

## Micro-enterprise in Humanitarian Programming: Impact evaluation of business grants vs. unconditional cash transfer

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*How can unconditional cash transfers (UCT) be leveraged to boost household incomes beyond addressing short-term food insecurity in a prolonged humanitarian crisis setting? Using a randomised control trial in Somalia, we test additional benefits of changing UCT into business grants while also varying the size of the cash transfers. We found receiving the same amount of money as a one-off business grant (instead of two monthly UCT transfers) increased likelihood of the households engaging in non-farm businesses by 15 percentage points in the short-term (3-4 months after the transfers). These effects did not last in the long-term (3.5 years after the transfers). We, however, found medium (\$500) and large (\$1,000) business grants sustain investment in non-farm businesses into the long-term. In the long-term, both medium and large business grants realised similar profit margins, averaging \$20 per month. Examining the social returns in terms of impact on income, we found recipients of medium-sized business grants had equalised intervention cost by the third year while large-size grantees needed extra two more months to break-even. Therefore, in terms of returns to investment, \$500 grant is more cost-effective than \$1,000 grant in the long-term.*

### Introduction

Unconditional cash transfers are commonly used in humanitarian setting for improving household food security and nutrition. In most cases, these UCTs tend to be small amount of money disbursed in instalments with intent of alleviating short-term food insecurity. The desire to leverage on productive effects of UCTs to build “resilience” in conflict affected communities is growing. Design tweaks to UCTs such as varying the frequency and size of the transfers have been shown to in stimulate investment in micro-enterprises in stable and non-humanitarian contexts. In this study, we look at long-term (three and half years after transfer) impact of variations in cash transfers in the prolonged humanitarian crises context of Somalia.

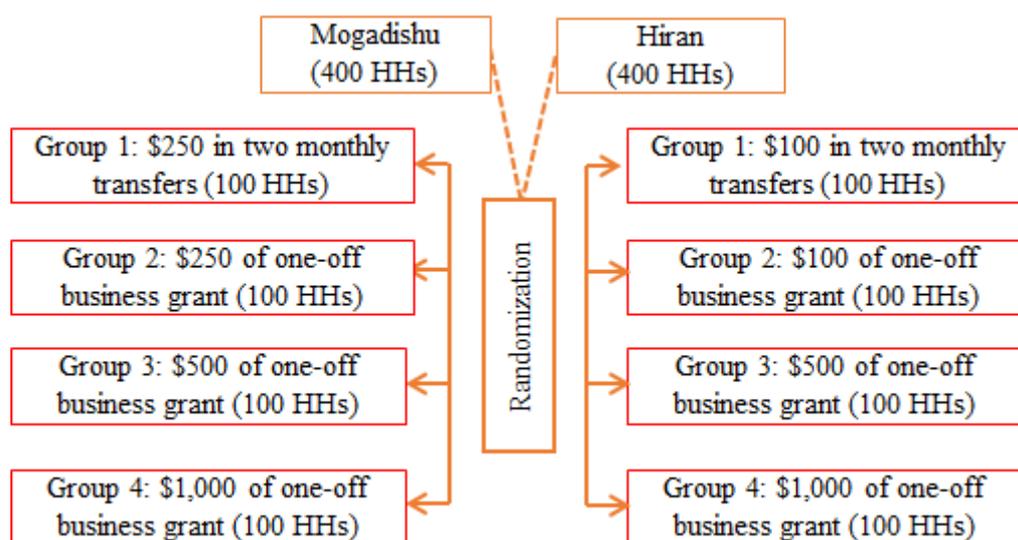
With decades of conflict and recurrent droughts, Somalia has a chronic humanitarian crisis. In this country, provision of basic social services such as education, health and nutrition are predominantly reliant on humanitarian agencies. Other than humanitarian support, small enterprises (largely petty trading e.g. groceries, charcoals, tea stalls etc.) are the main way for people to generate income, especially in internally displaced persons (IDP) camps, and are largely managed by women. Humanitarian supports in the country is

often in the form of UCTs. While humanitarian support has remained a key lifeline in Somalia, there have been increasing focus on accelerating recovery and systematic resilience building.

