Entrepreneurial Income and Barriers to Firm Growth: A Study of Rural Small and Medium Enterprises in Uganda

Department of Economics

University of Reading

RENNIE BAKASHABA

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CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance by the University of Reading a thesis entitled: **'ENTREPRENEURIAL INCOME AND BARRIERS TO FIRM GROWTH: A STUDY OF RURAL SMALL AND MEDIUM ENTERPRISES IN UGANDA'** in fulfilment of the requirement for the award of a Ph.D. by thesis of the University of Reading.

Dr. Nigel Stuart Wadeson

(Supervisor)

Associate Prof. Christian Andi Nygaard

(Supervisor)

DECLARATION

I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged.

Signature: **Bakashaba Rennie**

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DEDICATION

I dedicate this PhD to the whole Bakashabaruhanga family, especially my father Mr. Paul Bakashabaruhanga (RIP). We need more PhDs.

ABSTRACT

The thesis analyses the closely related issues of small business owner-managers' incomes and the barriers to the growth of their firms. To establish these issues, the study uses a combination of qualitative and quantitative methods based on a survey of 450 firms in the western (rural) part of Uganda. Questionnaires and interview guides were used as the data instruments. The data collection was done in 2016 between June-August. Fifteen different hypotheses were generated and tested under the quantitative method using the ordered probit modelling strategy.

Most SME (Small and Medium Enterprise) research has been done in developed countries. However, rural entrepreneurs in developing countries face problems of a somewhat different nature and severity. This thesis is therefore organised around two main research questions which are structured around the experiences faced by entrepreneurs in developing countries. The objective of the work that informs the first research question is to understand the characteristics of the entrepreneur and firm that appear to explain differences in entrepreneurial income in SMEs in Uganda while the second research question investigates the barriers hindering the growth of SMEs in Uganda.

The findings of this study indicate that some characteristics of the entrepreneur and firm are significant in determining the growth of SMEs in Uganda. These characteristics are notably outlined as: the age of the entrepreneur, the number of children of the entrepreneur, the education of the entrepreneur, the ownership structure of a firm, the size of a firm, the location of a firm and the industry of a firm. However, characteristics like gender, marital status, type of entrepreneur were not significant in the model used. Also, unlike most previous studies done in developed countries, this study does not find the age of a firm significant in determining entrepreneurial income. This finding is instrumental to the policy makers because it could suggest that despite the common thought that older firms automatically get higher entrepreneurial income, the study finds that this is not necessarily true. The policy makers should deduce ways of creating a conducive business environment for these entrepreneurs/firms.

Through interview guides under the qualitative method, the respondents in the study presented eight core barriers that have been identified as detrimental factors to the growth of SMEs in the western part of Uganda. These were corruption, government policy, electricity insecurity, poor infrastructure, high taxes, access to finance, forced mutual help and risk attitude. Empirical studies in developing countries have identified similar barriers while investigating factors hindering the growth of SMEs. Therefore, these barriers were drawn from the literature and so, the literature thus informed the survey design. The respondents in the study also suggested recommendations that the government of Uganda should put in place to solve the underlining barriers. These are documented at the end of this thesis.

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LIST OF ABBREVIATIONS

BUDS - Business Uganda Development Scheme

DB - Doing Business

CADR - Center for Arbitration and Dispute Resolution

ERC - Economic Recovery Credit

ESAF - Extended Structural Adjustment Facility

GDP - Gross Domestic Product

GEM - Global Entrepreneurship Monitor

IFAD - International Fund for Agriculture Development

ILO - International Labour Organisation

IMF - International Monetary Fund

MCP - Master Craftsman Programme

MFPED - Ministry of Finance, Planning and Economic Development

MOP - Microfinance Outreach Plan

NSSF - National Social Security Fund

OECD - The Organisation for Economic Co-operation and Development

PMA - Plan for Modernization of Agriculture

PSFU - Private Sector Foundation Uganda

SDGs - Sustainable Development Goals

SAPs - Structural Adjustment Programmes

SMEs - Small and Medium Enterprises

UBOS - Uganda Bureau of Statistics

UIA – Uganda Investment Authority

UNDP - United Nations Development Programme

UNIDO - United Nations Industrial Development Organisation

URA - Uganda Revenue Authority

USSIA - Uganda Small Scale Industries Association

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CHAPTER ONE

INTRODUCTION

1.1 General Introduction

Entrepreneurship (in terms of the growth of Small and Medium Enterprises) in Uganda has become very important in the poverty reduction and economic development debates. Entrepreneurship literature in Uganda suggests that Small and Medium Enterprises (SMEs) are likely to empower the youth and this leads to economic development in the country. The researcher was motivated by the issues of economic development in the country and how it is closely related to the issues of why so many firms in developing countries stay very small and only deliver low incomes to their owner-managers. It is assumed that SMEs improve the incomes of the rural entrepreneurs, contribute to poverty reduction and as a result economic development in the country.

There is no universal definition of a small (and medium) business, and the definition varies from country to country (Collins et al., 1977, Edmondson, 1977). As small business exists all over the world, any definition of Small and Medium Enterprise needs to take the diversity of legal, cultural, socioeconomic, sociological and ethnographic context into account (www.osfin.ch, 2003).

This study will establish whether entrepreneurship has contributed to entrepreneurial income and also identify the main barriers faced by rural SMEs in Uganda. This will be done by conceptualising the control variables (entrepreneur and firm characteristics) and their effect on both entrepreneurial income and the barriers. Therefore, the study will investigate two key research questions:
1) what characteristics of the entrepreneur and the firm (SME) are associated with entrepreneurial income?
2) what barriers are faced by SMEs that hinder their growth?

Primary data was collected through questionnaires and interview guides by the researcher. Using the primary data, the researcher was able to answer the two research questions and document possible solutions that the government can put in place to solve the underlining issues faced by SMEs. Most of the academic entrepreneurship literature on this subject has been done in developed countries. Therefore, this study will try to address the gap in the literature by presenting findings collected from a developing country (Uganda).

Wim Naude (2010) argues that entrepreneurs in developing countries are neither irrelevant nor impotent. However, the relationship between entrepreneurs and development outcomes is complex, with entrepreneurship being very dependent on economic development and growth and vice versa. Designing policies for development through the promotion of entrepreneurship is complicated. In relation to policy design, three questions need to be considered alongside each country's context: firstly, whether

entrepreneurship should be supported, secondly, whether entrepreneurship can be supported and finally, how to establish the most effective means of support, taking into consideration the country's level of development.

SMEs play a significant role in developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings. The development and sustainability of SMEs is, thus, a key instrument in poverty reduction efforts (World Bank, 2013; OECD, 2008; Ayyagari et al., 2011). However, Storey and Greene (2010) stress that small firms (SMEs) are particularly important in both rich and poor countries.

SMEs in Uganda contribute about 30% of GDP (Uganda Investment Authority, 2013; World Bank, 2013). Their contribution is measured in terms of job creation, income generation and poverty reduction (Agyei-Mensah, 2011). Employment growth is estimated at 25% per annum and the SME sub-sector is a prime creator of new jobs in Uganda (UIA, 2013; Rooks and Sserwanga, 2009). Despite their significance, the majority of SMEs (especially start-ups) in emerging economies like Uganda continue to fail.

Furthermore, SMEs are the main source of employment in developing economies, comprising over 90% of African business operations and contribute to over 50% of African employment and Gross Domestic Product (GDP) (Okafor & Amalu, 2010). Consequently, improved SME competitiveness can contribute to economic and social development, leading to enhanced poverty reduction. These SMEs are particularly important to the rural poor in most developing countries.

Studies on SMEs in Uganda indicate that 90% of SMEs do not live to see their first birthday. Of those that survive beyond one year, less than 60% live to see their fifth birthday (Global Entrepreneurship Monitor Report, 2009: 2010). This failure is fuelled by many factors including lack of access to knowledge and financial resources. Additionally, the leadership capacity of the owner or manager to effectively combine the scarce resources sustainably is a bigger constraint/challenge (Nave, 2006; Ekanem, 2010). Failure to build a significant and successful body of entrepreneurs is a deterrent to wealth creation in emerging economies.

The Global Entrepreneurship Monitor (GEM, 2011) study established that the major challenges faced by Ugandan business owners that lead to business failure include limited market, fluctuations in commodity prices, inefficient value addition methods, lack of access to timely market information, limited access to capital, low bargaining power, and limited managerial skills. Despite these constraints, some entrepreneurs still succeed. This study will, therefore, look at the typical characteristics of the entrepreneur and the firm that are responsible for their longevity and sustainability despite the adversity they face. Additionally, we shall describe some of the overwhelming bottlenecks faced by SMEs in Uganda, identify the social experiences of these entrepreneurs and examine how have they managed to carve a niche for themselves in the current business environment.

Studies have revealed that in Uganda there is no consistent and harmonized SME policy framework to guide the growth and development of the SME sector (UIA, 2011). Inadequate policy frameworks hinder SMEs

from benefiting from existing business incentives, support services and related infrastructural systems. Most SMEs in developed countries have a well organised SME policy framework where they can exercise their bargaining power and get adequate representation among active lobby groups like manufacturing associations (UIA, 2011). The study will look into these differences and establish whether these are part of the reasons for the high mortality rate of SMEs in developing countries like Uganda.

The financial sector has begun to appreciate the strategic significance of SMEs and their access to resources is improving. There is increased access to finance, improved ICT, mentoring and incubation programs, and policy incentives in this area are improving in general. However, many SMEs still fail at an alarming rate (UIA, 2011). The study also gains explicit and deeper understanding of the barriers faced by SMEs with the aim of solving them and attaining business sustainability.

Lastly, in Uganda, poverty is widely spread in the rural communities. The main objective of this study is to analyse the impact of entrepreneurship on economic development specifically looking at SME starts-ups, their survival (barriers they face) and how they have improved the standard of living for the rural communities thereby reducing poverty levels in Uganda. The case study will be Western Uganda, where the respondents involved in the start-ups will be interviewed, yielding richly pooled data for analysis.

1.2 Statement of the Problem

Wim Naude (2013) strongly maintains that entrepreneurship is beneficial for economic growth and development, entrepreneurship has been remarkably resurgent over the past three decades in countries that achieved substantial poverty reduction, and finally that donors and international development agencies have turned to entrepreneurship to improve the effectiveness and sustainability of aid. However, the theoretical and empirical cases for understanding the role of entrepreneurship are not yet solid.

Further, evidence on whether entrepreneurship matters for economic growth is not straightforward, the ways in which entrepreneurship has been promoted and how it contributed to development in these countries is still a matter of contention, and whether (and why) private-sector development initiatives may be effective is not well understood (Naude, 2013). This statement justifies the two key research questions that are used in this study. The findings will help us establish whether entrepreneurship matters for economic growth in developing countries like Uganda. This will be done by ascertaining the key characteristics of the entrepreneur and firm that explain differences in entrepreneurial income.

SMEs have played a key role in economic development, especially in developing countries (Halabi et al., 2010). They play a critical role in terms of job creation, poverty reduction, and income generation (Agyei-Mensah, 2011; Nichter and Goldmark, 2009). According to the Global Entrepreneurship Monitor (GEM, 2015), Uganda is the most entrepreneurial country in the world at a start-up rate of 28%. However, they also note that 70% of these firms do not survive 24 months from the date of their inception. This study will investigate the barriers to growth of SMEs in Uganda.

The Census of Business Establishments Report in Uganda illustrated that 30% of 458,106 enterprises were SMEs and the sector employed over 1 million people. More so, development economists point out that the clear majority of entrepreneurs in developing countries are involved in micro and small enterprises (MSEs), often informal and contributing little to poverty alleviation and growth (Uganda Bureau of Statistics, 2011). Additionally, only a few new start-up firms survive for a long time, the majority fails within the first two years. (Wim Naude, 2010).

In Uganda, more than 85% of Uganda's population lives in rural areas while more than two thirds of the country's poor people are small, mainly subsistence farmers. Various poverty alleviation interventions have been applied by government to reduce poverty. These include implementing macroeconomic policies that encourage private sector development and direct interventions like the *Boona Bagagawale* (wealth for all), *Entandikwa* (seed funding), PEAP (Poverty Eradication Action Plan) which are all policies to tackle poverty implemented in the last two decades.

However, urban areas have experienced a significantly greater reduction in poverty than the rural areas. In the past decade (between 1997 and 2007), poverty has declined by a rate of 43% in urban areas but by only 18% in rural areas (IFAD, 2007), yet the majority of Ugandans live in rural areas. The majority of studies have focused on urban areas, neglecting rural entrepreneurship (Naude, 2011). With Uganda being an agriculture-based economy and the government providing a business enabling environment, poverty reduction and entrepreneurial growth should ordinarily be higher in the rural areas where the majority of the people live.

Entrepreneurship in the context of this study mainly includes the process of starting-up, survival and growth of SMEs. The expansion and growth of SMEs signifies the increase of entrepreneurial income in rural areas. This poses the question, "why the expected increase in income is not evident in the rural parts of the country where the growth of SMEs has been reported?"

This study will investigate the characteristics of the entrepreneur and firm that are associated with entrepreneurial income and also determine the barriers to growth faced by SMEs in the rural areas of Uganda.

1.3 Main objective of the study

Most academic studies and material on entrepreneurship, barriers to firm growth, poverty reduction and economic development has been done in developed countries. Therefore, to bridge the gap in the literature, this study's main objective will focus on a developing country – Uganda.

Poverty eradication is central to Uganda's overarching development agenda and is a prerequisite to the 17 Sustainable Development Goals (SDGs) introduced by the United Nations Development Program. The primary objective of the study is to explore the extent to which entrepreneurship has increased entrepreneurial income and by so doing contributed to poverty reduction and economic development.

Specifically, the research will look at following objectives. These can be outlined as:

- To assess the main characteristics of the entrepreneur and firm that are associated with higher entrepreneurial income in SMEs in Uganda.
- To investigate the barriers hindering the growth of SMEs in Uganda.

Therefore, the study will be guided by the following research questions:

1. What are the main characteristics of an entrepreneur and firm that are associated with entrepreneurial income in SMEs in Uganda?
2. What are the barriers hindering the growth of SMEs in Uganda?

1.4 Significance of the study

First, despite the introduction of entrepreneurship strategies in terms of start-ups as a vehicle for poverty reduction in the early 90's, poverty is still a challenging issue in Uganda. While at aggregate level statistics indicate that national poverty levels have fallen from 56% in 1992 to 31% in 2006 (UNDP, 2007), there are still significant regional disparities and trends in poverty within the country. Therefore, this study will critically look at various SMEs in western Uganda and try to establish the firm characteristics significant to income amongst the respondents in this study. At the same time, it will also facilitate the formulation of short-term development strategies the government can employ to curb this poverty at local, regional and national levels.

Second, according to the Global Entrepreneurship Monitor (GEM, 2014), Uganda is the most entrepreneurial country in the world at a start-up rate of 28%. This means approximately 3 out of 10 Ugandans startup businesses. However, they also note that 70% of these firms do not survive 24 months from the date of their inception. Therefore, this study will critically look at the barriers the entrepreneurs in Uganda are facing and after a rigorous in-depth qualitative and quantitative study, the researcher will come up with recommended solutions to curtail this overwhelming failure rate.

Third, this study contributes to the area of structural characteristics and business growth. The first step to business growth is to look critically at the entrepreneur and firm characteristics that contribute to business growth. This study will clearly show the characteristics of the entrepreneur and firm that appear to explain differences in entrepreneurial income.

Lastly, the United Nations Development Program introduced the 17 Sustainable Development Goals (SDGs) in 2016. This study is in line with goal number one that addresses poverty eradication. 'While the number of people living in extreme poverty dropped by more than half between 1990 and 2015 – from 1.9 billion to 836 million, too many are still struggling for the most basic human needs (SDGs, 2016)'. The main objective of this study is to critically look at entrepreneurship and its contribution to poverty reduction.

1.5 Scope of the study

Geographically, the study will be carried out in Uganda. Uganda is in East Africa, west of Kenya and east of the Democratic Republic of the Congo with a total area of 241,038 sq. kms, a population of approximately 35 million (UBOS, Uganda Census, 2014) with an equatorial climate – mostly rainy with two dry seasons (December to February, June to August) and semi-arid in the north east. Economically, Uganda has substantial natural resources including fertile soils, regular rainfall, small deposits of copper, gold, other minerals and has recently discovered oil. Agriculture is the backbone of the economy because it employs over 85% of the work force (CIA Fact Book, 2012).

The content scope of this study will look at the entrepreneur and firm characteristics associated with entrepreneurial income and the barriers hindering SME growth in the western part of Uganda.

1.6 Structure of the thesis

This thesis is organised into eight chapters. Following this introductory chapter, chapter two reviews the general context of SMEs in Uganda. This includes the socio-economic background of Uganda, definitions of SMEs, the advantages and procedures in establishing an SME in Uganda.

Chapter three reviews the literature on the concepts of entrepreneurship, characteristics of rural African entrepreneurs and the barriers to formal entrepreneurship in developing countries. The literature also goes on to discuss the growth of SMEs in developing countries. Then discusses the attributes to poverty and the variables that influence entrepreneurial income. Finally, it introduces and examines the hypotheses proposed for the study.

Chapter four describes the methodology employed for the data collection and analysis. It deals with research design, data sources and measures of variables. The chapter ends with an assessment of the data analysis strategy.

Chapter 5, 6 and 7 present the descriptive statistics and the empirical results of the study. The qualitative and quantitative methods of the study are reported in these chapters.

Chapter 8 summarises and discusses the research findings. It assesses the extent to which the present research was successful in dealing with the research objectives. This chapter also reviews the contributions of the research and explains its limitations. Lastly, it presents the recommendations of the respondents interviewed under the qualitative study.

CHAPTER TWO

SMALL AND MEDIUM ENTERPRISES IN UGANDA

2.1 Introduction

The role played by SMEs in enhancing growth in market-driven economies has emerged as a consistent theme in recent literature on economic performance (Akoorie, 1998; Carney, 1995). They constitute 90% of the enterprises worldwide and account for 50-60% of employment (UBOS, 2011). The majority of studies done on SMEs have not agreed on universally acceptable definitions and criteria for classifying SMEs. In Uganda the definition of SMEs is based on the number of employees, annual turnover, ownership, and value of assets.

In most developing countries like Uganda, the growth of SMEs has to some extent managed to reduce the poverty levels in the country. The concept of poverty reduction has gained momentum in the policy agenda of several countries and poverty-reducing growth strategies have become an everyday phenomenon of the modern world. Most developing countries have taken bold steps in recent times in putting up certain measures in their bid to reduce poverty. In Uganda's case, the government has tried to reduce poverty by providing a conducive business environment to help in the growth of SMEs.

The World Bank Annual Report (2013) reveals that SMEs in developing countries like Uganda account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings. The development and sustainability of SMEs is, thus, a key instrument in poverty reduction efforts.

Despite the country's efforts, however, poverty in Uganda has remained a rural phenomenon with 96% of the poor living in rural areas. Poverty continues to be regionally concentrated, with the Northern and Eastern parts of the country having the largest proportion of the population living in extreme poverty (Ministry of Finance, Planning and Economic Development, 2000). Therefore, this chapter looks at the role and contribution of SMEs in the fight against poverty in Uganda.

This chapter presents a brief background of the economy of Uganda. It goes on to present the definition of Small and Medium Enterprises in the context of Uganda. It then submits the advantages and disadvantages of these SMEs in a developing country context before discussing incentives given to SMEs, how to establish and access business finance by these SMEs. The chapter also discusses the business support services given to SMEs in Uganda and finally makes conclusions.

2.2 Socio-Economic overview

Figure 2.1: Map of Uganda

Source: www.maps.com, 1997

A. The historical background of Uganda

Uganda is a landlocked country, sharing boarders to the east with Kenya, to the north with South Sudan, to the west with the Democratic Republic of the Congo, to the southwest with Rwanda, and to the south with Tanzania. Uganda is the world's second most populous landlocked country after Ethiopia. It has an area of 241,000 sq. km, of which approximately 44,000 sq. km comprises of inland water. Uganda lies astride the

equator. According to the World Bank Annual Report (2013), the population is approximately 37.58 million and its economy is predominantly agricultural, based largely on coffee and tea as major exports.

In October 1962, Uganda achieved political independence, but its economy remained under the control of foreign domination. Between the years 1963-1971, the economy performed impressively, developing steadily and reducing the problems associated with underdevelopment, poverty, ignorance and disease (Szentes, 1971). Additionally, the structure of the economy was changing, with economic activity becoming broader based, shifting away from agriculture and towards industrial and service related activities.

Since independence in 1962, Uganda's economy has undergone many changes, both in the level of economic activity and its structure. However, development has not been a continuous process. Indeed, Edmonds (1988) suggests that the military regime's mismanagement of the economy in the 1970s led to a dramatic reversal of the process, increasing Uganda's underdevelopment and dependence.

