RESEARCH PEARLS | FEDU PEARL #11

In our series "Research Pearls" we are providing first-hand insights into our dynamic and powerful diaries research. In this edition we will highlight some of our research findings on different sources of income, their payment frequency, how those sources vary among different segments such as age and gender, and most importantly, what those findings mean for service providers.

Income in all shapes and sizes

Every other week during the FEDU research, each of the diaries respondents were asked about the types of income they had generated during the past two weeks.

From the graph below it becomes clear that the three most common sources of income are: "own business" (reported in 20% of the interviews), "casual labour" (15%) and "crop agriculture" (9%).

Yet, what stands out most is that in almost one in three interviews (29%) the respondents report that they had no income at all during the past two weeks.

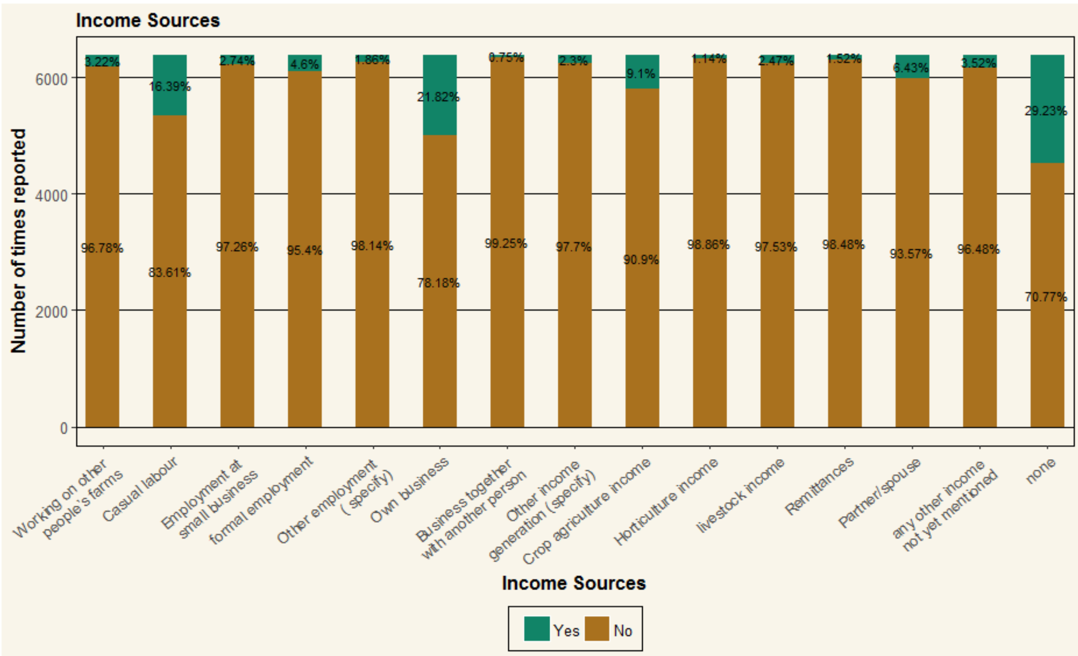

Figure 1: Different sources of income

As can be observed in the graph below, compared to the overall population, the youngest age group (18 to 24) has a broader range of income. In only 14% of the interviews respondents indicated "own business" as their source of income (against 20% for the overall population), "casual labour income" is at 17%, a little higher compared to the overall population (15%) and "crop agriculture" is only at 6% (against 9% for the overall population). For "no income past two weeks" there is hardly any difference (29% against 27% for the overall population).

Young respondents indicated relatively more frequently income from "partner/spouse" (8% against just 6% for the overall population) and from "formal employment" (5% against just 4% for the overall population).

