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**Microenterprise Growth and the Flypaper Effect:
Evidence from a Randomized Experiment in Ghana***

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Abstract

Standard models of investment predict that credit-constrained firms should grow rapidly when given additional capital, and that how this capital is provided should not affect decisions to invest in the business or consume the capital. We randomly gave cash and in-kind grants to male- and female-owned microenterprises in urban Ghana. For women running subsistence enterprises we find no gain in profits from either treatment. For women with larger businesses we strongly reject equality of the cash and in-kind grants; only in-kind grants cause growth in profits, suggesting a flypaper effect whereby capital coming directly into the business sticks there, but cash does not. The results for men also suggest a lower impact of cash, but differences between cash and in-kind grants are less robust. There is suggestive evidence that the difference in the effects of cash and in-kind grants is associated more with lack of self-control than with external pressure. JEL Codes: O12, O16, O20

Keywords: Microenterprises; Ghana; Conditionality; Asset Integration

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