Innovations for Poverty Action

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Research recap Part 3: in preparation for next week's Microfinance Impact & Innovation Conference

This is the third in a series of posts looking back at the last big microfinance conference held in 2008, co-hosted by IPA and FAI at Yale University.

There is still time to book places at next week's Microfinance Impact and Innovation Conference in New York.

Below, a blog post from the 2008 conference by Timothy Ogden, editor-in-chief of *Philanthropy Action*.

We're live-blogging the Innovations for Poverty Action/Financial Access Initiative Microfinance Conference 2008.

There is no tenet of microfinance theory more fundamental than the focus on women. The marketing narrative is replete with reasons why a focus on women is sacrosanct. To quote Muhammad Yunus: “Women have greater long-term vision and are ready to bring changes in their life step by step. They are also excellent managers of scarce resources, stretching the use of every resource to the maximum.” And of course, we all "know" that women invest more in their households and children than men do.

Because of all this received wisdom in the marketing narrative, arguably the day's most surprising and controversial presentation was given by David McKenzie of the World Bank. McKenzie reported the results of a three year study of 600 microenterprises in Sri Lanka. The participants in the study were emblematic of the standard image of the micro-entrepreneur: small businesses (with no employees other than the owner) that have very little capital. The only difference is that half of the 600 microenterprises studied were run by men rather than

women. Each of the microenterprises received a grant (not a loan) of $100 or $200, assigned randomly. After receiving the grant, the enterprises were tracked and surveyed quarterly for up to three years.

The results were unequivocal. Men achieved an average return on capital of 11 percent. Women achieved a return on capital that was a little worse than 0 percent.

All sorts of objections and rationalizations immediately leap to mind -- but McKenzie fairly thoroughly debunked each one. Though the study was of grants and not loans, there is no reason to believe men and women react to grants and loans in exactly opposite ways (e.g. men invest grants but spend loans on wine and song while women waste grants but invest loans). While the study only looked at Sri Lanka, non-experimental data from Mexico and Brazil shows similar patterns. The suggestion that women were investing in their children rather than investing profits back into their businesses was met with data that showed no impact on household consumption (e.g. no additional or differential spending on food, clothing or education).

What the data did show was that women tended to be in industries (such as lace making) that offered very low returns on capital while men tended to be in industries (such as electronics repair) that offered better returns. This finding is very consistent with the behavior of entrepreneurs in the United States -- most people start businesses in industries with low barriers to entry and low returns on invested capital.

Which of course begs the question of how to get women to move to industries with higher returns. McKenzie is currently launching several studies to examine this question. One is in Ghana where a much higher proportion of women are in the workforce and therefore presumably are subject to less gender bias in what business they pursue. Back in Sri Lanka, an experiment is being developed to test whether business education courses and vocational training can help move women from low-return industries into high-return industries.

McKenzie's presentation left me thinking, "If even the received wisdom about targeting women is suspect, do we really know anything about microfinance?"

Click here to register for the 2010 Microfinance Impact and Innovation Conference

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