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Research: How to Close the Gender Gap in Startup Financing

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Illustration by Virginia Gabrielli

Summary. A global analysis of previous research over the last three decades shows that women entrepreneurs face a higher rate of business loan denials and increased interest rates in loan decisions made by commercial bankers. Interestingly, the data also reveals that the... **more**

Gender disparities persist in entrepreneurship and statistics reveal the severity of the issue. Globally, only one in three businesses is owned by women. In 2019, the share of startups with at least one female founding member was a mere 20%.

One of the reasons for this lack of women entrepreneurs is funding — specifically, the scarcity of funding for women business owners and discrimination in financial terms when they do obtain funding. In 2019, only 3% of total investment went to all-female businesses, a drop from 4% in 2018. This trend persisted in 2020 with the percentage dropping further to a concerning 2%, a figure that remained unchanged in 2021. The volume of deals involving all-female businesses remained stagnant at 6%.

Estimates show a roughly $1.7 trillion financing gap for women-owned small- and medium-sized enterprises globally. This severe lack of funding poses a substantial threat to the growth, expansion, and overall profitability of women-led businesses.

To better understand the gender gap in bank lending, we conducted a meta-analysis summarizing evidence from academic studies published around the globe, containing more than one million unique data points and spanning more than three decades. Our analysis confirms the prolonged and global gender bias against women in entrepreneurial bank finance, with female entrepreneurs facing higher business loan rejection and higher interest rates than their male counterparts.

In our study, we also explain the underlying reason for this: the perceived misalignment between women entrepreneurs and the entrepreneurial role, which stems from deeply embedded social gender norms that see men as better entrepreneurs than women. We offer three recommendations for decision-makers in policy and finance, as well as other stakeholders advocating for gender equality, to address and mitigate gender bias in entrepreneurial financing.

Why Gender Bias Persists in Entrepreneurial Financing

Gender bias in entrepreneurial financing varies greatly across the globe. According to the Global Entrepreneurship Monitor's 2021/22 Women's Entrepreneurship Report, women entrepreneurs in high-income countries, such as Germany and the U.S., tend to experience the least gender discrimination when it comes to financing. This link may be somewhat simplistic, though, as we observe that challenges still persist even in high-income countries. To foster a more inclusive entrepreneurial landscape, we first need a better understanding of the intricacies of social gender norms.

In our meta-analysis, we identified two key factors that have implications for women in entrepreneurial financing:

- The political ideology dominating a country and how it influences gender-biased financing conditions.
- The degree of women's empowerment, such as women's participation in high-profile leadership positions, and its effect on gender discrimination in bank financing conditions.

Let's take a closer look at both factors.

Conservative countries uphold gender differences.

We found that in nations governed by a conservative political ideology, there is greater gender bias against women in entrepreneurial financing — specifically, women entrepreneurs pay higher business loan interest rates than men. We see this disparity because a conservative ideology tends to uphold structural gender differences in society and perceives a mismatch between women and what are considered to be masculine attributes ascribed to entrepreneurship.

It is well documented that media's expression of entrepreneurship, in general, is closely aligned with masculinity. The norm is to portray an entrepreneur as a man with masculine qualities and to link such portrayals to success. In contrast, women's entrepreneurship is portrayed in media as a deviant, less common, and even a less successful pursuit. In a conservative setting where progressive views are lacking, these media portrayals more strongly reinforce societal viewpoints, shape perceptions of women entrepreneurs, and influence how those who may determine their success — such as financiers — act and make decisions.

Women's empowerment can exacerbate gender bias.

Our global analysis challenges the conventional notion that women's empowerment instantly and always functions as a positive force. In fact, our analysis highlights a critical mechanism: Progress in one sphere (i.e., women's empowerment) can lead to backlash in another (i.e., women entrepreneurs' access to bank financing). We measure "women's empowerment" as the proportion of women in high-profile positions, such as politics and management. We found that large-scale, rapid advancements in women's professional standing actually exacerbate gender bias in entrepreneurial bank finance, leading to *more* loan rejections and *higher* interest rates.

As women advance into higher-level positions in the society, the perception that they are a threat increases. This prompts protective responses to safeguard existing social gender norms, triggering resistance and subsequently deteriorating conditions for women entrepreneurs in accessing critical funding.

3 Recommendations for Navigating Gender Bias in Entrepreneurial Bank Finance

How then can policymakers, financiers, and other stakeholders effectively mitigate gender bias in entrepreneurial bank finance? Based on our research, and a comprehensive review of related studies, we offer three recommendations:

Remain vigilant.

As more women assume top leadership positions in society, this progress may inadvertently cultivate a belief that gender inequality in funding distribution will resolve itself. Our results warn against such a belief, suggesting a need for continued vigilance. Efforts to combat gender discrimination should be ongoing and multidimensional. For example, policymakers can monitor conditions for women entrepreneurs across many domains — bank finance, venture capital, governmental programs, access to incubators, gender representation in board rooms and other executive roles — to develop intervention programs that transcend the confines of the financial sector. A win for women entrepreneurs in some areas should not mask problems in others.

Normalize women's empowerment.

Our results suggest that societies overall may not have reached a "critical mass" of women's empowerment that is essential for driving gender-equal opportunities. Women who ascend to top leadership roles often navigate within existing patriarchal structures, which potentially limit their role in advocating for gender equality in funding distribution. Even when women are empowered, social gender norms — such as gender role expectations — limit the extent to which they can exercise agency.

Societies lacking a critical mass of women in high leadership positions may not be "ready" to accept new power roles for women until empowerment levels reach a threshold. This lack-of-critical-mass reasoning echoes the 2023 World Value Survey, which reports that a majority of the world's population still believes that men make better political leaders than women. Such entrenched beliefs shed light on why, despite the removal of many formal barriers to holding political office, women still face an uphill battle in attaining and exercising political power to influence how financial resources are distributed.

Continued efforts for normalizing women's participation in power positions are paramount for achieving gender equality in the distribution of financial resources. Such efforts include developing organizational structures and recruitment tools that help increase women's representation in leadership positions and that help support the women who attain such positions.

Evaluate the gender equality of funding policies.

Establishing regulations that mandate gender audits can help policymakers evaluate how well certain measures are addressing funding opportunities for women entrepreneurs. Examples of such regulations include assessing and auditing gender equality in the distribution of budgets, financial services, and financing projects.

When societies resist women's empowerment, any burgeoning reforms for equal funding distribution unravel and biased bank lending persists. For example, the OECD points out that while governments have "policy instruments or tools at their disposal, such as structural policies, budgets, regulations and procurement processes," they're not always neutral in their application of these resources. By putting in place regulations to assess the gender equality of entrepreneurial funding measures, policymakers can unveil any risks for gender-unequal policy initiatives.

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Our global meta-analysis of research on women entrepreneurs and bank lending leaves us to conclude that we cannot expect the gender funding gap to disappear as women advance in society. We've presented several arguments for why this gap may persist. Resistance comes from various domains, including politics, culture, and management. We should not be afraid to admit this. But by strategically addressing gender inequality as a multifaceted issue, we can pave the way for fostering an environment where gender bias is systematically dismantled.

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