

Business is tough, but family can be worse: Experimental results on family constraints and enterprise development

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Abstract

Do family pressures affect business investment decisions? Utilizing a field experiment and incentivized games, this paper explores the role of family pressure on capital usage. Individuals were randomly selected to receive capital through either a loan, grant, or pairing capital with training. I find that male owned businesses expand significantly from the loan program when paired with training, but do not expand when training is not offered. There is no effect from the cash grants for male businesses, or any of the programs for female owned businesses. Individuals played a game where they could hide money from their spouse at a significant cost in order to identify the quality of intra-household bargaining and financial decision making. Unmarried men show large increases in business performance. Among those that are married, men that do not hide money perform well, while those that do hide money show no effects from the programs. The opposite is the case for women: women that don't trust their husbands with money obtain business growth, while those that do trust their spouse perform poorly from the interventions. This effect is even stronger when extended family lives nearby. These results suggest there is an inefficiency in household decisions that significantly hurts business outcomes. This inefficiency is reduced when women have more control over money. Additional heterogeneity tests show the effects for men were greatest for those with low starting profit, no previous loan experience, higher pa-

1 Introduction

Recent research has consistently found a lack of effect from capital programs on enterprise growth for female-run enterprises in developing countries, and mixed results for men. Microenterprises are vital in countries where there are limited formal employment options, both for providing informal employment and ensuring household economic security for business owners. However, research on business growth suggests only a small number of firms upgrade into larger businesses, leading to doubts that small businesses generate general economic growth (Berner et al 2012, Fajnzylber et al 2006, Fajnzylber et al 2009 and Mead 1994). It is unclear why businesses fail to expand.

A relatively recent approach to business growth has been the expansion of private micro finance. However, experimental work has consistently failed to find increased profits for existing business. If capital is not always used effectively, perhaps this is because business owners lack the skills to use the funds well. The majority of studies on business skills training though fail to find an effect on profits and sales from trainings. Recent work has focused on some of the behavioral constraints to business growth, such as the ability, patience, etc. of business owners. This paper explores the effects of a capital program to small enterprises and focuses on the role of family pressure in business investment decisions.

From August to October 2012, 1,550 microenterprise owners in Uganda were offered

This is not surprising given that the loan only intervention had initial significant impacts.

of money. For these male and female subsamples, there appears to be no value addition from training, and potentially some large negative effects for women. These results from this game suggest there is an inefficiency in household decisions that significantly hurts business outcomes. This inefficiency is reduced when women have more control over money.

Additional heterogeneity tests show the effects for men were greatest for those with low starting profit, no previous loan experience, higher patience, higher skills and low risk pref-

number report only keeping the records "in their head" (32%). Average revenue in the last 4 weeks was 732,000 USH (approximately \$285), though this includes a significant amount of variation, with some businesses reporting exceptionally high revenues. Last month profits for the businesses averaged 318,000 USH (\$120) and showed a much lower variation.

coefficients are large or statistically significant, this suggests that there is likely little or no selection bias present in the attrition.

4 Methods

Individuals had been randomly divided into five different groups. 406 were assigned to the loans intervention, 401 to the loans and training, 167 to grants, 219 to grants and training, and 357 to the control group. The sample sizes were based on power calculations after taking into account implementation budget limitations. The design is presented in Figure 1.

A local micro finance organization, PRIDE Micro finance, provided the loans. Unknown to the participants, the loans were guaranteed by the ILO as the sample came from all businesses that expressed interest in a loan and these businesses may not have met the lending requirements of PRIDE. PRIDE normally provides loans with an interest rate of 26% and requires 100% collateral. Lenders reduced the interest rate to 20% and described the program as a special promotion to individuals. For those who were not able to provide 100% collateral, PRIDE agreed to accept 50% collateral instead. This special promotion was designed to encourage participation in the loan program and to reflect what a subsidized loan program might be like if conducted in the future. Individuals were then required to repay the loan in monthly installments, starting in the first month.

