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Rethinking the microfinance model: Returns to subsidized microcredit for male and female entrepreneurs in Uganda[1]

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Abstract

Experimental tests of microcredit programs have consistently failed to find effects on business and household income. Does the current microfinance model and targeting of clients miss important effects from finance? I present results of a randomized experiment with microenterprise owners in Uganda that sought to expand access to finance for men and women who generally did not qualify for finance under normal circumstances with the goal of incesing business profits and employment. Participants were offered either capital with repayment (subsidized loans) or without (grants) and were randomly chosen to receive or not receive business skills training in conjunction with the capital. Consistent with existing literature, I find no effect for female enterprises from either form of capital or the training. However, I find large effects for men with access to loans combined with training. There is no effect for men or women from the grants, suggesting repayment requirements can increase the likelihood of productive investment. I also find little evidence that investing capital and training in a few enterprises crowds out other businesses. The results indicate that cash-constrained male-owned enterprises—a sample that is not well targeted by microcredit organizations or researchers—can benefit from subsidized finance, and that this may have larger, positive income and employment growth effects for an economy.

JEL codes: O12, O16, C93, J16, L26, M53

Key words: Economic development; microenterprises; microcredit; cash grants; entrepreneurship training; credit constraints

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Rethinking the microfinance model: Returns to subsidized microcredit for male and female entrepreneurs in Uganda

Experimental tests of microcredit programs have consistently failed to find effects on business and household income. Does the current microfinance model and targeting of clients miss important effects from finance? I present results of a randomized experiment with microenterprise owners in Uganda that sought to expand access to finance for men and women who generally did not qualify for finance under normal circumstances with the goal of inceasing business profits and employment. Participants were offered either capital with repayment (subsidized loans) or without (grants) and were randomly chosen to receive or not

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