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Who Closes Shop During an Economic Crisis? Evidence from Ghana

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Economic crises can push marginally self-employed women out of employment, while self-employed men compensate with alternative sources of income.

Introduction and Context

Labor market volatility is common in low- and middle-income countries, where economic disruptors such as disease outbreaks, extreme weather events, political instability, energy shortages, or rapid inflation occur frequently (Cavallo et al. 2013; Hardy and McCasland 2021; Huber, Finelli, and Stevens 2018; Ksoll, Macchiavello, and Morjaria 2021). In addition to this volatility, firms are typically small (Hsieh and Olken 2014), and most workers are self-employed (Gindling and Newhouse 2014). Volatility in combination with these defining features of the labor market may have differential effects on male and female employment, exacerbating pre-existing gender gaps in earnings (Campos et al. 2019; Hardy and Kagy 2018; Nix, Gamberoni, and Heath 2016). These gendered effects can occur through multiple channels. One channel is through industry or occupation specific shocks, when the labor market is segmented by gender. If a crisis more severely affects industries or occupations dominated by one gender, it follows that this gender disproportionately bears the effects of that particular economic crisis. We saw this for men in the United States during the Great Recession (Hoynes, Miller, and Schaller 2012). However, even when economic shocks are distributed equally by gender, resiliency in the labor market may still vary if there remain gender differences in underlying occupational choice fundamentals. Our study (Hardy et. al 2023) documents these gender differences in informal labor market resilience during the COVID-19 pandemic amongst Ghanaian garment makers.

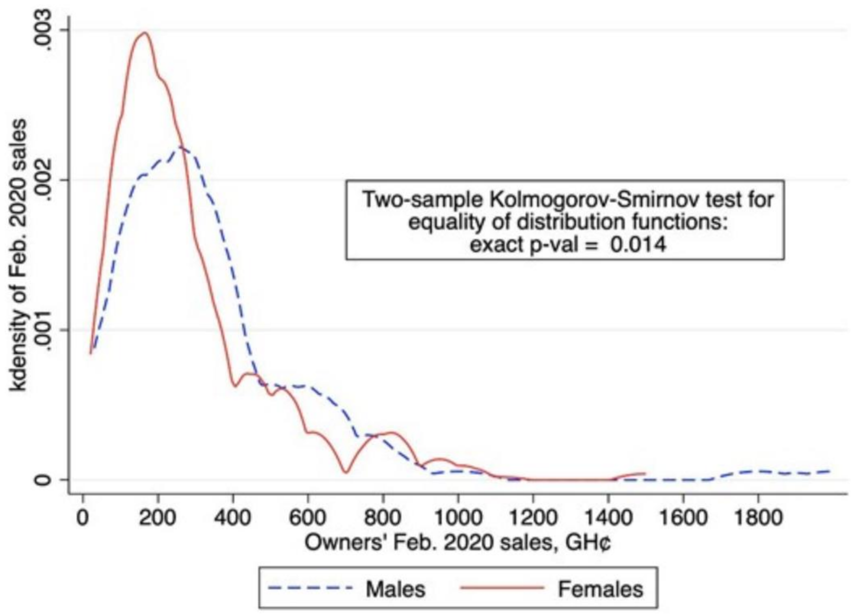
Industries in Ghana, as in the rest of Sub-Saharan Africa are highly segmented by gender (Bardasi, Sabarwal, and Terrell 2011). An exception is bespoke garment-making, where both men and women are self-employed in high shares. In this context, the majority of garment-making enterprises are very small in size. This setting allows us to observe differences in firm survival by gender without confounding differences in industry specific shocks.

We characterize the survival of garment-making firms in Hohoe, a Ghanaian district capital, from February to July 2020. During this period, firms faced a demand shock stemming from a short COVID-19 lockdown that lasted from late March to mid-April. While the lockdown was lifted during our study period, social gatherings remained rare, creating a negative demand shock for made-to-order garments and affecting firms throughout the study period.

Methodology

Our data come from a retrospective survey of all garment-making firm owners in Hohoe found during a census listing activity in September 2019 who confirmed their firms were still operational as of February 2020 during a phone survey launched in August 2020; our primary analysis sample includes 490 firm owners, 102 male and 388 female. The data contain information on firm operations from one pre-crisis month (February 2020) and five crisis months. They also contain information on alternative sources of income in our pre-crisis month and during July 2020. Echoing previous work in our context, we observe differences in the pre-crisis sales distribution by gender. Even across firms within this single industry, garment making firms in Hohoe exhibit the same large and robust gender profit gap seen across all self-employed industries in Ghana (Hardy and Kagy 2018).

