

# Fostering rural women nonfarm household enterprises financing through local groups

## Executive Summary

Rural women entrepreneurs in Uganda continue to face multiple challenges that impede their enterprise growth and expansion, despite pragmatic interventions from government and non-state actors to enhance entrepreneurship. Uganda's female managed nonfarm household enterprises continue to be micro, informal and face bottlenecks to access high credit to grow their business as they do not have the necessary collateral that formal credit institutions demand. Hence, many resort to borrowing from locally managed community or village credit associations to start or grow their businesses and yet, these financing mechanisms are limited. The Uganda Women Entrepreneurship Programme (UWEP) should therefore ensure that the distribution of funds is equitable taking into consideration the heterogeneities across spatial areas, region, education level and size of business enterprise.



## 1. Introduction

Government of Uganda and non-state actors have through various interventions directly or indirectly created opportunities to foster rural women interested in starting up their own businesses. These national or regional specific interventions have over the years included; the Plan for Modernisation of Agriculture (PMA), Poverty Eradication Action Plan (PEAP), National Agricultural Advisory Services (NAADS), Youth Livelihood Programme (YLP) and the Peace Recovery and Development Plan (PRDP). However, these have not translated into transformative sustainable rural women's economic development. Furthermore, specific development partner funded initiatives such as Karamoja Livelihood Programme (KALIP), Northern Uganda Social Action Fund (NUSAF) and Agricultural Livelihood Recovery Programme (ALREP)-targeting districts that were affected by conflict have to a certain extent changed livelihoods in rural areas, however these are not nationally inclusive. In addition, technology use, especially through mobile phones, is identified as one of the

key transformative avenues for rural women entrepreneurship growth especially as a platform for improving access to market information. However, despite the availability of technology and support from non-state actors, rural women entrepreneurs are still struggling to obtain the much needed credit and information.

In 2015, Government launched the Uganda Women Entrepreneurship Programme (UWEP) -whose target group is 18-65 year old women-to directly address the limitations to credit access for most women, especially those in rural areas. As implementation is ongoing, it is still early to get a complete picture of what is happening at the grass root; hence the need for more evidence to support the monitoring and implementation of UWEP on what works and does not work in supporting women entrepreneurs for programme evaluation at a later stage. Given that most women operate in the informal sector, they face a lot of barriers, and government policies that are geared towards boosting growth in productivity especially for women enterprises must ensue. This brief draws on findings in a report on “Rural women entrepreneurship in Uganda: Evidence, policies and stakeholders” to throw more light on what characterises rural women nonfarm household enterprises as evidence to support UWEP implementation.

## 2. Data source

The brief utilises data from the Uganda National Panel Survey up to 2013/14 to estimate women engagement and participation in nonfarm household enterprises. Specifically, the analysis is conducted at a national and spatial level for female non-farm household enterprises aged 18-65 that are eligible for and target beneficiaries for UWEP. Given that there are many entrepreneurs in farming, the focus is not on the farmer-as-entrepreneur, but on the self-entrepreneurship activities of individual household members.

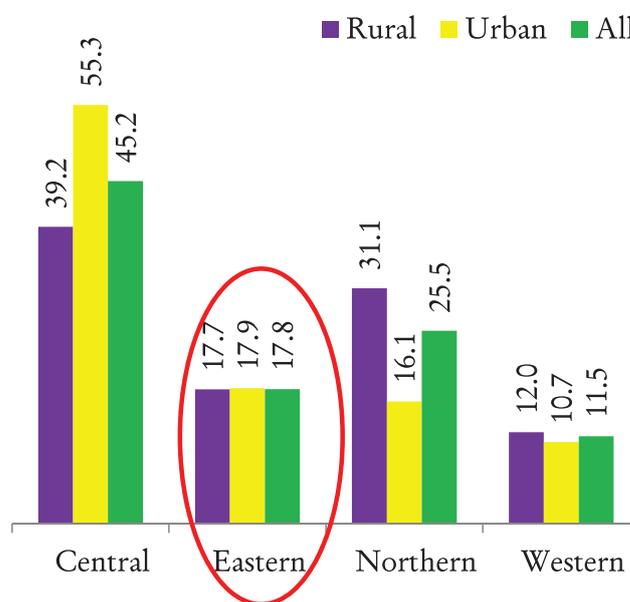
## 3. Findings

The synopsis of findings on female nonfarm household enterprises is clustered around: (i) Distribution enterprises; ((ii) Size, (iii) Level of formality, and (iv) sources of finance.

