C-19 Note
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The experience of small firm owners in Ghana during the COVID-19 pandemic: A gender-based analysis

Authors: Morgan Hardy, Erin Litzow, Jamie McCasland, and Gisella Kagy

We document differences in the experiences of firms and firm owners by gender during the early COVID-19 crisis in Ghana. Female-owned firms are more likely to close during the Spring of 2020, but equally likely to be open by July 2020. However, longer-term closure is predicted by different characteristics for male- and female-owned firms. Female-owned firms that experience longer-term closure (during our window of observation) are those with low pre-pandemic sales. Male-owned firms that experience longer-term closure (during our window of observation) are those whose owners had other income generating opportunities before the pandemic. Accordingly, women whose firms close experience large drops in income from all sources, while men whose firms close are able to compensate for losses in their core business with income from other sources.

Introduction

In this study we characterize how small, informal firms in Ghana fared during the beginning of the COVID-19 pandemic, from March to July 2020. We specifically highlight differences in the experiences of female and male firm owners. The focus of our study is garment-making firms in Hohoe, a district capital in the Volta Region of Ghana. These firms are small, the modal firm has no employees besides the owner, and most are not formally registered.

Our sample includes the universe of garment-making firm owners, making it possible to understand not only individual experiences, but also implications for the distributions of firms owned by men and women. Another strength of our sample is that garment-making is one of very few industries with large shares of both male and female owners, making it possible to study gender differences in outcomes within an industry. Finally, small firms dominate the private sector in most low- and middle-income countries, suggesting we may be able to learn something about similar settings from the experiences of the firms in our sample.

The COVID-19 pandemic was a shock to the entire global economy. However, while it certainly was exceptional, it was not too different from other economic disruptions that businesses in low-income countries face quite frequently. These shocks include energy crises, climate disasters around the world, cycles of election violence, dramatic currency fluctuations, commodities price fluctuations, and other infectious disease outbreaks. The lessons from COVID-19 can teach us a lot about how firms experience shocks and what type of policies can help to support them.

The COVID-19 experience in Ghana was similar to many other countries. In late March 2020, the government instituted a nation-wide lockdown on all non-essential business, closed in-person schools, and restricted travel within Ghana. The lockdown formally started on March 30, 2020, began to be lifted on April 20, 2020, and was replaced with less-restrictive social distancing mandates. Despite lockdowns being lifted, large social gatherings were still quite rare well into 2020. Firm owners and members of our research team who were in Ghana in 2020 report that the lack of these events created a negative demand shock for garment-makers during the period we study. Firms also faced supply chain issues, as imports of inputs were restricted. Almost all of the firm owners we study report loss of customers between March and July 2020, and about two-thirds report difficulty accessing supplies.

Data

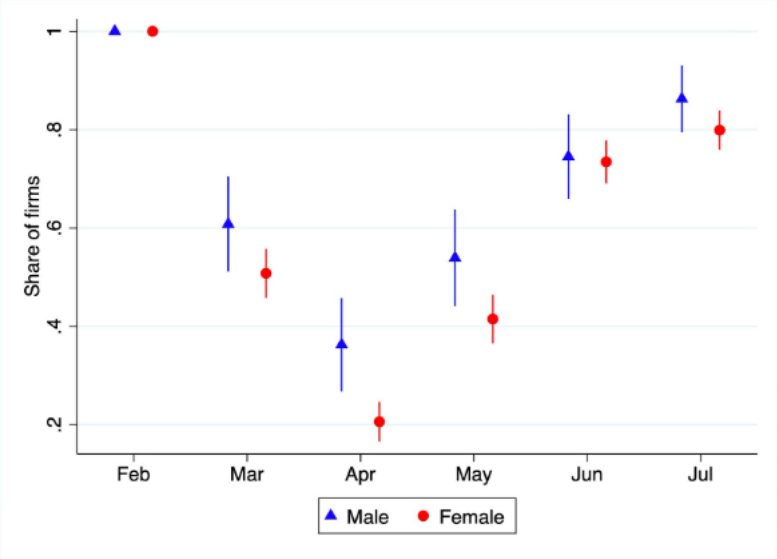
Our data collection targeted all garment making firms in Hohoe who were operating as of January 2020 and had been open for at least six months. Our analysis sample consists of 490 firms whom we were able to reach via phone survey starting in August 2020 and who reported sales greater than zero in February 2020. The survey builds a retrospective panel by asking firm owners to recall important business performance measures like sales, profits, hours worked, and wages paid for each month between February and July 2020. This panel also includes information on firm owners' other income sources, allowing us to measure total individual income for February and July 2020. We are primarily interested in firms that close during the six-months we observe. We define closure in a specific month as reporting sales equal to zero. We define firms as "persistent-closers" if they have zero sales for at least four of the five observed crisis months (March-July 2020).

Findings

Here we discuss three findings that illustrate how firms were affected by the COVID-19 shock and how their experiences differed by the gender of the firm owner.

First, we observe that many firms closed, at least temporarily, during the crisis. At the peak of the crisis, female-owned firms were more likely to be closed. Only 21% of female-owned enterprises were open in April, compared to 36% of male-owned enterprises (Figure 1). This 15% difference is significant at the one percent level. Both male- and female-owned firms began to re-open as the lockdown measures were lifted. By July 2020, 86% of male owned enterprises and 80% of female-owned enterprises were open. Female- and male-owned businesses both experienced about a 200 Ghana cedis per month loss in sales during the crisis, but these 200 Ghana cedis account for a larger share of female sales, as their firms were smaller to begin with.

