



Returns to microcredit, cash grants and training for male and female microentrepreneurs in Uganda

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ABSTRACT

Experimental tests of microfinance programs have found little or no impacts on business and household income outcomes. I present experimental evidence that the gender of the individual receiving a loan matters for the impacts measured. Microenterprise owners were randomly offered either capital with repayment (discounted loans) or without (grants) and were randomly chosen to receive business skills training in conjunction with the capital. I find no short-run effects for female-owned enterprises from either form of capital or the training. However, I find large effects on profits and sales for male-owned enterprises that were offered loans. There is no effect for men from the grants, suggesting repayment requirements increased the likelihood of productive investment. The results indicate that cash-constrained men—a sample that is not traditionally targeted by microcredit organizations—can benefit from subsidized microfinance.

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1. Introduction

Microenterprises are common in countries with limited formal employment options. In Uganda, these businesses account for about 90% of private sector production and employ over 2.5 million people (National Small Business Survey of Uganda, 2015¹). While there is often hope that informal enterprises can provide much-needed employment opportunities for communities and income for business owners, the evidence on enterprise expansion in developing countries suggests these businesses do not develop into larger enterprises or provide much more than subsistence-level income. Research on business expansion shows only a small number of firms upgrade into larger businesses, leading to doubts that microenterprises can generate general economic or employment growth (Bernier, Gomez, & Knorrninga, 2012; Fajnzylber, Maloney, & Rojas, 2006; Fajnzylber, Maloney, & Rojas, 2009).

In this study, I explore how capital and skills constraints affect business growth for both female and male business owners. From a selection of semi-urban businesses across Uganda that expressed interest in accessing finance, I randomly selected a sample of 1550 business owners to receive capital and business skills training or to be part of a control group. Participants were offered a loan

(capital requiring repayment), a cash grant (capital not requiring repayment) or to be in a control group. A selection of these participants were also offered free business skills training. Unknown to the study participants, the loans were subsidized to reduce the normal interest rates and induce the microcredit organization to take on clients with whom they would not normally work, including primarily men and those without credit history or enough collateral to meet the minimum requirements. This design allows for a test of the effects of infusions of capital on business outcomes depending on whether men or women receive the money, whether the capital does or does not require repayment, as well as the marginal effects of business and management skills training on a capital drop.

The sample is selected from business owners who expressed interest in receiving trainings and loans. This selection was done to ensure the businesses are directly comparable across treatments and to increase take-up rates, which are generally very low in microcredit studies. The process produced a sample that is appropriate to determine the effect of capital on business outcomes for those who are interested in obtaining capital, minimizes selection issues present in studies that rely on targeting larger groups, allows for a test of microloans on a sample that is very interested in loans, rather than a broader sample that includes many that are not, and increases the comparability of those that were offered grants to those that were offered loans.

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¹ See <https://www.fsdafrica.org/knowledge-hub/documents/national-small-business-survey-of-uganda/>.

Data on business returns are noisy. To test for changes over time and improve on statistical power, the survey team conducted multiple data collections on the businesses.² The analysis presented here utilizes two baseline surveys before the programs were delivered, along with two follow-up surveys conducted six and nine months after the treatments were delivered.

The program was successful in expanding access to loans. Men and women who were offered finance report having on average 50% more loans than those not offered the loan. Consistent with a well-developed literature, I find no effects on business profits from any of the treatments during any of the data collections for female-owned enterprises. However, I find that men with access to loans report up to 54% greater profits in the last month. The effects increase slightly over time and are strongest for those that were offered training, had higher measured levels of ability, lower risk preferences, and no prior history of loans. There is no effect on business profits from grant treatment, with or without training. A differential effects test of the programs strongly rejects equality.

The heterogeneity results suggest that business owner characteristics are important determinants of capital usage. The results for men without a history of taking loans are also consistent with credit constraints, while the grants' lack of effect suggests repayment requirements can increase the likelihood of productive investment in the business compared to receiving unconditional cash.

This study is related to a large literature on microenterprise development. There are several reasons posited by researchers and policy makers for the lack of growth observed with microenterprises. Missing human capital, specifically management skills needed to handle increasing cash flow, can make expansion difficult for many business owners. However, most studies on business skills training fail to find an effect on sales and profits from these trainings (Bjorvatn & Tungodde, 2012; Gine & Mansuri, 2011; Karlan & Valdivia, 2011; Karlan, Valdivia, Knight, & Udry, 2012; Mobarak, Kalomba, Orozco, & Cho, 2013).

