

**Researchers**

Nathan Fiala  
University of Connecticut

**Staff**

Kyle Holloway  
Country Director, Colombia

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1,550

**Research Implemented by IPA**

Yes

# Evaluating the Impact of Loans, Grants, and Training on Small Businesses in Uganda

## Abstract

Millions of people make their living running microenterprises, but these businesses typically fail to expand or provide more than subsistence-level income to their owners. Giving loans and training to small businesses offer the possibility of helping them grow, but research has not found this to be effective. Yet, much of the existing evidence looks at women-owned businesses, as they are the primary recipients of microfinance programs. Researchers in Uganda evaluated the impact of loans, grants, and business training on the profits of men- and women-owned microenterprises. Men who received loans and small business management training greatly increased their profits by 58 percent six months after the program ended, and slightly more three months later. In contrast, women-owned businesses saw no increase in profits from loans, grants, training, or any combination, which some women attribute to pressures they face to spend resources on household—rather than business—needs.

## Policy Issue

Across the developing world, microenterprises offer important income-generating opportunities for people with limited formal employment options, but these businesses often struggle to grow and fail to provide more than subsistence-level income for their owners. Providing microenterprises with access to credit could, in theory, increase their profits, but recent research has not found an impact of microcredit on either business or household income. However, much of the research on this topic has focused on businesses owned by women because microcredit firms have provided more loans to women than to men. In some

contexts, however, women express that they face more pressure than men to use loans for household needs, and this may lead them to invest less in their businesses. For this reason, loans may have a larger impact on the profits of men-owned businesses. Research has also found only small effects of business skills training on small business growth. Yet, when combined with much-needed capital, business management training may help microenterprises grow. This research aims to provide new evidence on the different impacts of loans, grants, and business training on women-owned versus men-owned microenterprises.

## Context of the Evaluation

Sub-Saharan Africa has a growing working age population and the lowest share of the labor force in wage work of any region of the world. In 2009, Uganda's GDP per capita was US\$384, ranking it in the bottom third of countries in sub-Saharan Africa, and 38 percent of the Ugandan population lived on less than US\$1.25 per day. The average monthly profit of the businesses in this study (before receiving any loans or grants) was approximately US\$88.40. With increased profits, these businesses could potentially hire additional laborers 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 one would find across Uganda. PRIDE Microfinance, a Ugandan microfinance provider, distributed the loans and grants in this study, 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 helps business owners write a business plan, develop entrepreneurial skills, and improve profits. Researchers previously found that these modules help businesses start and survive, but not increase profits.

## Details of the Intervention

The study was designed to test 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 influx in capital 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 business, receiving training, and obtaining capital. The businesses did not always fit PRIDE's lending requirements, but because the ILO guaranteed the loans (unbeknownst to the loan recipients), even these under qualified borrowers were able to participate in the study.

Business owners were randomly assigned to five groups. Two groups received loans between \$180 and \$220. Of these groups, one group received the ILO training, and the other did not.

Two additional groups were awarded \$200 grants; one of these groups received the ILO training, and the other did not. The last comparison group received no loans, grants, or training.

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 and Policy Lessons

Loans in combination with training increased business profits for men. Men with access to loans, who also received training reported a 54 percent increase in profits six months after the program ended. This effect of loans and training increased slightly nine months after the program ended. The impact of loans and training on profits were strongest for men with higher ability, lower risk preferences, and no prior history of loans. 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.

The program had no effect on business profits for women-owned enterprises, whether they received loans, grants, training, or any combination of these.

In general, adding training to loans or grants had no additional effect on business profits, except for men who receive loans. Neither men nor women experienced any effects from receiving grants, either on their businesses or on their households, suggesting that the need to repay capital incentivizes men to invest in their businesses.

These results indicate that cash-constrained male-owned enterprises—who are not the typical target audience for microcredit organizations—can benefit from subsidized loans and trainings. Because these benefits were stronger for men who had not previously received a loan, the results also suggest that restricted access to credit may be constraining small business growth in Uganda. Finally, the positive effects 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.

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