## Data and Methodology

Interventions under this study were leveraged on two projects implemented by Save the Children at several IDP camps in Mogadishu and in urban setting in Hiran region. This study features a randomised trial involving 800 beneficiaries randomised to receive one of four types of transfers allocated through public lottery: a) small UCT of an average \$175 in two monthly instalments as the control arm, b) small one-off business grant averaging \$175, c) “medium” business grant of \$500, and d) “large” business grant of \$1,000. Except the control arm, the other three arms also received one week business skills training. Using three waves of survey data, we examine sustainability of short-term impact on micro-enterprises, and household income. Survey data was collected among 760 beneficiaries just before transfers, 3 to 4 months after transfers (midline) and 3.5 years after transfers (endline).

Figure 1: Randomised treatment arms by site



## Main Results

We find that giving the same amount of money as a lump-sum business grant results in higher likelihood of non-farm business ownership compared to UCT by 15 percentage points in the short-term (3-4 months after the transfers). This suggests potential value of combining multiple UCT into lump-sum instead of delivering in instalments. These small business grants, however, did not sustain these effects in the long-term. On the other hand, additional capital increased the likelihoods of generating income from non-farm businesses by 15 percentage points in the long-term. Moreover, there seems to be threshold above which business grants can stimulate entrepreneurial activity. In other words, the additional \$500 for the fourth treatment group did not increase the likelihoods of their engagement in micro-enterprises.

Table 1: Effect of Cash Transfer on Micro-enterprise Ownership and Income

	Non-farm business (1)	Business value (2)	Last month profit (3)	Last six months profit (4)	Last month HH income (5)
High cash × Endline	0.140 (0.048)***	143.498 (40.454)***	20.387 (5.729)***	112.232 (27.252)***	23.734 (7.209)***
Medium cash × Endline	0.160 (0.049)***	127.830 (38.231)***	19.242 (5.489)***	115.130 (26.462)***	20.379 (6.878)***
One-off low cash × Endline	0.075 (0.048)	13.646 (35.309)	5.515 (5.030)	40.470 (23.597)*	8.011 (6.531)
High cash × Midline	0.188 (0.050)***	250.811 (34.342)***	21.076 (3.860)***	112.242 (18.211)***	23.518 (5.389)***
Medium low cash × Midline	0.092 (0.051)*	56.822 (28.848)**	9.261 (3.335)***	33.156 (14.568)**	10.301 (5.014)**
One-off low cash × Midline	0.153 (0.050)***	35.746 (27.246)	5.884 (3.178)*	25.721 (14.477)*	3.437 (4.744)
Baseline value of Y	✓		✓	✓	✓
Endline control mean	0.360	196.487	29.788	144.243	43.852
Midline control mean	0.646	207.631	23.975	108.343	36.045
Baseline control mean	0.503	–	24.226	178.779	37.402
Adjusted R <sup>2</sup>	0.070	0.079	0.041	0.054	0.024
Observations	1520	1520	1520	1520	1520

Note: Column 1 is a dummy of whether any household member operated a non-farm business 6 months preceding the survey. Business value in column 2 is sum of the value all capital items and stocks for all household's businesses in USD as of the day of the interview. Column 3 and 4 sums up profits reported by respondent in each of household's non-farm businesses at one and six months preceding the survey respectively. Last month's household income in column 5 is the sum of household wages and profits from household's businesses. Monetary values in USD and are winsorized at 95% for outliers at the high end only. Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

Using net worth of recipient's enterprises to deduce transfers' rate of investment in short-term, we find that medium and large business grants recipients on average invested \$57 and \$251 of the additional transfers in non-farm businesses respectively. Specifically, medium cash recipients invested \$0.17 for every additional \$1 after \$175 while large cash recipients invested \$0.39 for every additional \$1 after \$500. In terms of income earned from non-farm businesses, small business grant group had \$6 additional income compared to UCT in the short-term, but the impact is not statistically significant in the long-term. The medium and large business grants generated around \$20 additional monthly income in the long-term.

### Conclusions and Policy Implications

Lumping cash transfers instead of instalment payments promotes micro-enterprise ownership. However, it is only medium and large business grants that sustained these new micro-enterprises in the long-term. Moreover, income impacts are larger and persist three years later only for those who received larger amount of grants. There could be a threshold above which business grants are meaningful for longer-term effects. While we cannot calculate these thresholds, our "medium" grant of \$500 appears to be an optimal choice based on the results in business ownership, business value and income.

### Moving Forward

Future research needs to assess to what extent of the effectiveness of business grants with training by combining UCT on livelihood outcomes can be replicated in scaled up situation. Furthermore, this research explored heterogeneity of impact by gender and clan minority and the results are inconclusive. Therefore, any research on scaled up interventions should assess this dimension to inform inclusiveness.

This note is based on research conducted as a part of PEDL [ERG 6728](#).