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Growing microenterprises: How gender and family can impact outcomes – evidence from Uganda

1. Key findings

- Lack of access to finance and management ability are important constraints to microenterprise growth. Without capital and appropriate skills, it is difficult for businesses to grow.
- The gender of the program recipient matters a lot for the impact they can obtain. Men benefit from the package of microloans and training, leading to a 54 percent increase in profits and similar effects on employment. Other types of assistance such as loans only, grants only, or the combination of grants and training do not lead to sustained impact for men. However, women realize no impacts, whether they received loans, grants, training, or any combination of these.
- These results are likely due to issues of control in the households. When women are willing to hide money from their husbands as documented in an additional behavioral game played with program recipients, they are able to keep control of it and can use it in their business obtaining business growth. Men have less to fear losing control of money in the household, and so the results are the opposite for them.
- The results point to a recent observation by researchers: the success of programs hinges on who has the power to utilize the interventions being offered. In Uganda, the gender of the person matters a lot for the success of the program because men and women have different spheres of control and women are more exposed to family pressure.

2. The challenge

Across the developing world, microenterprises offer important income-generating opportunities for people with limited formal employment options, but these businesses often struggle to grow and fail to provide more than subsistence-level income for their owners. Providing microenterprises with access to credit could, in theory, increase their profits, but recent research has not found an impact of microcredit on either business or household income. However, much of the research on this topic has focused on businesses owned by women because microcredit firms have provided more loans to

What Works in SME Development

The What Works in SME Development Series is presenting key findings of interventions promoting small and medium enterprises as a means to create more and better jobs. It covers ILO programs as well as interventions of other agencies using ILO products.

The main objective of the new Series is to increase the take up of effective SME programs by leading actors in this field. The issue briefs target ILO constituents, other policy makers, development practitioners, and the private sector presenting key evidence at a glance. Preference is given to rigorous quantitative research, but the Series also covers other research approaches contributing to more evidence on what works and what does not work.

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women than to men. In some contexts, however, women express that they face more pressure than men to use loans for household needs, and this may lead them to invest less in their businesses. For this reason, loans may have a larger impact on the profits of men-owned businesses. Research has also found only small effects of business skills training on small business growth. Yet, when combined with much-needed capital, business management training may help microenterprises grow. The research presented here aims to provide new evidence on the different impacts of loans, grants, and business training on women-owned versus men-owned microenterprises and explore the role that family constraints play in those outcomes.

Microenterprise development is particularly relevant for Sub-Saharan Africa as the region has a growing working age population and the lowest share of the labor force in wage work of any region of the world. In 2009, Uganda's GDP per capita was US\$384, ranking it in the bottom third of countries in sub-Saharan Africa, and 38 percent of the Ugandan population lived on less than US\$1.25 per day. The average monthly profit of the businesses in this study (before receiving any loans or grants) was approximately US\$120. With increased profits, these businesses could potentially hire additional laborers and become important sources of much-needed jobs.

3. The program and evaluation design

The study was designed to test whether expanding access to capital via grants or loans would increase the profits of microenterprises owned by men or women, and whether the ILO's entrepreneurship training Start and Improve Your Business (SIYB) could further increase impacts.

Researchers selected 1,550 microenterprise owners from four semi-urban districts in Uganda. Participants were selected because they expressed interest in expanding their business, receiving training, and obtaining capital. The businesses did not always fit the local microfinance banks' lending requirements and so the ILO guaranteed the loans (unbeknownst to the loan recipients). The sample of businesses is thus composed of those that would not always have obtained loans from a microfinance bank.

Business owners were randomly assigned to five groups. Two groups received loans between \$180 and \$220. Of these groups, one group received the ILO SIYB training (in total four days of training),

and the other did not. Two additional groups were awarded \$200 grants; one of these groups received the ILO SIYB training, and the other did not. The last comparison group received no loans, grants, or training. The evaluation design is presented in Figure 1.

