Impact of Loans and Grants on Microenterprise Growth in Egypt

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Sector(s): Finance, Gender

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Location: Upper Egypt

Sample: 3,294 approved loan applicants

Target group: Entrepreneurs

Outcome of interest: Self-employment Profits/revenues

Intervention type: Business skills training Cash transfers Credit Unconditional cash transfers

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Partner organization(s): Sawiris Foundation for Social Development

Policymakers frequently use financial assistance to help microentrepreneurs, but it is not clear how the type of assistance—loans, cash grants, or in-kind grants—shapes its effectiveness. 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. Researchers found that all three types of capital assistance increased business and economic outcomes, especially for women. Impacts were concentrated among the best-performing recipients of each type of assistance, with top-performers across all three groups sharing similar traits. 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 financial assistance to microentrepreneurs in low- and middle-income countries: microcredit, unrestricted cash grants, or in-kind grants of specific items. Much of the debate revolves around the benefits and drawbacks of each type of assistance, as each can have varied behavioral and financial outcomes for microentrepreneurs. For example, loans require repayment with interest, cash grants may be used for non-income-generating activities, and in-kind grants can limit the flexibility of businesses to pursue new opportunities. With this ambiguity in mind, 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. 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 percent, with a large gender gap: 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 60 percent of the participants were female. Only 10 percent of participants had a college education and a quarter had less than a high school education. About 11 percent of the participants already owned a business.

Three MFIs located in Qena—Feda, REDEC, and Christian Peace—participated in this evaluation. The Sawiris Foundation 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, informing them the items were a grant and no repayment was necessary.
- 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; those with business experience could opt out of the training. 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 profits. Receiving a loan, cash, or in-kind grant increased the likelihood of owning a business by 14 to 24 percentage points for women (from a base of 15 percent in the comparison group) and by 12 to 16 percentage points for men (from a base of 27 percent). Nonetheless, most participants (57 to 71 percent) did not own a business after receiving a loan or either kind of grant, suggesting that financial constraints remained and that other support may be needed to promote business success for this population.

Loans also increased women's business profits by 63 EGP (US$4.20) per month, in-kind grants by 133 EGP (US$8.86) per month, and cash grants by 60 EGP (US$4) per month, relative to an average monthly profit of 59 EGP (US$3.93) for the comparison group. Conversely, none of the types of capital assistance had a significant impact on men's business profits. Participation in the program led both men and women to spend more time in self-employment. Women reallocated time that they had previously spent on uncompensated childcare and household chores, while men spent less time working for others.

In-kind grants improved business outcomes, but more flexible funding increased wage work. While in-kind grants had the largest impact on business ownership and profits, cash grants and loans increased women's wage employment. All three types of capital assistance increased women's likelihood of working from the comparison group average of 24 percent to 38-45 percent. As a result, all three forms of assistance had comparable impacts on women's total income, which increased by an average of 132 EGP, or 29 percent, on a base of 459 EGP in the comparison group.

Women assigned to the loan 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 were more likely to have had access to credit already.

The positive effects of all three types of capital assistance were concentrated among the top-performing participants in all three treatment groups. Participants who end up in the top 25 percent based on income—both those who received financial 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.

Loans were more cost-effective than grants at increasing women's employment, but in-kind grants were cost-effective at increasing women's income. Neither loans nor grants were cost-effective ways to increase employment or generate income for men in this context. The most cost-effective form of assistance may ultimately depend on which outcome policymakers are looking to improve and how that outcome may change over time.

Taken together, these results suggest that policymakers should focus on identifying high-potential entrepreneurs and targeting capital assistance to them, while the type of capital assistance may not be as important. At the same time, the researchers suggest the need to find alternative ways to support the lower-potential entrepreneurs who saw negligible benefits from the forms of assistance studied in this evaluation.