# Household Matters: Revisiting the Returns to Capital among Female Micro-entrepreneurs

**Researchers:**

Arielle Bernhardt

Erica Field

Rohini Pande

Natalia Rigol

**Sector(s):** Finance, Gender

**Location:** India, Sri Lanka, Ghana

**Sample:** 793 entrepreneurs in Ghana; 169 loan groups in India; 408 entrepreneurs in Sri Lanka

**Target group:** Entrepreneurs Small and medium enterprises Women and girls

**Outcome of interest:** Earnings and income Women's/girls' decision-making Gender attitudes and norms

**Intervention type:** Cash transfers Credit Unconditional cash transfers

□□□□□□□□ **:** www.openicpsr.org

**Research Papers:** Household Matters: Revisiting the Returns to Capital among Female Microentrepre...

**Partner organization(s):** Evidence for Policy Design (EPoD), Village Financial Services (VFS), Institute for Financial Management and Research (IFMR), National Science Foundation (NSF), Harvard Kennedy School Women and Public Policy Program, Private Enterprise Development in Low-Income Countries

Despite the prevalence of female entrepreneurs in developing countries, recent research suggests that women do not benefit from loans and grants in the same way that men do, leading to questions about the value of offering financial services to female entrepreneurs. Researchers re-examined data from previous studies in Ghana, India, and Sri Lanka to measure the impact of credit and cash grant variations on micro-enterprise profits in households where women were the only entrepreneurs and in households where other members also had a business. Easing financial constraints for female and male entrepreneurs in households with only one business led to comparable returns, but women attained lower returns when multiple household members had their own business. This suggests that poor financial returns to female entrepreneurs did not indicate lack of ability, but rather that females' financial resources were often redirected to their husbands' businesses.

□□□□□□□ □□□□□□□

Entrepreneurship is common among both men and women in poor urban households in many developing countries. In most of these countries, small and informal firms employ more than half of the labor force. However, recent research suggests that female-operated businesses do not benefit from access to credit and grants, while male-operated businesses do. A common explanation for this is that female-run businesses have low returns to capital or, alternatively, that women are less able to make sound or timely business investments. However, little evidence exists about whether women are actually investing these resources into their own businesses. If women are investing these resources elsewhere (such as their husbands' businesses), then

the explanation that female-owned businesses have lower returns to capital may be incorrect.

This study re-examined data from previous studies in Ghana, India, and Sri Lanka to measure the impact of credit and cash grants on micro-enterprise profits in households where women were the only entrepreneurs and in households where other members also had a business.

## سياق التقييم

Data from this study came from previous rigorous evaluations in Ghana, India, and Sri Lanka. Female micro-entrepreneurs from these samples were often faced with multiple investment opportunities within their households. In the India sample, more than half of female micro-entrepreneurs lived with another business owner. Similarly, in Sri Lanka and Ghana, 48 percent and 41 percent of female participants lived with another micro-entrepreneur.

In India, researchers partnered with the microfinance institution Village Financial Services Private, Ltd., which offers loans to entrepreneurs in low-income neighborhoods in Kolkata, to conduct their study. Clients were women aged 18 to 55 who lived in a household that had at least one micro-enterprise. In Ghana and Sri Lanka, samples included working-age male and female entrepreneurs who were self-employed and had no paid employees.



Female entrepreneur selling produce in Kolkata. Photo: Sophie Ochmann and Shreya Chandra.

## معلومات تفصيلية عن التدخل

In India, researchers randomly assigned 169 newly formed five-member loan groups to either a standard contract, in which installments were due every two weeks, or to an alternative contract with a two-month grace period before the first biweekly loan installment. Loan amounts ranged from INR 4,000 to INR 10,000 (US$90 to US$225 in 2007). In 2010, nearly three years after loan disbursements, researchers surveyed every business owner within the sample households and collected data on business profits and household income. In this follow-up study, researchers measured household returns to having a grace period for the loan and examined whether profits varied depending on who in the household was an entrepreneur.

In Sri Lanka, a randomly assigned subset of 408 microenterprise owners were either offered unconditional cash grants, in-kind grants for business equipment or inventories (ranging in value from US$100-200), or served as a comparison group and did not receive a grant. Researchers collected data on these entrepreneurs during the two years following the grant disbursements. Similarly, in Ghana, a randomly assigned subset of 793 entrepreneurs were offered either cash grants, in-kind grants, or served as a comparison group. In this follow-up study, researchers re-evaluated the impact of grants on business profits in the original Sri Lanka and Ghana studies, specifically examining differences by gender.

□□□□□□□ □□□□□□□ □□□□□□□□□ □□□□ □□□□□□□□

Increasing access to credit and grants for female and male entrepreneurs in households with only one business led to comparable returns, but women attained lower returns when other members of their household also had businesses. This suggests that poor financial returns for some female entrepreneurs did not indicate lack of ability, but rather that these females' financial resources were often redirected to their husbands' businesses.

*India:* Giving loan clients a grace period increased household-level business profits by around 45 percent, but had no effect on female-run business profits on average . This suggests that the average female client largely invested her loan in other household members' businesses. Additionally, the impact of the grace period on female micro-entrepreneurs varied depending on who in the household was running a business. When the household had multiple entrepreneurs–i.e., the female entrepreneur had other investment opportunities–the grace period contract did not increase female-operated business profits. But when a female client was the sole entrepreneur in her household, the grace period contract increased her business profits by around 75 percent relative to the standard contract.

*Sri Lanka:* Similar to the India study, grants only increased female-run business profits when they were the only business owner in their household. Women living in households with no other self-employed members increased their profits by 30 percent. Across all households, however, cash and in-kind grants had no impact on profits for female business owners.

*Ghana:* When women were the sole entrepreneurs in their household, their returns from in-kind grants were the same as those for male entrepreneurs in households with multiple businesses. However, in households with multiple businesses, returns to female business owners were lower than those for men in multiple-business households.

Taken together, these results suggest that the gender gap in microenterprise performance was not due to ability. Instead, this gap was a reflection of women's investments of their own credit and grants into their husband's businesses, rather than their own.