- i) Regional distribution of female nonfarm household enterprises: About 64 percent of nonfarm household enterprises in Uganda are rural based (UNPS, 2013).

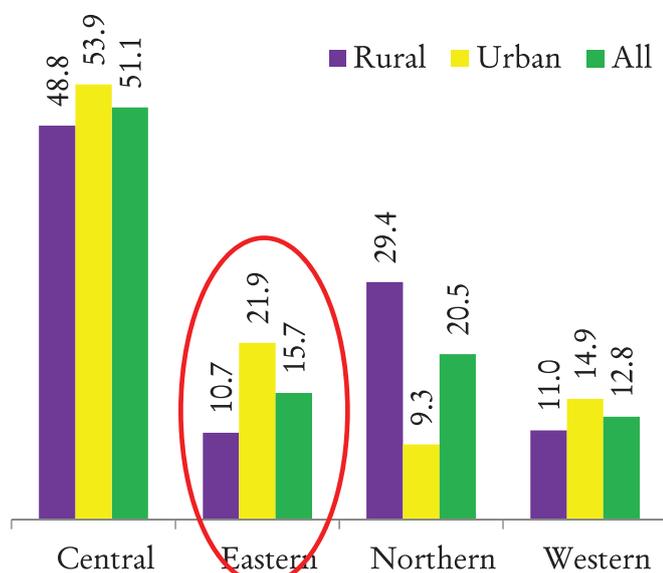
From Figure 1, the central region has the highest number of nonfarm household (45.2 percent) and these are located in urban areas (55.3 percent). The interesting findings are noted for the eastern region, where at first, there is no discernible pattern among adult females’ nonfarm household enterprises (Figure 1). However, a closer look at youth females running nonfarm businesses gives a different picture similar to that of central and western regions (Figure 2). The Northern region however, provides sharp spatial difference among adult and youth female owned nonfarm household enterprises. This is partly explained by the social cultural norms and political environment history of the region. Urban female youth nonfarm household enterprises are more by almost two folds. This calls for different spatial approaches to enterprise support from UWEP.

**Figure 1: Distribution of female adult non-farm household enterprises by region and location (%)-18-65 years**



Source: UNPS 2013/14

**Figure 2: Distribution of female youth non-farm household enterprises by region and location (%)-18-30 years**



Source: UNPS 2013/14

*ii)* Female nonfarm household enterprises are informal and rarely borrow to expand business in rural areas: The results show that about 79 percent of the female rural nonfarm household enterprises were in operation, however, only 2.7 percent and 1.4 percent were registered for Value Added Tax (VAT) and income tax payments respectively. The share improves with a spotlight on rural enterprises owned by female youth; nonetheless it is still very low. The findings also show that over 80 percent of adult female nonfarm household enterprises (especially in rural areas) are informal and home-based. Only 14.9 percent of rural households had accessed credit to expand their businesses.

*iii)* Majority of rural female nonfarm household enterprises are micro in nature: Enterprise size is approximated by the number of personnel employed. In Uganda, more than 80 per cent of rural female nonfarm household enterprises are solely owned and do not employ other persons, while only 19 percent employ 1-5 people, implying that majority are micro-small businesses.

*iv)* More rural females running non household enterprises access credit from their local groups. For those who accessed credit to start or expand their enterprises, over 45 percent of females living in rural areas had borrowed from the local group (Figure 3), such as the Rotating Savings and Credit Associations (ROSCAs) and Village Savings and Loan Associations (VLSAs). These are mainly community driven initiatives that provide credit to its members on agreed upon terms and conditions set by the group or association. The terms for credit access are simple and the requirements are less stringent in comparison to formal financial institutions such as commercial banks.