To measure the effects of the loans, grants, and trainings on businesses and households, researchers conducted two initial surveys before the program, and three follow-up surveys six, nine and 24 months after the program.

In order to capture information on the quality of household interactions, the researchers also



conducted an incentivized behavioral game that was designed to capture how willing people are to hide money from their spouses. The research team offered to give a day's wage to the spouses of the business owner or, at a significant cost, deliver the money directly to the business owner without their spouse knowing about it. This type of game has been used by other researchers to better understand how spouses bargain over control of money. What is novel about the research design in this study is that this is the first time the results from such a game have been used to test for the different effects of a program based on what individuals chose to do in the game.



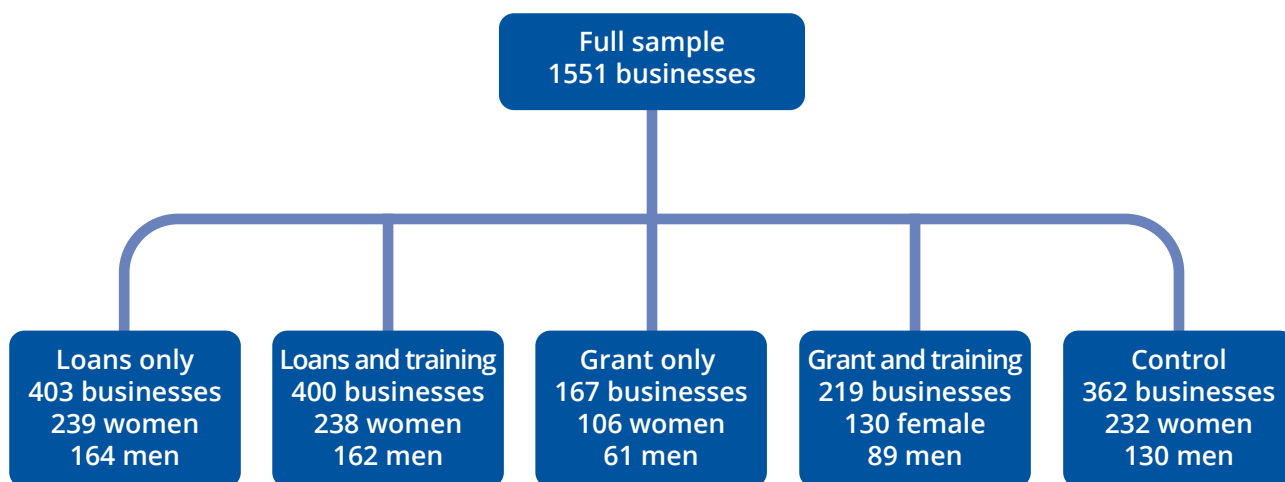


Figure 1: Experimental design with sample sizes

4. What we found

4.1 Take-up

Training, loan and programs, while of interest to many people, often suffer from take-up problems. This experiment faced some issues for whether people that expressed interest in these programs actually showed up or took the offered money as well.

Despite the indication of interest, only 71% of people invited to attend the trainings actually attended. The rate was the same for men and women. This is similar to other studies mostly showing take up rates between 39% and 75%. Qualitative surveys identified a number of reasons people did not take the training. The most common response was that the time away from the business necessary for the training was too difficult for them. The ILO made efforts to schedule evening and half-day sessions for the four day training, but this was still too onerous for some business owners.

Of those who were offered the loans, 40% accepted. Again, the rate was the same for men and women. This is similar to other research on loan take-up, which finds lower than expected take-up after people have expressed interest. The largest predictor of take-up for loans is whether the person was offered and attended the trainings.

Take-up of the grant was also not universal. This was money that was to be given to the businesses without a repayment requirement and with no strings attached and was framed to businesses as such. Still, only 71% of those selected took the money. Similar to the effect on loan take-up, whether the person attended the trainings has a large positive

correlation with grant take-up. Qualitative interviews suggest that many people simply did not believe the offer of the grants, thinking it too good to be true. The trainings most likely increased confidence in individuals that the offer was real.

