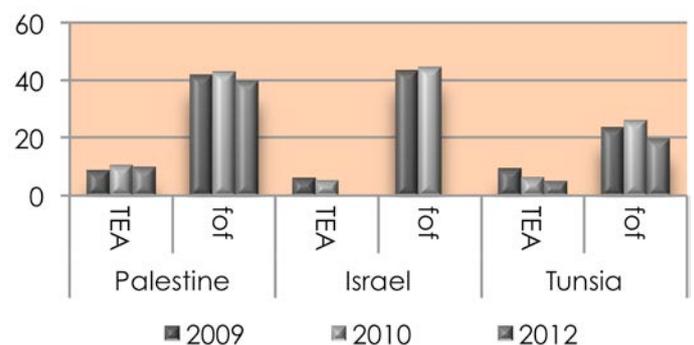


Figure 1. TEA and fear of failure (fof) rates across countries: Palestine, Israel and Tunisia

Source: GEM country reports 2009, 2010, 2012.

TEA rates: Total Early-Stage Entrepreneurial Activity (TEA), which assesses the % of working age population which is either about to start an entrepreneurial activity, or have already started one (max of 3,5 years), but have not paid wages yet.



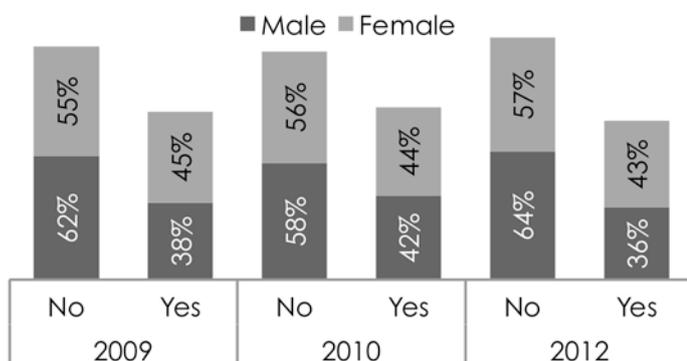
The objective of this PEP-supported study is to identify the specific factors that are significant in explaining or determining entrepreneurial activity rates in Palestine, and especially across gender, so as to inform policies that aim to promote or foster entrepreneurship in the country.

Methodology and data

The main hypothesis posed by the researchers at the onset of their investigation is “whether fear of failure (fof) is a significant factor in explaining gender differences in entrepreneurial activity rates in Palestine”. This ensues from the observation that women’s fof rates tend to be higher than men’s – e.g. 43% vs. 36% in 2012 GEM data (see below)– while their entrepreneurial activity rates are lower.

The micro data used to perform their analysis was collected through the Global Entrepreneurship Monitor (GEM) Adult Population Surveys (APS) data for 2009, 2010 and 2012. In addition to collecting information on entrepreneurial activities, the GEM surveys also include questions to identify those who will be stopped from starting a business by fear of failure (fof). The fof is used as a proxy for (or to infer the value of) risk tolerance; i.e. if fof is higher amongst women, women are thus assessed to be less “risk-tolerant” than men.

To analyze the data, the researchers used a combination of techniques and models – the conditional mixed process, mlogit and logit regression models -which deal with categorical data. By applying such models on the datasets, it is possible to measure how each characteristic of a person can affect, individually (i.e. by controlling for all other factors/characteristics), the propensity of entrepreneurship. The researchers thus also perform the analysis for both men and women separately, in order to assess whether fof has a differential impact along gender lines.



Key findings

Three different “investigations” were conducted, using the techniques mentioned above, to analyze the relation between entrepreneurship, gender and fear of failure.

On the one hand, fear of failure (fof) is found to be significant in lowering the probability of entrepreneurship (especially for GEM data of 2009 and 2010); i.e. the more risk aversion, the less entrepreneurial propensity. It is also found, for each year under study, that positive “skill perception” contributes to reduce significantly the predicted probability of fof. However, if being a female does increase the probability of “being afraid of failure”, the results show that gender itself is not significant in affecting the degree of a person’s fear of failure.

The gender gap in fof rates would thus be explained by “unobserved factors” – i.e. factors that cannot be captured by existing data.

On the other hand, the researchers’ results show that, after controlling for all other factors and characteristics, women are less likely to be entrepreneurs than men, and that this difference is, also, mainly due to “unobserved factors”.

Indeed, it seems that the gender gap in entrepreneurial activity rates cannot be explained by differences in fear of failure. Part of this gap can be explained by differences in other controlled factors – such as education, age, income and skill perception - but the results of the analysis suggest that most of it is due to “unobserved factors”. In other words, after controlling for all factors that are part of this analysis (i.e. captured by existing data), being a female still reduces the predicted probability of starting a business.

Figure 2. (to the left)
The fear of failure rates by gender in Palestine, 2009-2012

Source: APS data for Palestine, GEM reports for 2009, 2010 and 2012



Figure 3. Fear of failure rates (%) by skill perception (%) and gender in Palestine, 2009-2012

Policy implications

In Palestine, as in other countries, women are less likely to start a business than men; they also have lower skill perception and greater fear of failure. Although the results presented in this analysis are mixed in this regard, the researchers conclude that gender differences in fear of failure and entrepreneurial activities are caused by “unobserved variables or factors”.

For reasons pertaining to male / female equality and sustainability in socioeconomic development, policies are needed to promote and encourage female entrepreneurship and empowerment (i.e. to reduce gender gap in related activity rates).

To increase and/or publicly promote female education, access to finance, networking, economic opportunities, as well as sharing of household responsibilities, could help tackle some of the unobserved factors that influence women’s fear of failure and entrepreneurial initiatives. Such policies should also focus on those factors which are found to explain, at least in part, the gender gap in entrepreneurial activities; for example, policies aimed at improving women’s perception of their skills as potential entrepreneurs, either through education, networking, media coverage of success stories, etc.

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To find out more about the research methods and findings, read the full [PEP working paper](#) (forthcoming)