After 1977, the economy collapsed. The economic chaos engendered by the eight years of military mismanagement of the economy was followed by a war to liberate the country and eighteen months of political instability (Karugire, 1980). The economy started its declined after (President) Amin's accession to power in 1971. His incoherent policies and his subsequent declaration of an economic war hastened capital flights from Uganda and accelerated the rate of economic decline.

There were two major structural changes which occurred at this time. First, the wholesale expulsion of the Asian community who had to a large extent dominated the wholesale and retail trade, and also had major investments in manufacturing and plantations. And second, the breakup of the East African Community and Common Market in 1977 contributed to a tremendous decline in the manufacturing sector.

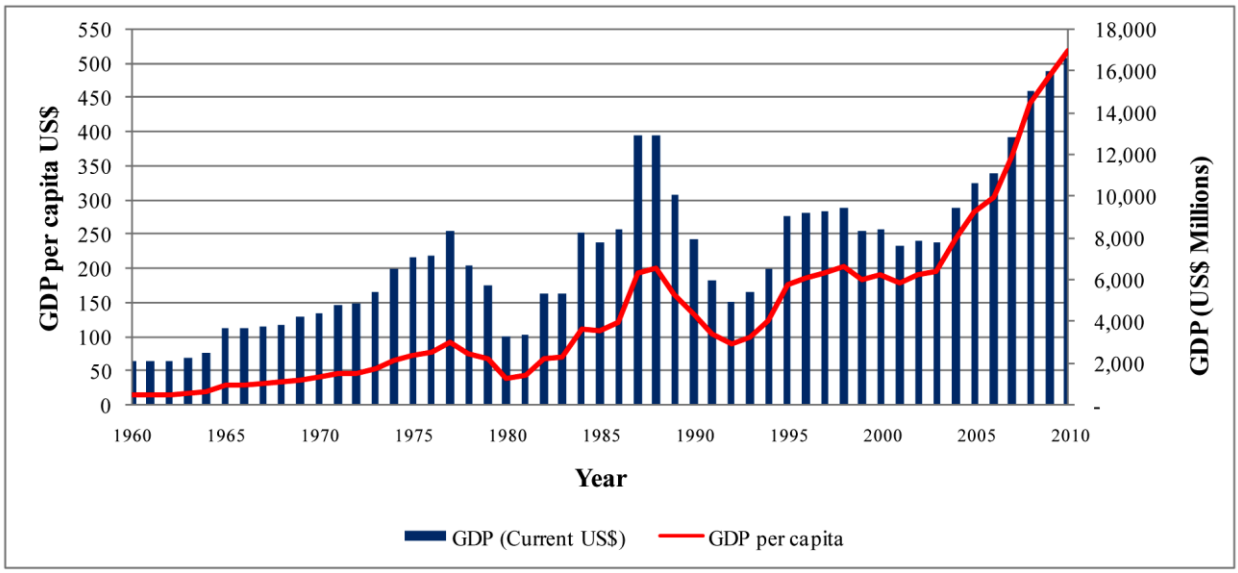
After Amin was ousted, the recovery programs of 1981 ran by the Obote government purported to revive the economy. By 1986, many international institutions like the World Bank and IMF had given the economy financial external funds to the tune of 2.013 billion US Dollars. Unfortunately for Uganda, because of the wrong economic policies, this enormous sum of money did not make a positive impact; but rather it increased Uganda's debt burden (World Bank report, 1990).

The National Resistance Movement government (who are still in power to-date) in 1987 inherited an economy ravaged by war and years of neglect. After establishing security, the government carried out a series of economic rehabilitation through its Structural Adjustment Programmes (SAPs). This was sustained by an Extended Structural Adjustment Facility (ESAF) of 19.9 million US Dollars from the IMF and an Economic Recovery Credit (ERC) of 69.7 million US dollars from the World Bank. Uganda is now benefitting from a second ERC and further Structural Adjustment Credit including a credit of 65 million US Dollars for privatization from the World Bank (UNIDO, 1992). The Economic Recovery Programme is the major instrument by which SAPs were being implemented.

There was an improvement in the economic growth of the country post 1990 and early 2000s. This improvement in the capital account of the balance of payments was not due to only the implementation of these SAPs and reform trade policies but also due to the emerging of SMEs in the economy. These SMEs are the main source of employment in the country and their contribution is measured in terms of job creation, income generation and poverty reduction (Agyei-Mensah, 2011).

Figure 2.2 shows the GDP growth of Uganda's economy from 1962- 2010 in US dollars.

Figure 2.2: GDP Trends (1960 - 2010)



Source: World Bank online database, 2010

B. Current economic situation of Uganda

Uganda's GDP (2016) has improved significantly over the period of the last two decades. The growth of SMEs through entrepreneurship development strategies has contributed to this growth. The table below summarises Doing Business 2015 data for Uganda. The table represents the ease of Doing Business (DB) rank (out of 189 economies), and the difference between 2015 and 2014 by topic.

Table 2.1: Doing Business Ranked by Topic

Topics	DB 2015 Rank	DB 2014 Rank
Starting a business	166	162
Dealing with construction permits	163	162
Getting electricity	184	181
Registering property	125	120
Getting credit	131	125
Protecting minority investors	110	108
Paying taxes	104	101
Trading across borders	161	163
Enforcing contracts	80	79

Source: Measuring Business Regulation: World Bank Group, 2015

From the table we can observe that apart from" trading across borders" which dropped, the rest of the aspects improved when you compare 2014 with 2015. There is a notable improvement in starting up business, dealing with construction permits, getting credit and registering property. However, the increase in electricity and paying taxes in the economy does not tell the whole story of what is happening in the country. The 'External Barriers' chapter in this thesis shall fully present the current situation in the economy.

2.3 Small and Medium Enterprises in Uganda

A. Definition

There is no universal definition of a small business, and the definition varies from country to country (Collins et al., 1977, Edmondson, 1977). As small business exists all over the world, any definition of Small and Medium Enterprise needs to take the diversity of legal, cultural, socioeconomic, sociological and ethnographic context into account (www.osfin.ch, 2003).

According to a policy brief submitted by the OECD (2000), they define SMEs as non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across national statistical systems. The Uganda Investment Authority defines a Small and Medium Enterprise as:

A 'Micro Enterprise' is defined as an enterprise employing maximum of four (4) people; annual sales or revenue turnover of maximum of twelve million Uganda shillings (UGX 12,000,000) and total assets of maximum of twelve million Uganda shillings (UGX12,000,000).

A 'Small Enterprise' is defined as an enterprise employing maximum of fifty (50) people; annual sales or revenue turnover of maximum of three hundred and sixty million Uganda shillings (UGX 360,000,000) and total assets of a maximum of three hundred and sixty million Uganda shillings.

A 'Medium Enterprise' is defined as an enterprise employing more than fifty (50) people but ideally not more than 250 employees; annual sales or revenue turnover of more than three hundred and sixty million Uganda shillings (UGX 360,000,000) and total assets of more than three hundred and sixty million Uganda shillings (UGX 360,000,000).

B. Advantages and disadvantages of small businesses

The fact that they are closer to their customers and able to adapt and change quicker than larger organisations should give the businesses a competitive edge over larger companies. Even with the change in retail patterns from local shopping areas to out of town centres and 24 hour opening, small, independent businesses can still find and fill a market niche by giving value added services and specialist goods (Bent et al., 1999, Baron et al., 2001, Chaudhry and Crick, 2003).

The vital role of SMES is acknowledged in the wealth of support available. According to Smith and Sparks (2000), the role of small enterprises is a combination of factors including providing customers with a supply of products and services, creating diversity, colour and choice, allowing business dynamism and local adaption, creating economic linkages between businesses and finally, encouraging employment generation and maintainence.

However, Chaudhry and Crick (2003) identify the difficulties facing small business and convenience stores as being due to three interacting factors: 1) inadequancies in the trading environment primarily due to economic and social change, competition from multiple retailers and locational difficulties; 2) demographic changes leading to the situation in which there is an insufficient population to suppport the number of retail outlets in a particular catchment area; and 3) social change affecting the needs and behavoiur of customers resulting in independent retailers being faced with increased competition from large stores and chains.

The situation is also affected by increased traffic congestion, parking restrictions in urban areas, and rising petrol costs impinging on customers' willingness to travel to specialist outlets. Additionally, the small businesses which

provide the same products as the big supermarkets in the same neighbourhood face stiff competiton from these big supermarkets that are able to lower prices and margins, offer loyalty schemes and use loss leaders to encourage high volume sales.

C. Incentives offered to SMEs in Uganda

The government of Uganda has provided non-fiscal incentives to stimulate business growth in Uganda as demonstrated by the various initiatives to enhance private sector competitiveness. Fiscal incentives on the other hand, are provided for under the Finance Bill, a document that is produced by the Ministry of Finance, Planning and Ecomomic Development (2016). These programs have argubly improved the SME set up in the country. This contains all fiscal related incentives and provisions and is revised annually. A summary of key incentives include:

1) Plan for Modernisation of Agriculture (PMA) – This offers improvement opportunities for agriculture business and direct hands-on support through extension services like National Agriculture Advisory Services (NAADS) which was created to coordinate extension services provision to subsistence farmers.

2) Business Uganda Development Scheme (BUDS) under Private Sector Foundation Uganda (PSFU) – BUDS-SSE is a cost share grants project co-funded by IDA of the World Bank. It is implemented by the PSFU through BUDS. The project supports the acquisition of know-how through training programs to increase the capacity and performance of SMEs. Other support includes technology acquisition and support to private initiatives in rural electrification using renewable energy.

3) The Microfinance Outreach Plan (MOP) is a major initiative of the Uganda govenment and its stakeholders in the microfinance industry. It is intended to expand the outreach of financial srevices to rural areas and aims at developing systems, structures and services that strengthen the microfinance industry, raising well-performing MFIs to higher tiers capable of providing more and improved services to micro and small enterprises through the Matching Grant Facility Capacity (MCAP).

4) The Master Craftsman Programme (MCP) is being implemented by the Uganda Small Scale Industries Association (USSIA). This programme provides support and development of the entreprneur in skill upgrading, advisory services and self-help group formation.

5) The Presidential Investors Round Table (PIRT) is advisory bodies of national and international corporate leaders selected by H. E. Yoweri Kaguta Museveni (President, 2017) to advise him on issues that enhance the business operating conditions in the country and attract new investors in potential growth sectors to transform Uganda's economy. The PIRT enhances participation through industry representatives to review issues of policy and business operating frameworks that government has to address.

D. Procedure for establishing an SME in Uganda

According to the Uganda Small Scale Indusries Association (2013), most businesses operating in Uganda start informally as a family business. Formalization of the business only becomes necessitated by the need to obtain external support services like finance, operating licences, opening of business bank accounts, and the need to separate the business operation from personal finances. The steps required to formalize a business in Uganda have been greatly simplified with specialized institutions providing these basic services that are found at district offices as well as at central government.

The Uganda Small Scale Indusries Association (2013) suggests that an entreprenuer can legally register four kinds of businesses: sole proprietorship, partnership, private limited liability company and a public limited liability company. Also, the logical steps to set up any of these companies include:

1) Form a company or type of business
2) Identify a company name
3) Register with Uganda Registration Services Bureau
4) Obtain necessary secondary licence from the ministry
5) Register with local authorities and councils for operating permits
6) Register with NSSF if you employ more than five people
7) Register with Uganda Revenue Authority
8) Register with utility provider likes national water and electricity companies.

If all the documentation is in-order, this process can take about a week to be completed. However, because of the red tape that exists in many government institutions, most company owners find the process more cumbersome than it is supposed to be.

E. Accessing business finance

Studies show that access to finance has been singled out as the most limiting factor to the growth of SMEs in Uganda. The last two years have seen the emergence of robust financing options in banks with special facilities for SMEs. Additionally, the introduction of other business term finances like leasing, special asset acquisition loans, and mortgage facilities by several banks have increased SME access to finance. Lending rates for short and medium term loans range between 17 - 28% per annum. Some available business financing options for financing SMEs are debt financing and equity financing (USSIA, 2013).

F. Legal services, arbitration and justice

There are specialized legal service providers specifically set up to handle business and commercial related disputes. This is due to the unique nature of business disputes as well as the need to improve operating environment for businesses. For any business related disputes, the Center for Arbitration and Dispute Resoultion (CADR) located in the capital Kampala has the capacity to handle and facilitate resolution or provide relevant advice. The work of CADR is based on the premise that effective systems of dispute resolution outside the courts make important contributions to a nation's commercial and economic development, and adherence to the rule of law. The emphasis is on the resolution of commercial disputes, including investment disputes through arbitration or mediation.

2.4 Conclusion

This chapter describes the nature of SMEs in Uganda. It contends that SMEs play a significant role in poverty reduction as these firms account for more than 90% of all firms outside the agricultural sector and therefore constitute a major source of employment and generate significant earnings for the Uganda SME entrepreneur.

The chapter shows the decline of the economy in the early 70s and through the 80s. We also observe that with the emergence of SMEs in the early 90s, there was a significant growth in the economy. This shows that these SMEs are functioning as a lifeline in Uganda due to their significant contribution to the overall economy in terms of growth, employment, innovation of exports, tax income, equitable income distribution, domestic resource utilisation and regional economic development. Thus, the government of Uganda has strongly highlighted the benefit of SMEs and has established a range of programs to support the sector.

The chapter also shows the ways the government has endeavoured to provide diverse alternatives to support to these small businesses. The services offered vary from formulation of policies and programs, to provision of inputs such as finance, training, marketing, entrepreneurship and management. Despite all this, the closure rate of these businesses is still alarming. Many suggest that the government does not appropriately provide the services that are required to many of the rural entrepreneurs. They suggest that the level of support provided varies from one geographical area to another, causing-over provision and under-provision in others when applied uniformly. This results in a lack of integration and appropriate

networking in the economy. It is also established that some of these support organisations do not treat small businesses like they do for the other big businesses in the economy.

The key theme in this chapter was to understand the role of SMEs in the country and to ascertain whether they contribute to poverty reduction. Subsequent chapters shall critically look into the characteristics and the barriers to growth faced by these SMEs. The study argues that establishing the key characteristics of an SME that lead to success is a critical component that underpins any good SME policy initiated by the government. The identification of these factors and also the crucial business supports is a prerequisite to implementing properly coordinated and relevant policies.

CHAPTER THREE

LITERATURE REVIEW

3.1 The Concepts of the Entrepreneur and Entrepreneurship

There has been a long debate around the definition of entrepreneurship. In the early 16th century, entrepreneurship was used to refer to an act of engaging in military expeditions and extended to cover construction and civil engineering activities in the 17th century (Gregory, 1997). In the 18th century, the concept was broadened to include economic activities (Tamisharasi and Panchanatham, 2010). The concept of entrepreneurship was later redefined to include behaviours and actions that not only focus on business but also social transformation (Gibb, 2007; Liñán and Santos, 2007).

The first proper and formal definition of entrepreneur was provided by Richard Cantillon in 1755. Cantillon (1755) describes an entrepreneur as an 'adventurer', who invests in the purchase of goods and materials with the incentive of selling these in the future. The inclusion of the term adventurer in the definition of entrepreneur by Richard Cantillon is the result of the uncertainty the surrounds the price at which an entrepreneur will resell the bought goods and materials. This unique feature also served as the distinctive factor between entrepreneurs and other businessmen. This early definition of the term entrepreneur is indicative of their pro-active involvement in trade and travel while exercising their ability to take risks and identify and avail fruitful business opportunities.

Jean-Baptiste Say (1845) a French political Economist who was amongst the first economist to contribute to entrepreneurship on his various theories of production and distribution maintained that the entrepreneur is the source of demand in the factor market: he is the organ of a demand for all the productive agency applicable to this object, and thus, furnishes one of the bases of the value of that agency.

Further, Jean-Baptiste Say (1845) developed a quite sophisticated theory of production and entrepreneurship. He argued that human industry, capital, and natural agents are the three great agencies of production. However, heavy emphasis is placed on labor, which is subdivided into theory, application, and execution. The work of application, carried out by the entrepreneur, is seen as the driving force in

production. His functions include coordination (the key role), decision-making, and risk bearing. The entrepreneur's main function is that of a central processing unit: information from a wide variety of sources flows in to the center of the firm where it is processed and where decisions are made. Say argues that this coordinating role is indispensable in the production process.

The term entrepreneur is derived from a French word and it means ‘one who takes between’ (Deakins and Freel, 2009). Entrepreneurs play an important role in the economic development of the country by indulging in business and by providing job opportunities for others (Jalbert, 2000). This approach to consider entrepreneurs important in the economy came from the economic approach to entrepreneurship that flourished under ‘the physiocrats’ and ‘Austrian School’ of thought (Deakins and Freel, 2009).

Leff (1979) suggest that many development scholars took the position that “entrepreneurship is no longer a problem” or a relevant constraint on the pace of development” in developing countries. Entrepreneurship scholars on other hand have been more concerned with the who, why and how of entrepreneurship rather than with the impact of entrepreneurship on development or developing countries (Bruton et al. 2008; Shane 1997); a state of affairs described as a ‘scholarly disconnect’ (Audretsch et al. 2007).

Entrepreneurship is of necessity and a rather elusive element in microeconomic theory (Kilby, 1971). Therefore, if all markets are working well, and if all the information on inputs, production techniques, and outputs are well known, entrepreneurship becomes an extremely routine and unimportant function. Entrepreneurs working in a well-defined, non-hole, non-obstruction part of the net carry-out routine entrepreneurial - managerial activities, while those who operate on the impeded, incomplete, and dark parts carry out new entrepreneurial activities (Leibenstein, 1978).

Further, Leibenstein (1978) also argues that persistent X-inefficiency among existing firms creates opportunities for entrepreneurs. The entrepreneurs find it easier to marshal the resources to enter the industry and to create new capacity; and this capacity for the entrepreneurs to enter and to organise new firms at a given cost will determine the degree of X-efficiency in the industry. The X- efficiency theory assumes that the entrepreneur is both a gap filler and an input completer. He argues that if not all factors of production are marketed or if they’re imperfections in markets, the entrepreneur has to fill the gap in the market. In other words, any inputs that are not readily available on equal terms to all buyers or to all potential buyers somehow be marshalled by the entrepreneur. Hence the nature of the entrepreneurial

activities depends simultaneously on the nature of and the variety of markets necessary to launch a firm and keep it going. The more imperfect the market, the greater the entrepreneurial skills required.

Schumpeter (1950; 1961) famously defined the entrepreneur as the coordinator of production and agent of change 'creative destruction'. As such the "Schumpeterian" entrepreneur is above else an innovator. Scholars who share this view of entrepreneurship do not consider entrepreneurship to be very important in earlier stages of economic development – they see the contribution of entrepreneurship to be much more important at later stages of development, where economic growth is driven by knowledge and competition. At earlier stages of development, entrepreneurship may play a less pronounced role because growth is largely driven by factor accumulation (Ács and Naudé, 2013).

The entrepreneur is never the risk bearer. The one who gives credit comes to grief if the undertaking fails. So, although any property possessed by the entrepreneur may be liable, yet such possession of wealth is not essential, even though advantageous (Schumpeter, 1961). He continues to argue that risk taking is in no case an element of entrepreneurial function. Even though he might risk his reputation, the direct economic responsibility of failure never falls on him.

Behavioural definitions also stress the risk-taking dimension of entrepreneurship. Kanbur (1979) described the entrepreneur as one who 'manages the production function' by paying workers' wages (which are more certain than profits) and shouldering the risks and uncertainties of production. Such definitions are seen as very relevant for developing country contexts characterized by high risk and uncertainty. The predominance of small firms in developing countries – the bulk of entrepreneurship studies in developing countries are concerned with small and medium enterprises (SMEs) - has been postulated to be a symptom of economy-wide uncertainty, where the probability of success is small (Wiggens, 1995).

In regard to entrepreneurship reward, Kirzner (1973) claimed that entrepreneurial income is defined as a return for arbitrage. The entrepreneur proceeds by his alertness to discover and exploit situations in which he is able to sell for high prices that which he can buy for low prices. Pure entrepreneurial profit is the difference between the two sets of prices. Kirzner (1973) views the entrepreneur as someone who facilitates adjustment to change by spotting opportunities for profitable arbitrage (and 'disequilibrium' situations in the market). This view has resonated among scholars who emphasize the opportunity-grabbing-for-profit nature of entrepreneurship (Shane and Ventakaram 2000) particularly in developing countries where market disequilibria may be common.

Casson (2003) maintains that an entrepreneurship appears as a personal quality which enables certain individuals to make decisions with far-reaching consequences. The entrepreneurial effort is required to develop an improved allocation of resources and to transfer the relevant know-how. Therefore, the essence of the theory of entrepreneur is not so much the rationalization of success as the explanation of failure.

