When is Capital Enough to Get Female Enterprises Growing? Evidence from a Randomized Experiment in Ghana

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<th>Author(s)</th>
<th>Marcel Fafchamps, David McKenzie, Simon Quinn, Christopher Woodruff</th>
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<tr>
<td>Contact</td>
<td><a href="mailto:dmckenzie@worldbank.org">dmckenzie@worldbank.org</a></td>
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Abstract

Standard models of investment predict that credit constrained firms should grow rapidly when given additional capital, and that how this capital is provided should not affect decisions to invest in the business or consume the capital. The authors randomly gave cash and in-kind grants to male- and female-owned microenterprises in urban Ghana. Their findings cast doubt on the ability of capital alone to stimulate the growth of female microenterprises. First, while the average treatment effects of the in-kind grants are large and positive for both males and females, the gain in profits is almost zero for women with initial profits below the median, suggesting that capital alone is not enough to grow subsistence enterprises owned by women. Second, for women they strongly reject equality of the cash and in-kind grants; only in-kind grants lead to growth in business profits. The results for men also suggest a lower impact of cash, but differences between cash and in-kind grants are less robust. The difference in the effects of cash and in-kind grants is associated more with a lack of self-control than with external pressure. As a result, the manner in which funding is provided affects microenterprise growth.

Gender Connection

Gender Focused Intervention

Gender Outcomes

Gender disaggregated productivity, consumption

IE Design

Randomized Control Trial

Intervention

A ample of female and male microenterprise owners who had no paid employees were randomly allocated into treatment and control groups. The treatment received grants of approximately $120. Half of the grants were cash and half were in-kind transfers.

Intervention Period

The treatment was staggered from May 2009-February 2010

Sample population

The study randomly selected 70 Enumeration Areas in Accra and 30 in Tema. Each EA was subdivided into units of 70-80 households, and one of these units from each EA was selected. Households were screened to identify those with an individual age 20-55 who was self employed an working 30 or more hours per week in a business with no paid employees. 3907 individuals passed the screening process, 19.4 percent of whom were male. Each enumeration area was limited to no more than 5 men in male-dominated industries and 5 men in mixed industries and no more than 3 women each in female dominated and mixed industries. The total sample was 907 firms consisting of 538 females and 369 males. Due
The treatment group received either in-kind or cash transfers, the control group participated in the survey but received no transfer. The grant distribution was staggered over four rounds.

There were two baseline surveys starting in October 2008 and 4 follow up surveys, with the last one in February 2010.

A one-time in-kind grant of 150 cedis is estimated to increase monthly profits by about 37-39 cedis for both males and females. However, among females, the grants only lead to profit increases for the top 40% of businesses in terms of initial size. Small women-owned businesses experienced no gain. Male returns are consistent for both small and large firms. Cash grants of the same size had a significantly smaller effect, increasing profits by only 10-14 cedis. The difference between cash and in-kind grants is significant for women but not for men. Cash grants tend to be spent on household consumption or transferred out of the house, especially when given to women whose businesses were small. The effect of the cash treatment is significantly greater for those with more self-control but there is no evidence of heterogeneity with respect to external pressure.

There is some attrition in the follow up surveys but the results remain robust.


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