Figure 1: Firm sales before crisis, by owner of gender



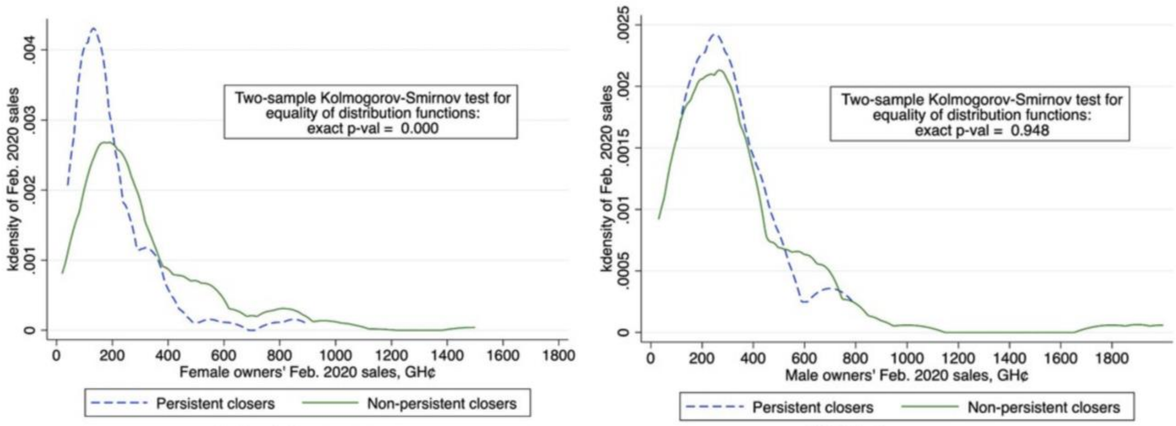
Results

We have three main results, firstly we find that firms owned by both genders are impacted by the crisis. All firms saw a large drop in sales at the height of the lockdown, from March to May. Only 21% of female-owned firms and 36% of male-owned firms remained open, defined as reporting positives sales, in April 2020. By July 2020, 80% and 86% of female-owned and male-owned firms were open, respectively. Looking at all 5 crisis months, firms don't exhibit any statistically significant difference by gender in the probability of persistent closure, which we define as being closed in at least 4 of the 5 crisis months we observe. Sixteen percent of male-owned firms and 19% of female-owned firms report zero revenue for at least 4 out of 5 crisis months.

Conditional on remaining operational, both male and female firms also experience near identical level drops in revenues of about 200 GhC. However, note that this is a larger percentage drop in pre-crisis revenue for the average female-owned firm than the average male-owned firm (which had higher average revenues to begin with).

Our second main result is that female closers were on the sales margin while male closers had other options. Firms that persistently close differ by gender on their pre-crisis firm characteristics. Female-owned firms tend to close if they are on the lower end of the sales distribution before the lockdown. However, pre-crisis sales do not predict closures for male-owned firms. Male-owned firms, instead, are more likely to close if the owner already has alternative income sources before the crisis begins.

Figure 2: Pre-crisis sales for closers and survivors, by gender of owner



(a) Female firm owners

(b) Male firm owners

This suggests marginal female-owned firms, that are located precariously close to the threshold of viability (zero revenue), are more likely to close during this volatile period while no such pattern exists for male owned firms. This complements previous results across 12 low- and middle-income countries where female-owned firms are slightly more likely to close at any given time, citing a lack of viability as a reason (McKenzie and Paffhausen 2019).

Lastly, we find that Female closers exit employment while male closers compensate with alternative income sources. Income generation after firm closure differ greatly by gender: 53% of women with closed firms have zero market hours of work, while only 27% of men have zero market hours of work. Women whose firms closed earn 64% less than women with operational firms, while men who closed their garment business are able to completely offset the income loss from closing that business. Men have other income-generating opportunities, allowing them to close firms during a crisis but maintain relatively stable income flows.

Policy Implications

The “cleansing effect” of recessions (Caballero and Hammour 1994) is well-known. Our findings show that the effect is not borne equally. Women in already precarious employment situations are pushed out of the labor market altogether, while men appear to be more resilient. Economic crises can exacerbate existing gender gaps, a fact that policymakers should consider when thinking about recovery plans and preparing for future economic disruptions.

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