The loans ranged between \$180 and \$220. The cash grants were \$200 and delivered through PRIDE bank accounts. The ILO contacted individuals to attend information meetings explaining how the cash grant program would work. They were then asked to open a free savings account, where the money would be deposited.

The ILO conducted the trainings using the Start and Improve Your Business (SIYB) training modules. This training program reached 4.5 million people in 100 countries from 2003 to 2010. Researchers have evaluated the trainings experimentally twice before. First, Mano et al 2012 looked at the effect of giving training to 53 business owners. In keeping with other training results, they found survival rates increased, as did the incidence of good business practices such as keeping budgets, with no consistent effects on business profit. de Mel et al (2008) also use the SIYB training on female business training and cash grants in Sri

training treatment arm, but instead use trainings as a potential augmenting effect on the use of cash grants and loans to test if training can increase the effects of decreasing capital constraints through better business management practices or attitudes.

To identify the impact of the programs on individual business outcomes, I run the following intention to treat (ITT) OLS regression model:

$$Y_{it} = \alpha + T_{it} + T_{it} F + R + X_{i;t-1} + \epsilon_{it} \quad (1)$$

where t is time, i refers to an individual and Y_{it} is the outcome of interest. T_{it} is the treatment status of an individual. F is a dummy for whether the participant is a woman. The effect of the program on men is thus obtained through α , while the effect on women is obtained through $\alpha + \beta$. R is a matrix of region and sample dummies, X are baseline variables used as controls and ϵ_{it} is the error term. In addition to this specification, heterogeneity analysis is conducted where both treatment status and the interaction of treatment with the female dummy is interacted with the heterogeneity of interest.

5 Results

5.1 Main results on income and wealth

The results for the main question of interest, the effect of the programs on participant and household income and wealth, are presented in Table 3. The first column looks at the effect of the program on the main business run by the respondent. None of the results are significant

there does not appear to have been an allocation of funds from women to the business of the husband. The results for household total are the combination of main respondent, spouse and other family member income and shows results consistent with the main respondent results.

To explore the effect of the programs on wealth, column 5 looks at the effects on household assets. There is a large and statistically significant effect of the loan only program on assets for men, while there are no effects for the other programs and nothing again for women. These results support the previous results showing short-term, short-lived impacts from the loan only program. It is likely that male business owners utilized the loans to increase initial business returns, eventually turning these into assets for the home. For men with

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Turning to those that did not trust their spouse, the results largely reverse. Men that do not trust their spouse with money actually show large negative effects from the program for all interventions, with the coefficient on the grant only program being statistically significant. This is the opposite for women: women that do not trust their spouse show large, positive effects from both of the grant programs. This may be suggestive that the grant programs were easier for women to hide from their spouse, and those that did performed well. An additional interesting effect comes from women that trust their spouse: their spouses income is significantly larger from the loan with training and cash grant programs.

The proximity of family was previously found to have large implications for the impact of the program for women. Table 5 explores how family presence interacts with trust with money within the household between spouses. The effects are largely similar to those found already, though the impact becomes even more pronounced.

For men, the coefficients are mostly insignificant, except for those that do not hide money from their spouse and have family living far away. The effect of the loan program on business profits is very large and statistically significant.

The results for women are much stronger. Women that did not hide money from their spouses and have family living near have a large, negative effect from both the loan and grant programs paired with training. This effect is partially offset by an increase in spouse income for the loan with training program. This result suggests that after the programs were delivered, women that do not hide money from their spouse disinvested from their businesses, with some investment going into the spouse's business. In fact, the results for women that do not hide money from their spouse are consistent whether their family lives nearby or not for the grant with training program.

5.3 Other effects

In addition to these main heterogeneity tests, there are a number of additional heterogeneities that are of interest. Table 6 explore dividing the sample into whether had a previous loan or not (columns 1 and 2), high and low baseline profits (3 and 4), central and northern regions (5 and 6) and low and high levels of patience measured immediately after the programs (7 and 8). Table 7 presents low and high ability as measured at baseline (1 and 2), high and low empowerment (3 and 4), and high versus low risk preferences (5 and 6).