An entrepreneur is someone who specializes in taking judgmental about the coordination of scare resources. An entrepreneur is an individual and not a team, committee or an organization (Casson, 2003). He argues that an entrepreneur is someone who specializes in taking judgmental decisions about the coordination of scare resources. The concept of coordination captures the fact that the entrepreneur is an agent of change: he is not concerned merely with the perpetuation of the existing allocation of resources, but with improving upon it.

This study presents the facts about Uganda and the urgent need to promote rural enterprises. This is because rural entrepreneurship is an enormous employment potential and yet not much is known about SMEs in rural regions of the country. Promoting rural entrepreneurship is seen as a key strategy to maintain political power by the government; the public see it as an instrument for improving their earnings/income; and women see it as an enormous employment possibility near their homes which provides autonomy, independence and a reduced need for social support. Therefore, entrepreneurs are an important influence on national economic success Casson (2003).

Further, Casson (2003) tries to define entrepreneurial qualities by suggesting that the entrepreneur needs to be a generalist rather than a specialist. All these qualities are to some extent innate. However, not all of them are entirely innate. Some can be enhanced by training or simply by experience. Also, entrepreneurs have been defined as persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige (Baumol, 1990). This is a definition that has encouraged scholars to consider the allocation of talent (e.g. ingenuity and creativity) between productive, non-productive and destructive uses.

Some of the qualities entrepreneurs required for decision making include self-knowledge, imagination, practical knowledge & analytical ability to formulate the decision for solving problems, foresight & search skills for data gathering, and computation & communication skills for the execution of the decision (Casson, 2003). These skills are considered essential for the entrepreneur to make decisions.

Casson (2003) argues that the entrepreneur believes that the totality of the information available to him, in respect of some decisions is unique. On account of this, he will decide one way everyone else would decide another. The entrepreneur believes that he is right, while everyone else is wrong. Thus, the essence of entrepreneurship is being different- being different because one has a different perception of the situation. It is this that makes the entrepreneur so important. Were he is not present; things would have been done very differently. In this way the entrepreneur's perception of the situation exerts a material influence on the allocation of resources.

Also, Knight (1921) is often credited with introducing the distinction between "risk" (known chance, or measurable probability) and "uncertainty" (unmeasurable probability, or indeterminable chance). Knight (1921) proposed that this distinction was important for economic theory, because uncertainty affords opportunities for profit that do not exist in situations where risks can be calculated. Knight's entrepreneur exercises subjective judgement in the face of Knightian uncertainty, as opposed to risk in the hope of earning pure profits. He claims that entrepreneurs are seen as being confident and the venturesome and employers of the doubtful and timid.

Further, Humberto (2013) explains a few roles of the entrepreneur by argue that an entrepreneur needs is to discover where buyers have been paying too much and where sellers have been receiving too little and to bridge the gap by offering to buy for a little more and to sell for a little less. To discover these unexploited opportunities requires alertness. Calculation will not help and economizing & optimizing will not of themselves yield this knowledge.

Entrepreneurship and economic development complement each other. The economic system in Uganda in terms of stability and the economic conducive environment determines the nature and scope of entrepreneurship. Entrepreneurship works in different ways in different economic systems where it operates. For instance, under the capitalist system, it is controlled to ensure competition in the economy however, it is absent in a socialist economic system. Development is more than ever before linked to entrepreneurship. Governments promoting development now see entrepreneurship as a strategic development intervention that could accelerate the rural and urban poor development process. This thesis will present the findings of what is happening in Uganda.

According to Byrd W.A (1987), entrepreneurship is the function of foreseeing investment and production opportunities, organising an enterprise to undertake a new production process by raising capital, hiring

labour, arranging the supply of raw materials, finding site, introducing a new technique, discovering new resources or raw materials and selecting the right man power for day to day operations of the enterprise.

Entrepreneurs are usually either necessity or opportunity driven. The Global Entrepreneurship Monitor (GEM) publishes data on new firm start-up rates across a sample of countries (60 at present). The GEM also attempts to make a distinction between the motivations of entrepreneurs. Thus, it categorizes these "necessity" entrepreneurs and "opportunity" entrepreneurs, wherein, the former is self-employed because of the lack of wage employment, while the latter is self-employed by choice, in order to exploit some perceived "opportunity" (Wim Naude, 2010).

Entrepreneurship need not adopt anything new from the global or even national perspective, rather the adoption of new forms of business organisations, new technologies and new enterprises producing goods not previously available at a location (Petrin, 1991). This is why entrepreneurship is considered to be a prime mover in development and why developing countries that actively promote entrepreneurship development demonstrate much higher growth rates and consequently higher levels of development than those whose policies and politics hinder entrepreneurship.

Twaalfhoven and Indivers (1993) said that gazelles are run by dynamic entrepreneurs, who manage and lead their companies not only to remain in the business but to expand it. Dynamic entrepreneurs look for growth; have a vision and the ability to make it happen. They challenge competitors instead of avoiding them and take risks in a way that leads to success. In this way economic vitality of a country largely depends on the overall level of entrepreneurial capacity, that is, on its ability to rapidly create rapidly growing companies, gazelles. In the case of developing countries like Uganda, the rate at which SMEs are created is more significant.

In Uganda, a lot has been documented about the importance of entrepreneurs. They play an essential role in driving the structural transformation from a low-income economy to a modern economy to-date. This has mainly been done by raising productivity and creating employment in all sectors of the economy. The entrepreneurial orientation to development is based on stimulating local entrepreneurial talent and subsequent growth of indigenous businesses. This in turn would create jobs and add economic value to a region and community. However, most of this development is happening in the urban area and not the rural areas where most of the population reside. This research will try to establish the gap as to why this is occurring mainly in urban areas.

To accelerate economic development in rural areas, it is necessary to increase the supply of entrepreneurs, thus building up the critical mass of first generation entrepreneurs (Petrin, 1992), who will take risks and engage in the uncertainties and create something from practically nothing and create value by pulling together a unique combination of resources to exploit an opportunity. By their example they will stimulate an autonomous entrepreneurial process, as well as a vibrant business culture, thereby ensuring continued economic development.

Lastly, entrepreneurship is the central force of economic growth and development. Without it other factors of development will be wasted. Therefore, entrepreneurship by itself cannot lead to development and advancement of enterprises. It needs to be complemented with an entrepreneurship enabling environment. The existence of such an environment depends on government policies promoting entrepreneurship. The effectiveness of such policies in turn depends on a conceptual framework about entrepreneurship, that is, what it is and where it comes from. The researcher will look into SME growth and establish whether the government of Uganda is doing enough to create an enabling entrepreneurship environment.

3.2 Characteristics of Rural African Entrepreneurs

On a superficial level rural Africa appears to be quite entrepreneurial. Villages throughout Africa's vast rural areas are teeming with entrepreneurs, young and old alike, doing business: selling wares, offering services, and transporting people and goods. Shops are often located in family homes, market squares and lining key roads, providing the social places for community interactions, family gatherings and dispute settlement. If we dare to see these activities as "entrepreneurial", at least in the sense of self-employment, then village life in rural Africa is certainly defined by the nature and dynamics of these small businesses (Nagler and Naude, 2015).

Non-farm enterprises are ubiquitous in rural Africa. These enterprises tend to be small informal businesses providing a wide range of goods and services from or nearby the household residence, or on a village market (Nagler and Naude, 2014). Although described as non-farm", many are linked to agriculture and are often located on a farm (Rijkers and Costa, 2012). It is furthermore estimated that 15 percent of Africa's labor force works in non-farm enterprises (Fox and Pimhidzai, 2013).

Around a decade ago Wiggens (2000) lamented that little is known" about Africa's rural non-farm economy, beyond an embryonic set of ideas". Today, although we know more about the magnitude and

contribution of rural non-farm enterprises to household income, most empirical evidence is based on one-period, single country, and rather limited survey data. The majority of studies have focused on urban areas, neglecting rural entrepreneurship (Naude, 2011). Therefore, there is a need to explore the rural areas of developing countries like Uganda and investigate the contributions of these rural enterprises.

These knowledge gaps about rural entrepreneurship constrain policy making. According to Fox et al. (2013) enterprises in rural Africa may have to absorb at least 65 million new labor market entrants by 2020. Given the informality of rural non-farm enterprises (between 91 and almost 100 percent are informal) we expect most of these non-farm enterprises to have low productivity, short life-spans, and do not contribute significantly to job creation. If non-farm entrepreneurship should be effectively supported by policy makers, then a better understanding of these aspects is warranted. (Nagler and Naude, 2014)

Naude (2014) maintains that an individual's probability to enter entrepreneurship dependents on a wide range of factors; among them are the individual's entrepreneurial skills, age and experience, the perceived relative rates of returns to self-employment, obstacles such as capital constraints (entry and start-up costs), and factors that influence the opportunity costs of choosing self-employment, including regulations and social protection. They are standard occupational choice models which mainly deal with stylized developed economies. However, individuals in rural Africa must make their occupational choices across segmented labor markets. These are formal and informal labor markets. The large majority of non-farm enterprises in Africa are in the informal sector.

Furthermore, in occupational choice models the focus is on the individual entrepreneur. However, in the context of rural enterprises in Africa the level of decision-making may not be on the individual level only, but also on the household level. In Africa (as elsewhere) most businesses are family businesses. Moreover, in rural Africa, most households are simultaneously involved in agriculture, leading to occupation choices that are furthermore intertwined with agricultural decisions and seasonality (Nagler and Naude, 2014).

Rural markets are however far from perfect (Janvry and Sadoulet, 2006). In addition to missing, incomplete or imperfect markets, households face many types of external shocks, such as climatic shocks, diseases, economic shocks and conflicts (Sabates-Wheeler et al., 2013). Once market failures and risks are considered the separation between consumption and production decisions of rural households can no longer be held.

Additionally, when facing missing markets for insurance, households may prefer to enter less risky non-farm activities (Rosenzweig and Binswanger, 1993; Janvry and Sadoulet, 2006). Furthermore, households might not operate their non-farm enterprises continuously over the year, exiting from the market once the need or crisis has passed (Loening et al., 2008). This implies that more enterprises in rural areas will operate for shorter periods during the year compared to urban areas, where farms risks are smaller.

According to Bridges et al. (2013), household members who lose their jobs are often absorbed into a household enterprise. Over the longer-run such family ties can push household members into non-farm entrepreneurship, as growing families put pressure on fixed farmland (Reardon, 1997; Reardon et al., 2006; Babatunde and Qaim, 2010). Growing families may also leverage more resources, such as labor and finance that could facilitate entrepreneurship (Alsos et al., 2013).

Failures in credit and financial markets similarly cause interdependence between the agricultural households' production and consumption decisions (Nagler and Naude, 2014). Rural households often accumulate liquid assets (e.g. livestock) as a buffer against shocks (Janvry and Sadoulet, 2006; McPeak, 2006) and suffer from asset-depletion during and after a shock (Ackah, 2013; Sabates-Wheeler et al., 2013). They also draw on accumulated liquid assets during the low season to smooth consumption in the face of inadequate facilities for inter temporal arbitrage (Lanjouw and Lanjouw, 2001).

It should be noted that there is a distinction between entrepreneurship started out of necessity or out of opportunity. In most developing countries, non-farm enterprises are operated in their majority out of necessity (Herrington and Kelly, 2012). However, households in rural areas also face a range of opportunities. For opportunity motivated enterprises, households make use of their capabilities and assets, as well as individual characteristics (Barrett et al., 2001). Capabilities and assets include gender, age (also a proxy for experience), education, marital status (Abdulai and Delgado, 1999), as well as financial assets (Bhaumik et al., 2011; Ackah, 2013), and the size of the household itself. Education has been found to be relatively more important for individuals to enter wage employment than for starting a new business (Elbers and Lanjouw, 2001).

Although decision-making on the household level is accounted for in agricultural household models, we need to keep in mind that households in rural Africa are not unitary households maximizing a single, joint utility function (Ngenzebuke et al., 2014). Instead the decision-making takes place collectively (Chiappori, 1992), either in a cooperative or non-cooperative way (Manser and Brown, 1980). This means that full cooperation is actually limited within a household, and that complete pooling of resources does not always

take place (Serra, 2009). With collective decision-making biases against women can be predicted in rural entrepreneurship (Serra, 2009). This is due to the fact that female labor market participation, including in non-farm enterprises, is often determined by their bargaining position within the household, instead of own preferences or abilities (Udry, 1996).

Using data from the Tanzanian Household Urban Panel Survey (THUPS) spanning 2004 to 2006, they find that women tend to move in and out of labor (and self-employment in a household enterprise) as a response to labor market shocks, while men more often change the nature of the work they do. This is a major reason why women in Africa have been found to be more likely to engage in the non-farm economy (Canagarajah et al., 2001; Loening et al., 2008; Rijkers and Costa, 2012; Ackah, 2013) or to migrate (Shi et al., 2007) compared to men, and why we expect their enterprises to be less productive.

Fafchamps and Shilpi (2003) find that the share of non-farm wage employment declines the further a household is located from an urban center. Moreover, they also find that there is a U-shaped relationship between distance from an urban center and the share of income from self-employment. This suggests a possible protection effect of deep rural isolation on non-farm enterprises, perhaps most pertinently for enterprises dealing in tradable goods (Nagler and Naude, 2014). Fafchamps and Shilpi (2003) maintain that generally distance, but also other determinants of market access such as the quality of roads and utilities, can be important determinants of development in both the farm and non-farm economy of Africa and of the linkages between the two.

Further, enterprises clustered together are more productive, because of localization and urbanization economies due to knowledge and technology spill-overs (Martin et al., 2011; Bloom et al., 2013), horizontal linkages (Nichter and Goldmark, 2009) and more competition (Foster et al., 2008; Ali and Peerlings, 2011). It thus stands to reason that the geographical location of an enterprise, and in particular its proximity to other productive enterprises affects its productivity (Nagler and Naude, 2014). Also, some authors like Dollar et al. (2005), Arnold et al. (2006) suggest that poor business environment reduces enterprise productivity in Africa.

Regarding survival and exit of non-farm enterprises, Shiferaw (2009) finds that while starting an informal enterprise in rural Africa is relatively uncomplicated, it is more challenging for existing enterprises to raise their productivity, grow and survive (Bekele and Worku, 2008). Additionally, McPherson (1995) finds that enterprise size does not significantly affect the survival of enterprises in Botswana and Swaziland, but that larger firms are less likely to survive in Zimbabwe. These results are in contrast to those found in

developed countries. He also finds that rural enterprises are more likely to fail than urban ones and that enterprises based in and around the household also face a higher likelihood of exiting operations. Female-owned enterprises also show a higher likelihood of failure compared to male-owned enterprises in Malawi and Zimbabwe.

Furthermore, studies done by Frazer (2005), Bekele and Worku (2008), Loening et al. (2008), Shiferaw (2009) and Klapper and Richmond (2011) establish that managerial and technical skills, finance and social networks, the macroeconomic and business environment, as well as firm age and size are significant factors of enterprise survival. Further still, a significant proportion of enterprises do not exit the rural market because of economic or business reasons, but due to personal reasons such as bad health or retirement, while others closed because better options became available" (Frazer, 2005).

Loening et al. (2008) also suggest that non-business factors can influence the time in operation or the exit of rural enterprises. Seasonality in agriculture, for example, can restrict enterprise operation throughout the year and force these enterprises to temporarily stop due to agriculturally-determined reasons. These studies have focused on urban-based and formal enterprises in Africa; hence a large gap remains in our understanding of the survival dynamics of informal household enterprises in rural Africa.

Bloom, Mahajan, et al (2010), find evidence that firms in developing countries are often badly managed, which substantially reduces their productivity. This appears particularly important in larger firms (100+ employees), which are operationally complex so that effective coordination and motivation require formalized management practices. They also find that financial constraints are a binding factor for growth, notably in smaller firms. In larger firms, which often appear to have already overcome financing constraints, another growth constraint arises in the inability of firms to successfully decentralize decision making.

Bloom &Mahajan (2010) find that in developing countries owners tend to make almost all major management decisions because of fears of expropriation by their managers. But, because the owners' time is limited, they have the capacity to make decisions for firms only up to a certain size. Thus, without delegating decision-making these firms find that growth becomes unprofitable, or even impossible, because decisions are constrained by their owners' time. They conclude that; the main three attributes firms in developing countries have low productivity are: poor management practices, failure to delegate appropriately and financial constraints.

A journal paper on returns of capital in microenterprises by De Mel, Mckenzie and Woodruff (2008) establishes findings from a field experiment that suggests that small and informal firms are the source of employment for half or more of the labor force in most developing countries. A central question for policymakers is whether these firms hold the potential for income growth for their owners, or whether they merely represent a source of subsistence income for low productivity individuals unable to find alternative work.

Additionally, De Mel, Mckenzie and Woodruff (2008) argue that the central challenge in estimating returns to capital is that the optimal level of capital stock is likely to depend on attributes of entrepreneurial ability, which are difficult to measure. Banerjee and Duflo (2004) point to one way around this problem exploiting an exogenous shock that is uncorrelated with entrepreneurial ability. But this approach has a downside in that the sample is limited to firms or entrepreneurs exposed to the shock. In the case of Banerjee and Duflo's estimates, the estimates apply only to those firms applying for credit. This resolves one problem at the cost of creating another: while estimated returns are less subject to ability bias, self-selection of the subsample suggests that the returns likely overstate those for the full spectrum of firms.

However, low returns to capital are only one of several possible reasons entrepreneurs may fail to apply for loans. Firms may lack information about lenders or overestimate the probability that they will be denied a loan. Estimating returns of firms not applying for formal credit is a first step to developing policies to address the constraints faced by small firms. Furthermore, in contrast, they also suggest evidence that returns do not differ with risk aversion of the entrepreneur, or with the perceived uncertainty about future profits. Also, the impacts are higher in male-owned enterprises (Mel, McKenzie, Woodruff, 2008).

Regarding employment in Africa, Haines; Huerta and Thomas (2013) suggest that agriculture still employs the majority of the labor force although workers are shifting slowly out of the sector. Sub-Saharan Africa's projected rapid labor force growth, combined with a low baseline level of private sector wage employment, means that even if sub-Saharan Africa realizes another decade of strong growth, the share of labor force employed in private firms is not expected to rise substantially. Governments need to undertake measures to attract private enterprises that provide wage employment, but they also need to focus on improving productivity in the traditional and informal sectors as these will continue to absorb the majority of the labor force.

The report goes on to show that disaggregating the regional trend by country type, it is shown that the type of growth affects the employment opportunities created. While the share of employment in agriculture has

declined in both resource rich and non-resource rich low and middle-income countries, in resource rich countries the private enterprise sector has not created much new employment. Resource rent income has instead created public sector wage jobs (Haines; Huerta and Thomas, 2013).

Furthermore, they continue to maintain that Sub-Saharan Africa has just completed one of its best decades of growth. Transformation of output is occurring as agriculture, the lowest productivity sector, has declined as a share of GDP across the continent (despite increases in agricultural commodity prices which pushed up the share in current prices). The share of higher productivity sectors has increased as a share of GDP. Yet poverty rates have remained stubbornly high. Dissatisfaction with economic outcomes is widespread (Afrobarometer, 2013).

Additionally, Haines, Huerta and Thomas (2013) also suggest that although the growth experience has been very strong in many sub-Saharan African countries over the past decade and a half, the change in the structure of the economies has been concentrated in the service sector. There has been little, if no change in the output share of industry or in the export share of manufacturing products. At the same time, the population has been getting younger and the labor force has been growing rapidly, which poses challenges for the employment transition, as is reflected in the projections below.

Over the decade 2010–20, the absolute number of people employed in agriculture is expected to continue to grow, not shrink, even as the share employed outside the agricultural sector continues to rise. Equally important, because it is so small relative to the size of the labor force, even under an optimistic scenario, the share of labor force employed in private firms is not expected to rise substantially. These results have important implications for employment policies in these countries, as they show the importance of a balanced employment policy (Haines, Jorge and Thomas, 2013).

Therefore, governments need to undertake the measures required to attract private enterprises that provide wage employment for lots of people, but they also need to focus on improving productivity in the traditional sectors as these will have to absorb the majority of the labor force. In particular, they should not discourage the household enterprise sector, despite its informality (Haines, Jorge and Thomas, 2013).

Haines; Jorge and Thomas (2013) also find that almost half of employment in 2005 was in low income countries, where the share of agriculture in GDP was also higher. The next largest category of employment is household enterprises. This is primarily self-employment, but not exclusively, as in low and lower-middle income countries. A significant minority of household enterprise owners involves family members

or a casual wage employee in their business. Taken together, the analysis shows that 86 percent of employment in 2005 was in household farms and firms – a segment commonly termed "the informal sector".

