

RESEARCH PEARLS | FEDU PEARL #21

In our series “Research Pearls” we are providing first-hand insights into our dynamic and powerful diaries research. In L-IFT’s diaries research, one area of interest is mixed livelihoods; having at least more than one varied source of income. We studied this topic in detail in the Youth Livelihoods Diaries and explored it further in FEDU. In this research pearl we will shed some light on the different income sources and the mix thereof.

Mixed livelihoods

Among all respondents, there were only 36 (6%), who did not work on any income producing activity at least during one biweekly. This means that the remaining 94% of respondents had some type of income earning activity at least during one biweekly. The following table shows how many.

The top three most reported forms of income were own business (42%), casual labour (39%) and crop agriculture (34%). Interestingly, formal employment is in the three least reported forms of income, only 11% mentioned having this income at least once during the research period.

In the set-up of L-IFT’s research, there are three main categories of income earning work in the research: business (own business, business together with someone, other business), employment (formal employment, employment at a small business, casual labour, working on people’s farms, other employment), and agriculture (crop agriculture, horticulture, livestock). We looked at whether respondents’ incomes were mixed or specialized; did they focus on just one task, was there specialization? Or did they focus on several tasks at once? When looking at the three broader categories we see that a similar count of respondents answered having either just one of these sources, or two, during the course of the six-month research period. That can be, for example business and employment, business an agriculture, etc. However, a substantial portion of the respondents (245, 42%) had only one of the three sources of income, a similar portion (243 respondents, 41%) had two, and 10% had all three sources of income. When interpreting these results, please note that this does not mean that throughout the research, respondents were continuously active in doing these activities; on the contrary, one week they probably had some type of business, another week agriculture, another week nothing at all. These figures mean that they reported having done an activity at least once during the research period. However, this shows that less than half of the respondents had only one source of income and that it is common to have more than one.

Number of activities	Percent of respondents
0	6.13
1	24.70
2	31.35
3	23.17
4	7.84
5	4.94
6	1.19
7	0.51
8	0.17

Let us look at this in a different way. Across the categories, there are 12 possible activities to be had (3 types of business, 5 types of employment, three types of agriculture, and “other”); these are listed above.

In this table, we can see that the highest number of activities any respondent had was eight. This translates to only 1 respondent, respondent number 535. The most common, however, as seen in the table is to have two activities active at one point or another. This much more common scenario can be illustrated by respondent number 317, who had only two activities active over different occasions during the research. As you can see in the graph, the activities are held quite sporadically. In biweekly 1 and 2, this respondent worked on other people’s farms and on their own business. Then in biweekly 3,4 and 11, they worked on their own business and for the rest of the time, they didn’t do any income earning activity (none). This is a much more common scenario for the majority of respondents. Again, this is at any given time during the research period, not always at the same time. Only 25% of respondents had only one activity.