In addition, the local groups are accessible and heterogeneous to community and individual dynamics, especially for the illiterate women. Borrowing from social networks and family members was equally common, especially for women entrepreneurs in urban areas. The credit extension received from Micro Finance Institutions (MFIs) is driven by the female youth especially in urban areas. These findings imply that UWEP should adopt and employ use of local women groups or similar methods that are in line to these commonly used by rural female entrepreneurs, in providing financial support to businesses.

**Table 1: Level of formality of female nonfarm enterprise (%)**

	Female adults (18-65 years)			Female youth (18-30 years)		
	Rural	Urban	All	Rural	Urban	All
Poor non-farm household enterprises (1 if yes)	20.9	10.3	16.9	5.3	0.0	3.0
Enterprise in operation today (1 if yes)	78.9	66.8	75.2	81.5	72.8	78.0
Enterprise registered for VAT (1 if yes)	2.7	6.6	4.2	8.6	16.5	11.9
Enterprise registered for income tax (1 if yes)	1.4	6.7	3.4	3.2	10.3	6.2
Accessed credit to expand (1 if yes)	14.9	21.7	17.4	9.2	12.2	10.5

Source: Own computations from UNPS 2013/14 dataset, UBoS

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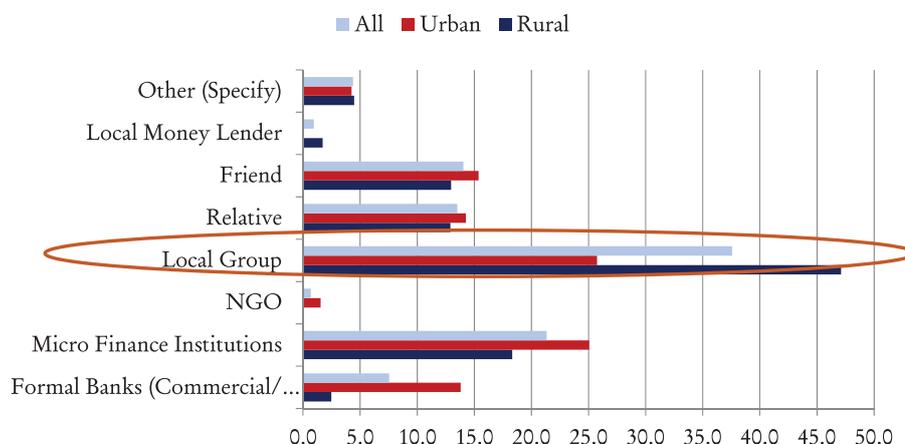
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**Figure 3: Major sources of credit for rural female adults (18-65 years) nonfarm household enterprises (%)**



Source: UNPS 2013/14

**4. Conclusions**

Female non-farm entrepreneurship, especially rural based, does not contribute significantly to employment creation, transformative rural development or income growth. Uganda’s female nonfarm enterprises are largely micro at best small but informal. They provide predominantly goods and services (trade) to the local economy, and are operated in most instances from within the household dwelling or the immediate surroundings. Being still a largely informal and survivalist sector, rural non-farm enterprises provide a risk-diversifying mechanism for households. Local groups are perhaps the most appropriate means of extending credit to rural women who have the urge to set up businesses.

**Policy actions**

- Encourage collective group financing (VLSAs, ROSCAs and MFIs)-to ease access to credit. Formation of women groups is perhaps the most effective way

of ensuring women participation, and enterprise survival. This addresses some of the social cultural norms that impede nonfarm enterprise growth and profitability.

- Given that UWEP is targeting all women both in Peri-urban centres and rural areas, it is important to ensure that urban women entrepreneurs who have more opportunities available to them to access credit from a wide range of sources, do not overshadow the women in rural areas that need UWEP credit the most. Thus, UWEP should ensure that the distribution of funds is equitable across different women categories (urban, region, education level, and level of business enterprise).

**Reference**

Guloba, M. Ssewanyana, S. and E. Birabwa. (2016). Rural Women Entrepreneurship in Uganda: A synthesis report on policies, evidence and stakeholders. EPRC Research Series No. 134

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