

Entrepreneurs meet entrepreneurship research - an afternoon in Kampala

Small-scale entrepreneurship is omnipresent in developing countries: it is a means to survive for many and a pathway out of poverty for few. There could hardly be a better place to study these phenomena than Uganda, where more than 50% of the adult population own or co-own a non-agricultural business (GEM 2012).

Starting in 2012, GIGA has worked with the Centre for Basic Research (CBR) in Kampala, to interview up to 500 Micro and Small Enterprise owners every year, with the aim of building a comprehensive panel dataset allowing for a careful analysis of the determinants of long-term performance of these firms. Field research will continue until 2018, with the University of Goettingen being the newest participating institution.



It goes without saying that a research project of this scope would be impossible without the continued participation and cooperation of the entrepreneurs under study. In order to provide background information and engage entrepreneurs in dialogue, they were invited to a dissemination event at the Centre for Basic



Research in October 2016, and 200 entrepreneurs followed the invitation.

The event opened with welcoming words from Dancan Muhanguzi, CBR Acting Head of Programs, and Apl. Prof. Dr. Jann Lay, Principal Investigator of the research project and Acting Director of the GIGA Institute of African Affairs.

After a brief introduction to the background of the research project, entrepreneurs were asked to share their views: Why do only some enterprises grow, while most stay at the same level? And what are the main constraints to enterprise growth?



The audience contributed eagerly. Unsurprisingly, the first constraint mentioned was inadequate capital, pertaining both to the poor quality of existing capital equipment (one example was the use of Pangas versus machines by butchers), and to the difficulty of increasing the capital stock, most notably due to high interest rates and a lack of equity as well as access to loans in general. A lack of saving culture was also cited, as well as inadequate business skills.

Another set of constraints mentioned outline the difficulty of operating a business in a risky and poor environment. There is little flexibility on the expenditure side, with some landlords charging rent in USD, and taxes are increasingly

seen as a burden. The entrepreneurs noted that the government no longer offers a 6-month tax holiday to new businesses, and has moved from a single tax to several individual taxes and fees. One entrepreneur complained about price discrimination on the part of suppliers, and another mentioned how cooperatives used to be helpful in price negotiations, but have dissolved.

On the income side, business owners find it hard to pass on these expenditures to customers due to competitive pressures and customers' low purchasing power. Another argument made stresses the importance of customer orientation, and the need to identify and address customer needs and demands. A lack of advertisement was mentioned twice.

Location is central to business success everywhere in the world, but its significance for Ugandan businesses extends beyond customer frequencies and transport costs: a lack of a permanent business location and insecure land and property rights also leave businesses vulnerable to eviction. In line with multiple insecurities, entrepreneurs stressed the need for diversifying risk by having more than one business.



Addressing the points raised by the entrepreneurs, Tabea Lakemann, GIGA research fellow, then presented preliminary research results from the project, and Samantha Mawemuko and Dancan Muhanguzi translated into Luganda.

Two of the constraints mentioned had already been researched as part of the project, namely a lack of capital and low financial literacy. In two randomised experiments in 2013, entrepreneurs received an unconditional cash transfer, and a brief financial literacy training, respectively.

Both treatments showed small effects on certain sub-groups of entrepreneurs, but did not succeed in improving average profits for the whole sample. Moreover, effects differed between men and women.



Rather than proving the futility of policy efforts to support small-scale businesses, these results stress the need for designing them very carefully to address the interconnectedness of different constraints. The cash transfer raised capital stocks when paid into a bank account, suggesting that commitment was needed to encourage investment. The financial literacy training had an effect on entrepreneurs with low education, suggesting that education is an important constraint and the contents of trainings need to be well-adjusted to the target group. Finally, gender differences in effects and performance show that women entrepreneurs may be facing a very different set of constraints than men, and that these constraints go far beyond capital constraints.

The event concluded with conversations over tea. Some entrepreneurs shared how they had used the cash transfer to purchase capital equipment, thereby illustrating and corroborating the research results presented before.

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