3.3 Barriers to Formal Entrepreneurship in Developing Countries

A major reason why many micro-enterprises stay informal in developing countries is because becoming formal involves large fixed costs, most of them sunk. Official registration is simply beyond the reach of poor entrepreneurs. A cross-country study of 75 nations by Djankov et al. (2000) indicates that the official cost of setting up a firm entails fees worth at best 1.4% of GDP per capita in Canada and at worst 260% of GDP per capita in Bolivia. The average cost for the panel is 34% of GDP per capita.

On top of this official monetary expense the authors show that registering a business can be very complicated and time consuming. In the best case establishing a new firm requires 2 steps and 2 days in Canada, and in the worst case it requires 20 procedures and 82 business days in Bolivia. For the panel on average it involves 10.17 steps and 63.05 business days. These are official time and expense required to establish a new business, they do not include bribes or administrative delays, which tend also to be larger in poorer countries.

The study by Djankov et al. (2000) concludes that firm entry barriers are higher in countries with lower GDP per capita. Similarly, De Soto (2000) shows that to obtain legal title to real estate involves 168 bureaucratic steps in 53 public and private agencies and takes 13 to 25 years in the Philippines, 77 bureaucratic procedures dealing with 31 public and private agencies taking 5 to 14 years in Egypt, 111 bureaucratic steps and about 12 years in Haiti. Similarly, he found that in Peru 21.7% of the costs of remaining formal were tax-related whereas 72.7% were linked to following administrative procedure.

Auriol (2013) maintains that since the costs to become formal are largely endogenous (i.e., the government chooses the level of the registration fees, the complexity and the length of the procedure, and so on), it is important to analyze why in equilibrium these costs end up being proportionally higher in poor countries.

Further still, Auriol and Warlters (2005) show that this is consistent with a deliberate government policy for raising tax revenue. In the formal sector the barriers to entry generate market power for the firms. The rents are confiscated by the government through entry fees and taxes. Entry fees then fill two purposes. As barriers to entry they create market power for firms whose rents are captured by the government. As

tax instruments they have low administrative cost. The relevance of the theory is assessed on a sample of 63 countries.

Empirically we should observe a positive relationship between a country's barriers to entry and government tax revenue. Additionally, another explanation for high entry barriers is corruption. Captured by the governing elite, the rents generated by the entry fees end up in private accounts. In this case the fixed costs to entry do not translate into larger fiscal revenue. If the capture theory is right we shouldn't observe a positive relationship between the level of entry fees and tax revenue, on the contrary (Auriol, 2013).

Also, the exploratory study did by Auriol and Warlters (2005) points out to the significance of political economy variables. Collective institutions play a role in government's ability to collect tax revenue. Countries that have experienced over 46 years of continuous democracy with a fairly good number of representatives in parliament and congress have coefficients which are both positive and significant. These countries have larger representatives' assemblies (congress, national assembly, senate, et al) and therefore tax more.

Auriol (2013) maintains that in their attempt to raise revenue from firms at a low administrative cost, governments in developing countries erect barrier to the formal sector in the form of administrative fees. Since they are very effective at blocking out small entrepreneurs, these market entry fees are fostering the emergence of large firms/taxpayers so that a few taxpayers account for a large proportion of total tax collection in developing countries. For instance, Baer (2002) reports that 0.4% of tax payers' account for 61% of total domestic tax collection in Kenya and 57% in Colombia.

The chosen entry barriers may well be optimal in terms of governments' short time horizons, but they come with considerable costs. Firms in the formal sector are given market power to raise prices above marginal costs. This reduces exchange and consumer surplus in the formal economy. Keeping firms in the informal sector exposes them to weakened property rights and hence increased risks. Taxing some sectors and not others distorts resource allocation (Auriol and Warlters, 2012). Eliminating such inefficiencies could provide a significant impetus to growth, and simultaneously tax collection, in the medium to long term (Auriol, 2013).

Furthermore, in some new literature, exploration on a new type of barrier to entrepreneurship has been dwelled on. In the absence of a public safety net, individuals have developed strategies to cope with risk.

Africans have hence developed a culture of "forced mutual help". Wealthy Africans have the social obligation to share their resources with their needy relatives and extended family (Auriol, 2013).

There is a substantial literature, mainly anthropologic but also economic, on the possible negative impact of solidarity norms on economic development. Platteau (2000, 2006) explains that private wealth accumulation is perceived as an anti-social behavior in most traditional Africa. He quotes the anthropologist Woodburn (1998: 52) who based on his observations of Hadza hunter-gatherers in Tanzania writes: *"People who have more than they manifestly need are put under relentless pressure to share".* In fact, in most social networks in Africa sharing is a moral principle and accumulation is not well perceived.

In rural Kenya within a controlled laboratory environment, Jakiela and Owen (2010) find that women, particularly unmarried women, and men, particularly when they have recently been asked for gifts or loans by relatives, are willing to reduce their expected profits to avoid making positive income shocks observable to the community.

In a similar type of experiment conducted in Liberia, Nillesen, Beekman, and Gatto (2011) explore how kinship networks affect risky, but potentially profitable investment decisions. Combining survey and experiment data, they find that individuals with strong family ties within the community tend to make lower investments than individuals with weaker family ties, hence distorting profitable investment decisions. They are also willing to pay to hide their money. These findings support the hypotheses that kinship networks, perhaps in addition to providing support during hardship, can hamper profitable investments, as people want to avoid sharing their wealth with an extensive kinship network (Auriol, 2013).

Alby, Auriol and Nguimkeu (2013) show that the forced mutual help constraint is distortive because it leads to patronage and a misallocation of workers in local firms, which as a result are less efficient than firms managed by foreigners. Combined with the lack of credit, the family tax and the resulting distortion in labor management, take their toll on the growth of the African formal economy. Therefore, we can say recruiting needy relatives as opposed to the best qualified people distorts productive efficiency.

Further, Alby, Auriol and Nguimkeu (2013), find that: 1) The labor force of local firms is less qualified and less competent than the labor force of other type of firms, which implies that the labor force composition and also training programs offered by the local firms differ from those of other firms, 2) local firms have a larger labor force embodied in a larger labor/capital ratio than foreign firms. The labor

productivity of a local firm is lower than the labor productivity of a foreign firm and 3) If the problem of forced solidarity is indeed relevant, the results should be different in countries with relatively better social protection than in countries without such public safety network. The empirical relevance of the model predictions is assessed with the help of the Enterprise Survey database maintained by the World Bank.

Alby, Auriol and Nguimkeu (2013), compiles surveys from 10,480 enterprises in 31 Sub-Saharan African countries performed between 2002 and 2007. The estimations reveal that African entrepreneurs are credit constrained consistently with previous results. More interestingly, they reveal that African entrepreneurs are also constrained in the labor market. The estimations on labor force composition, training, labor to capital ratio and labor productivity are all consistent with the model predictions.

3.4 Growth of Small and Medium Enterprises in Developing Countries

3.4.1 Characteristics of Small and Medium Enterprises

In many developing countries, microenterprises and small-scale enterprises account for the majority of firms and a large share of employment, mainly consisting of small firms with one person working alone or with unpaid family members. Self-employment is a central element in these economies. However, the relative importance of small producers varies significantly across countries and, within a given country, across stages of development over time (Snodgrass and Biggs 1996).

Based on house-to-house baseline surveys in Africa and Latin America, the small firm sector is far larger than is reported. In this survey, Liedholm (2002) finds that estimated employment garnered from MSEs in the African countries is nearly twice that of employment rates for formally registered, large-scale enterprises. SMEs are a major source of livelihood for a significant proportion of the population in these areas.

Location plays a crucial role in determining SME survival. Liedholm (2002) suggests that SMEs located in urban or commercial areas are more likely to survive than their counterparts in rural areas. However, over half of the enterprises operate in rural areas. Those that operate in commercial districts or on roadsides typically show greater growth rates than those that are based in the home, although Liedholm points out that this can vary at the country level.

Regarding gender, an increasing number of small firms in Africa and Latin America are headed by women. In five of the nine countries women outnumber men as the owners and operators of MSEs; since working

proprietors are the single largest category of the labor force, the majority of workers in MSEs are also women. These small firms tend to be concentrated in relatively specific activities like beer brewing, knitting, dress-making, crocheting, cane-work, and retail trading. MSEs headed by women are more likely to be based out of their homes (Mead & Leidholm, 1997). Most of these are home-based MSEs and therefore, are hidden and likely to be invisible entrepreneurs.

In regard to Industry, a significant number of small firms are involved in manufacturing activities. The main consistently carried out activities are: textiles & apparel, food & beverages, and wood & forest products. Most surveys have suggested that these three main categories comprise about 75% of manufacturing enterprises in urban areas of many developing countries and 90% in rural areas. These activities may vary from country to country and between urban and rural areas (Leidholm, 1997).

SMEs are constantly changing. New firms are being created, while others are closing. Also, the existing and surviving firms are expanding and contracting in size. These changes are usually summarized in two concepts: Net firm creation (new starts minus closure), and mobility or net firm expansion (firm expansion minus firm contraction) (Liedholm, 2002). The determinants of new starts differ between high and low return (profit) activities. For high return activities, barriers to entry like initial capital requirements are found to be inversely related to the new start rate; for low return activities, new starts rate only inversely relate to the aggregate level of economic activity.

3.4.2 Key roles of Small and Medium Enterprises

Audretsch (1995) suggests a dynamic view on why the entry of SMEs is important to the economy. He explains that new firms enter the industry not simply to increase output by being a smaller replica of the large incumbent enterprises but by serving as agents of change. This suggests that small firms, at least in some situations, were not being smaller clones of the larger incumbents but rather about serving as agents of change through innovative activity.

Becker (2004) provides some of the following attributes as the informal sectors (SME) main role, structure, interaction with government and donor's perspective. He claims that the informal economy has been observed to have more of a fixed character in countries where incomes and assets are not equitably distributed. It seems that if economic growth is not accompanied by improvements in employment levels and income distribution, the informal economy does not shrink. The situation is therefore that the informal economy is continuously increasing in most developing countries, even in rural areas.

Furthermore, in all developing countries, self-employment comprises a greater share of informal employment than wage employment. Specifically, self-employment represents 70% of informal employment in Sub-Saharan Africa (if South Africa is excluded, the share is 81%), 62% in North Africa, 60% in Latin America and 59% in Asia. Consequently, informal wage employment in the developing world constitutes 30% to 40% of the informal employment outside of agriculture (Becker, 2004).

Further, Becker (2004) emphasizes that the benefits for entrepreneurs who operate in the informal economy include the avoidance of costly and burdensome government regulations as well as high and complex taxes. Entrepreneurs in the informal sector weigh the "costs" of formality against the "benefits" of informality based upon the monetary burdens and bureaucracy that may be associated with formal registration and taxes.

Also, Leidholm's survey (1997) reveals that small firm expansion boosts employment more than large firm growth because small firms are more labor intensive, coinciding with the factor market structure of most developing countries. Many analysts argue that, within industries, for a given scale of production, small firms are more labor intensive than large firms.

However, other evidence suggests that enterprise scale is an unreliable guide to labor intensity because many small firms are more capital-intensive than larger firms in the same industry. Labor intensity exhibits more variation across industries than among firm-size groups within industries – leading some authors to suggest that efforts to make economic growth more labor-demanding should focus on altering the pattern of demand in favor of labor-intensive industries rather than on supply-side efforts to change the size distribution of firms. The fact that small firms employ a large share of the labor force in developing countries may be more a reflection of the product composition of production in those countries than the inherent labor-intensity of small firms (Snodgrass & Biggs, 1996).

Additionally, apart from labor intensity, it is often argued that small firms are important for employment growth (i.e. job creation). While small firms experience both high job creation and destruction rates, it appears that job destruction during recessions is lower in small enterprises than in large enterprises – perhaps due to greater wage flexibility in small firms. In other words, small firm owners may temporarily accept lower compensation during recessions in order to hold on to their business (Snodgrass & Biggs, 1996).

According to Teltscher (1994), trade adds value in that the distribution of goods, which is as essential to the functioning of the socio-economic system. Street retailing also plays a role in encouraging

consumption, both by selling at relatively low prices and by making items available in a wider range of locations and for longer periods of time on each day of the week.

Eversole (2003), maintains that money earned by microenterprises is not a salary, but it often is the only income micro-entrepreneurs and their households have. Therefore, an income from SMEs serves to cover consumption needs, and can also be put forward for reinvestment for expanding the business. These investments can not only sustain consumption needs in the short term but can earn resources for the long term. The continuous sustainability of a business allows it keeps its place in a market, and when market conditions improve, it can then expand, creating more income. This will turn improve the standard of living of the business owners or entrepreneurs and on a whole, reduce poverty or increase wealth.

A report published by USAID (2006) suggests that the main focus of business entrepreneurship development is to provide greater economic opportunities; using the same strategy as a way to reduce poverty is relatively new and stems from the recognition that access to these economic opportunities are not always equal for all. According to the CFED (2004), Community Development Finance Initiatives (CDFIs) that provide financial and asset-building services to low-income communities overlooked by private markets have made four lasting contributions to bridge the link between businesses and poverty reduction:

- Demonstrated the credit worthiness of low income entrepreneurs and communities
- Linked the provision of capital with the delivery of technical assistance services to build both financial and human assets.
- Target public and philanthropic subsidy to incentivize private sector involvement and/or to underwrite the economics of human transformation.
- Positioned themselves as permanent and sustainable civic institutions within their communities that leverage public, private and philanthropic resources on behalf of poverty reduction.

The USAID (2006) report further states that the census data show that households with businesses have more than double the incomes and almost seven times more wealth than households without businesses. The self-employed typically earn about 20% more income and own three times as much wealth as households without businesses.

Poverty rates for microenterprise workers were also found to be twice as high as those who did not work in the microenterprise sector during the 1990s; the poverty gap between these sectors increased during this decade (Orlando and Pollack, 2000).

Additionally, in an assessment of the World Bank's approach to poverty reduction, Birdsall and Londono (1997) find that an unequal distribution of assets (especially human capital), reduces overall economic

growth and the income growth among the poor disproportionately. They contend that a better distribution of assets reduces poverty both directly and indirectly: directly through increased incomes, and indirectly through a reduction in income inequality, which leads to increased income growth among the poor.

In the USAID report (2006) on SMEs and Dynamic Economic growth, it reports that SMEs have the capacity to directly reduce poverty in certain contexts; but those found to be most disadvantaged (youth, women heads of households, and older workers) are more likely to work in the microenterprise sector and face high poverty levels. The relationship between SMEs, economic growth and poverty reduction can produce both direct and indirect impacts. The direct impacts can feature expanding output, growth in markets, and larger contributions to the local economy. For poverty reduction, the larger and steadier the incomes of microenterprise workers are, the stronger household livelihoods become. In addition, there exists a third link within this relationship: the indirect impact of economic growth on poverty reduction which reaches well beyond the micro level.

Research done by the USAID on SMEs in 2006 suggests that many MSEs employ several techniques to maintain a steady stream of income, including diversifying and expanding their product range, and reinvesting portions of their incomes to fund other activities within the enterprise. A steady stream of income for the poorest entrepreneurs can, at the very least, protect against shocks that can prove disastrous to household livelihoods. In the best-case scenario, a steady income stream and a favorable market environment can lead to steady growth within the enterprise and lower poverty levels. Compounded many times over, MSEs in this type of environment can provide opportunities to impact the livelihoods of larger numbers of people and positively affect the growth of regional and national economies on a greater scale.

All in all, the literature illustrates that SMEs play a significant role in developing countries' economies through employment and income generation, both of which contribute to poverty reduction. That notwithstanding, much of this employment and income generation occurs at the micro level where the impact on economic growth are quite minimal. This makes it difficult to establish if SMEs affect economic growth beyond the microenterprise. However, the impacts on poverty reduction can be substantial if the enterprise can generate a steady source of income and expand production.

3.5 Attributes of Poverty in Developing Countries

World bank reports (2008) claim that the causes of poverty include poor people's lack of resources, an extremely unequal income distribution in the world and within specific countries, conflict, and hunger itself. As of 2008, the World Bank has estimated that there were an estimated 1,345 million poor people in developing countries who live on $1.25 a day or less. This compares to the later FAO estimate of 1.02 billion undernourished people.

Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity and it means lack of basic capacity to participate effectively in society. Also, it means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living, not having access to credit, insecurity, powerlessness and exclusion of individuals, households and communities. It can also refer susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation. (United Nations Report, 2009)

Ansoglnang (2006) argues that poverty continues to be a key development challenge world-wide. Poverty remains a pervasive problem in most developing countries, more particularly in the rural areas. It is evident that the problem of rural poverty has escalated Rural-Urban migration in most developing countries. Given the situation, poverty reduction strategies need urgent attention if these countries are to attain their millennium development goals (MDGs) of poverty reduction.

Dixon et al, (2001) argue that country policies generally provide little support for needs of the rural poor; for example, sustainable investment in public goods, or protection of user right. HIV AIDS, malaria and tuberculosis, the leading causes of deaths in Africa, are having a profound impact on the socio-economic situation by limiting life expectancy, lowering the rate of school completion, added to the cost social and health services, decimating community and organizational leadership. Education and skill development in Africa lag far behind, especially for women and girls who face daily discrimination, and excessive workloads.

In Uganda, we marked the world food day at a time when "everything in the country seems to be going wrong" to use Andrew Mwenda's words in the 49th Independent day celebration of Uganda, on October 9th 2011. Food prices are at their highest in several years and people living in poverty are estimated to be at 65% of the population, which is now 34.5 million, according to the population Reference Bureau (PRB) data sheet. High commodity prices are often a symptom of scarcity and greater completion for the little there is. Yet unfortunately, according to the World Hunger Report, dated 10 October 2011, the high prices are bound to go on. It read in part, "Food prices volatility featuring high price is likely to continue and possibly increase, making poor farmers, consumers and countries more vulnerable to poverty and food insecurity. Small import dependents are at risk" (Daily Monitor, 2011).

Adults weakened by AIDS cannot withstand the labour-intensive nature of farming; hence they have low incomes, suffer from lack of nutritious food, lack of care and endless pain of illness. Many young people residing in AIDS impacted communities drop out of school, assume off-farm employment, and become

family caretakers. Reduced income leads to lost educational opportunities, and this often leads to a life of poverty (Bahigwa, 2004).

In 2000, the poverty Eradication Action Plan (PEAP) was adopted to promote macroeconomic growth, especially for those in agriculture, improve social services and ways to respond to shock, provide a just and secure social order, and to promote balance regional development. This was followed by the Plan for the Modernization of Agriculture (PMA). Both of these reforms support a process of decentralization and local government reform.

The PMA is clearly dedicated to transforming subsistence agriculture into commercial agriculture, while recognizing the multi-sartorial nature of rural livelihoods. While one can speculate about the depth of 'ownership' in Uganda's recent economic and social reforms, there does appear to be considerable high-level engagement in these policy changes (World Bank, 2002; Ellis and Bahiigwe, 2003).

One of the identified key constraints facing the poor is lack of access to formal sector credit to enable them take advantage of economic opportunities to increases their level of output hence move out of poverty. This concern for the poor has been responsible for the design of various financial sector policies (Okurut et-al. 2004). It is suggested that financial repression helps the large firms and deprives the poor of access to credit; reduced financial repression, therefore, might lead to an improved distribution of credit. The poor, however, are limited in their access to formal sector credit by lack of collateral, and this has not been changed by reduced financial repression.

3.6 Framework of the study

3.6.1 Theoretical Framework

I. Theory of the growth of the firm

Edith Penrose (1995) investigates the growth of firms and suggests that the resources with which a particular firm is accustomed to working will shape the productive services its management is capable of rendering. The experience of management will affect the productive services that all its other resources

are capable of rendering. As management tries to make the best use of the resources available, a 'dynamic' interacting process occurs which encourages growth but limits the rate of growth.

Also, studies done by Evans (1987) explored the relationship between firm growth, firm size and the firm's age for a panel of manufacturing firms for the time period of 1976-1982. He found that firm growth decreases with firm age, which is consistent with Jovanovic's (1982) theory of firm growth. According to Jovanovic's (1982) theory, firms uncover their true efficiencies, over time, with a Bayesian learning process. Further, a recent wave of research, led by Haltiwanger et al. (2013), has returned the focus of empirical work on age, revealing its important role for firm growth.

II. Theory of Firm profitability

Entrepreneurship literature recognises that entrepreneurs are heterogenous and that there are limits to the supply of talented ones. They are seen as a key resource for small firms, so that small with superior entrepreneurs will tend to be more profitable.

For instance, studies done by Murphy (2002) on business growth and owners' motivation to establish the business suggests that if the owner's motivation to establish the business is to be self-employed, then the business is likely to prosper; if the owner's motivation to start the business is to meet his/her household's subsistence needs, then the business is not likely to grow and perform well beyond those needs. The latter enterprises follow minimalist strategies. The study will distinguish between necessity and opportunity entrepreneurs.