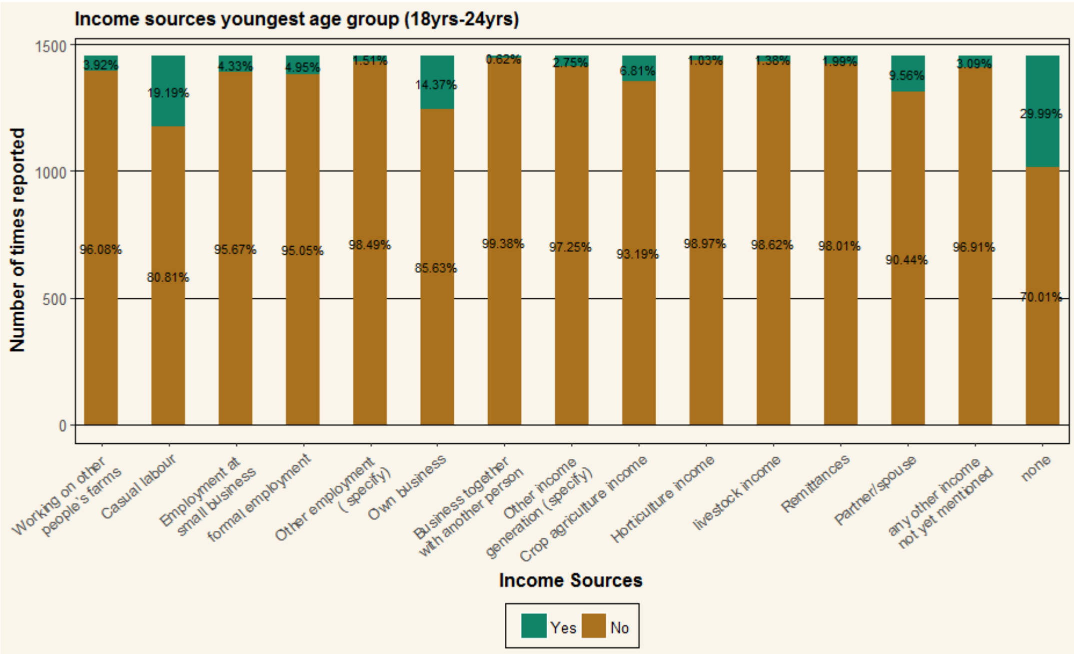

Figure 2: Different sources of income within youngest age group

As the following graph illustrates, the highest income is generated from: "income from formal employment" (in 62% of the interviews respondents reported income higher than 120,000 UGX), "business together with another person" (48% higher than 120,000 UGX), "own business" (28% higher than 120,000 UGX) and "other income generation" (24% higher than 120,000 UGX).

As compared to this, the lowest two-weekly income reported is obtained from "working on other people's farms" (34% 15,000 UGX or below), "partner / spouse" (23% 15,000 UGX or below) and "crop agriculture income" (20% 15,000 UGX or below).

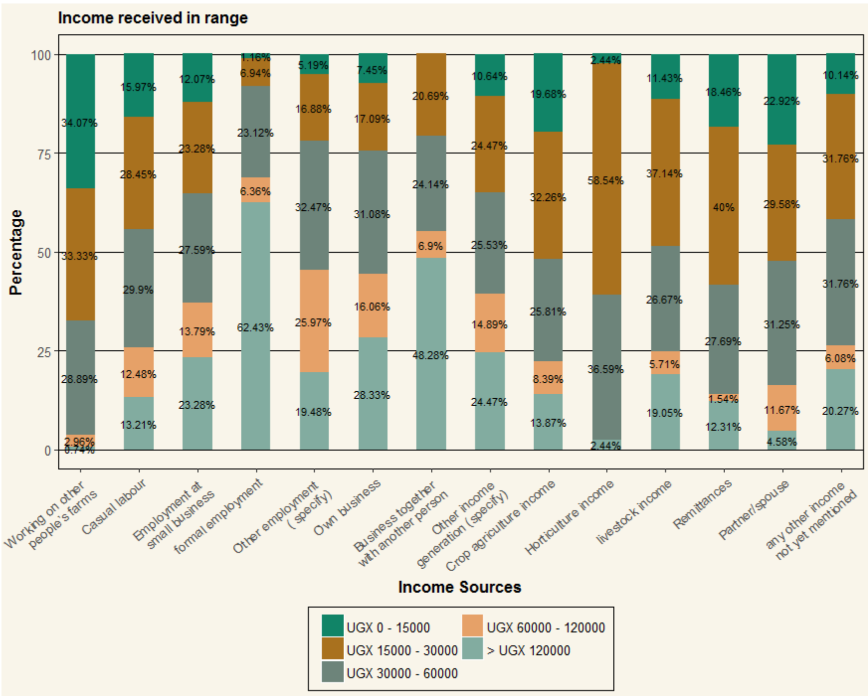

Figure 3: Level of income for the different sources

For each source of income reported, the respondents were asked in each interview, i.e. every two weeks, how many times they received payment in the two weeks. As can be expected, “formal employment”, “crop agriculture income” and “remittances” are received less frequently. Respondents with “formal employment” are mainly paid once every two weeks (72%). In 55% of the cases, respondents received one payment on a bi-weekly basis for “crop agriculture income” and for “remittances” 52% got paid once every two weeks. Activities that are likely to receive frequent income payments are “own business”, “employment at a small business” and “other employment”.

