The Impact of Training and Cash Grants on Female-Owned Businesses in Sri Lanka

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Fieldwork: Innovations for Poverty Action (IPA)

Location: Urban Sri Lanka

Sample: 1256 women

Research Papers: Business training and female enterprise start-up, growth, and dynamics: Experim...

Partner organization(s): Sri Lanka Business Development Centre (SLBDC)

In low- and middle-income countries, women-owned enterprises are generally small in scale and provide only low incomes. Researchers evaluated the impact of a business training intervention, alone and combined with a cash grant, on the income and other business outcomes for self-employed women in Sri Lanka. Researchers found that business training alone was not sufficient to generate business growth, but when combined with a US$129 cash grant, the business training program appeared to boost profits in the short-term. Researchers also found that the training helped women start enterprises more quickly and run them better.

Policy issue

In many countries, self-employment accounts for a large share of women's employment. However, a majority of female-owned enterprises are small in scale and provide only low incomes. This could be because women lack the necessary capital, skills, or both to grow their businesses. Providing women cash grants or conducting business training programs are two potential solutions to this problem, but previous studies have found limited impacts of business training on business outcomes (see, for example, this study in Peru). Previous studies have also found that providing capital grants alone was not sufficient to raise the income of subsistence level female-owned businesses in Sri Lanka. Can business training combined with a cash grant improve business outcomes for women-owned businesses?

Context of the evaluation

In 2009, while over ninety percent of men between the ages of twenty and forty participated in the labor force in Sri Lanka, only 43 percent of women in the same age group were a part of the labor force. Of the women engaging in paid work, 28 percent were self-employed. Women-owned businesses are generally associated with poor performance. For instance, in this evaluation, researchers found that the average business practices score for the women-owned businesses prior to the training was very low (4.6 out of a possible score of 29). The business practice score (developed for this study) is a measure of the management practices of a business. It accounts for features like marketing, costing and record-keeping, financial practices, etc. Since a significant fraction of women in the Sri Lankan labor force are self-employed, the poor performance of these businesses is an

important policy concern.



Woman operates a fresh fruit juice shop in Colombo, Sri Lanka.

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Details of the intervention

Researchers conducted a randomized evaluation to test the impact of business training, alone and alongside a cash grant, on business outcomes. They identified 1,256 women in the urban areas of greater Colombo and greater Kandy to participate in the evaluation. Half of these women were “current business owners” working in a range of non-agricultural industries, including beauty shops, tailoring and sewing, and selling groceries. The other half were “potential business owners,” who indicated that they planned to start a business within the next year.

The researchers partnered with the Sri Lanka Business Development Center, a non-profit training institution, to deliver the training. The content of the training program was adapted from the Start and Improve Your Business program offered by the International Labour Organization, which has reached more than 4.5 million people in 95 countries around the world.

Participants were offered different sets of training based on whether they were current or potential business owners. Potential business owners were offered a course on how to start a business, along with a day of technical training in a “high-return” sector of work in Sri Lanka (such as food manufacturing, sewing clothes, etc.) Current business owners were offered a course on how to improve an existing business, along with the same technical training.

To encourage participation, the course was offered to participants for free, along with a US$3.40 (Rs. 400) daily attendance payment to cover the costs of transportation and any forgone wages, and was held at ten centrally-located training facilities.

Researchers offered the business training to a randomly-selected 400 current business owners and 400 potential business owners, with the remaining 456 women serving as the comparison group. A randomly-selected half of the candidates offered training were also given a grant of US$129 (Rs. 15,000) after successful completion of the training. Grant recipients were told that they could use the money for any purpose.

Researchers surveyed program participants before the training was offered to measure business characteristics and demographic information. Researchers conducted four rounds of follow-up surveys (three, seven, fifteen, and 24 months after the training) to measure impacts on business outcomes including income, profits, sales, and capital stock in the short- and medium-term.

Results and policy lessons

Training improved business practices among existing business owners business, but did not affect business performance. When coupled with a cash grant, the training increased profits in the short term for existing businesses, but these effects dissipated after two years. On the other hand, the business training helped potential business owners start businesses more quickly and improve the management and profitability of these businesses.

Take-up: In both groups (current and potential business owners), about seventy percent of those who were offered the training attended at least one session.

Business ownership: Among potential business owners, the combination of cash and training increased the likelihood of owning a business by twenty percentage points (a 53 percent increase, relative to the comparison group) in the first three to four months after the training, and a fourteen percentage point increase (29 percent) seven to eight months after the training. Similarly, training alone increased the likelihood of owning a business by nine percentage points (24 percent) in the first three to four months. The effects on business ownership dissipated after about a year, suggesting that the training and cash sped up business creation, but did not have long term impacts on ownership rates. Among current business owners, neither the training nor the training with cash affected business survival rates.

Business practices: For current business owners, the business training improved business practices–including comparison shopping among suppliers and keeping written business records–for at least two years after the training. For instance, Business owners offered the training adopted an average of 6.7 good business practices from a list of 29, three to four months after the training (before the training was offered, they only implemented five practices on average from the list). Business owners offered the combination of training and cash adopted 7.5 good business practices, on average, compared to five practices out of 29 prior to training.

The business training also improved business practices among women who did not have a business at the start of the evaluation, but who started a business over the course of the evaluation. About two years after the training, those who has opened a business and been offered the training and grant were implementing 9.3 of the 29 good business practices identified by the researchers, relative to 8.3 good business practices among those who opened a new business in the comparison group.

Business outcomes: For current business owners, the business training alone did not affect profits, sales, or capital stock (including inventories and raw materials for business purposes). When combined with the cash grant, the training program did lead to increased profits and capital stock. About eight months after the training, monthly profits increased by US$16.24 (Rs. 1,910) for those offered the training and cash grant (a 47 percent increase, relative to an average of US$34.2 (Rs. 4,023) before the evaluation). However, the increase in profits was temporary, as it dissipated by about one year after the training.

For potential business owners who opened businesses during the evaluation, the training increased work income (including business profits and wages from paid employment) by an average of US$12.7 (Rs. 1494) in the medium term (one to two years after the training), a thirty percent increase relative to the comparison group. Potential business owners who were offered the

training and opened a business also increased their sales and profits in the medium term: sales increased by US$53.11 (Rs. 6,248) (a 41 percent increase, relative to the comparison group) and profits increased by US$19.08 (Rs. 2244) (a 43 percent increase). The grant did not have an additional effect on these outcomes.

Taken together, these results suggest that business training may not be sufficient to generate sustained increases in profits. However, business training can help potential business owners start businesses more quickly and manage them more efficiently.

de Mel, Suresh, David McKenzie, and Christopher Woodruff. "Business training and female enterprise start-up, growth, and dynamics: Experimental evidence from Sri Lanka." Journal of Development Economics 106 (2014): 199-210.