Improving Women’s Labor and Welfare Outcomes through Microfinance in Uganda

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Sector(s): Agriculture, Finance

Fieldwork: BRAC

Location: Uganda

Sample: 121 villages in Kabale and Rukungiri, Western Uganda

Initiative(s): Agricultural Technology Adoption Initiative

AEA RCT registration number: AEARCTR-0000408

Research Papers: Microfinance and Diversification

The majority of the world’s workers earning under US$1.90 a day live in rural areas and work in subsistence agriculture. Encouraging workers to expand their labor activities beyond agriculture is crucial to developing a well-rounded economy. Researchers in rural Western Uganda tested whether a microfinance program can help women borrowers switch out of subsistence agriculture to other labor activities, such as entrepreneurship or small-scale trading. While microloans helped women switch into service-based jobs including small-scale trading, they had no impact on income, spending, savings, and overall wealth.

Policy issue

The majority of the world’s workers earning under US$1.90 a day live in rural areas and work in subsistence agriculture. Encouraging workers to expand their labor activities beyond agriculture is crucial to developing a well-rounded economy. As many agricultural workers do not have access to credit markets, they often resort to informal transfers and credit. Microfinance programs offer loans to the poorest households, and have the potential to increase their investments and reduce poverty. In particular, giving credit to poor households can allow them to shift their resources away from agricultural labor and toward stabler forms of self-employment, which can in turn bring a steadier stream of income. As of 2016, there were over 3,000 microfinance institutions worldwide, which have offered loans to over 200 million borrowers. Does microfinance help in shifting households’ labor activities away from subsistence agriculture, and can it increase their income, spendings, savings, or business investment?

Context of the evaluation

In Western Uganda, nearly half of workers earn under US$1.90 a day. Over 80 percent of workers are employed in subsistence agriculture, and there are few formal financial institutions in the region. In 2009, 71 percent of Uganda's population did not have access to a bank, and 43 percent relied on informal borrowing and loans from friends and relatives.

To help households shift their resources away from agriculture, the NGO BRAC developed a microfinance product involving loans for women micro-entrepreneurs, and has since become the largest microfinance provider in sub-Saharan Africa. In the first four years of its Ugandan microcredit program, BRAC granted loans to more than 100,000 households from over 40 districts. While BRAC prefers to grant loans to women who already own a business, loans can be granted as long as borrowers provide a feasible business proposal and can make weekly repayments. These loans are large compared to other Ugandan credit sources, ranging in size from US$100 to over US$1000. The average loan of US$550 represents 115 percent of annual earnings for women who participated in the study.

In the two districts of Kabale and Rukungiri in Western Uganda, BRAC loan officers are responsible for managing the microfinance program. All participants in the program were women, and over 85 percent worked in agriculture. Approximately one in five women also worked in non-agricultural employment, of which 45 percent performed small-scale trading, which includes activities such as selling food, textiles, or agricultural inputs in local markets. On average, women earned US$480 annually, with higher earnings from non-agricultural labor than from agriculture. Twenty-four percent of households in this study originally engaged in informal borrowing from friends, families, or local savings cooperatives, while 5 percent had borrowed from a financial institution or NGO. Households' levels of wealth were reflective of Western Uganda, and had an average of US$628 in savings. Under 50 percent of households earned under $1.90 per person per day.

Women in Kataek, Uganda, make cloths to sell in small-scale trading.

Jonathan Torgovnik, Getty Images/Images of Empowerment

Details of the intervention

Researchers conducted a randomized evaluation to test the impact of the BRAC microfinance program on women's jobs, income, spending, savings, investment, and overall wealth. BRAC loan officers created microfinance groups in villages, ranging in size from 15 to 25 members per group, and helped clients develop business plans when applying for loans. After attending three consecutive weekly group meetings, members were eligible to start applying for loans, which were granted on 20- or 40-week cycles. Unlike in other microfinance programs, loan officers monitored the use of funds to make sure households were engaging in entrepreneurship and shifting out of agriculture. After the loan was granted, loan officers collected weekly payments, to fulfill monthly disbursement and collection targets.

Researchers randomly assigned 121 villages into one of two groups, with each village containing approximately 215 households:

- *Microfinance program group* (62 villages): These villages engaged in the BRAC microfinance program. Loan officers established one microfinance group on average in each village, then monitored loan use and collected weekly payments from women borrowers.
- *Comparison group* (59 villages): These villages did not have any BRAC microfinance groups.

Researchers also collected data on households' wealth, spending, savings, and women's labor activities and engagement in credit markets in 2011 and 2014, respectively, by interviewing female heads of 4,092 households, of which 2,076 were in the intervention group.

Results and policy lessons

Overall, microfinance enabled women to shift from agricultural to non-agricultural activities, but did not have significant impacts on household welfare. While the microfinance program increased women's engagement in small-scale trading, it did not affect women's total earnings, savings, wealth, or credit.

Program take-up: Overall, take-up of the program was low, since a maximum of 15 to 25 women could participate in the microfinance groups, out of 215 possible households in each village, yielding a maximum possible take-up rate of 12 percent. Villages with microfinance groups had an average take-up rate of 6.6 percent. As it was possible for women from comparison villages to still travel to villages with BRAC microfinance groups, given the short distances between villages, this resulted in a take-up rate of 3.4 percent for comparison villages. In general, women who had already borrowed from elsewhere in the previous twelve months had a higher likelihood of borrowing from BRAC.

Labor activities: Having a microfinance group in one's village increased women's non-agricultural labor by 6.1 percentage points (a 47 percent increase), and reduced women's agricultural work by 3.1 percentage points (a 3.7 percent decrease) relative to comparison villages. In particular, women in villages with microfinance groups were more likely to engage in small-scale trading by 2.8 percentage points (a 24.6 percent increase) relative to women in comparison villages.

Earnings: Having a village microfinance group increased women's likelihood of earning income from non-agricultural labor by 3.4 percentage points (a 25.6 percent increase), and made women less likely to have earnings from agriculture by 5 percentage points (a 7.5 percent decrease) relative to women in comparison villages. However, the program did not have an impact on women's total earnings.

Spending, savings, and wealth: The BRAC microfinance did not impact households' spending, savings, asset accumulation, or overall wealth. There were no impacts on household spending on health or education.

Taken together, results suggest that microfinance helped women shift away from agriculture and toward non-agricultural activities, particularly small-scale trading. However, microloans did not have an effect on households' earnings, spending, savings, or overall wealth. The BRAC microloans did not serve as a complement or substitute to other credit sources, and did not impact women’s engagement in credit markets.

Bandiera, Oriana, Robin Burgess, Erika Deserranno, Ricardo Morel, Imran Rasul, Munshi Sulaiman, and Jack Thiemel. "Microfinance and Diversification." *Economica* 89 (2022): S239-S275.