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Timeline

2008-2012

Sample Size

793 microenterprise owners in the cities of Accra and Tema, Ghana

Research Implemented by IPA

Yes

Grants and Profit Growth for Men- and Women-Owned Enterprises in Ghana

Abstract

Helping microenterprises grow can provide livelihoods and drive economic growth in developing countries, but research on using loans to spur small business growth has generally found these to be unable to help microenterprises expand. Researchers in Ghana introduced in-kind and cash grants to men- and women-owned businesses to determine which kinds of grants help businesses grow, and whether different forms of grants have more or less success in growing men-owned businesses, compared to women-owned businesses. In-kind grants were more successful at growing the profits of men- and women-owned businesses than were cash grants, but even in-kind grants only helped larger women-owned businesses. Neither cash nor in-kind grants helped smaller businesses owned by women, although in-kind grants had positive impacts on men-owned businesses of all sizes.

Policy Issue

Small firms in developing countries have the potential to both provide livelihoods for millions of people as well as to drive overall economic growth. Policymakers are therefore interested in helping these small businesses grow, hire more workers, and turn higher profits. However, there is a lack of evidence about the best ways to provide this assistance, specifically,

whether grants should be given as cash or as in-kind business materials. Further, researchers have thus far not determined whether certain features of businesses, such as whether they are owned by men or women or the size of the firm, matter for the effectiveness of cash or in-kind grants. It may be the case, for example, that women running very small businesses find it easier to invest in-kind grants into their businesses, but that they feel pressure to spend cash on household expenses or on extended family obligations. This research aimed to provide new evidence on the most effective ways to provide grants to men- and women-owned small businesses.

Context of the Evaluation

In Ghana, women are commonly involved in running businesses. Women in Ghana have similar labor force participation rates to men, and are more likely to be self-employed. In the 2000 Ghanaian census, for example, the labor-force participation rates for 15-60 year olds was 70 percent for women and 74 percent for men, and in urban areas 45 percent of women were non-agricultural, self-employed workers, compared to 33 percent of men. Finding ways to help these entrepreneurial women grow their businesses is therefore a high priority for Ghanaian development.

The research was conducted among almost 800 small business owners in Accra, Ghana's capital and largest city, and the nearby industrial city of Tema. The average owner in the project was 36 years old, had almost 9 years of schooling, and had been running their firm for 7 years. The majority of firms were run out of the home, with 83 percent of women and 69 percent of men operating a business from their dwelling. Most firms were not registered for taxes, and only 10 percent had ever had a loan from a bank or microfinance institution.

Details of the Intervention

Researchers conducted a randomized evaluation to measure the impact on business profits of giving in-kind versus cash grants to men- and women-owned small businesses in urban Ghana. A group of 793 business owners who had no paid employees at the start of the project were randomly assigned to three different groups. (Researchers also stratified the randomization on gender, industry type, and the size of the firm.) Two of the groups received grants of 150 Ghanaian cedis (approximately \$120 at market exchange rates at the time). Researchers randomly selected 198 of the participants to receive the grants in cash, and 198 of the participants to receive the grants in kind. In the in-kind group, the owner was asked to choose any equipment or materials they would like for their business that cost (in total) this amount, and then a research assistant accompanied them to purchase these items. Business owners in the third group received no grant.

The majority of the in-kind treatments were chosen in the form of inventory to sell (e.g. beauty care products, electronic goods, alcohol, food) and raw materials (e.g. wood, sandpaper, cloth, oil and other cooking ingredients, shampoos and supplies for beauty salon use). Only 24 percent of those receiving the in-kind treatment elected to buy physical equipment, with the most common equipment purchased being sewing and knitting

machines by tailors, hair dryers by owners of beauty salons, and drills and other carpentry equipment by firms in woodwork.

Results and Policy Lessons

On average, a cash or in-kind grant of 150 cedis (\$120) increased monthly profits for firms by about 25 cedi, a return of around 16 percent per month. Monthly profits of firms that received an in-kind grant increased between 31 and 43 cedis. These represent significant increases for the firms in the study; their mean monthly profits at the start of the project were 130 cedis, or around \$33 (median profits were 68 cedis, or around \$17).

Women-owned businesses: Cash grants did not have any effect on the profits of women-owned businesses, and in-kind grants only improved profits for women with businesses that had higher profits at the start of the study. Among the group of women with below-median initial profits—i.e., those with businesses operating at a near-subsistence level—neither cash nor in-kind grant had any effect. Yet, in the approximately 40 percent of firms with higher initial profits, the impact of the in-kind grants was quite large; their monthly profits increased by 77 to 96 cedis per month. Three years later, these businesses were still experiencing the positive effects of having received the in-kind grants.

Men-owned businesses: In contrast, there was no such pattern for men-owned businesses. Men-owned firms that had high initial profits as well as those with low initial profits benefitted from the in-kind grants. For men, receiving an in-kind grant raised profits about 28 to 60 cedis per month. The results for men suggested a lower impact of cash grants, but differences between the effects of cash and in-kind grants were less pronounced for men-owned businesses than for women-owned businesses.

Additional evidence suggests that women who received the cash grants—especially those with low initial profits—spent the grants on their households and families rather than their businesses. Based on survey data, researchers estimated that women who were given cash spent an average of 120 extra cedis on household expenses three months after receiving the grant. Women, especially those with lower initial profits, appear to have spent most, if not all, of the cash grants on household expenditure and transfers to non-household family members.

Based on further analysis, researchers suggest that women who owned these very small businesses found it impossible to grow their firms, and determined that they would be better off using their grants in their households. Women-owned businesses that were larger had more scope to grow, and so these female business owners kept the grants—especially in-kind grants—invested in their firms. Men-owned businesses appeared to have scope for growth regardless of their initial size.

This suggests that for women-owned businesses, in-kind grants are a more effective tool for increasing business profits than cash grants, as in-kind business materials remain invested in the business, whereas cash may not. The fact that even in-kind grants were helpful only to larger women-owned businesses suggests that such grants might not be the most effective

tool to help grow smaller, subsistence-level women-owned businesses. The average male-owned business did benefit substantially from both kinds of grants, although in-kind grants again seemed more promising; this indicates that there is demand for programs targeting grants to male owners of microenterprises.

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