Investigating the Barriers to Female Microenterprise Growth

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Many microfinance organizations lend predominately or almost exclusively to women. Many of the justifications are economic in nature. Women are argued to be poorer than men on average, have less collateral, and hence be more credit-constrained. But are female business owners in low-income countries more constrained by finance than men? There is surprisingly little evidence on this question. Studies of microfinance clients in several countries suggest that female-owned enterprises grow more slowly and generate lower profits than male-owned enterprises. But the samples for studies of clients of microfinance programs reflect selection decisions both on the part of enterprise owners as to whether or not to apply for a loan, and on the part of lenders as to whether or not to lend.

Our first randomized experiment addresses directly whether lack of capital is a constraint on female microenterprise growth in Sri Lanka. We sampled microenterprises with less than US$1000 in equipment and working capital in three districts in southern Sri Lanka. We provided random grants, half in cash and half as purchases of inputs or equipment selected by the enterprise owner, to about 60 percent of the sampled enterprises. Two thirds of the grants were $100 and the other third were for $200, representing about 50 and 100 percent of the median capital stock. We find returns of around 9 percent per month in enterprises owned by males, but not different from zero in enterprises owned by females. Thus, not only does the average female owner have a lower return than the average male owner, but on average female-owned enterprises see no return from grants which averaged 50 to 100 percent of the pre-experiment capital stock.

These stark results raise three important questions for microfinance policy:

1. What explains the dramatic difference in results between male and female business owners?

2. Are there any female business owners which benefit from more capital, and if so, how do we identify them?
3. If capital alone is not enough, what can be done to help female microenterprises grow?

Our recent work has aimed to address the first two questions, using the data collected in our first randomized experiment. We find no evidence that the gender gap is explained by differences in ability, risk aversion, or entrepreneurial attitudes. Nor do we find that differential access to unpaid family labor or social constraints limiting sales to local areas are important. We do find evidence that women invested the grants differently from men. A smaller share of the smaller grants remained in the female-owned enterprises, and men were more likely to spend the grant on working capital and women on equipment. We also find that part of the gender gap is explained by the choice of sector – women do particularly badly working in traditional female-dominated self-employment activities such as lace-making and basic food preparation.

While the average return to capital for female microenterprise owners in our sample is zero, we do find a group of women who benefit from the treatment. These are poor, high ability female microenterprise owners. We measure ability here with digit-span recall, which explains returns more strongly than education in our sample. An issue for discussion then is the extent to which microfinance organizations could consider using digit-span recall and other such ability tests in their screening.

We are just beginning a follow-up randomized experiment, designed to examine whether information and business training can encourage female microenterprise owners to operate in more profitable sectors. This program will offer the ILO Generate Your Business/Start Your Business package to females out of the labor force who are considering re-entering; and a combination between Start Your Business and Improve Your Business for women already in business, but operating in low-return industries. We plan to also provide information on the earnings and capital requirements of beginning work in different sectors.