The main effects for men from the loan paired with training program come through those that had low starting profit, no previous loan experience, higher patience, higher skills and low risk preferences. None of the additional subsample analysis shows effects for women.

There is a surprising outcome for men that were offered the grant paired with trainings. For those that had high patience or low ability, there are large, positive and statistically significant effects. The effect for the grant with training intervention for those with high patience is not significantly different from those that received the loan and training program, though they are different for those with low ability. This results suggests there is likely some long-run impacts from the trainings for a subsample of participants. Both of these characteristics were specifically pre-specified as potential important heterogeneities.

Finally, there are additional outcomes that are of interest for these programs, presented in Table 8. I look at effects on sales (column 1), employees (2 and 3), capital stock (4) and school missed for children in the household (5). For men, I find large effects for sales in the last month for the loan paired with training intervention and the number of hired employees. The channel of impact of the loan with training program thus likely came through increases in sales and hiring of employees. For women, there are no significant effects for any of the interventions on any of the outcomes. Women do not have changes in sales, employees, capital stock, or missed school of children. There are also no effects for women's empowerment from any of the interventions.

6 Conclusion

The problem of how to push businesses to expand, especially female-owned businesses, has been a pressing problem for researchers and policy makers. This experiment presents some strong evidence on why business owners fail to invest and expand, while opening up additional questions.

As discussed in Fiala (2015), the results are consistent with commitment and skills problems for men: men that received the loan with the training intervention perform significantly better than the control group or those that received cash grants or loans without training. The increase in profits is quite large and suggests that there are substantial returns to increasing family employment and capital. The results are being driven by single men with higher baseline profits and higher ability and are strongest in the central region.

The results for women are significantly more pessimistic. None of the interventions helped the full sample of women expand their business income. Family pressure appears to be a big component of this effect. Family pressure in developing countries has long been a problem for women. Keeping cash in hand is difficult when there is pressure to spend money on school fees, health care and funerals. The evidence presented here suggests that these pressures

matter a lot for women who want to expand their business but have family members nearby. Men often do not face the same pressures.

There is some good news. Counter to previous evidence on micro finance, loans when paired with training have a dramatic and positive effect for men and women that hide money from their husbands. The results suggest that micro finance can be quite useful for men in general, and for a subset of women.

7 References

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Fig. 1: Experimental design with sample sizes