Figure 1: Overview of income generating activities of respondent 317

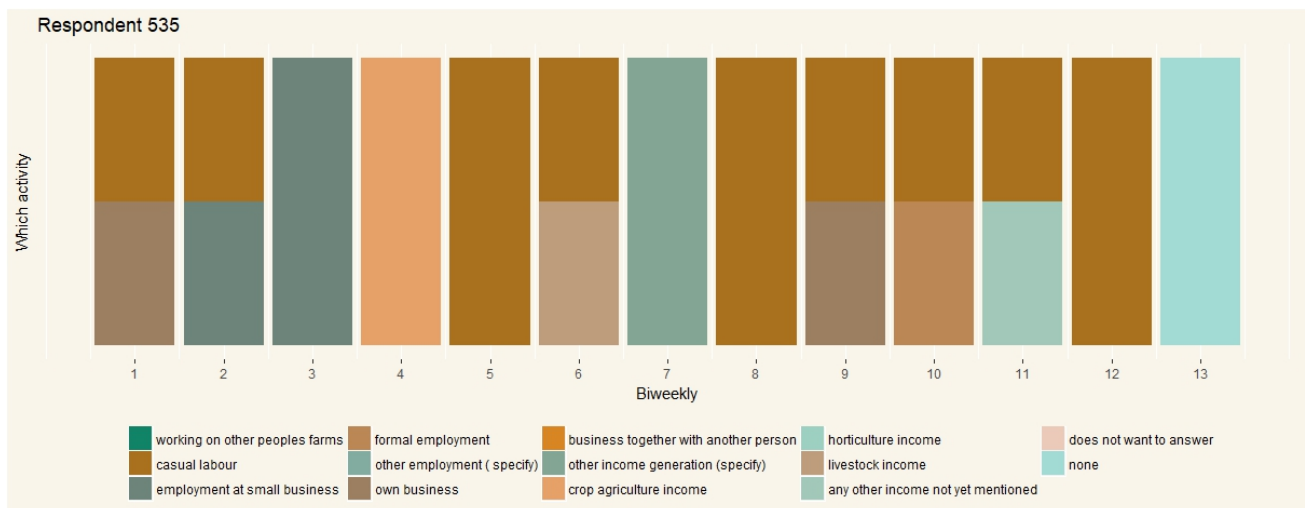


Figure 2: Overview of income generating activities of respondent 535

What are the reasons for having mixed livelihoods?

The most common reason for having a mix of incomes is that it is less risky, 35% of respondents answering this way. This is followed by “the seasonality of work” (29%) and that it “smoothens income over the year/avoids periods without any income” (14%).

What about those respondents having formal employment? Is it more steady? Did those respondents that had formal employment specialize more? Or did they also have a mix of activities?

Only 11% of respondents mentioned to have had formal employment at least once during the research period, that is the equivalent of 64 respondents. Of these respondents who had formal employment, 12 respondents (18.75%) worked on only this activity throughout the research period. The table from above is repeated with an added column comparing respondents who were active in formal employment; how many activities did they have during the research period? A similar pattern holds, the majority of respondents had two activities active throughout the research period.

Number of activities	Percent of respondents	Percent of respondents having formal
0	6.13	NA
1	24.70	18.75
2	31.35	37.50
3	23.17	18.75
4	7.84	9.38
5	4.94	7.81
6	1.19	3.12
7	0.51	3.12
8	0.17	1.56

However, just because it is “formal” employment, doesn’t mean that it is a steadier, or more reliable source of income. Of the 64 respondents, 19 had formal employment for only one biweekly (30%). Only one respondent (1.5%) had it active for all 13 biweeklies. Nine respondents (14%) worked formally for half of the time, that is six biweeklies.

What about having your own business?

Having your own business was the most common activity to be had, overall. 249 respondents had their own business during *at least* one biweekly. That is 42% of the research sample. Compared to having formal employment, a slightly higher number of respondents, 5% had their own business active at all 13 biweeklies, though the majority, 20% had it at only 1 biweekly.

Why did so many respondents have their own business?

90% of respondents answered that they would prefer to have their own business rather than steady employment, when asked this question. The three most common reasons given for your own business being more attractive is that it gives more freedom and independence (71%), it will earn more money (57%), and it has flexible hours (46%). Funnily enough, the first two reasons are also indicated by the 10% of respondents preferring to have steady employment: it will earn more money (57%), more freedom and independence (32%) and it is more interesting (30%).

Did those that had formal employment or their own business earn more than those who didn’t?

Yes, to both the above. The 64 respondents who had formal employment earned significantly higher income on average than those who did not have formal employment. The “formal employment” group has a mean of \$418¹ while the “no formal employment” group has a mean of \$228. These values are for

¹ Exchange rate used: 3,500 UGX to 1 USD

are for the whole research period.

Having your own business was also more lucrative, than not. Those that had their own business also earned significantly higher income on average than those who didn't: \$377 compared to \$152. So, in fact, the perceptions of both of these sources of income are valid.

What are the implications for Financial Service Providers?

As earlier financial diaries research has demonstrated, people's income situation fluctuates strongly over time. Just asking what people are earning at the moment, will only offer a snap-shot about people's situation and the next week the situation may be the opposite. Therefore, for meaningfully analysing people's income patterns, the financial service provider needs to probe into the range of income and the comings and goings of income sources of their clients.

The research demonstrates that formal employment, often regarded as something stable and continuous, is in reality more often than not unstable and discontinuous. This means that taking formal employment as a guarantee for loan repayment is in fact quite tricky. Nevertheless, it is not a bad proxy for the ability to repay a loan, because those who sometimes had formal employment were earning considerably better average income than those without.

Having an own business, which financial service providers often perceive as something risky and therefore less credit-worthy, is in fact a reasonably successful earning, resulting in almost as high average income as those with formal employment. Our data, therefore, show that having own business is currently insufficiently used as an indicator for ability to repay a loan and should be explored by financial service providers.