4.2 General program impacts

Loans in combination with training increased business profits for men. They realized a 54 percent increase in profits six months after the program ended. This effect did not fade away nine months later, but did go away for the full sample of men receiving loans and training two years after the program. However, spousal trust has long-run impacts on income for married men from all of the support packages offered.

The sub group of men benefiting from loans and training also increased family employment by 66% and employment from outside the household by 45% initially, with a decrease over the long-term. The impact of loans and training on profits were strongest for men with higher ability, lower risk preferences, and no prior history of loans. However, increased business profits had no effect at the household level. Although their businesses were turning a greater profit, male business owners' households saw no changes in spending on child health, general savings, or household consumption, and no increase in household welfare. It is possible this is due to the extra profit being invested in the business.

The program had no effect on business profits for women-owned enterprises, whether they received loans, grants, training, or any combination of these.

In general, adding training to loans or grants had



no additional effect on business profits, except for men who receive loans. Neither men nor women experienced any effects from receiving grants, either on their businesses or on their households, suggesting that the need to repay capital incentivizes men to invest in their businesses.

These results indicate that cash-constrained male-owned enterprises—who are not the typical target audience for microcredit organizations—can benefit from subsidized loans and trainings. Because these benefits were stronger for men who had not previously received a loan, the results also suggest that restricted access to credit may be constraining small business growth in Uganda.



4.3 The role of household bargaining on program impacts

The results of the behavioral game that individuals played proved to be an important predictor of impact from the programs. The researchers found that men who hide money from their spouses show large negative effects from the interventions, probably because there is a deeper problem in the household. Men who gave control of the money to their spouse show large and positive effects from all treatments.

The opposite results are found for women. Those that

kept control of the money obtain large and positive effects from the programs on their businesses. The grant-with-training program had the strongest effect as grants are easier to hide from spouses than loans. Those who sent the money to their spouse show no effect from any of the treatments.

5. Policy recommendations

Women and men can benefit from micro enterprise support programs, but only under certain conditions in the household. While men generally do not have to fear losing control over money in the household, women have lower returns to business because of family pressure and unequal power relationships.

These findings call for a rethinking of current approaches solely focusing on business performance through provision of capital and training. Programs should include complementary support to improve the quality of household interactions and spousal trust as they matter substantially for business outcomes. Appropriate interventions could be to foster inter-household communication and decision making, particularly for female-owned enterprises.

Combining access to finance with training on business skills creates stronger results when compared to stand alone interventions. It helps to increase the take-up rate of loans for both women and men. In the case of men the package has a strong short term impact on income and employment independently of the level of spousal trust; a long term impact can only be found for men who share control of the money with their spouses.

In the case of women the package approach has a positive impact if they do not disclose information on the performance of their businesses. This means that the bundle of capital and training needs to be complemented by short term measures helping to guard business income from family pressure, such as private bank accounts, and long term interventions promoting new relationship models in the households overcoming unequal power relations.

Finally, programs should also reconsider the measurements they are using. The objective for women and men in business might not only be profit maximization, but investments into the household's needs which should be covered by relevant indicators and also qualified as desirable impact.





6. Further readings

Fiala (2014), Stimulating Microenterprise Growth: Results from a Loans, Grants and Training Experiment in Uganda

Fiala (2017), Business is tough, but family is worse: Household bargaining and investment in microenterprises in Uganda

Karlan, Morduch, and Mullainathan (2010), Take-up: Why Microfinance Take-up Rates Are Low and Why It Matters, Financial Access Initiative Working Paper

McKenzie and Woodruff (2012), What are we learning from business training and entrepreneurship evaluations around the developing world? Working Paper

Note on Impact Evaluation Technique: The methodology applied for this research was a lottery design (randomized control trial) meaning that a sample of potential beneficiaries is randomly assigned into those who receive the intervention and those who do not. Impact is the difference in outcomes between the groups. ***Based on this design results are of high reliability, but cannot be generalized for other contexts or countries.***

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