Figure 1: Share of Firms with Positive Sales, by Gender and Month

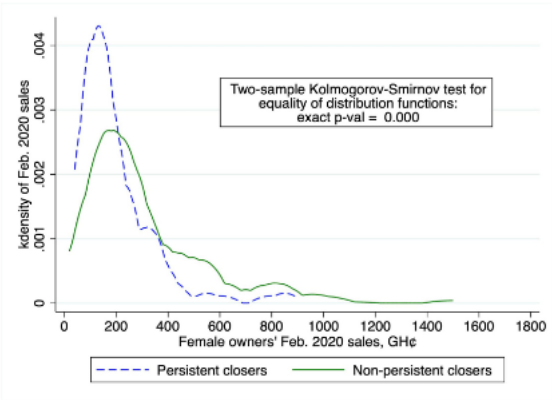


Note: This figure shows the share of firms reporting positive monthly sales (>0), for February through July 2020. Data comes from the retrospective six-month panel of firm outcomes collected via phone survey for the 490 firm owners that constitute our analysis sample. Male-owned firms are indicated with a triangle (102 firms) and female-owned with a circle (388 firms). Bars represent the 95% confidence interval. Source: Authors' calculations on the phone survey data.

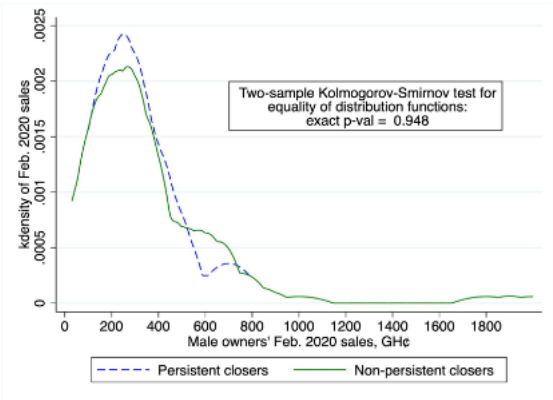
Next, we look deeper at persistent closers, or firms who report zero sales in four out of five crisis months. About 20% of firms are persistent closers, and there is no difference in this rate between male- and female-owned firms. We instead see gender differences when we look at characteristics that predict persistent closure. Among female-owned firms, those that persistently close are smaller as of February 2020 (lower sales, fewer workers, and lower wages paid) than those who remain open (Figure 2). For male-owned firms, closure is not predicted by pre-pandemic sales. Instead, male owners who persistently close are 36 percentage points more likely to have another income-generating activity outside of the garment-making firm in the pre-crisis month, February 2020.

Figure 2: Distribution of Feb 2020 Sales by Persistent Closure Status and Gender

Panel A: Female firm owners



Panel B: Male firm owners



Note: This figure shows the distribution of February 2020 sales by persistent closure status for the 490 firm owners that make up our analysis sample, winsorizing the top earning female-owned firm for visual clarity. Persistent closure is defined as having zero sales for at least four of the five observed crisis months. Female-owners are shown in panel A, and male-owners are shown in panel B. Data comes from the retrospective six-month panel of firm outcomes collected via phone survey. Source: Authors' calculations on the phone survey data.

Finally, we show that these gender differences in closure are associated with differential impacts on labor supply and total earnings. We use an ANCOVA specification to document these relationships, regressing July 2020 outcomes like business sales and total earnings on an indicator for whether the firm owner was a persistent closer and the February 2020 level of the outcome. We run this specification separately for male and female owners and then use an interaction term to test for differences. We find that women whose businesses persistently close have a 57 GhC lower total income in July 2020 compared to women whose businesses do not. In contrast, there is no significant difference in income between male owners who close and those who do not. Women whose firms persistently close are 26 percentage points more likely than their male counterparts to exit to non-employment, working zero hours outside the home in July 2020. Both male and female owners of persistently closed firms experience large and statistically significant drops in firm profits (their income from the garment-making businesses). Only males whose firms persistently close experience large and statistically significant increases in income from other sources, compared to male-owned firms who do not close.

Conclusion and Policy Implications

What drives these gender differences in informal labor market resilience in the Ghanaian context? Our findings are consistent with two features of underlying gender inequities in this labor market. First, prior to the COVID-19 crisis there were many female-owned firms with very low sales, perhaps as a result of limited occupational choice for women (leading to many women crowding into self-employed garment-making). It is precisely these firms with very low sales that persistently close. For men, we do not observe this bunching of firms with very low sales prior to the pandemic. Further, the evidence we uncover about male-owned firm closures, that these are driven by men with outside occupational opportunities, supports this broader interpretation.

The findings from this paper have implications for research and policy. We provide some of the first evidence on informal labor market resilience by gender during the COVID-19 crisis, documenting differing dynamics and predictors of earnings loss for male and female firm owners. Vulnerable women appear to be falling off of the economic ladder and shifting into non-employment rather than other income generating opportunities. Men in this context appear more resilient to economic shocks. More generally, across contexts, differing resilience to shocks by gender layer over pre-existing differences in profitability across male- and female-owned firms. Women-owned businesses are less profitable than their male-owned counterparts in general. As policy makers and governments continue to respond to the ongoing COVID-19 pandemic and begin to prepare for future disruptions, incorporating gender specific evidence and approaches is necessary.

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