Firms where the entrepreneur is both owner and manager maximise profit to maximize his own income. For a given amount of effort this is considered to be rational behaviour, irrespective of the structure of the market (or nature of competition). If, however, the magnitude of profit varies with the amount of entrepreneurial effort expended, and effort has negative utility (disutility) for the entrepreneur, rational behaviour would dictate something else. He must find an optimal trade-off between effort and profit to maximize entrepreneurial utility which is unlikely to lead to maximum profit.

Studies have shown that profit maximization is not an aspect of discretionary behaviour (choice) but rather a compelled necessity. The entrepreneur is forced to maximize profit for his long-term survival. Thus, the justification for profit maximization depends upon the nature of competition. If competition is absent (as

in monopoly) there is no such pressure, although it is expected that under highly competitive conditions the entrepreneur has to maximize profit just for survival.

III. Credit Rationing Theory

The research shall present similar theories to work done by Stiglitz and Weiss (1981) on credit rationing in markets with imperfect markets. In their work, they explain that in equilibrium a loan market may be characterised by credit rationing. Banks making loans are concerned about interest rate they receive on the loan, and the riskiness of the loan. However, the interest rates the bank charges may itself affect the riskiness of the pool of loans by either: 1) sorting potential borrowers (the adverse selection effect); or 2) affecting the actions of the borrowers (the incentive effect). Both effects derive directly from the residual imperfect information which is present in loan markets after banks have evaluated loan applications.

Basically, the entrepreneurial credit rational theory in SMEs in Uganda draws upon the following:First, agency theory which implies a relationship between the small business (agent) and the bank (principle). The central problem for the bank is how to ensure that the small business uses its finance in a manner likely to lead to repayment of the loan, with interest, in full and on time. The extent to which the bank is able to monitor the actions of the small business is variable, and likely to be minimal in the case of small businesses, compared with larger businesses. This is because the bank may have many small business customers who borrow modest sums of money, making it cumbersome to keep track of these customers. Second, information asymmetries which arise when information is unevenly shared amongst the bank and the small business. In most cases the asymmetry information favours the small business as they are more likely to be better informed about their business. Informational asymmetries have two key consequences:

1. Adverse selection – occurs because the party with poor information (bank) is unable to distinguish the good borrowers and as a result makes poor lending decisions.
2. Moral hazard – this occurs when the behaviour of an agent is unfavourably changed by the often desirable, behaviour of the principle (Reid, 1998).

Therefore, under the section of access to finance in this study, the researcher will present similar theories and predicaments the financial institutions in Uganda experience when dealing with the entrepreneurs of this study. The researcher will also show that most of the financial institutions require collateral as security for the loans being borrowed. However, many of the people in developing countries have little in the form of assets to use as collateral.

3.6.2 Conceptual Framework: Factors that affect the growth of Entrepreneur Income and the Hypotheses Generated – Variable Justification

In this section, scholarly and empirical literature is reviewed to explain the factors that influence the growth of entrepreneurs' income. The literature was instrumental in developing the conceptual framework and the hypotheses of the study. The study formulates hypotheses and ascertains whether the relationships between the variables are positively or negatively significant.

Background factors and Entrepreneurial Income

A. Age and Entrepreneurial Income

In this study, age is used to refer to an individual's length of time lived in years. One of the key reasons for the inclusion of age in entrepreneurship phenomena is because of its effect on perceptions, attitudes and resources (Louw, Eden and Bosch, 2003).

Kellermans, Eddlestone, Barnet and Pearson (2008) stress that entrepreneurial behaviour is contingent upon intrinsic attributes such as age. This emphasis was made in the perspective of entreprenuerial management after establishing that CEOs who were younger demostrated higher and more robust than their older counterparts. The main point of argument was that younger people believe that if they make mistakes, they have enough timeahead of their lives to fix them compared to the older people who may not tolerate some values such as risk tendencies because they feel they may not have enough time in their lives to correct the associated mistakes in case of failure.

Furthermore, Orlando and Pollack (2000) noted that age proved to be determinants of earnings. Workers in the microenterprise sector tended to be older than those in the non-microenterprise sector. In some cases, this may allow for higher earnings and greater upward mobility as workers with more experience are more likely to own their businesses; on the other hand, the prevalence of older workers in the microenterprise sector would indicate a redundancy of available workers in the non-microenterprise sector and high unemployment rates.

Naude and Nagler (2014) shows occupational choice models describing the individual's probability to enter entrepreneurship dependent on a wide range of factors. Among them are the individual's entrepreneurial skills, age and experience, the perceived relative rates of returns to self-employment,

obstacles such as capital constraints (entry and start-up costs), and factors that influence the opportunity costs of choosing self-employment, including regulations and social protection.

Despite the scholarly differences, a consensus was observed that entrepreneurial income varies in the different age categories. What remains to be understood is which age group is associated with high or low earnings. This leads to the hypothesis - H1: The age of the entrepreneur is significant in determining his/her entrepreneurial income.

B. Children and Entrepreneurial Income

Some studies argue that the children of entrepreneurs should be more likely to be self-employed than other people. Scholars have suggested several reasons as to why the children of entrepreneurs are more likely to be self-employed. These factors are generally drawn from exposure and closure mechanisms (Kim et al., 2006; Sørensen, 2007). Also, Lentz and Laband (1990) argue that children of entrepreneurs acquire informal business experience from their parents.

Furthermore, family business literature emphasizes that family owners will try to ensure the survivability of the business for the next generation, and to build up the social capital of the business (Gedajlovic and Carney, 2010), which also leads to stronger relationships with trading partners (Arregle et al., 2007). Therefore, this study will ascertain if there's a relationship between the number of the entrepreneur's children and his income. This will be done by testing the following hypothesis - H2: The number of children of the entrepreneur is significant in determining his/her entrepreneurial income.

C. Education and Entrepreneurial Income

Education is one of the key components of human capital (Becker, 1993). This component is the source of knowledge, skills, discipline, motivation and self-confidence (Cooper, 1994). Building upon the human capital theory, a lot of research has been done to examine the effect of education on the earnings & performance of SMEs, and the major assumption lies in the notion that individuals with a higher level of education are able to manage their firms more effectively than individuals with a lower level of education (Cooper, Folta, Gimeno-Gaswpscon, & Woo, 1992; Storey, 1994; Rutashobya, 1995; Trulsson, 2000; Mead & Liedholm, 1998; Wiklund & Shepherd, 2003).

Further, Dickson, Solomon & Weaver (2008) suggest that there's a positive link between education and both the choice to become an entrepreneur and subsequent entrepreneurial success. Also, it should be

noted that more educated entrepreneurs tend to have higher opportunity costs (i.e. they will tend to get better earnings if they work for others instead of having their own firms). This study will test for this relationship by hypothesising the following question - H3: The Education of an entrepreneur is significant in determining his/her entrepreneurial income

D. Ownership and Entrepreneurial Income

Empirical studies have argued that most small businesses are managed by their owners because they could not afford to hire expertise to run the businesses for them (Rajaram, 2008). Consequently, small business owners perform so many operational tasks and management functions themselves (Kirsten, 2013), which may often result in business failure (Ihua, 2009).

The independent and private ownership (sole proprietorship or partnership) of small business always promotes uncertainty (Keasey and Watson, 1993). This literature points to the fact that most SMEs in developing countries are sole-traders or partnerships and these ownership structures have more detrimental effects on their growth than positive effects. For instance, it's often argued that limited company status gives more credibility/stability compared to a sole-proprietor and partnerships. Therefore, this study will test for this relationship by setting the following hypothesis - H4: The ownership structure of a firm is significant in determining entrepreneurial income.

E. Industry and Entrepreneurial Income

The industry sector has been shown to be a significant variable when analyzing firm growth (Davidsson et al., 2002). Several scholars conclude that the more dynamic industries are, the more growth expected in the firm (Carroll and Hannan, 2000). This suggests that firms that have differentiated themselves through innovation, experienced management, and strategic capital infrastructure investment, are more likely to experience high entrepreneurial earnings.

Also, there is expected to be a differing state of each industry. That is, there may be rising demand in one industry and falling demand plus increasing costs in another. All these comparisons will be considered. Therefore, this study will test for the relationship between industry and earnings by generating the following hypothesis - H6: The Industry of a firm is significant in determining entrepreneurial income.

F. Size of a Firm and Entrepreneurial Income

Emerging empirical evidence supports the view that firm size responds to national characteristics. A large theoretical literature holds that firm size distribution is a function of national endowments, technologies, national policies and institutions (Kumar et al., 2001).

In the context of Uganda and the sample collected, most of the businesses that were studied had between 1 - 4 employees working for the entrepreneur. These Small and Medium firms can be defined as an enterprise employing maximum of 4 people and an annual revenue turnover of a maximum of 12 Million Ugandan Shillings. The study will test whether there is a relationship between the size of a firm and the income of the entrepreneur. This will be done by testing the hypothesis – H6: The size of a firm is significant in determining entrepreneurial income.

G. Location of a Firm/ the distance to the Trading center and Entrepreneurial Income

Fafchamps and Shilpi (2003) find that the share of enterprise wage employment declines the further a household is located from an urban center. Moreover, they also find that there is a U-shaped relationship between distance from an urban center and the share of income from self-employment. This illustrates that the further a firm is from the trading or urban centers, the less income the entrepreneurs will get. Therefore, this study will test for the hypothesis - H7: The location of a firm is significant in determining entrepreneurial income.

This study will also generate hypotheses to test whether there is a relationship between the barriers faced by SMEs and their growth. These hypotheses will be fomulated from the literature and tested using econometric methods under the quantitative section. In the econometric models, the barriers will act as the dependent variables and the entrepreneur & firm characteristics will be the control variables. Specific barriers will be chosen from the questionnaire (Appendix) of the study.

I. Corruption

In 2012, an enterprise survey done in Uganda emphasized rampant corruption in the economy. Many of the institutions like Health, Police, Public service were massively affected. Further, studies done by

Svensson (2003) in Uganda investigate the concern related to who must pay bribes and how much; he concluded that: a firm with extensive dealings with the public sector is more likely to be under bureaucratic control and therefore faces a higher probability of having to pay bribes. Thus, there's likelihood that every firm is exposed to corruption in Uganda- young or old. Therefore, the study seeks to identify which category of firms are most affected by this rampant corruption. This prompted the hypothesis - H8: The age of the firm is significant in determining whether corruption acts as a barrier to growth

II. Government Policy

In a report by the Economic Commission for Africa (2001) emphasised the role of government in creating an enabling regulatory and policy environment for entrepreneurship. It recommended that the regulatory and policy environment should be such that it creates a stable fiscal and monetary policy setting with sustainable interest rates, a system of financial markets that provides incentives to save, and mechanisms to channel savings into investments. Furthermore, policies that minimise the cost of business licensing and registration while at the same time safeguarding public interests and policies that facilitate business transactions such as infrastructure development, were recommended.

However, there is on-going concern that some regulations, rules, and government policies place a disproportionate burden on small businesses and entrepreneurs (Dixon, Gates, Kapur, Seabury and Talley, 2007). Further concerns are based on the argument that some of the regulatory reforms that are intended to support small businesses and entrepreneurship may not achieve the intended outcomes.

Some argue that the ownership structure of a firm plays a role in determining whether these SMEs are affected by government policies. Ownership structure is one of the main dimensions of corporate governance and is widely seen to be determined by other country-level corporate governance characteristics such as the development of the stock market and the nature of state intervention and regulation (La Porta, López-de-Silanes, Shleifer and Vishny, 1998). Therefore, the study will try to test if there is a relationship between the government policies and ownership structure of the firms. The following hypothesis will be generated - H9: A firm's ownership structure is significant in determining whether government policies act as a barrier to growth

III. Electricity Insecurity

Electricity remains critical for Uganda to attain the growth trajectory and socio-economic transformation of the country's fast-growing population. The limited access to electricity (15 % at the national level and about 7 % in rural areas) has affected the delivery of social services, constrained the development of small-scale industrial and commercial enterprises and adversely affected larger-scale industrial and commercial investment (Uganda Rural Electricity Access project, 2015).

There is some evidence to suggest that manufacturing SMEs may perceive smaller gains from electricity than service sector firms. In Uganda, Neelsen and Peters (2013) found that manufacturing firms were less inclined to connect to the grid or use decentralized electricity than service firms, because of the high investment costs of electric machinery coupled with sharp competition in the market for manufactured goods. Therefore, the study will test for the hypothesis - H10: The industry of a firm is significant in determining whether electricity insecurity acts as a barrier to growth.

IV. Poor Infrastructure (In terms of poor roads)

Measures of road length support the notion that Uganda's road network is far behind those of developed countries. In 2003, Uganda reported a network of paved roads consisting of 16,300 km in a land area of 200,000 km (CIA Fact-book, 2009). Studies done in Uganda by Gollin and Rogerson (2010) show that much of the country's roads and other transportation infrastructure are very poor. This illustrates that rural markets in Uganda are characterized by high transportation and transaction costs. Basically, there are high costs of moving goods from rural areas to urban areas (and vice versa). Therefore, we can say that firms that are outside the urban areas are mostly affected by this poor infrastructure barrier. Also, Fafchamps and Shilpi (2003) find that the share of enterprise wage employment declines the further a household is located from an urban center. We shall therefore test the hypothesis that – H11: The location of a firm (distance from the nearest trading center) is significant in determining whether it experiences infrastructure as a barrier to growth.

V. High Taxes

Keefer (2000) argues that the limited performance of SMEs has been associated with unfavourable system of taxation and a high regulatory burden. High taxes limit the performance and growth potential of SMEs in several ways. Further, studies done by Ishengoma and Kappel (2007) suggest that high tax rates reduce firms' internal sources of finance. In some developing countries, including Uganda, they also discourage SMEs from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating.

Some SMEs may prefer to remain informal and much smaller to avoid being visible and paying tax, a situation that may limit their enjoyment of economies of scale. However, remaining informal and smaller (micro) limits their potential to participate in subcontracting arrangements, particularly those involving large firms and public projects (Ishengoma and Lokina 2007; Mlinga and Wells 2002; and Arimah 2001). Therefore, this study will establish whether there is a relationship between the age of a firm and High taxes. In that regard, we shall generate the hypothesis - H12: The age of a firm is significant in determining whether it experiences high taxes as a barrier to growth.

VI. Access to Finance

Using the World Bank Enterprise Survey between 2006 and 2009 in 123 countries and 100,000 randomly sampled firms, Chavis, Klapper, and Love (2010) found that 31% of examined firms regarded access to finance as the major constraint. Moreover, 40% were young firms with less than 3 years' experience in the industry. Further analysis addressed the relationship between the firm's age and its access to finance. The empirical results showed that younger firms were more reliant on informal financing rather than bank financing. Bank finance gradually increased with age, while informal finance gradually decreased with age.

According to the Uganda Small Scale Industries Association (USSIA), most of the entrepreneurs in the country are between the ages 25-45 years. Further, studies done by Heikkila, Kalmi and Ruuskanen (2009) in Uganda reveal that out of 1128 SMEs that applied for loans, only 179 (16%) were successful.

Therefore, the study will try to establish whether there is a relationship between the age of the entrepreneur and access to finance. This is will done by testing the hypothesis - H13: The Age of the entrepreneur is significant in determining whether he/she is affected by access to finance as a barrier to growth.

VII. Forced Mutual Help

Empirical Studies done by Alby and Auriol (2010) using surveys from 10,480 enterprises across 31 Sub-Saharan African countries performed between 2002 and 2007 find that local successful entrepreneurs in developing countries have the social obligation to provide a job and to redistribute their wealth to the members of their extended family. Such firms are thus less productive than their foreign counterparts. High family taxes and reduced profits discourage entrepreneurship. This was earlier suggested by Firth (1951). He argued that in the absence of a public safety net, Africans have developed a culture of "forced

mutual help". Wealthy Africans have the social obligation to share their resources with their needy relatives and extended family.

Surveys done in Uganda by the Uganda Investment Authority (2011), find that most SMEs are characterized by use of family and unpaid labour. So, it's prudent to establish what type of entrepreneur is prone to forced mutual help. Is it necessity or opportunity entrepreneurs who experience forced mutual help as a barrier? Therefore, the study will test for the hypothesis – H14: The type of entrepreneur is significant in determining whether he experiences Forced Mutual Help as a barrier to growth.

VIII. Risk Attitude

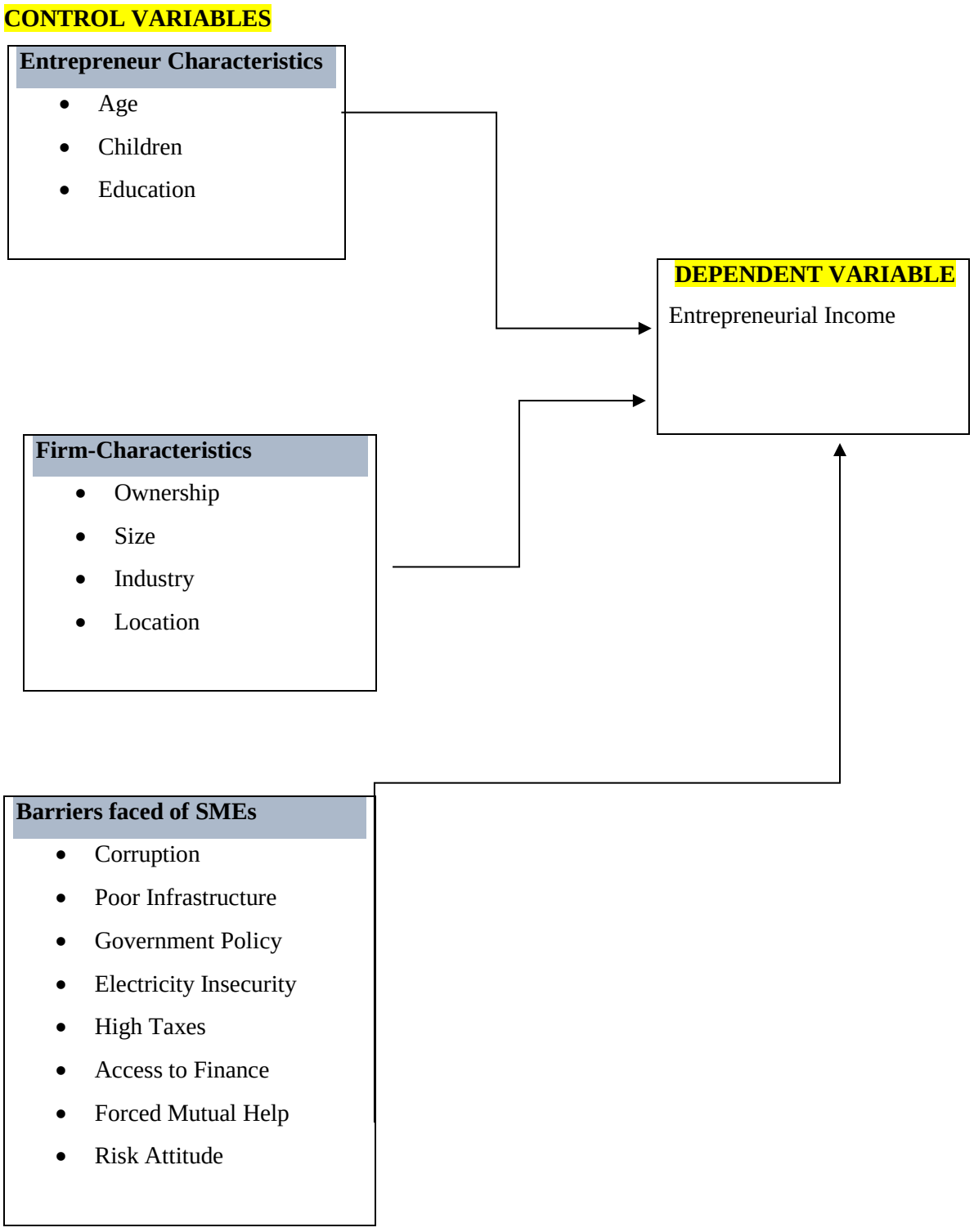
Kelkar (2008) suggests that SMEs are weak in terms of business plan, management structure and in decision making when compared to large organizations. This increases SMEs' inability to absorb most business uncertainties and risks. According to Suh (2010), the SMEs sector is worst affected by the economic environment and is the first to be hit by any external shock. As a result, there are more SMEs closures than establishments, with approximately only 1% of SMEs growing from having five or less employees to ten or more (Mead and Liedholin 1998; cited in Smith and Watkins, 2012).