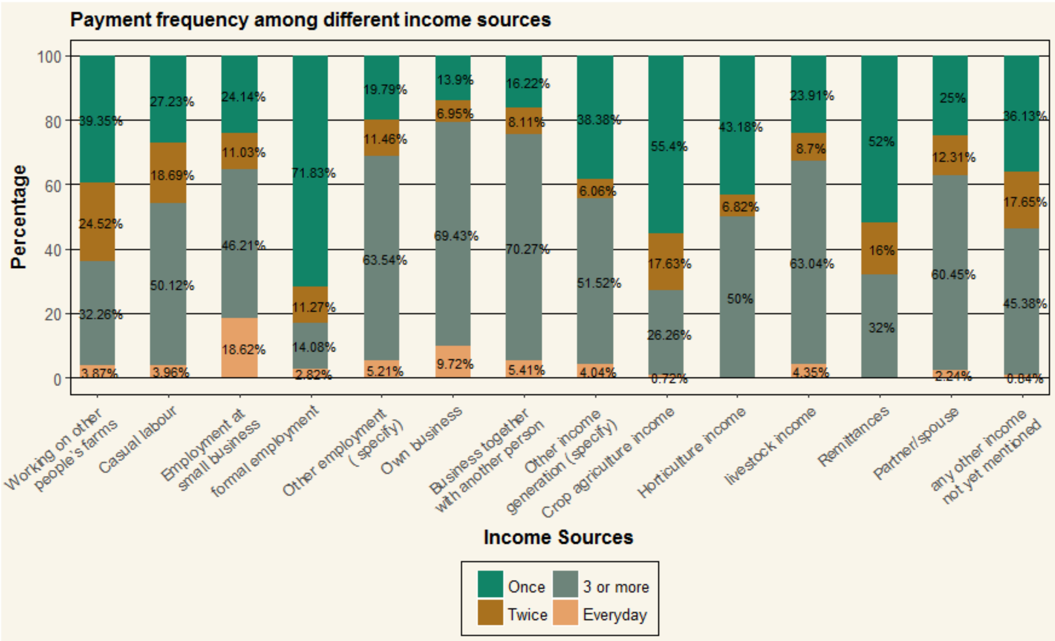

Figure 4: Payment frequency among different income sources

The beauty about our rich data set is, that it allows us to closely examine income differences for various population segments. For instance, the graphs clearly display that women are considerably less likely to report “casual labour”.

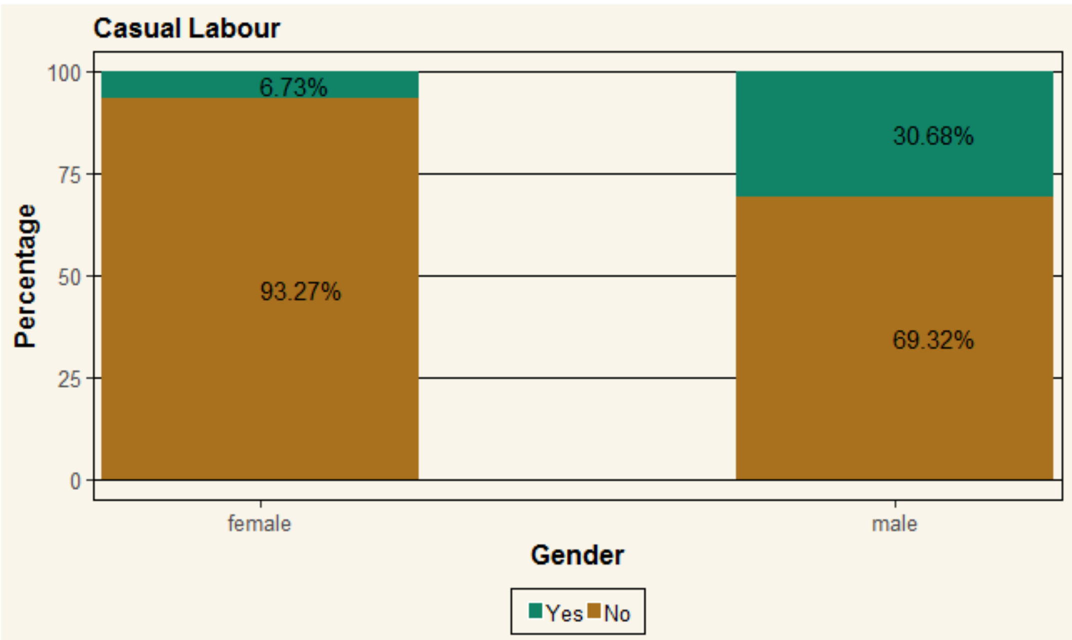

Figure 5: Gender difference in casual labour

As the graph below demonstrates, women who indicated “casual labour” report lower average income as compared to men. However, the difference is only modest.

