Research Note
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Connections, Gender, and Access to State-Facilitated Private Sector Development: Evidence from a Field Experiment in Senegal

Authors: Abhit Bhandari

In developing countries, access to opportunities within the private sector are often unequally distributed. Advantages accrue to those with connections to the state or to those with privileged social status. The magnitude and location of where these factors precisely make an impact are less understood, however. In this project, I locate precisely where leakages occur by causally estimating the impact of political and social determinants of access to private sector development under unevenly enforced rule of law. I do so by implementing a field experiment in Senegal in which I create a registered business and randomise co-partisanship and gender during entrepreneurs' applications for valuable business permits at municipal councils. I find that co-partisan applicants deal with fewer steps in the application process and are more likely to successfully deposit their applications. Women are more likely to have their applications rejected immediately, despite following the same procedures as men. Once deposited, however, applications have an equally probable chance of conditional acceptance, suggesting that the initial point of access is where political and social factors are most valuable. By highlighting the specific areas along the institutional pathway where partisanship and gender are most influential, this study offers causal evidence to inform policy in reducing the barriers that entrepreneurs, particularly women, face in developing countries.

Introduction

International organisations and domestic governments alike tout the importance of the formal, private sector for sustainable economic growth (Williams and Round 2007). A formalised economy, among other benefits, implies a wider tax base, improved public goods provision, and better labour conditions, and is associated with faster economic growth (Fajnzylber, Maloney and Montes-Rojas 2011; Levy 2010; van Elk and de Kok 2014; Gatti et al. 2014).[1]

But in places where the rule of law is weak or selectively enforced, certain groups have privileged access to the formal sector (Sanchez de la Sierra 2021). Political and social privileges can facilitate access to the limited resources of cash-strapped governments, or may help to circumvent the bureaucratic red tape that holds up the average entrepreneur. If the benefits of this development accrue solely to privileged groups, the private

[1] See Joshi, Prichard and Heady (2014) for a review of these debates.

sector may not serve as an engine for equitable and sustainable growth as policymakers claim. Given the rapidly shifting nature of African economies, coupled with global emphasis on bolstering low-income countries' formalised private sectors, addressing who has access to the private sector—and, crucially, who does not—is important for ensuring equitable development.

In this project I focused on the impact of two commonly understood sources of bias in the private sector of developing countries: co-partisanship and gender. Existing work has demonstrated the value of partisan connections for businesses, particularly where the rule of law is not enforced equally (e.g., Fisman 2001; Szakonyi 2018; Bhandari 2022). Political connections lead to better access to credit (Khwaja and Mian 2005), preferential treatment from courts (Lu, Pan and Zhang 2015), as well as more highly valued companies (Faccio 2006). Gender bias, by contrast, has been shown to stymie women's advancement in the formal sectors of developing countries (Lince 2011). Despite comprising a large percentage of the rising entrepreneurial class in Africa (Kyalo and Kiganane 2014), women are met with roadblocks at higher rates than men.

Research often takes it as given that political and social privilege leads to preferential access to state institutions. Indeed, this is an assumption that grounds much of the literature on clientelism (see Hicken 2011 for a review). Knowing the right people yields preferential personal outcomes, especially in business. However, the magnitude of the impact of this privilege on private sector access remains untested, as does the precise location in the causal chain where bias operates. Do political and social privileges lead to higher rates of approval for valuable permits and licenses? Or do they help only with getting one's foot in the door of the institutions that gatekeep access to the private sector?

Context and Methodology

To answer these questions, I conducted a field experiment in Senegal using a real business environment. I registered a sales firm with Senegal's primary business authority and then hired employees to apply for business permits at municipal councils in Dakar. For each business permit application, I randomised the gender and partisanship of the applicant. I collected outcomes at both the application stage and the follow-up stage to identify precisely where along the process social and political privileges may have an impact.

Senegal posed a useful context for testing these hypotheses in light of recent policies that have lowered the barriers to entry for registering firms, as well as the complex interaction of formal and informal influences in its business environment. Particularly in Dakar, municipal town halls exert significant control over valuable business permits for which new business owners must apply in order to expand their operations. These governmental units thus serve as de facto gatekeepers to advancement and consolidation in Senegal's private sector.

Main Findings

The results of the field experiment first demonstrate that co-partisanship confers significant advantages to applicants that interact with bureaucrats controlling permits. Co-partisan applicants require fewer visits to submit their applications, are more successful in ultimately depositing their applications, and are more likely to reach the next stage of the application process. Co-partisan applicants also tend to speak to more people at the council where they submit their applications. Detailed descriptive data of the employees' application processes reveal that this is because they are more likely to be referred to multiple people at the council in order to submit their application successfully. Non-co-partisan applicants, by contrast, are more likely to encounter dead ends with staff members who are unwilling to connect them further.

Second, the results shed light on the barriers that women face in unlocking private sector development. Women were more likely to require multiple visits to the councils and were more likely to have their applications rejected immediately. Counterintuitively, women had shorter waiting times than men when submitting their applications and also had to speak to fewer staff members at councils during the application process. While this may seem to be an advantage on the surface, the examination of employees' descriptive narratives reveals that this was largely due to being taken less seriously than the men. Women applicants were addressed more quickly, but were less likely to have staff members refer them to the correct people at councils, reflecting bureaucrats' gendered expectations of women in the private sector.

Importantly, the rate of conditional application approval was not affected by either co-partisanship or gender. This suggests that rather than ultimately affecting the receipt of valuable permits, political and social biases operate at the first stage of the application process. Throughout, the results are robust to including measures for in-group networks—another potential source of privilege and bias—including shared ethnic and religious networks. The results are also robust to considering the gender of bureaucrats at councils, as female bureaucrats did not treat female applicants more favourably.

Policy Impact

By demonstrating the impact of political and social privileges on advancement in Senegal's private sector, this project aims to make several policy contributions. First, the results show that partisanship and gender bias indeed affect outcomes in the private sector of low-income countries, thus complicating the role of policies intended to expand access to the private sector. Second, beyond identifying the existence of these biases, this project identifies the point along the application process where they are most likely to influence outcomes. Rather than affecting ultimate decisions, they complicate the application process itself, posing obstacles to the large, emerging class of entrepreneurs in Africa, many of whom are women. Overall, these results demonstrate that when bureaucratic agents have the discretion to apply the rule of law as they see fit, both political and social biases interfere with entrepreneurs' ability to access the benefits of the private sector. These results have implications for international and domestic policies promoting the formalised economy as a solution for unlocking equitable development.

Moving forward

In December 2022, I presented the results of the experiment in a dissemination workshop in Dakar hosted by my institutional partner, the NGO Enda. The next steps of the project include further disseminating the results to relevant policymakers in Senegal, as well as seeking further partnerships to explore additional mechanisms to test in future projects.

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