SMEs face a wider range of business risks which are rooted in both the internal and external environment of the enterprises (AIRMIC, ALARM and IRM, 2002). SMEs lack the capability to handle risks compared to large firms. Therefore, the study shall establish whether there is a relationship between the size of a firm and risk attitude behaviour as a barrier to growth. This is will done by setting the following hypothesis - H15: The size of a firm is significant in determining whether it experiences risk attitude as a barrier to growth.

3.6.2 Conceptual Framework of the study

The study operationalises characteristics of both the entrepreneur & firm and also the barriers hindering the growth of the entrepreneurial earnings. These were used to develop the hypotheses of the study.

Figure 3.1: Schematic Diagram



3.7 Conclusions

This chapter conducts a review of relevant literature on the concepts of entrepreneurship and the entrepreneur in the economic world. The studies show that entrepreneurship has recently been redefined to include behaviours and actions that not only focus on business but also social transformation. While an entrepreneur is a specialist in taking judgement, a risk taker, a gap filler, an input completer, decision-maker, arbitrageur, and a coordinator who plays a significant role in the distribution of earnings from the final product to each factor of production.

The chapter also shows that SMEs are ubiquitous in Africa and are mainly linked to agriculture with a big percentage of Africa's labour force working in these enterprises. These are categorized under the informal sector which comprises a greater share of informal employment than wage employment. The chapter shows that the informal economy is continuously increasing in most developing countries like Uganda and is accompanied by improvements in employment and income distribution. The chapter emphasizes that the benefits for entrepreneurs who operate in the informal economy include avoidance of costly government regulations and high taxes.

Further still, the chapter shows that the cost to become formal are largely endogenous. This is because the governments in many developing countries hike the level of registration fees and introduces lengthy procedures as a firm tries to get registered. This becomes a barrier to entry for small enterprises. Therefore, there's a positive relationship between a country's barriers to entry and government tax revenue. We also establish that other common entry barriers for these enterprises are corruption and poor infrastructure.

Lastly, the chapter discusses and establishes the outstanding characteristics of SMEs that are associated to growth. It concludes that some of these key characteristics are: the age of the firm, the size of the firm, ownership structure of a firm, industry of a firm and location of the firm. These variables were very instrumental in formulating the hypotheses and conceptual framework of the chapter.

CHAPTER FOUR

METHODOLOGY

4.1 Introduction

The primary objective of the study is to explore the extent to which entrepreneurship has contributed to economic development in Uganda. This will be done by specifically analysing the characteristics of entrepreneurs and firms that have a bearing on entrepreneurial income. It also gains explicit and deeper understanding of the barriers faced by SMEs in Uganda with the aim of solving them and attaining business sustainability. This chapter will dissect the research methodology of the study by describing how the study was designed, the concepts and methods of the study.

The chapter presents the mixed method design that the study will follow. The mixed method designs suggested for the study are the qualitative and quantitative approaches. Using one of the approaches was inadequate to best understand the phenomenon under study. Therefore, the study shall adopt both the qualitative research method and the quantitative research method that is inclined towards the positivism.

Bryman and Bell (2007) distinguishes the two methods by suggesting that during the qualitative method there is an involvement of people, it is conducted in a natural setting and more importance is given to the participant's point of view. However, in the case of the quantitative research, a conceptual framework is developed after the collection and analysis of data and the results can be generalized which associate it to the deductive approach. In other words, it is numeric and objective. Quantitative research is usually conducted in artificial settings and importance is given to researcher's point of view that links it to positivist philosophy. The researcher's limited involvement with the subject of study results in a static research in relation to social reality.

In order to effectively answer the research questions of the study, the research needed the participation of a large population sample which generated a substantial amount of statistical data that needed to be justifiably examined and processed into relevant information. The data was collected with the help of questionnaires and interview guides, then subsequently analysed and interpreted using the quantitative approach.

The scope of each research design is based on the type of the research questions covered in the study. The quantitative research design such as survey research is more related to the 'what' and 'how much' questions. In contrast, the qualitative research design such as case study is related to the 'why' and 'how'

research questions (Yin, 2003). This research raises basic questions of 'what' in the research questions. These are:

1) What are the main characteristics of entrepreneurs and firms that are associated with entrepreneurial income in SMEs in Uganda?

2) What are the main barriers hindering the growth of SMEs in Uganda?

Overall, the chapter deals with research methodology of the study. It describes how the study was designed, the concepts and methods of the study. The geographical area where the study was conducted, the population and the sample that were used. It then describes the instruments used to collect the data and the methods implemented to maintain reliability of the instruments. Finally, it describes the data analysis and makes appropriate conclusions.

4.2 Method of the study

Table 4.1 Summaries the basic characteristics of the method of study.

Table 4.1 Basic characteristics of the methodology

Characteristics	
Research Philosophy	Positivism and interpretivism
Research Methods	Quantitative and qualitative
Venture studied	Small and Medium Enterprises in Uganda
Sampling Procedure	Snowballing technique
Sample Size	450
Focal unit of analysis	Small enterprises
Data origin	Primary data
Data collection method	Questionnaires & interview guides
Analytical method	Ordered Probit technique and NVivo. 10

4.3 Research philosophy

A research philosophy refers to an approach used in answering the research problem (Kari, 2009). In this study, the researcher used the mixed method where quantitative and qualitative methods are used to collect and analyse the data. One benefit of using mixed methods is generating complementary insights about the sample to emphasize and cross-confirm the quantitative results (Yu and Man, 2009). A mixed method design is useful because either the quantitative or qualitative approach by itself was inadequate to the best understanding the phenomenon of entrepreneurship (in terms of SME start-ups) and the barriers they face. That is, the quantitative findings had some insignificant variables which could not clearly be explained. So, with the probing under the qualitative method, the researcher made more sense of the picture being portrayed through the interviews.

The research methods used in any study are dependent on the type of research philosophy and nature of the research questions. The research philosophy is a way of viewing the social world by the researcher. Understanding valid knowledge (epistemology) and reality of nature (ontology) are part of the philosophies that are used in conducting research. Therefore, it is necessary to understand the philosophies of the research.

The philosophy of positivism and interpretivism are considered as the main philosophies indicating the two extreme ways of understanding the social world. The positivist believes that scientific methods can be used in social science to solve social issues like in natural science (Collis and Hussey, 2009). This paradigm sees the social world as a single reality independent of the researcher (Blumberg, et al., 2008). Therefore, the researcher has no impact on the social phenomenon being investigated. The role of the researcher in this paradigm is not to explore the social reality but to measure it (Collis and Hussey, 2009). The positivist determines the social reality through observation and experiments to develop a theory.

The deductive approach is nearer to positivism as deduction is based on scientific principles. The process of deduction starts with theory or hypothesis formulation, then operationalization of concepts in the theory and collection of quantitative data. The derived theory is tested in a quantifiable way by applying different statistical tools and mathematical formulae. The theory is either accepted or not supported. The deductive approach helps to find out causal relationships and requires a large sample to generalize the results (Saunders et al., 2003).

On the other hand, the critics of positivism argued that humans cannot be separated from their social context (Collis and Hussey, 2009). Therefore, in the social world perceptions of people are important to understand the complexity of this world. Due to such complexity in the social world, it could not be treated like natural science (Saunders et al., 2003). As for the interpretivists, they believe that there are multiple realities as every person has a different perception. The interpretivist deals with exploring subjective realities in the social world (Blumberg et al., 2008). To examine these multiple realities there is a need for a range of methods other than statistical analysis.

The interpretivist maintains that the researcher cannot be separated from the social phenomena being investigated. The researchers are not objective, and they have an influence on their research (Collis and Hussey, 2009). This paradigm is believed to be attached to the inductive approach. Unlike the deductive approach, this approach passes through every process of research to develop a theory. Considering the research philosophies as mentioned above, the ontological assumption of this research is that the social world dealings between activities of entrepreneurs and their earnings or even the barriers they face is a single fact. However, the social and cultural context allows people to have their own beliefs, so a single fact has many realities.

The researcher is of the view that society is objective and tangible. However, the people playing various roles in the society are subjective and every person perceives the world independently. It is necessary to understand the meaning of the social world and the people attached to it. Thus, this study will recognize the importance of human's subjective reality within the concrete and objective social world.

The researcher acknowledges that there are other philosophies such as realism which assumes that reality and beliefs exist in the same environment. This philosophy treads on two main approaches; direct and critical realism – where direct realism focuses on what individuals experience while critical realism focuses on individuals' experiences for a situation based on social constructionism (McMurray, Pace and Scott 2004; Sekaran and Bougie, 2010).

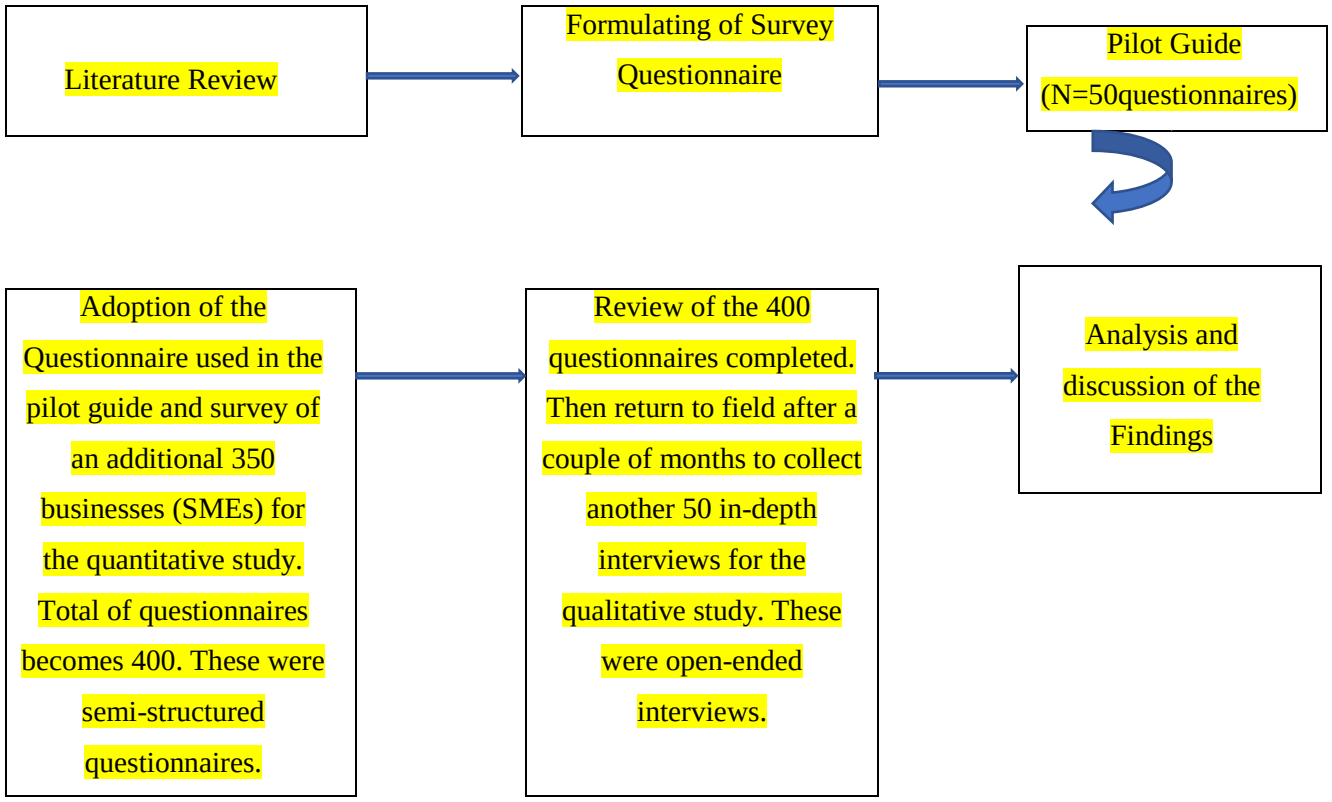
Having considered the various philosophical approaches stated above, the researcher determined that the whole view of the respondents' behaviour and insights was needed to obtain a better understanding of the entrepreneur's views. This research needed the participation of a large population sample, which in turn generated substantial amounts of statistical data, which needed to be justifiably examined and processed into information. When all these issues were taken into consideration, positivism and interpretivism were determined to be the most suitable philosophical approaches. Additionally, in

considering the existing research on the issues of entrepreneurship and poverty in the context of a developing country like Uganda, several models were developed to fully understand the existing relationship between the variables under study.

With the help of the literature review, we shall explore the gaps in the contemporary issues that need to be tested in multiple contexts. This study deals with the growth of SMEs looking at entrepreneurial income and also the barriers they face. It specifically looks at the entrepreneur and firm characteristics associated with entrepreneurial income and the main barriers hindering the growth of SMEs in Uganda. Primary data will be collected from entrepreneurs actively participating in SMEs in Uganda.

Figure 4.1 demonstrates the methodological procedure adopted for the study. The methodology plan of the study was mainly decided by the analytical and exploratory nature of the research. The study followed the methodological process below:

Figure 4.1 Methodological process



4.4 Research Design

A research design refers to a plan of how a research problem will be studied in a systematic manner (Creswell, 2012). This study is exploratory, descriptive and correlational. Exploratory research discovers ideas and insights about a research context, descriptive research explains the population with regard to the study variables while correlational design establishes relationships between variables.

The qualitative and quantitative are two different research methods of data collection and analysis (Saunders, et al., 2009). The qualitative research method is associated with interpretivism and the inductive approach of research while the quantitative research method is inclined more towards positivism and the deductive approach of research (Bryman and Bell, 2007).

The qualitative research is descriptive and subjective, using words for the detailed analysis of the data. The emergence of research concepts and conceptual frameworks from the process of research justify its association with the inductive approach. In the qualitative method there is an involvement of people, it is conducted in a natural setting and more importance is given to the participant's point of view. In this study, the researcher used in-depth interviews. These interviews were open-ended interviews and the questions were structured.

In quantitative research, a conceptual framework is developed after the collection and analysis of data and the results can be generalized which associate it to the deductive approach. In other words, it is numeric and objective. Quantitative research is usually conducted in artificial settings and importance is given to researcher's point of view that links it to positivist philosophy. The researcher's reduced level of involvement with the subject of the study results in a static research in relation to social reality (Bryman and Bell, 2007).

The experimental research, survey and cross-sectional studies are different types of quantitative research (Collis and Hussey, 2009). Experimental research is like natural science research: intended to find the causal relationship between variables (Saunders, et al., 2009). Survey research uses the deductive approach of collecting primary or secondary data, analysing it statistically and obtaining the results. On the other hand, the cross-sectional studies are used to research the problem over the same period of time (Collis and Hussey, 2009).

The choice of any research method depends upon the research philosophy and research approach of a study. The philosophy and approach of this research was chosen because of the numerous variables under study. The literature review helped the researcher make this decision. Therefore, the literature informed the design. The numerous variables will help the researcher generate various hypotheses for the study. The study variables are: entrepreneur characteristics, firm characteristics, income and the barriers faced

by SMEs. For this reason, both qualitative and quantitative research approaches are used to ascertain comprehensive results.

Several studies on entrepreneurship in developing countries use a range of different methodologies. Some of these are: Nagler and Naude (2014), Alsos, Carter and Llunggren (2013), Barrett and Webb (2001), Bekele and Worku (2008), Brueck, Naude and Verwimp (2013), Davis and Bezemer (2004), Dollar and Mengistae (2005), Fox, Haines, Munoz, and Thomas (2013), Herrington and Kelly (2012), and Haggblade, Hazell and Reardon (2010). Some of these studies compared the control group and the treatment group by using quasi experimental, experimental or survey research design. However, they use different statistical methods to analyse the data. These studies are either cross sectional or longitudinal and are all carried out in the developing countries of Uganda, Ghana, Ethiopia, Nigeria, etc.

On the other hand, some of the research studies conducted used survey research design under a qualitative data analysis approach while other researchers used case study approaches. The above review of methodologies employed in studies showed that experimental, quasi experimental, survey and case study research designs were used in different time dimensions of cross sectional, longitudinal and panel. The data in these studies is analysed either quantitatively using a variety of statistical models or qualitatively using different methods.

This study will not be able to employ longitudinal or panel data due to time and cost limitations to the research. This study will be cross sectional in nature because the data would be collected at one point in time. The researcher will not use the experimental research design as there are many complexities such as establishing and collecting data from control groups.

However, the use of the experimental design can be very useful in this research if it is corroborated with other designs which allow the use of qualitative data analysis. The blend of the experimental and quantitative approaches with a qualitative approach can be challenging, yet it has the potential to provide a deeper insight into the process and by so doing, gives a clearer picture of the impact of entrepreneurship on poverty alleviation. The role of entrepreneurship on poverty reduction is a very subjective concept and as a result, trying to measure this in a purely numeric way is quite cumbersome.

The scope of each research design is based on the type of the research questions covered in the study. A quantitative research design such as survey research is more related to the ‘what’ and ‘how much’ questions. However, a qualitative research design such as a case study is related to the ‘why’ and ‘how’

research questions (Yin,2003). This research raises basic questions of 'what' in the research questions. These are: First, what are the main characteristics of entrepreneurs and firms that are associated with entrepreneurial income in SMEs in Uganda? Second, what are the main barriers hindering the growth of SMEs in Uganda?

The researcher will explore the question of 'how much' – that is to say, "To what extent has entrepreneurship, in terms of growth of SMEs, contiributed to entrepreneurial income in the rural areas of Uganda?" This question will be answered by generating hypotheses which will be answered in the quantitative sections of the thesis. Also, questions on the impact and resolution of the barriers faced by SMEs will be addressed in this study. These questions will be answered with the help of interview guides.

Despite the limitations of this study, the survey will attempt to answer the research questions. The survey, in the form of semi-structured questionnaires, will serve the purpose of answering the 'what' research questions while the qualitative research design, in the form of face-to-face interviews (open-ended structured questions) will provide the in-depth knowledge of the issue by responding to the 'how' questions. First, the survey will be conducted, and then face-to-face interviews will follow to explore the questions in depth. By doing this, the study focuses on the magnitude of each method.

In summary, the research design of this study is based on two philosophies as discussed earlier; has a blend of both inductive and deductive approaches, will have questionnaires and interviews as data collection tools and a mix of quantitative and qualitative data analysis techniques.

4.5 The study population and sample

A population is defined as all elements (individuals, objects and events) that meet the sample criteria for inclusion in a study (Burns and Grove, 1993). A sample is defined as elements selected with the intention of finding out something about the population from which they were taken (Mouton, 1996). The study population consists of SMEs in the western part of Uganda.

4.5.1 Sampling strategy

The study adopted a snow balling technique. Under this sampling, the researcher classified the firms into three main categories: size, geographical location and sector. Then he proceeded by using a referal chain. This is done when respondents keep refering the researcher to other similar businesses in the same location. Chain- referral sampling is a snowball non-probability (non-random) sampling method. It is a cost effective method used in generating primary data.

The primary target population for this study will be from Uganda which constitutes of 112 districts. A sample will be made from the western part of the country (the area marked in blue, Figure 4.3). This region covers about 20% of the total districts in the country. The respondents that were interviewed were business owners. To achieve a prominent level of truthfulness in the qualitative study, the researcher used techniques such as probing.

The sample size of the study was guided by Sudman's documentation of 1976. Sudman notes that the size of the sample should be sufficiently large enough to allow accurate interpretation of the results and at the same time, ensure that the data is manageable. He further recommended a threshold of 100 subjects for each major group in a population and 20-50 subjects in each minor group.