Credit constraints, a major problem in almost all developing countries, may also constrain business development. Cash transfers, which inject capital without repayment requirements, have been shown to produce large returns to businesses, though recent evidence suggests cash can be difficult for businesses to use effectively (Berge, Oppedal, & Tungodden, 2015; de Mel, McKenzie, & Woodruff, 2008; Fafchamps, McKenzie, Quinn, & Woodruff, 2014). A more common approach is microcredit, which, being a self-sustaining private-market solution, has penetrated many extremely poor areas. However, recent experimental work has found no or mixed effects from microcredit on enterprise and income growth (Augsburg, De Haas, Harmgart, & Meghir, 2015; Banerjee, Duflo, Glennerster, & Kinnan, 2015; Fischer, 2013; Gine & Mansuri, 2011).

I present evidence that these mixed results for finance are likely due to who is being targeted by microfinance institutes (MFIs). MFIs traditionally target poor women, a group that often does not operate businesses that can easily be expanded. The women in the present sample expressed during qualitative interviews how they often have strongly defined community and household roles—such as child care and household chores—that severely limit their ability to utilize cash for their businesses. During quantitative interviews women reported spending six more hours a week than men at any household activity (32 h for women, 26 h for men). The focus on women has been the standard from the beginning of the microcredit movement and is normally justified for their higher

rates of poverty and higher likelihood to repay loans (Yunus, 2003). Researchers have likewise focused for the most part on women borrowers.

The results suggest that researchers should think differently about *who* receives microloans when looking at small enterprise growth. Small-scale, subsidized capital can improve business returns and lead to economic growth, even among the smallest enterprises. However, the results presented here and from the existing literature suggest this effect is limited to the group that is currently underserved in such finance: men. In most sub-Saharan African households, women face significant restrictions on how they can use capital, while men do not face these restrictions. For microcredit to improve welfare and reduce poverty, it needs to expand beyond traditional clients and target those who are better able to utilize capital.³

This paper presents three main contributions to the literature. First, I find that microcredit has no effect on female-run business outcomes but does present significant benefits for male-run businesses. There is a well-developed literature on the effect of microcredit on existing businesses for enterprise and household outcomes presenting mixed results. While Field, Pande, Papp, and Rigol (2013) find that a grace period for loan repayment for women leads to a positive and significant effect on profit, they find this result is due to increases in the male spouse's business, not the woman's business. Banerjee et al. (2015) and Crépon, Devoto, Duflo, and Parienté (2015) find a growth in enterprise profits from the expansion of microcredit in India and Morocco, respectively, though this finance is delivered at the household level. Fischer (2013), Augsburg et al. (2015), Gine and Mansuri (2011), Desai, Johnson, and Tarozzi (2013) and Angelucci, Karlan, and Zinman (2013) all fail to find significant impacts from microcredit. However, these last studies focused almost exclusively on female-owned enterprises, with few if any male-owned enterprises in the samples. Of the six studies included in a special issue of the *American Economic Journal: Applied* on microcredit experiments, only three include a substantial number of men. Of those three, Augsburg et al. (2015) is the closest to this study as they include existing male and female businesses. They find no effect on total individual or household income, though they do not look at the difference in impact between men and women. In the current study, I can test for the differential impact of finance for men and women and find that there is a significant difference.

Second, I can compare the effect of offering capital with repayment (loans) and without (grants).⁴ Previous research suggests that cash can have large effects for starting a business, especially for women (Blattman, Fiala, & Martinez, 2014). For existing businesses, de Mel et al. (2008) find large returns from cash grants for male-led businesses, while Haushofer and Shapiro (2013) find more modest effects on enterprise income. More recent work, such as Berge et al. (2015), suggests that cash grants are often consumed quickly by business owners and not used for investment. I find no results from cash grants for male- or female-owned enterprises. Comments during qualitative interviews suggest both groups used the money for short-term consumption needs rather than investment. It is thus likely that the requirement for repayment induced men to use the money for investment.

Finally, I can explore how human capital development can affect business outcomes in the presence of relaxing capital con-

³ It is also possible that microcredit may work for women who do not face constraints to capital usage. However, as I discuss in Fiala (2015), at least for the context of Uganda, this constraint appears to be strongly grounded in the family system and so is not easily relieved.

⁴ To the best of my knowledge, this is the first paper to directly compare the effects of business loans versus cash grants. The only other study I am aware of that tests the concept is Beaman et al. (2014), who compare grants and loans for farmers.

² This was done following de Mel, McKenzie, and Woodruff (2009) who show that, when autocorrelation across periods is low, increased number of data collections can greatly improve statistical power. They cite microenterprises in Africa as an example of a good case for multiple follow-up data collections.

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