The Impact of Disbursing Microfinance Loans via Mobile Money Accounts in Uganda

Researchers:

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Sector(s): Finance, Gender

Sample: 3,000 women

Target group: Entrepreneurs Women and girls

Outcome of interest: Earnings and income Asset ownership Business investment Profits/revenues

Intervention type: Credit Digital and mobile

AEA RCT registration number: AEARCTR-0001836

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Partner organization(s): BRAC

If female entrepreneurs face pressure to share resources or income with family members, the effectiveness of microfinance loans received by them may be limited. Digital accounts are a potential way to enable women to maintain control over resources given to them. Researchers conducted a randomized evaluation to test disbursing microfinance loans through digital accounts on business outcomes in Uganda. Women who received their loan through a digital account experienced higher business capital and profits compared to those who received their loans via cash. The impacts were most pronounced for women who faced pressure to share money with members of their household.

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Women in low- and middle-income countries frequently run their own microenterprises, though their businesses often remain small. Evidence shows that microfinance has had limited effects on business outcomes on average. While some research has highlighted high returns to capital for men, the returns to capital for women in low- and middle-income countries remain small. One potential reason for this disparity is that women often face pressure to share resources. If family members divert funds away from the woman's business, this can limit her ability to expand her business when she gets a loan. Can changing the form of microfinance loan disbursement from cash to a digital account improve women’s business performance?

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This study took place in Kampala, Uganda, a city where both mobile money use and microfinance borrowing are common. In Uganda, 51 percent of the population used mobile money services in 2017, with higher usage rates among women in Kampala. BRAC Uganda, one of the largest microfinance providers in the country, offers loans valued at US$70–1,000 at the time of the evaluation to women to expand their small enterprises. Loan contracts vary between 20 and 40 weeks. BRAC usually disburses these loans as cash, and women repay them in weekly group meetings. The study focused on female microfinance clients applying for new loans, who owned mobile phones and operated small businesses in urban areas.



A women's microfinance group meeting in Uganda

Emma Riley

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Researchers partnered with BRAC Uganda to conduct a randomized evaluation to test the impact of disbursing microfinance loans via digital accounts on business and household outcomes. The study involved 3,000 female microentrepreneurs who had applied and were already approved to get loans from BRAC. The average size of the loan was US$380. Women were randomly assigned to one of three groups:

Mobile Account: (993 participants) Women in this group were offered a new SIM card and a mobile money account described as being for their business. If they accepted the offer, they received one-on-one support to open a mobile money account, and information on how to use the mobile account and its features. They received their microfinance loan as cash.

Mobile Disbursement: (982 participants) Women in this group received their microfinance loans through their mobile money accounts. They also received the same one-on-one support and information as in the Mobile Account group.

Comparison: (984 participants) Women in this group received their microfinance loan as cash, and were not offered a mobile money account.

All participants had to go to the branch to receive their loan and continued to repay their loan in cash at weekly group meetings. The evaluation measured business profits, business capital, household income, and household consumption around eight months after women received their loan.

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Women who received their loans via digital accounts had higher business capital and profits eight months later compared to those who received cash. The effects were most pronounced for women who faced pressure to share their loan money with other household members.

Business Outcomes: Women who received their loan via the mobile money account saw an 11 percent increase in business capital (US$70) and a 15 percent increase in business profits (US$18) on average in contrast to the comparison group. In contrast, women who were offered a mobile money account but received their loan as cash did not see a change in business outcomes compared to the comparison group. Women who received their loan via the mobile money account held significant balances on the account immediately after the loan was disbursed and drew down the loan over a three-month period, using the account to store the loan safely.

The positive business impacts for women who received their loan through the mobile account were driven by women who experienced the most pressure to share money with family members. These women saw a 26 percent increase in business capital (US$180) and a 25 percent increase in business profits (US$30) compared to the comparison group. The sharing pressure appeared to come primarily from spouses. Married women who lived with their spouse and who ran more profitable businesses benefited the most from receiving their loans via their mobile accounts. These women who got their loan the via mobile account gave less money to their spouses each month. The mobile money account provided a private way to store the loan, reducing the visibility of the money and the pressure to share it.

Household Income and Consumption: The mobile disbursement method increased total household income by US$24 on average, a 7 percent increase from the comparison group. Women in this group also had higher household consumption, and reported spending more on food and schooling, categories that typically align with women's spending preferences.

Account Usage: When women received a mobile account but got their loan via cash, they did not deposit their loan into the mobile money account themselves. Researchers suggest this may be because women defaulted to keeping the loan in the form in which they initially received it. Women who received their loan via the mobile account were more likely to report wanting to receive subsequent loans on a mobile money account, but this preference did not translate into them depositing more of their own money into this account.

Loan Usage: Women who received their loan through the mobile account spent less of their loan on household items and more on their businesses. They saved more of the loan on the mobile money account, which was earmarked for their business.

The study suggests that disbursing microfinance loans onto digital accounts can help female entrepreneurs overcome pressure to share money with family members and improve their business performance. Further research is needed to understand whether these findings generalize to other contexts and to explore the long-term effects of digital loan disbursements.

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1. Abdul Latif Jameel Poverty Action Lab (J-PAL). 2023. "Microcredit: impacts and promising innovations." J-PAL Policy Insights. Last modified May 2023.