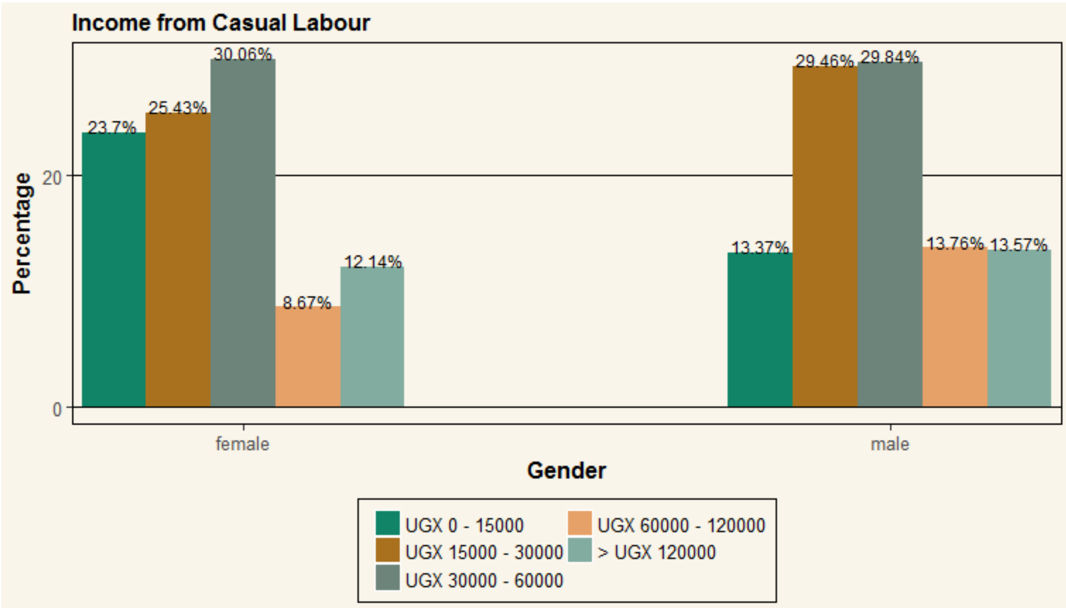

Figure 6: Gender Differences in level of income from casual labour

Implications for Financial Service Providers

The main message from this Research Pearl is that income is quite spread across a number of different income sources. This indicates that people rely on a range of income sources and it can be said that the majority of the people rely on “mixed livelihoods” for their income. In most of the cases, where a certain source of income was reported, the payment frequency was quite high (2 or more payments reported per interview, i.e. for a 2-week period). On the other hand, the data revealed that for a considerable number of cases (29% of the interviews) respondents indicated that during two-week periods they had no income at all. These findings reconfirm that income patterns are fluctuating among many respondents.

As a financial service provider it is therefore important to bear in mind that within low-income communities, people with steady, weekly or monthly salaries are the exception. Instead, it is more common to find volatile payment schedules, comprising of periods with above-average income from different sources, as well as lean periods. It is expected that during times of multiple payments, people have some surplus income they might wish to save, while it is likely that they need access to their earlier savings to pull through lean periods. Altogether, most people in Uganda have difficulties managing their cash-flow: setting aside income from surplus periods until they need it during lean periods. The cycle of depositing and withdrawing savings is usually much shorter than financial service providers expect. Savings cycles may have a duration of 3 to 6 weeks.

During lean periods people might be using loans, instead of accessing their own savings. Then during subsequent periods of surplus, they will want to pay off these loans, often in relatively large sums.

The most important implication for financial service providers is that conventional microfinance services, i.e. offering access to lump-sums (loans) and offering a safe place for frequent small amounts (savings), might be the opposite of what people really need. Instead, there is a need for services that address common patterns such as sudden lump-sums that need to be kept safe and the option to access daily small amounts during lean periods. Particularly, the standard microfinance loans where repayment has to take place according to a strict schedule of equal small amounts every week or every month may not be suitable to all. People struggle to pay back loans in weekly or monthly instalments of fixed amounts. Instead, some weeks they may like to repay a lot, other weeks nothing at all. In the same way, it is strongly recommended that financial service providers revise their idea that savings are small, continuous deposits that build up until a nice lump-sum has been achieved. People in low-income communities are more likely to save in whimsical jumps, with sudden increases and periods of withdrawals of daily small amounts.