

Empowering women through small businesses

How effective are loans for female-run start-ups?



This policy brief highlights the impact that a bespoke type of microenterprise loan product offered to aspiring entrepreneurs¹ has had on the socio-economic welfare of borrower households. Specifically, the study focuses on evaluating the impact of Kashf Ibtada-e-Karobar Karza (KIKK) using a randomised control trial (RCT). This product was offered by Kashf Foundation, a partner organisation, with the aim of offering start-up capital and training to women from low-income households who have a practical business plan and require a line of credit. The KIKK product involved:

1. The submission of a business plan at the time of application.
2. A PKR 10,000-30,000, 12-month loan with monthly repayments.
3. Three hours of training in marketing, networking, and capacity building to female beneficiaries.
4. A preference for female applicants without an existing business.

Loans and training were offered to applicants whose business plans were rated positively.

Survey and results

The study sample was selected from new applicants from 13 Kashf branches: five in Bahawalpur, four in Gujrat, and four in Sialkot. Eligible applicants between May and August 2014 at these 13 branches were randomly assigned to either receive KIKK (treatment) or not (control), thus producing statistically balanced treatment and control groups. Both groups were surveyed once before the disbursement of loans and then one year later in August or September 2015 to study the short- to medium-term impact of the product on participants' business and household outcome.² The study found a significant impact of the microfinance product in relation to the

1. deMel, McKenzie and Woodruff (2008) and Fafchamps et. al (2014) have studied the impact of access to finance on *existing* female-run enterprises in detail.

2. A follow up round of surveys was conducted in Aug – Sep 2016 (results forthcoming).

likelihood of participants setting up a business during the study period, however no improvements were found in household asset holdings or in women's independence when making ordinary household decisions.

To provide measures of the social and household dynamics these borrowers operate in, this study also made use of lab-in-the-field experiments at the time of the follow-up survey in 2015, with 267 randomly selected RCT participants and male members of their households. The researchers made use of standard behavioral activities, customised to the local context.

Lab-in-the-field experiments and results

Activities were conducted in sessions of no-more than 12 couples. Men and women were seated in separate rooms so that they could not observe the decisions made by others, and activities in each session were conducted in random order.

In the first activity, all respondents were given an endowment of PKR 1,000 and asked to divide it between themselves and their partner, as they wanted. Half of the participants were randomly matched with a stranger of the opposite gender; and the other half with their spouse. Subjects were asked to perform the activity twice; once when their distribution would be revealed to their partner (public round) and once when it would be kept secret (private round).

In the second activity, participants could earn up to PKR 1,000 through a simple sorting activity. They were then asked to divide their earnings between themselves and their partner. Subjects were also asked to divide the money earned by their partner through the sorting activity between themselves and their partner.

The third activity was a simple Binswanger (1980) risk elicitation activity generating subjective incentivised measures of risk aversion. Finally, the fourth activity elicited social norms on female agency, by requiring participants to rank the appropriateness of a woman making decisions independently of her husband in a hypothetical financial situation. Participants were incentivised to guess their partners' response, as they would receive PKR 300 when their answer matched that of their partner. Their partner in this activity was once their spouse, once a male stranger, and once a female stranger.

Experimental results show that men and women are 'fair' and share endowments equally when paired with a stranger. It is only when they are paired with household members that they deviate from equal sharing of their earnings and endowments. Specifically, men were consistently more generous than women and chose to give more to their partner than women did. This was particularly true in the public dictator round – they kept PKR 120 less for themselves as compared to women in the same situation.

There is an interesting variation in endowment shares by the occupational status of the female.

- In pairs where women were entrepreneurs, men and women did not change behavior between public and private rounds. However, husbands of housewives chose to keep more for themselves in the private than in the public round. In literature, this is taken as evidence of ‘hiding’ resources from the spouse.
- Self-employed women kept more of their endowments when earned, i.e. they exhibit greater entitlement over their earnings than over windfall. Husbands of housewives act the same.

These results point towards possibly adversarial dynamics in households where the woman is not working. However, since baseline measures of these preferences were not recorded, it is difficult to identify the direction of causality between preferences and employment status.

There is some evidence of social perceptions limiting female enterprise. When asked how appropriate it was for a woman to re-invest profits earned from a business without consulting her husband, women were significantly more likely than men to think that the society (household members or strangers) would consider this to be an inappropriate action. These results indicate that women’s perception of how men and society at large think is ‘stricter’ than male perceptions.

Conclusion

The results of the RCT provide some evidence that appropriate targeting can actually lead to business creation for a sample of aspiring female entrepreneurs. The results are also indicative of household and social dynamics playing an important role in the setting up of enterprise. For instance, women may fear the appropriation of their business resources and earnings by household members. Similarly, the results of the norms activity raises the question of whether it is the women themselves who impose constraints on themselves, contrary to the popular belief that they are not allowed to make these independent decisions by their families.