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FINANCIAL INCLUSION, SMALL & MEDIUM ENTERPRISES | POLICY MEMO

Helping Microenterprises Grow in Uganda

Loans and business management training helped men grow their small business profits, but women did not experience any impacts on their businesses as a result of loans, training, or grants.

Microenterprises employ hundreds of millions of people in developing countries, but their owners typically make just enough to survive, often never earning enough capital to invest in their businesses and grow beyond a couple employees. Policymakers believe that increased income in the pockets of micro-entrepreneurs, who range from carpenters and mechanics to vegetable sellers, would translate into more family spending on areas such as increased healthcare, education, and sanitation, as well as more jobs.

In countries with high levels of poverty and unemployment, the growth of microenterprises is therefore seen as the key to economic development at both a national and grassroots level. Before this can be accomplished, however, there are key constraints facing these microenterprises, namely lack of access to credit and limited business skills.

To help relieve these constraints, three approaches have been widely recognized as the solutions to give microenterprises the tools to thrive. These approaches are:

1. cash grants,
2. microfinance or small-scale loans, and
3. business skills trainings.

With very few implementation costs, unconstrained cash grants may be one way to give skilled entrepreneurs the small capital they need to grow their microenterprises. Another way to provide this initial capital is in the form of microfinance; with small-scale loans that are in theory able to provide entrepreneurs the initial capital they need to grow while providing sufficient returns for the private banks to return a profit. Finally, skills training is employed to help entrepreneurs more optimally run their microenterprise, and to stop leaving profits on the table due to a lack of business skills.

Innovations for Poverty Action (IPA) partnered with the International Labor Organization (ILO) and a researcher from the University of Connecticut to conduct a randomized evaluation that compared the impact of loans, cash grants, and skills training, as well as combinations of these interventions, on the profits of existing businesses in Uganda.

Results showed different impacts for men and women business owners. Men who received microloans coupled with skills trainings saw substantially higher profits than men in the comparison group. These loans only proved effective when offered in conjunction with skills training.

Women, on the other hand, didn't experience any impact on their businesses as a result of business training or loans. Qualitative interviews suggest women were more likely than men to spend income on their households, rather than invest in their businesses.

Unrestricted cash grants failed to have any positive impact on microenterprises, likely because the grant could be freely spent without the obligation to invest it wisely in order to repay the capital.

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