Table 1: Summary statistics and balance tests

Baseline Characteristic	Male sample			Female Sample			Means by Treatment Group: Full Sample		
	N	Mean	Std. Dev.	N	Mean	Std. Dev.	Control	Treated	p-value
Female	604	0.00	0.00	942	1.00	0.00	0.630	0.595	0.25
Age 18-23	604	0.18	0.39	942	0.08	0.27	0.140	0.117	0.25
Age 24-29	604	0.37	0.48	942	0.32	0.47	0.350	0.366	0.58
Age 30-35	604	0.26	0.44	942	0.32	0.47	0.310	0.305	0.87
Age 36-41	604	0.10	0.30	942	0.16	0.37	0.150	0.127	0.26
Age 41-50	604	0.09	0.28	942	0.12	0.33	0.060	0.095	0.06
Married	604	0.65	0.48	942	0.72	0.45	0.650	0.638	0.68
Literate	604	0.87	0.33	942	0.70	0.46	0.810	0.807	0.90
Previous training	604	0.26	0.44	942	0.25	0.43	0.260	0.254	0.83
Number of employees	604	0.90	1.51	942	0.52	1.20	0.340	0.369	0.51
Employees hours worked	417	55.69	94.50	606	34.39	60.93	0.630	0.700	0.39
Does not keep records	601	0.04	0.20	937	0.07	0.25	43.200	50.150	0.21
Keeps records on computer	601	0.04	0.20	937	0.02	0.13	0.009	0.009	0.99
Keeps written records	601	0.67	0.47	937	0.55	0.50	0.025	0.037	0.22
Keeps record in head	601	0.24	0.43	937	0.35	0.48	0.600	0.605	0.86
Keeps money in separate bags	601	0.00	0.00	937	0.01	0.09	0.380	0.357	0.40
Last month's revenue (1000 USh)	604	807.72	774.11	942	662.94	643.75	715.100	663.600	0.23
Average months revenue (1000 USh)	593	1126.62	2112.66	932	1087.13	7257.18	759.300	1067.400	0.39
Last month's profit (1000 USh)	604	387.66	1032.37	942	259.89	533.24	341.900	320.000	0.64
Average month's profit (1000 USh)	583	543.91	2391.52	907	297.43	469.87	600.300	450.000	0.12
Stock value (1000 USh)	568	3662.82	10811.38	879	1519.77	3171.81	3336.600	2858.800	0.30
Value of liabilities (1000 USh)	437	252.07	936.50	680	136.29	534.77	145.400	179.500	0.52
Longest string of numbers recalled	604	4.59	2.20	942	3.83	1.98	3.800	3.790	0.94
Math questions answered correctly	604	3.65	0.52	942	3.47	0.61	3.540	3.558	0.61
Ability Index	604	0.29	0.88	942	-0.17	1.02	-0.005	0.009	0.82
Had a loan previously	599	0.38	0.49	934	0.53	0.50	0.440	0.478	0.21
Asset index	604	0.29	1.80	942	-0.16	1.45	-0.150	-0.061	0.37

Table 2: Attrition analysis

	(1) att_w5
Loan	0.0014 (0.01)
Loan and	-0.014

Table 3: Treatment effects on business profits for respondent and household

	(1) Main	(2) Total	(3) Spouse total	(4) HH total	(5) HH assets
Loan	77.0 (99.26)	79.3 (170.70)	-29.5 (49.12)	-3.73 (208.80)	0.41 (0.23)
Loan and Training	99.4 (100.34)	283.0+ (172.27)	-3.44 (49.07)	303.5+ (208.73)	0.14 (0.23)
Grant	-112.1 (130.19)	-246.1 (223.42)	-21.8 (63.42)	-297.5 (270.34)	0.092 (0.30)
Grant and Training	81.8 (117.13)	147.3 (201.78)	-2.67 (57.15)	156.5 (243.06)	0.020 (0.27)
Female x loan	-148.7 (124.63)	-152.7 (214.00)	-13.7 (61.31)	-133.4 (259.99)	-0.47+ (0.29)
Female x loan with training	-162.0 (125.80)	-377.1 (216.00)	-7.63 (61.10)	-417.0+ (259.09)	-0.053 (0.29)
Female x grant	75.8 (159.09)	277.2 (273.11)	3.03 (77.27)	343.8 (328.75)	0.13 (0.37)
Female x grant with training	-160.3 (146.58)	-179.6 (252.21)	0.63 (71.56)	-203.1 (304.27)	-0.43 (0.34)
Female	-44.2 (93.08)	-89.3 (159.92)	68.6+ (45.65)	-41.5 (194.09)	-0.086 (0.22)
Control Mean	359.7	427.2	69.2	505.8	0.024
R2	0.040	0.034	0.019	0.035	0.13
N	1326	1319	1137	1127	1321

Notes: This table reports the OLS regression results for the impact of assignment to the four interventions on business profits. Controls include district dummies, age of respondent, whether married at baseline, index of ability, number of employees at baseline, assets and profits at baseline.*** p<0.01, ** p<0.05, * p<0.1.

