Helping Microenterprises Grow in Uganda

PHOTO: NATHAN FIALA

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 micoenterprises. 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.

Context

Uganda's labor force, estimated at 15 million people in 2013, will more than double to at least 36 million by 2040. This large and rapidly growing labor force requires a more diverse set of employment options; each year only 2 percent of Ugandans entering the labor force find non-agricultural wage work. The average monthly profit of the businesses in this study (before receiving any loans or grants) was approximately US$88.40 (USH 297,000). With increased profits, these businesses could potentially hire additional workers and become important sources of much-needed jobs.

The majority of the businesses in the study were hair salons, retail outlets, and tailoring shops, making them representative of the types of microenterprises found across Uganda.

PRIDE Microfinance, a Ugandan microfinance provider, distributed the loans and grants, and the International Labor Organization (ILO) provided the education for those business owners assigned to receiving training. The ILO's Start and Improve Your Business training modules reached 4.5 million people in 100 countries from 2003 to 2010. This management training program is meant to help business owners write a business plan, develop entrepreneurial skills, and improve profits. Researchers previously found that the training helps businesses start and survive, but not increase profits.

Evaluation

The evaluation tested whether expanding access to capital via grants or loans would increase the profits of microenterprises owned by men or women. Researchers were also interested in whether adding business skills training to the program would enhance the effectiveness of the grants or loans.

Researchers selected 1,550 microenterprise owners from four semi-urban districts in Uganda from an initial survey of 4,637 businessmen and women. Participants were selected because they expressed interest in expanding their businesses, receiving training, and obtaining capital. The businesses did not always fit PRIDE's lending requirements, but because the ILO guaranteed the loans (loan recipients were not aware of these guarantees), even these under qualified borrowers were able to participate in the study.

Business owners were randomly assigned to five groups:

Group 1: Received loans between US$180 and US$220 (USH 450,000 and USH 550,000) and the business skills training.

Group 2: Received loans between US$180 and US$220 (USH 450,000 and USH 550,000) but not the business skills training.

Group 3: Awarded a US$200 (USH 500,000) grant and received the business skills training.

Group 4: Awarded a US$200 (USH 500,000) grant but did not receive the business skills training.

Group 5: Did not receive any loans, grants, or training.

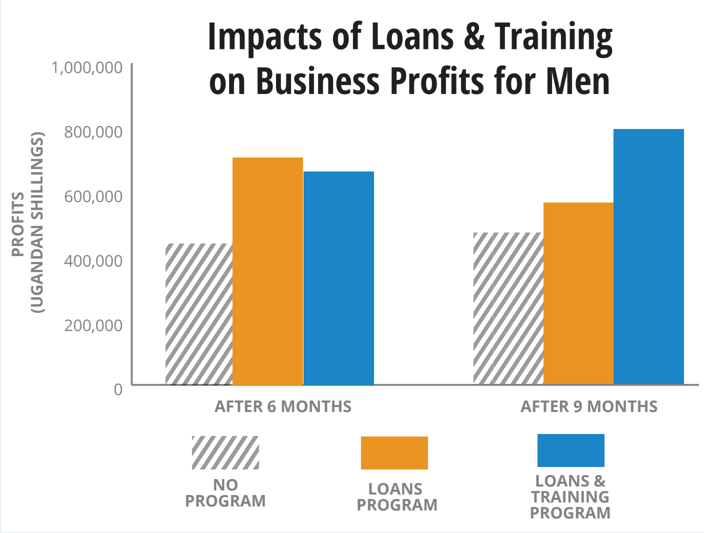
PRIDE offered the loans at below market value, with interest rates of 20 percent and collateral requirements of 50 percent (PRIDE's usual loans have an interest rate of 26 percent and require 100 percent collateral). This was communicated to potential clients as a "special promotion," which encouraged participation.

To measure the effects of the loans, grants, and trainings on businesses and households, researchers conducted two initial surveys before the program, one follow-up survey six months after the program, and a final survey nine months after the end of the program.

Results

- **Loans in combination with training increased business profits for men.** Men with access to loans and who also received training reported a 54 percent increase in profits six months after the program ended. This effect of loans and training increased nine months after the program ended.

- **None of the programs had any effect on business profits for women-owned enterprises**. Neither loans, grants, training, or any combination of these impacted business profits for women.



» **The impact of loans and training on profits were strongest for men with higher ability, lower risk preferences, and no prior history of loans.** Although 53 percent of women in the study had previously taken out a loan for their business, only 38 percent of the men in the study had done so. The fact that the loans and trainings were more effective at helping men who had not previously gotten a loan suggests that a lack of access to cash hinders the growth of some men-owned businesses in Uganda.

» **However, increased business profits had no effect at the household level.** Although their businesses were turning a greater profit, male business owners' households saw no changes in spending on child health, general savings, or household consumption, and no increase in household welfare.

» **Adding training to loans or grants had no additional effect on business profits, except for men who received loans.** This was consistent with previous research; however, the positive impact of training on men who received loans indicates that, when combined with increased access to loans, business skills training can help business owners grow their microenterprises.

» **Neither men nor women experienced any changes from receiving grants**, either in their businesses or on their households, suggesting that the need to repay capital incentivizes men to invest in their businesses.

Conclusion

Small loans and grants to microenterprises, along with training small business owners, are popular ways to help small businesses grow. The hope is that as these businesses grow, they will provide more income and jobs. This study brings forth important suggestions for potentially more effective ways to design and combine these programs.

In Uganda, subsidized loans and business skills trainings have the potential to increase the profitability of small businesses owned by men—who are not the typical clients for microcredit organizations. Because these benefits were stronger for men who had not previously received a loan, this research also suggests that restricted access to credit may be constraining small business growth in Uganda. Loans appear to hold more promise than grants; in this context, the pressure created by having to repay the capital appears to have motivated men to invest more efficiently in their businesses—particularly for those men who had received training in relevant skills.

Finally, the positive impacts of the training, which other studies have generally found to be ineffective, indicate that business management training can help microenterprises increase profits, when the training is combined with loans.

This study contributes to a small but growing body of evidence that suggests loans have a larger impact on businesses owned by men than those owned by women. Future research should investigate the barriers women face in investing new capital in their businesses, so programs can be designed to address these barriers. Researchers will also want to clarify how loans, grants, and training affect not only men-owned businesses, but also the households in which male business owners live.

RESEARCHERS
Nathan Fiala, University of Connecticut

PARTNERS
PRIDE Microfinance; International Labor Organization

TOPICS
Access to Finance, Financial Capability, Financial Inclusion, Human Capital and Skills, Livelihoods, Microenterprise, Microfinance

COUNTRY
Uganda

SAMPLE
1,550 microenterprise owners

TIMELINE
2012-2013