4.5.2 Selection criteria

Table 4.2 Characteristics of the business

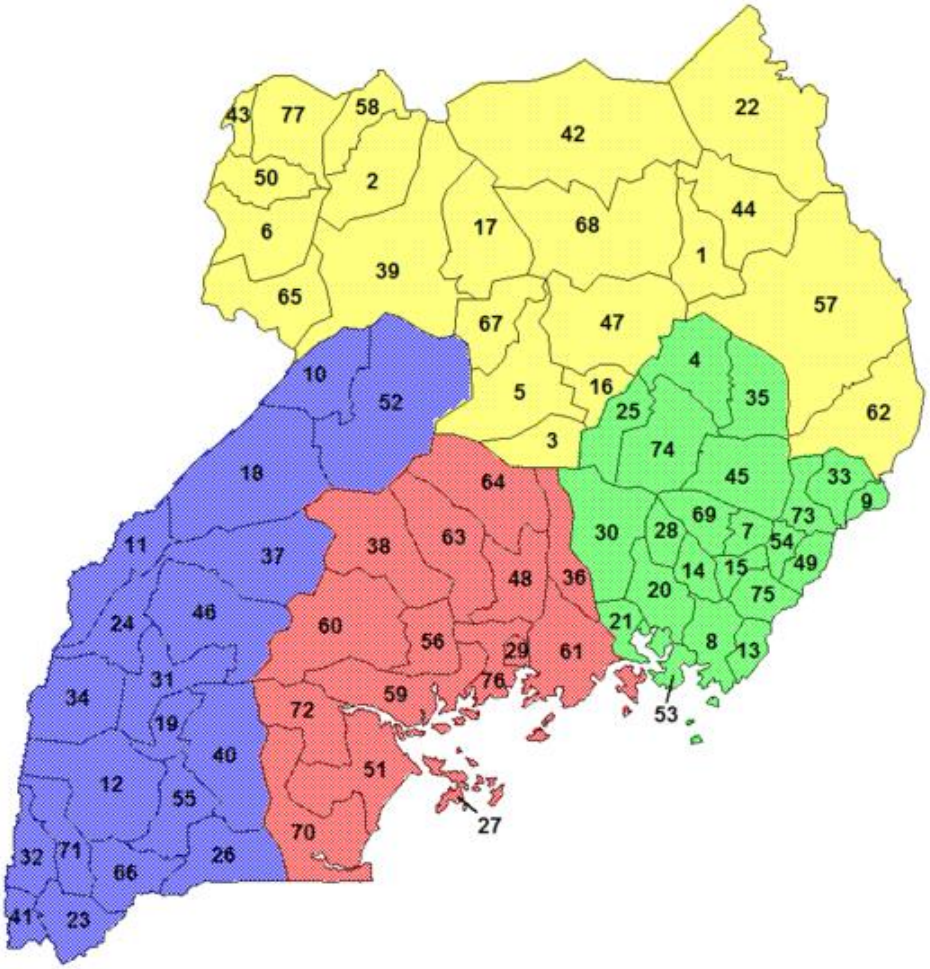
	Characteristics of the business
1.	Respondents must be Ugandans
2.	The business must be fully operational with records
3.	The business must have a defined ownership structure
4.	The business must be a Small and Medium Enterprise

4.5.3 Sample description

The data set comprised of 400 firms (50 done for the pilot and an additional 350 done after the pilot) from western Uganda (shown by the blue coloured area in Figure 4.2). The survey was carried out in 2016. The pilot and main questionnaires were combined because no changes were made. That is, the pilot guide questionnaire was adopted. This catered for the quantitative methodology of the study. Questionnaires were used to collect this data. A usable questionnaire was one which had been filled in all sections at least in a snap shot perusal. The tenet of completeness was emphasised because it has an implication on the reliability and precision in empirical and theoretical analysis (Rubin, 1987). Additionally, 50 interview guides were filled during a face-to-face interview between the researcher and entrepreneur. These were more open-ended questions.

In totality, 450 respondents were collected for the study. The researcher estimates that these numbers will give a good representation for the findings required to give a comprehensive study. Although there are no particular standards for sampling in qualitative studies, the respondents were carefully selected to ensure representativeness and variation. This was achieved through selecting respondents from different districts in western Uganda. All the respondents were interviewed in English.

Figure 4.2: Geographical location of SMEs sampled in Uganda for the study



A total of 450 businesses were collected for the survey and interviews. Most of the firms (approximately 70%) were located in Mbarara district. The other neighbouring districts involved in the data collection were: Bushenyi, Ibanda, Isingiro, Kiruhura, and Sheema. Approximately 30% of the questionnaires and interview guides were collected from these five districts. These districts are all in the south west of the map above. That is the lower blue shaded area.

4.5.4 Geographical Characteristics of Mbarara District

Mbarara is about 290 kilometers and lies southwest of Kampala, Uganda's capital and largest city. Mbarara is an important transport hub, lying west of Masaka en route to Kabale, near Lake Mburo National Park. In August 2014, the national population census put its population at 195,013.

Regarding development, Mbarara recently surpassed Entebbe, Masaka, Gulu, and Jinja to become the second-largest town in Uganda after Kampala. It has significantly grown in terms of industry, health care, education and infrastructure. Many refer it to the second fastest growing town in Uganda after Kampala, followed closely by Gulu.

Modern buildings have been established including malls, arcades, plazas, and hotels. Modern hospitals have also been constructed including Mbarara Hospital, which is now a National Referral Hospital. On 7 August 2015 the Uganda cabinet approved Mbarara Municipality alongside other 5 municipalities to be granted city status.

Figure 4.3: Picture showing a typical day in Mbarara Town

4.5.5 Types of business studied

The types of businesses in the study were classified into three main categories: manufacturing, service and agricultural industries. Most of these were retail enterprises, were somewhat small and usually family-run businesses employing immediate family, relatives and close friends. Some of the employees were unpaid and only received a basic food and transport allowance per day. Most of the businesses receive about ten potential customers daily who buy their products or services.

4.6 Data collection

4.6.1 Data collection instruments

A questionnaire was chosen as the data collection instrument for this study. Two kinds of questionnaires were formulated for the quantitative and qualitative data collection, being a structured questionnaire and an interview guide respectively. These are clearly shown in the appendix section.

Data was collected with the aid of a questionnaire to evaluate the demographic characteristics of small and medium entrepreneurs and the barriers faced by small and medium firms. The researcher used a questionnaire because of the following reasons:

- ✓ They ensured a high-quality response rate as they were distributed and completed in the presence of the researcher.
- ✓ Completion time is regulated by the researcher.
- ✓ The questions were easy and straightforward, making it easier for the respondents to answer.
- ✓ There was an option for anonymity for the entrepreneurs who didn't feel like submitting you're their personal details.
- ✓ There was less opportunity for bias as they were presented in a consistent manner.
- ✓ Forgery was better managed because of the probing by the researcher in some questions.
- ✓ Most of the questions included were closed, which made it easier to compare the responses to each.

However, questionnaires have their weaknesses as suggested by Burns and Grove (1993). They argue that validity and accuracy is a big hindrance whist using a questionnaire as an instrument.

The questionnaire consisted mostly of closed-ended questions and a few open-ended questions as these provide more diverse detail. Also, it consisted of four main sections: A, B, C and D (Appendix). There were various questions under each of the sections.

Table 4.3 Questionnaire structure

Section	Variable Type	Description
A	Background	Entrepreneur characteristics
B	Background	Firm characteristics
C	Dependent	Income
D	Dependent	Barriers

4.6.2 Data collection method

There are three main ways one can conducted a survey. These are postal interviews, telephone interviews and face-to-face interviews. This survey was conducted by face-to-face interviews with a well-prepared questionnaire. There are various disadvantages of using the other two methods, as briefly listed below:

- The postal survey has a high rate of non-response and a lack of control over the order in which questions are answered.
- Postal surveys have the problem of incorrect responses because the respondents usually seek clarification on the opinions of others before filling it out.
- Also, the illiteracy levels in Africa are still very high. Therefore, written mail questionnaires will get poor or no feedback at all.
- The postal system in developing countries isn't very effective leading to complaints of either delays or missing mail.
- The coverage of telephone lines in rural areas is very limited, therefore constraining the use of telephone interviews.
- Lastly, there is a high chance of misunderstanding and limited probing when dealing with phone interviews.

With all those reasons in mind, the researcher decided to use the face-to-face interview method. Such interviews help the respondents express themselves better to the interviewer as they probe where they do not understand. More notably, the interviewer can control the context of the interview, and questions/responses can be asked/clarified in a simpler, more meaningful way. All this greatly improves the quality of the data obtained. The questionnaire was then pre-tested in a pilot study, and the feedback received from the pilot study was used to refine the questionnaire.

4.6.3 Data collection procedure - Pilot study

The aim of this thesis is to collect data on:

- The demographic characteristics of the entrepreneur
- The characteristics of small and medium businesses
- The barriers faced by small and medium businesses

Prior to the fieldwork, a pilot study was conducted at the end of 2015 to ensure that the questionnaire was suitable for data collection, that appropriate data would be collected for the designated purpose and where necessary the questionnaire was amended accordingly. After collection, the pilot questionnaire was adopted and no changes were made. That is, the same questionnaire was used for the main data collection. For the pilot study, fifty questionnaires were distributed to entrepreneurs of the sampled SMEs. The interviews were conducted at locations that were convenient for the participants. In all cases, they were done at their places of work. The duration of the pilot interview was approximately one hour.

Biographical questions were designed to gather details relating to the interviewees personal background and business operations. This part was completed at the start of the interview. These questions were straightforward to answer and helped increase the confidence of the interviewee. It also helped the researcher ascertain an overview of the participant's background and nature of business.

Respondents were then asked about their businesses and their income. Typically, these are more cumbersome questions. A lot of probing (asking a question in more depth) was used to ensure the entrepreneurs understood and provided truthful responses. Finally, the barriers they face were tackled to summarise the last section of the questionnaire. The entire pilot study was answered face-to face and done by the researcher himself. The data from the pilot study was quantitatively analysed to find the preliminary findings of the study.

The pilot study helped the researcher acquire the necessary skills needed to carry out field work research and also helped him develop contacts of the entrepreneurs and managers. After the exercise, the questionnaire was adopted for the main study. The results of the pilot interviews are summarised in Table 4.5.

Table 4.4 The pilot interview results

Aim	Procedure	Results	Recommendations
To determine whether the instructions are easily understandable	Participants had to answer the questionnaire followed by a brief discussion	Most participants conveyed that they understood the instructions. However, a few complained about some difficult questions to comprehend and these were clarified accordingly	No alterations to this were necessary. Extra effort was done on simplifying the difficult questions.
Evaluate the ease at which the respondents understand the language and terminology used in the questionnaire.	Participants understand the questionnaire and more light is shed on the difficult experiences in answering the questionnaire	Most respondents found the general questionnaire easy to answer. However, some were not very comfortable in answering the section concerning their income.	The difficult questions were redesigned for easier comprehension. Section C(Income) was broken up into more categories for better responses.
To determine the amount of time required to complete the questionnaire	The questionnaire was handed to the respondents and time was allocated to complete it. The time was approximated to 1 hour	Most of the participants completed the questionnaire between 45 minutes and 1 hour.	At least one hour needed to be allocated in the data collection procedure for every participant to complete their questionnaire. i.e. about 4 respondents were interviewed in a day.

To determine the feasibility of the data collection procedure	A short introduction was given to the entrepreneurs	This was acceptable to all the respondents	No alterations were necessary for this part. Aims of procedure were clear and precise.
To test the efficiency of the computerized system that is used to record and analyse the data	The data was captured in Excel creating a column for the responses	The data procedure was efficient in terms of time	Ms Excel was used for capturing data.
To determine the effectiveness of the questionnaire in solving the entrepreneurs' challenges.	The aim of the study was to briefly explain to the owner who had to complete the questionnaire	Participants were excited to be part of the research. They were optimistic the results would address their challenges	Based on the feedback, the questionnaires seemed to be effective
To determine whether the analytic framework would be effective in interpreting results	Data analysis procedure was followed as described in the main study.	Data analysis and interpretations seemed to be effective	Clear guidelines were established to ensure reliability of the data

4.6.4 Data collection procedure – main study

The researcher collected data using two instruments. First, he used questionnaires collected from the 400 respondents (50 from the pilot study and 350 additional questionnaires) for the quantitative study, he then used interview guides to collect a further 50 respondents for the qualitative study. In both cases, the following procedure was used for data collection:

- Most of the respondents were contacted in the between 1-6pm in the afternoon. Most of them agreed this time because they claimed it was off-peak hours for their business and therefore there were hardly any interruptions by customers and phone calls. All of them agreed to the interviews being carried out at the business premises.

- The researcher introduced himself and briefly explained the aims of the research. He then explained to the respondents what was expected of them. The participants were informed of the

time frame for completion, but no time limits were given. 90% of the respondents took about one hour to complete the questionnaire.

- The participants were told that their responses would be confidential and used for only academic purposes. This assurance appeared to encourage the respondents to talk freely and provide unbiased and honest answers to the questions.

- A cover letter was included with the questionnaire providing a brief introduction of the research, objectives of the study and reassurance that the information given is strictly for academic purposes. The letter also showed that the researcher was pursuing a PhD degree from the University of Reading. This introductory letter helped in the avoidance of any suspicion about the legitimacy of the research, thereby increasing the response rate.

- The questionnaire was printed in English. However, in circumstances when the respondents didn't understand or comprehend the question, the researcher was on hand to translate into the local dialect for better comprehension. The researcher's ability to speak both English and the local language proved to be advantageous in the data collection.

- Participants in this study were engaged on an entirely voluntary basis and their confidentiality was guaranteed. The sole purpose of this study was the completion of the researcher's doctoral degree and is not being undertaken to provide any other interests. The respondents were made aware of this.

- After the questionnaires and interview guides were all completed, the field notes were reviewed. I then grouped and coded the information, capturing it in a spreadsheet and put into a dataset.

4.7 Ethical considerations

The research was conducted with integrity and honesty. This was done to protect and recognise the rights of the respondents. The respondents' anonymity and confidentiality were observed throughout the study. Burns and Grove (1993), defines anonymity as when subjects cannot be linked, even by the researcher, with his or her individual responses. Polit and Hungler, 1997 maintain that if respondents are promised confidentiality, the information they provide will not be publicly reported in a way that will identify them.

Written permission to conduct the research study was obtained from the Department of Economics, University of Reading. A project ethics clearance form and a consent form were both filled and returned to the Head of School. The respondents were informed of their right to voluntarily consent or decline to participate in the research. This consent was clearly included on the cover page of each questionnaire that was submitted to the respondents.

Additionally, the respondents were informed of the purpose of the study, the procedure that would be used to collect the data and they were also assured that there were at no potential risks or costs involved in participating in the research.

The ethical principle of self-determination was also maintained. Respondents were treated as autonomous agents by informing them about the study and allowing them to either participate or not. Information and contact details of the research were availed in the event of further questions or complaints.

4.8 Data analysis

After collecting data, the returned questionnaires were coded. This was followed by developing a data entry program. The data was exported to stata for parametric testing. Reverse coded items were adjusted to ensure consistency. Descriptive statistics were used to check for outliers and missing values.

Discrete Choice Modelling using ordered probit models was used for the data analysis. These models test and estimate the relationships using a stata program. The researcher started off with hypotheses that were generated in the literarure review chapter. These then get represented in a causal model. The concepts used in the model must then be operationalised to allow testing of the realtionships between the concepts in the model. The model is tested against the obtained measurement data to determine how well it fits the data.

4.8.2 Estimating the Ordered Probit Models

The ordered probit model was chosen because the dependent variables in the models were all ordered variables in the data. That is, income and the barriers which were used in the different models are all ordered variables.

An ordered probit model is used to estimate relationships between an ordinal dependent variable and a set of independent variables. An ordinal variable is a variable that is categorical and ordered. In an ordered probit, an underlying score is estimated as a linear function of the independent variables and a set of cut

points. The probability of observing outcome ***i*** corresponds to the probability that the estimated linear function, plus random error, is within the range of the cut points estimated for the outcome:

Pr (outcomej = i) = Pr (κi−1 < β1x1j + β2x2j +⋯+ βkxkj + uj ≤ κi) …… (1)

The variable ***uj*** is assumed to be normally distributed. In either case, we estimate the coefficients β1, β2, ..., βk together with the cut points κ1, κ2, ..., κI−1, where ***I*** is the number of possible outcomes. κ0 is taken as −∞, and κI is taken as +∞.

Therefore, for the empirical model estimating income as a dependent variable and the entrepreneur & firm characteristics as the control variables, we shall follow the equation:

Pr (Incomej = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β firm location j +βIndustryj……(2)

4.8.3 Goodness of fit measures

The most common measure is McFadden's (1974) which makes use of the log-likelihood value (reported by Stata) and is $1-L_1/L_o$. L1 refers to the model's log-likelihood value and L_0 the log-likelihood value for a constant only model (i.e. no explanatory variables). The maximum possible value of the log-likelihood value is 0, referring to a perfect prediction of the actual values of the dependent variables by the model. Given the pseudo r-squared is not comparable to the OLS version, values between 0.2 and 0.4 are considered good model fits (Hensher and Johnson, 1981).

Another commonly reported measure is the count r-squared, the proportion of correct predictions – it is useful to see if a model under or over predicts a specific category as a potential judge of how good the model is. However, Wooldridge (2010) notes that it is not necessary to have a good fit in order for the marginal effects to be informative, if estimates are consistent.

4.8.4 Hypotheses Generated

Fifteen hypotheses were generated from the literature reviewed. The justification of these hypotheses is presented in the literature review chapter. This section simply presents a table of all the hypotheses generated and the analysis strategy used to test for the hypotheses in the quantitative sections of this thesis.

The subsequent chapters will show the results of each of the hypotheses generated herein. Table 4.5 shows the hypotheses and the analysis strategy that was used.

Table 4.5: Data Analysis Strategy

Hypotheses – Generated from the literature review	**Analysis Strategy**
H1: The age of an entrepreneur is significant in determining entrepreneurial income	Ordered Probit
H2: The number of children of an entrepreneur is significant in determining entrepreneurial income	Ordered Probit
H3: The Education of an entrepreneur is significant in determining entrepreneurial income	Ordered Probit
H4: The ownership structure of a firm is significant in determining entrepreneurial income	Ordered Probit
H5: The industry of a firm is significant in determining entrepreneurial income	Ordered Probit
H6: The size of a firm is significant in determining entrepreneurial income	Ordered Probit
H7: The location of a firm is significant in determining entrepreneurial income	Ordered Probit
H8: The age of the firm is significant in determining whether corruption acts as a barrier to growth	Ordered Probit
H9: The firm's ownership structure is significant in determining whether government policies act as a barrier to growth	Ordered Probit
H10 – The industry of a firm is significant in determining whether it experiences electricity insecurities as a barrier to growth	Ordered Probit

H11 - The location of a firm is significant in determining whether it experiences poor infrastructure as a barrier to growth.	Ordered Probit
H12- The age of a firm is significant in determining whether it experiences high taxes as a barrier to growth.	Ordered Probit
H13: The age of an entrepreneur is significant in determining whether he/she is affected by access to finance as a barrier to growth.	Ordered Probit
H14: The type of entrepreneur is significant in determining whether it experiences Forced Mutual Help as a barrier to growth.	Ordered Probit
H15: The size of a firm is significant in determining whether it experiences risk attitude as a barrier to growth.	Ordered Probit

4.8.5 Data analysis for the qualitataive study

A qualitative data analysis tool NVivo.10 was used for analysing data from the interviews. NVivo allows a researcher to arrange and compare text together and map out relationships in a diagrammatic form. This was after transcribing the interviews into MS Word. The transcripts were exported to the software for analysis.

4.8.6 Validity and reliability

Reliability helps measurements to be repeatable and any random influence which tends to make measurements different from occasion to occasion or circumstance to circumstance due to measurements error (Nunnally, 1978). Reliability is therefore defined as the degree to which a test consistently measures whatever it measures (Brown, 2002). Furthermore, validity tests were carried out to test how variables predicted outcomes of other variables.

4.9 Conclusions

The chapter concludes that the best philosophy of research to get comprehensive findings in the study were a mix of both the interpretivism philosophy which is associated to a qualitative approach and the positivism philosophy that is inclined towards the quantitative approach.

While carrying out the research, we find that there is a significant difference in the methods one can use in carrying out research. The qualitative method involves people, focuses on understanding of behaviour and relates to specific aspects of society while quantitative research starts off by conceptualizing a

framework or idea, collecting data from the field and analysing the data. A large population sample was collected by the help of questionnaires and interview guides. It was analysed and interpreted using the quantitative approach. The researcher concludes that a blend of the two methods produced more detailed and informative findings.

Lastly, the chapter shows that using the questionnaire as a data collection instrument was very effective. The questionnaire helped the respondents express themselves better to the interviewer and he probed where he did not understand. Notably, the interviewer can control the context of the interview and questions can be asked/clarified in a simpler and more meaningful way. All this greatly improved the quality of the data obtained. Additionally, the questionnaire was pre-tested in a pilot study, and the feedback received from the pilot study was used to refine the questionnaire.

CHAPTER FIVE

EMPIRICAL RESULTS: ENTREPRENEURSHIP AND INCOME

5.1 Introduction

This chapter examines the key characteristics of both the entrepreneur and the firm which determine entrepreneurial income. Most SMEs depend on the entrepreneur for their survival and development (Frese, 2000). Usually the entrepreneur is responsible for key decisions concerning products, markets, motivation of employees, expansion plans and other strategic decisions concerning the firm (Frese, 2000). Consequently, this leads to the possibility that a substantial proportion of the difference in performance among SMEs can be explained by the individual entrepreneurs (Hall, 1995; Shane, 2007; Batsakis, 2014). Further, Rauch & Frese (2007) also views entrepreneurs' characteristics as an important determinant of the intention to become an entrepreneur as well as the subsequent performance of the firm.