Table 4: Treatment effects on business outcomes

	Married (1) Own	Married (2) Spouse	Trust (3) Own	Trust (4) Spouse
Loan	-43.8 (247.29)	-94.2 (68.59)	-106.6 (192.21)	9.35 (84.04)
Loan and Training	758.8*** (231.28)	2.04 (63.49)	-62.3 (199.30)	2.63 (83.70)
Grant	-331.3 (345.00)	-44.9 (94.12)	-346.2 (294.86)	-9.25 (132.63)
Grant and Training	262.8 (322.86)	-35.6 (90.07)	23.2 (240.89)	-14.8 (102.74)
Female x loan	-47.1 (303.21)	96.7 (83.76)	62.9 (259.90)	-175.3 (113.36)
Female x loan with training	-821.8*** (290.84)	11.8 (79.55)	47.1 (269.41)	-153.2 (113.20)
Female x grant	234.3 (414.19)	50 (112.78)	493.6 (357.45)	-108.1 (158.83)
Female x grant with training	-424.9 (375.94)	118.3 (104.30)	631.1* (346.13)	-140 (155.55)
Female x interaction	94.1 (182.13)	167.6*** (50.65)	-196 (178.74)	195.0*** (75.06)
Loan x interaction	169.6 (251.46)	94.2 (69.89)	510.8* (294.49)	-182.5 (120.94)
Loan with training x interaction	-738.4*** (239.46)	-8.15 (65.50)	416.9* (222.16)	-40.1 (93.00)
Grant x interaction	128.9 (383.46)	36.7 (105.62)	103.9 (239.30)	-25.2 (100.13)
Grant with training x interaction	-154 (345.66)	47.6 (95.80)	243.2 (355.96)	-14.2 (152.56)
Female x loan x interaction	-132.6 (359.10)	-192.1* (101.16)	94.2 (294.14)	20.5 (119.84)
Female x loan with training x interaction	672.4* (352.48)	-42.3 (97.79)	-569.9 (447.01)	400.4** (189.44)
Female x grant x interaction	109.5 (501.84)	-99.8 (139.74)	-746.5 (453.39)	481.7** (190.59)
Female x grant with training x interaction	579.6 (472.10)	-264.9* (135.44)	-74.3 (599.76)	333.4 (250.89)
Female	-139.1 (180.86)	-7.22 (51.01)	-1431.6** (563.66)	97 (243.24)
Control Mean	360.1	368.7	412.5	426.3
R2	0.046	0.038	0.071	0.056
N	1319	1137	718	579

Notes: This table reports the OLS regression results for the impact of assignment to the four interventions on business profits. Controls include district dummies, age of respondent, whether married at baseline, index of ability, number of employees at baseline, assets and profits at baseline.*** p < 0.01, ** p < 0.05, * p < 0.1.

Table 5: Treatment effects on business outcomes

	Close family (1) Own	Close family (2) Spouse	Far family (3) Own	Far family (4) Spouse
Loan	-212.2 (188.20)	20.3 (106.78)	-0.14 (332.13)	-20.8 (126.45)
Loan and	-282.3	28.1	188.2	-29.6

Table 6: Other heterogeneity effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Previous loan	No loan	High pro t	Low Pro t	Central	Northern	Low Patience	High Patience
Loan	349.0 (212.83)	-59.5 (258.08)	-204.8 (149.07)	464.6 (330.33)	123.1 (270.99)	50.1 (115.31)	186.6 (343.00)	-84.3 (161.64)
Loan and Training	82.3 (207.03)	409.8 (266.84)	-80.0 (149.96)	773.4 (335.46)	480.9 (276.92)	66.3 (115.37)	406.0 (342.51)	225.6 (171.68)
Grant	-155.6 (257.60)	-296.6 (361.17)	-292.6 (200.46)	-152.3 (419.78)	-327.9 (294.81)		-494.2 (422.72)	-70.5 (222.44)
Grant and Training	115.3 (238.30)	182.9 (318.65)	301.1 (186.92)	63.9 (368.34)	62.4 (271.37)		-139.0 (385.53)	379.3 (202.85)
Female x loan	-255.8 (251.26)	-185.3 (343.59)	193.4 (198.80)	-570.3 (393.92)	-188.2 (348.61)	-93.9 (140.06)	-435.5 (425.76)	170.0 (200.53)
Female x	-97.2	-573.2	-2.69	-885.9				

