

Impact of Loans and Grants on Microenterprise Growth in Egypt

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Sector(s): Finance, Labor Markets, Firms

J-PAL office: J-PAL Middle East and North Africa

Location: Qena, Egypt

Sample: 3,294 approved loan applicants

Target group: Entrepreneurs

Outcome of interest: Self-employment Profits/revenues

Intervention type: Business skills training Credit Unconditional cash transfers

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Partner organization(s): Sawiris Foundation for Social Development

Policy makers frequently use capital assistance to try to help microentrepreneurs. The type of capital assistance received, such as a loan, cash grant, or in-kind grant, may be critical. In partnership with three microfinance institutions (MFIs), researchers conducted a randomized evaluation to measure the impact of providing loans, cash grants, or in-kind grants on microentrepreneurs' business decisions, outcomes, and overall welfare. All three types of capital assistance led to increases in business and economic outcomes, especially for women. Impacts were concentrated among the best-performing recipients of each type of assistance, and researchers found that observable characteristics were the same among those top-performers across all three groups. This suggests that personal characteristics are more important than the type of assistance in predicting the effectiveness of capital assistance.

Policy issue

Many policymakers are interested in entrepreneurship as a potential pathway out of poverty. An ongoing policy debate focuses on the best way to provide capital assistance to microentrepreneurs in low- and middle-income countries: microcredit, unrestricted cash grants, or in-kind grants of specific items. What is the impact of providing loans, cash grants, and in-kind grants on business and household outcomes? How do impacts vary based on microentrepreneur characteristics like gender, education, and experience?

Context of the evaluation

This evaluation took place in Qena, a mostly rural state in Upper Egypt with a population of three million inhabitants. Qena is the ninth-poorest state in Egypt; in 2019, 41 percent of households lived below the poverty line. Qena's unemployment rate in 2017 was 9.3 percent, with a large gender gap, given that the unemployment rate for women was 25 percent compared to 6 percent for men. On average, study participants were nearly 29 years old, and about 40 percent of the participants were male. Only 9 percent of participants had a college education, but 59 percent had a high school education. About 11 percent of the participants already owned a business.

Three microfinance institutions- located in Qena—Feda, REDEC, and Christian Peace—participated in this evaluation. The Sawaris Foundation had provided each of the three MFIs with the funding necessary to participate in this program through its “Job Creation Competition,” a program meant to support local organizations with a record of helping young people find work.



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Details of the intervention

In partnership with these three local MFIs, researchers evaluated the impact of providing loans, cash grants, or in-kind grants on microentrepreneurs' business decisions, business outcomes, and overall welfare. The MFIs screened interested individuals to ensure they met the eligibility requirements: applicants had to be between the ages of 21 to 35 and have a reasonable business plan for either a new or an existing business. Researchers then randomly assigned individuals applying for a loan from any of the participating MFIs to one of four groups:

- *Loan*: Individuals received the amount of the loan they requested. Loans were required to be repaid within 10 to 12 months and had an average annual interest rate of 15-24 percent.
- *Cash grant*: Individuals received the amount they requested in cash. They were informed that the cash grant did not have to be repaid and were encouraged, but not required, to use the grant to advance the business objectives they outlined in their loan application.
- *In-kind grant*: Individuals were asked to outline exactly how they would like to use the money on their business. NGO staff then accompanied them to the market to buy the items.
- *Comparison*: Individuals received neither the loan, cash grant, nor in-kind grant.

Because many participants were starting a business for the first time, all participants assigned to the loan, cash grant, and in-kind grant groups also received an eight-hour business training course over two days. Researchers conducted follow-up surveys on average 16 months after participants received the loan or grant.

Results and policy lessons

All three types of capital assistance improved business and economic outcomes, especially for women. Yet, impacts were concentrated among the best-performing recipients of each type of assistance, and researchers found that observable characteristics were the same among those top-performers across all three groups. This suggests that personal characteristics are more important than the type of assistance in determining the effectiveness of capital assistance.

While all three types of capital assistance led to increases in business ownership for men and women, only women experienced observable gains in business performance. Receiving a loan or grant increased the likelihood of owning a business by 13.5-23.7 percentage points for women (from a base of 15 percent) and by 12.2-15.6 percentage points for men (from a base of 27 percent). Nonetheless, most participants (52-78 percent) did not own a business after receiving a grant or loan, suggesting that financial constraints remained and that other support may be needed to ensure business success for this population.

All three types of capital assistance also led women to earn more profits. For instance, loans increased women's profits by 63 EGP (US\$3.75) per month, in-kind grants increased women's profits by 133 EGP (US\$7.91) per month, and cash grants increased women's profits by 60 EGP (US\$3.57) per month, relative to an average monthly profit of 59 EGP (US\$3.51) for the comparison group. Conversely, all three types of capital assistance had no impact on men's business profits.

Different program effects on women and men show that women faced different, and larger, constraints than men prior to the intervention. All three types of capital assistance increased women's likelihood of working from a comparison group average of 24.1 percent to 38-46 percent. Women also nearly doubled their self-employment earnings from an average of 59 EGP (US\$3.51) in the comparison group, in addition to substantial increases in total income. Women worked more in self-employment by spending less time on childcare and household chores. Though not increasing the likelihood of working or income, men receiving a loan or grant did spend more time in self-employment and home agricultural production and less time working for others.

Women assigned to the in-kind grant group increased their borrowing from other sources after receiving assistance; conversely, men assigned to the credit and cash grant groups decreased their borrowing. This suggests that women faced greater constraints to borrowing before the program but were able to leverage the program's loans and grants to access additional credit, whereas men likely already had access to credit. Additionally, women faced greater difficulty entering the labor market: 89.6 percent of men in the comparison group were working one year after applying for a loan compared to only 24.1 percent of women in the comparison group.

The positive effects of all three types of capital assistance were concentrated among the top-performing participants in all three treatment groups. Participants in the top 25 percent based on income—both those who received capital assistance and those in the comparison group—shared many traits, like average age, education levels, marital status, and family income. This finding supports the notion that “who you are” is more important than “what you get,” i.e., personal characteristics determine business success more than the type of financial assistance.

Taken together, these results suggest that policymakers should focus on targeting capital assistance to high-potential entrepreneurs, while the type of capital assistance may not be as important. Additionally, the most cost-effective form of assistance may depend on which outcome policymakers are looking to improve. In this context, loans were more cost-effective than grants at increasing women’s employment, but loans and grants—both cash and in-kind—were equally cost-effective at increasing women’s income.

Crépon, Bruno, Mohamed El Komi, and Adam Osman. “Is It Who You Are or What You Get? Comparing the Impacts of Loans and Grants for Microenterprise Development.” *Working paper*. August 13, 2020. <https://www.adam-osman.com/wp-content/uploads/2020/05/Loans-vs-Grants.pdf>