Table 7: Other heterogeneity effects

	(1)	(2)	(3)	(4)	(5)	(6)
	Low Ability	High Ability	High Empowerment	Low Empowerment	High Risk	Low Risk
Loan	125.5 (175.59)	31.4 (291.56)	385.9 (269.08)	-197.2 (204.21)	27.7 (255.30)	67.0 (199.78)
Loan and Training	64.8 (175.38)	409.9 (295.52)	-21.9 (276.99)	19.0 (210.88)	298.9 (259.68)	294.9 (201.87)
Grant	-90.2 (227.90)	-429.9 (383.40)	-269.7 (364.16)	-191.6 (262.18)	-396.9 (304.71)	-33.9 (357.78)
Grant and Training	480.0 (215.49)	-143.6 (340.61)	-65.6 (335.84)	152.0 (228.89)	-182.2 (293.93)	922.1 (249.44)
Female x loan	-154.2 (208.81)	-190.7 (394.21)	-343.6 (366.52)	18.8 (277.81)	-83.4 (316.71)	-214.8 (251.69)
Female x loan with training	-95.7 (210.01)	-615.6 (393.64)	-218.6 (376.45)	-141.7 (283.51)	-342.3 (319.40)	-529.5 (257.04)
Female x grant	246.9 (270.92)	257.4 (484.10)	366.9 (455.38)	428.7 (348.70)	448.3 (374.01)	-155.6 (423.79)
Female x grant with training	-277.7 (252.76)	-259.5 (461.20)	1134.1 (517.15)	-357.1 (320.79)	251.5 (365.73)	-1203.6 (312.70)
Female	-79.0 (152.09)	-76.4 (295.55)	-101.9 (262.86)	-36.8 (216.15)	-231.3 (238.94)	179.5 (187.37)
Control Mean	319.5	560.3	465.4	571.0	437.7	426.1
R2	0.035	0.045	0.084	0.069	0.035	0.10

Table 8: Additional treatment effects

	Total (1) Sales	Employees (2) Family	Employees (3) Hired	Stock (4) Capital	(5) Miss
Loan	1193.9 (787.24)	-0.058 (0.10)	-0.54 (35.64)	2351778.9 (1409424.05)	-0.078 (0.07)
Loan and Training	1733.1 (798.20)	-0.13 (0.10)	76.1 (35.94)	1983189.1 (1419379.95)	-0.11 (0.08)
Grant	-134.8 (1031.12)	-0.25 (0.13)	10.2 (46.60)	1573040.8 (1840058.87)	0.071 (0.10)
Grant and Training	925.3 (931.36)	-0.12 (0.12)	9.91 (42.17)	1574720.2 (1665194.12)	-0.050 (0.09)
Female x loan	-1528.5 (986.45)	0.17 (0.13)	3.37 (44.80)	-2960339.9 (1770470.66)	0.058 (0.09)
Female x loan with training	-2037.2 (998.42)	0.22 (0.13)	-75.5 (45.15)	-2294107.3 (1783334.88)	0.12 (0.09)
Female x grant	684.8 (1259.04)	0.24 (0.16)	2.19 (57.05)	-1266629.0 (2252813.68)	-0.080 (0.12)
Female x grant with training	-859.3 (1163.11)	0.17 (0.15)	3.02 (52.74)	-837177.6 (2082292.60)	0.12 (0.11)
Female	-142.3 (739.10)	-0.21 (0.10)	-6.13 (33.45)	-1145774.1 (1320707.19)	0.023 (0.07)
Control Mean	1416.3	0.36	0.65	3394125.3	0.37
R2	0.041	0.026	0.0098	0.070	0.033
N	1317	1333	1333	1332	1093

Notes: This table reports the OLS regression results for the impact of assignment to the four interventions on business profits. Controls include district dummies, age of respondent, whether married at baseline, index of ability, number of employees at baseline, assets and profits at baseline. *** p < 0.01, ** p < 0.05, * p < 0.1.