The characteristics of an entrepreneur play a significant role in ensuring the business success in SMEs. Previous studies have found that entrepreneur characteristics such as age and gender, education and former work experience have an impact on entrepreneurial earnings. Reynolds et al. (2000) found that individuals ranging from 25 to 44 years were the most entrepreneurially active. While Kristiansen, Furuholt, & Wahid (2003) found a significant correlation between the age of the entrepreneur and business success. In their study, the older (>25 years old) entrepreneurs had more successful businesses and therefore higher earnings compared to the younger ones.

According to Cragg & King (1988) and Rutherford & Oswald (2000), small business success has often been classified into three categories: the individual characteristics of the owner-manager, firm characteristics and environmental characteristics. The individual characteristics include attributes like the age, education, experience, the entrepreneur's number of children, and marital status of the entrepreneur. Charney and Libecap (2000) found that entrepreneur characteristics like education and experience increase the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high-technology business. Also, studies done by Wijewardena & Cooray (1996) suggest that education and prior experience are significant in small firms' success.

In this chapter, the firm characteristics referred to are the age of a firm, the ownership structure, the size of firm, the distance from the trading centre and the industry which play a significant role in the growth

of entrepreneurial earnings. Ordinarily, older firms will probably have learned more from their experiences compared to the new, young, inexperienced firms. Kristiansen, Furuholt, & Wahid (2003) found that the age of a firm is significantly linked to business success. Also, Duchesneau and Gartner (1990) suggest that lead entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents, and to have had a broader business experience and more prior startup experience.

Regarding ownership structure, firms with more than one shareholder when it was set up were significantly more likely to survive (Westhead et al. 1995). In this study, 86% of the firms were sole traders and 12% were partnerships. Under the quantitative section of this study, I shall test for the relationship between size of a firm and the entrepreneur's income. Also, entrepreneurship literature by McMahon (2001) suggests that the size of enterprise is significantly linked to better business performance. They found that larger enterprises were likely to have a higher level of success.

Therefore, this chapter will answer the question: what are the main entrepreneur and firm characteristics that determine entrepreneurial earnings? The chapter will provide the results using both the qualitative and quantitative approaches. The chapter starts off by giving descriptive statistics of the entrepreneur and proceeds by describing each of the characteristics of an entrepreneur in the sample. Thereafter, it provides descriptive statistics of a typical SME in Uganda with a description of the characteristics of these firms. It then discusses an entrepreneur's income and expenses, before finally concluding with the quantitative analysis.

5.2 Qualitative Analysis

This section provides the findings of the qualitative study. Under the qualitative study, 50 respondents were collected using qualitative interview guides (See appendix). The respondents were asked about their personal characteristics and the characteristics of their firms.

5.2.1 Profile of the Entrepreneur

Under this section, we discuss the characteristics of the entrepreneur, describing them whilst giving a brief background of what is happening in Uganda. Also, theoretical and existing entrepreneurship literature will be presented as comparisons to other SMEs in developing countries. Table 5.1 will show the descriptive statistics of the characteristics and opinions of a typical entrepreneur in Uganda.

Table 5.1 Characteristics and opinions of the Entrepreneur

Variable		Frequency (*f*)	Percent (%)
Gender	Male	**35**	**70**
	Female	**15**	**30**
Positive effect of gender on business	Yes	**44**	**88**
	No	**6**	**12**
Age	20 - 30	**25**	**50**
	31-40	**18**	**36**
	41+	**7**	**14**
Knowledge and experience increase as one grows old	Yes	**48**	**96**
	No	**2**	**4**
Marital status	Married	**35**	**70**
	Single	**13**	**26**
	Divorce/Widowed	**2**	**4**
Marital status helps in business growth	Yes	**44**	**88**
	No	**6**	**12**
Children	0	**11**	**22**
	1-2	**24**	**48**
	3+	**15**	**30**
Negative effect of family responsibilities on business	Yes	**38**	**76**
	No	**12**	**24**
Opportunity v. Necessity driven	Opportunity driven	**22**	**44**
	Necessity driven	**28**	**56**
Previous work experience	Engaged before	**41**	**82**
	No Work Prior	**9**	**18**
Relevant experience has helped in business growth	Yes	**38**	**76**
	No	**12**	**24**
Education	Primary- Diploma	**25**	**50**
	Vocational	**6**	**12**
	Degree	**19**	**38**
Positive effect of family background and education	Yes	**36**	**72**
	No	**14**	**28**

A. Gender of the respondent

Verheul et al. (2006) investigates whether gender differences affect the roles people chose to perform. It was revealed that the activities men choose are different from those chosen by women. This illustrates that it is not necessarily the gender that determines high earnings/income of the entreprenuer but possibly the opportunity choices he or she makes from the onset.

Also, Marlow(2002) argues that women are much more likely to have caring responsiblities than men. As such, they are more likely to choose part-time rather than full-time business ownership. This is likely to limit their ability or willingness to successfully grow their bsuinesses.

Furthermore, it has been argued in several studies that women-owned firms are concentrated in under-performing industries; are less likely to expand their business (say, upgrade their investments) since they are risk averse and afraid of being taken over by their male counterparts; have relatively more limited access to external finance; and have restricted space of operation since the majority of women-owned businesses are home based (Ishengoma, 2004).

Mazzarol et al. (1999) also found that females were generally less likely to be founders of new businesses than males. This suggests that many female entrepreneurs in developing countries experience more challenges than their male counterparts as they try to startup their businesses. A boutique owner (Interviewee 20) in the qualitative study stresses the point above with a few of her comments. She insinuates that she had challenges with her startup because of her gender.

> *'At the beginning stages of my business, I had a lot of hardships with the authorities. They made it hard for me to process the necessary paper work. However, when my husband stepped in as a shareholder, everything fell into place.'*

This comment emphasises that in Uganda, many females will find it more cumbersome in starting a new business compared to their male counterparts. This suggests that gender plays a significant role on the ease of starting a business in the country. This likely because of the socially constructed attribute in the society. i.e. society dictates that the male should be the ones getting the business contracts not the women. Also, according to the Global Gender Gap Index (GGGI) 2016, Uganda ranks 61st out of 144 countries (1 being the highest). The GGGI focuses on ranking countries according to gender equality. This paints a picture of what we can see in the comment above.

According to the sample in this study, 70% (N=35) of the respondents were male and 30% (N=15) were female. Gender in Uganda plays a significant role in the earnings of entrepreneurs. Of the 50 respondents, 88% (N=44) agreed that the gender of an entrepreneur has a positive effect to his/her entrepreneurial earnings.

According to the respondents, two main factors determined the gender that was used in the market: 1) the industry of a firm and 2) the kind of opportunities. For instance, in most cases, hair salons would require females to run them since they have the necessary knowledge about changes in the tastes and preferences of their fellow women. Also, some female customers would prefer another lady to attend to them simply because they think a fellow woman pays more attention to detail regarding fixing her hair, face and nails.

Further still, this argument can be related to division and specialization of labour. In this study, the entrepreneurs claimed some businesses may be more suitable for men and other women. A respondent (Interviewee 17) who owns a hardware business from the qualitative findings of this study confirms that some businesses are perceived to be gender specific. He comments that:

> *Gender is important because in my hardware business, there is a lot of heavy work required for example carrying bags of cement and bags of nails. Women cannot manage this workload.*

Furthermore, many Ugandans still have the outdated cultural perception that a woman's key responsibility is to stay home and take care of the household. This factor has been a big hinderance for the Ugandan female entrepreneur. Many suppliers and contracts would rather give a male entrepreneur business as opposed to a female entrepreneur doing the same work. Empirical findings by Amine and Staub (2009) stress this point. Results of their study demonstrate that women entrepreneurs in Sub-Saharan Africa face a daunting array of challenges arising from the socio-cultural, economic, legal, political and technological environments in which they live.

B. Age of the respondent

Storey & Greene (2010) suggest that there are two contrasting arguments when examining whether the age of the entrepreneur influences growth. The first says young people are better placed to run growth businesses because they are more likely than older entrepreneurs to have the necessary energy and enthusiasm to both seek and achieve growth. They are also likely to be closer to new emerging technologies that are likely to take off and grow. The counter-argument is that these are unusual examples that have been hyped up by the media, purely because such individuals are exceptional. More typically,

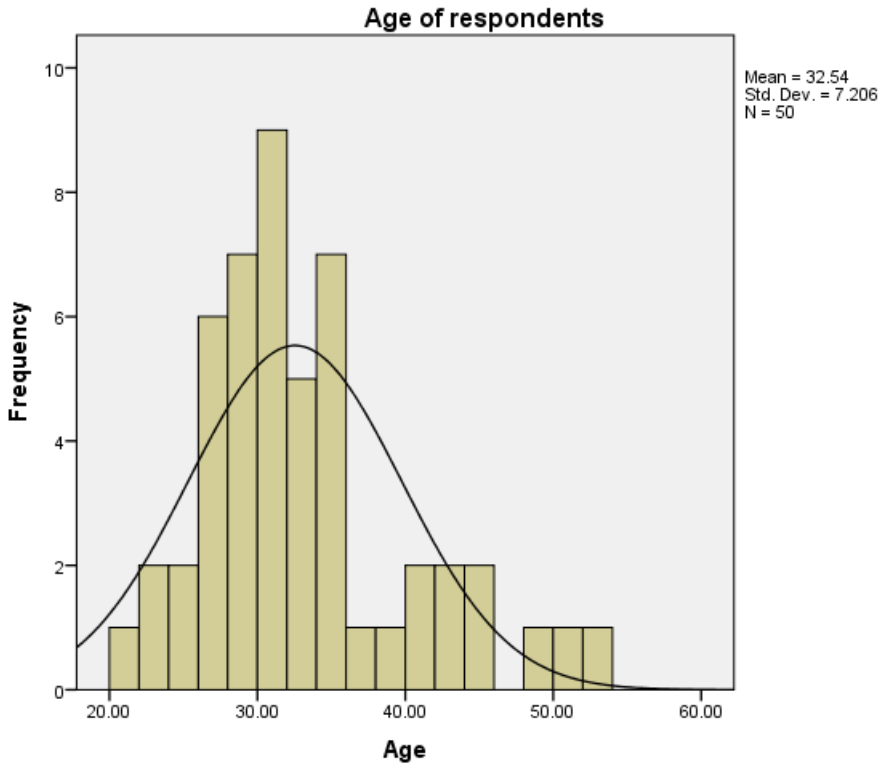
young people lack the requisite business experience, have a limited pool of available resources, and have few of the essential social and professional contacts to successfully grow a business.

Additionally, studies done by Littunen & Virtanen (2006) established that older entrepreneurs are more successful than young entrepreneurs mainly because of the experience they have acquired over the years. Experience and the fact that older entrepreneurs tend to have better access to finance are very significant in the growth of their businesses.

From the responses in this study, the average age of the respondents engaged in the various forms of business was 32.5, with standard deviation of 7 years. Between the ages of 20-30, there were 25 respondents, 50% of the sample. Ages 31-40 had 36% (N=18) and age 40+ had 14%(N=7) of the sample.

According to the 2014 census, 78% of Uganda's population is under the age of 30 years, making it one of the world's youngest populations. The majority of youth employment is in the agricultural sector. Less than 5% of those employed in this sector are in wage-paying jobs and the majority is engaged as subsistence family workers with no wages accruing to them. Similarly, informal employment accounts for the highest proportion of employed youths outside agriculture. During the last decade, the youth participation rate has experienced a fast rise from 61% in 2005 to 76% in 2016 respectively; and the increase has been slightly faster for men than women (Labour Market Profile, 2016). Also, in this study, the necessity entrepreneurs, who are 56% of the sample tend to be younger than the opportunity entrepreneurs.

Figure 5.1 Age of respondents



Another observation made by the researcher is that most of the youth are erratic in their business making decisions compared to the older generation. The younger entrepreneurs claimed that if the business was not making money, they would move on to the next available opportunity. For instance, under the qualitative study, a respondent (Interviewee 12) who owns a bakery said:

> *'I am in my late twenties and this is my 3rd business. I usually test the waters for 2 years. If it does not work for me, I move on to the next business opportunity.'*

This illustrates that: 1) many of the younger generation are continuously looking for new business opportunities, and 2) they may be young without serious responsibilities (no children yet) so they can change business types and models as they please. They do not give the business time to grow and mature. If they sense it's not growing to their expectation, they move on quickly. Most are necessity entrepreneurs seeking to survive rather than establish a long-term profitable business unit.

However, other studies done by Woldie, Leighton, & Adesua (2008) show conflicting results while determining the relationship between the age of an entrepreneur and the growth of SMEs. They argue that younger managers are more likely to be successful in their firms than older managers because younger

managers have more energy, higher aspirations and are more likely to be committed to working long hours, which are generally necessary for a business to be successful. On the other hand, older managers are likely to have reached their final aspirations and thus growth is of little importance.

That notwithstanding, other studies have claimed that older entrepreneurs are more likely to be successful in their firms than younger entrepreneurs (Harada, 2003; Littunen & Virtanen, 2006). The logic behind this is they are more experienced, have better access to finance and are more confident in the business arena. Thus, in accordance with the previous findings it can be said that whilst younger owners may have more energy to work, they lack the business experience.

Therefore, due to these conflicting messages, one argument which is a combination of the two, is put forward by Storey, 1994: middle-aged entrepreneurs are likely to have experience and more energy, and as such they are most likely to establish and manage a business which will grow faster than is the case for younger ones. The average age of the entrepreneurs in this study is 33 years. We can safely say that these are the middle-aged entrepreneurs Storey (1994) refers to.

Lastly, to establish and quantify this success, the study shall use income as the main measure of success and determine whether age is significant in determining income. So, under the quantitative section, the study will test for the following hypothesis – ***H1: The age of an entrepreneur is significant in determining his/her entrepreneurial income.***

C. Marital status of the respondent

In Uganda and in most of Africa, men are the breadwinners of their families. Those that are married will work and have comfort that their partner is at home taking care of the family. This helps them focus all their attention on their business(es).

This assertion ties in well with literature on the economics of marriage. Under this literature, Becker (1974) maintains that the determinants from the benefits in marriage are shown to be related to the 'compatibility' or 'complementarity' of their time, goods, and other inputs used in household production. Basically, in most households, there is division and specialization of labour. In most cases the men will do the work outside the home to earn money while the women will carry out the responsibilities and chores of the home. By so doing division of labour is utilized and the household is run effectively.

This is illustrated in the responses in the qualitative findings of this study. For instance, remarks made by a restaurant and internet cafe owner (Interviewee 03 and Interviewee 08 respectively) stated:

> *'I spend most of my day at my restaurant attending to my customers. I hardly return home early because I know my wife is taking care of all the domestic responsibilities.'*

> *'My wife and I split up the family responsibilities. She takes our kids to school and sorts out the home chores while I concentrate on our family business and make sure I can pay all our monthly bills.*

This shows us that marital status is quite instrumental in determining the outcome of an entrepreneur's earnings because as earlier seen, division of labour enables specialization. This could suggest that because the partner (at the business) is working diligently and not worried about the home responsibilities, he is likely to concentrate, put in more time and effort in the business and thus a possibility of high earnings.

This study shows that 70% (35) of the respondents are married, 26% (N=13) are single, and 4%(N=2) are divorced or widowed. Most of the respondents have reported receiving advice from their spouses on how to develop and sustain their businesses. This clearly justifies the 88% (N=44) figure which suggests that marital status (partners) has an impact on business growth. Under the qualitative findings, a retail shop owner (Interviewee 13) states that:

> *'I have been married for over 5 years and my partner has always shared business ideas and marketing strategies that have helped in improving the sales of my business.*'

This response clearly illustrates that partners can help each other, and this can increase managerial capacity. That is to say, informally, both partners are involved in the business thereby increasing capacity.

D. Number of children of the respondent

By numbers, 78% (N=39) of the respondents in the qualitative study have one or more children. Some of these respondents said having two or more children could be advantageous to their business. They directly related this to the fact that when most of these children have matured, they join the family business.

Some studies argue that the children of entrepreneurs should be more likely to be self-employed than other people. Scholars have suggested several reasons as to why the children of entrepreneurs are more likely

to be self-employed. These factors are generally drawn from exposure and closure mechanisms (Kim et al., 2006; Sørensen, 2007). Lentz and Laband (1990) continue to agree to this stand by saying that children of entrepreneurs acquire informal business experience from their parents.

Furthermore, family business literature emphasizes that family owners will try to ensure the continuity of the business for the next generation and to build up the social capital of the business (Gedajlovic and Carney, 2010). This continuity of the business also leads to stronger relationships with trading partners (Arregle et al., 2007).

The qualitative findings of this study confirm some of this literature. For example, a retail shop owner (Interviewee 14) reported that:

> '*I have three sons. Two of them have already started working in my business. I don't pay them well, but they have improved the productivity of the business.'*

However, the qualitative responses also established that the time spent on taking care of the younger children had a negative impact on the entrepreneur's business growth. For instance, a comment made by an unmarried female saloon owner (Interviewee 21) states that:

> '*I have 4 children and because of my parental responsibilities, the time spent on the children reduces on the business time. I spend a lot of time catering for my children's needs.*'

This suggests that some of the respondents have young children and therefore are likely to experience the detrimental factor of their children encroaching into their business time. We can also deduce that because the respondent is unmarried, they are most likely experiencing an absence of division of labour in the household. However, the predicament of spending a lot of time caring for the children is expected to reduce when the children have grown older and are more mature.

To fully establish the extent to which the number of children of an entrepreneur has on his/her earnings, the study will test for the following hypothesis under its quantitative section – ***H2: The number of children of an entrepreneur is significant in determining his/her entrepreneurial income.***

E. Type of the Entrepreneur

Herrington and Kelly (2012) argue that there is a distinction between entrepreneurship started out of necessity or out of opportunity. Their research suggests that in most developing countries, SMEs are operated in their majority out of necessity. However, SMEs in rural areas also face a range of opportunities. For opportunity motivated entrepreneurs, SMEs make use of their capabilities and assets, as well as individuals characteristics (Barrett et al., 2001).

Further still, it has been argued in the entrepreneurial literature that business performance or growth is related to the owners' motivation to establish the business. If the owner's motivation to establish the business is to be self-employed, then the business is likely to prosper; if the owner's motivation to start the business is to meet his/her household's subsistence needs, then the business is not likely to grow and perform well beyond those needs. The latter enterprises follow minimalist strategies (Murphy 2002).
In this study, 44% (N=22) of the respondents said they were opportunity-driven entrepreneurs while 56% (N=28) confirmed that they were necessity-driven entrepreneurs. This is in line with the assertions by Herrington and Kelly (2012). They maintain that an opportunity entrepreneur starts a new business by exploiting an identifiable business opportunity whereas a necessity entrepreneur does so to survive poverty or unemployment.

The qualitative findings highlight examples of respondents who fall under each of these categories. They clearly elucidate the reasons they are doing the business and one can easily determine what kind of entrepreneur they are. For instance, a Mobile Money owner (Interviewee 22) who is an opportunity driven entrepreneur state that:

> '*By the time I started my mobile money business, it was a new kind of business in my region with high profit margins. Given my strategic location, I made good profits.*

This could suggest at the money needed to start this business acted as an entry barrier and therefore the opportunity/business idea was promising at the start.

A necessity-driven entrepreneur who has a construction and carpentry business (Interviewee 18) said:

> '*I was unemployed, and I had no choice but to start a business to earn a living for my family. I made a few consultations with my family members and friends. They gave me valuable advice that I used to start my business.'*

This could suggest that the business started by this particular entrepreneur had low entry barriers, meaning entrepreneurs could join easily. This implies a lot of competition and hence lower growth/profit potential.

In Uganda's context, many of the necessity entrepreneurs do not have much growth ambition in their businesses. Most of them are in business to raise money for necessities like food, clothing, education and health for their children.

Entrepreneurship is often considered the solution to problems such as rising youth unemployment (Chigunta et al., 2005). In Uganda's case, the younger people are increasingly being encouraged and motivated to switch from job seekers to job creators. However, the youth unemployment in the country is

still significantly high. The government of Uganda is trying to implement strategic policies that can make the environment conducive for SME growth.

F. Experience of the respondent

Through experience people gather information and develop skills that are useful across different occupations (Ucbasaran, Westhead, & Wright, 2008). The most frequently mentioned types of experience are entrepreneurial experience and managerial experience. Both are significant in determining the growth of SMEs.

In this study, 82% of the respondents claimed to have been engaged in previous experience. Some of the activities they had experience in are: bar attendant, electricians, farming, government salaried work, teaching, agriculture, etc. A milk distributor (interviewee 11) in the qualitative study attributes his current entrepreneurial experience to the former work he was doing on a farm. He remarks:

> *'I worked for a milk distributor on his farm for about three years. I learnt everything I know from my former employer. I saved up enough resources and started my own milk distributing business. I hope to expand slowly and increase my earnings'.*

Therefore, this illustrates that people like the milk distributor with prior experience in an industry often have: 1) confidence in making business decisions, 2) developing access to market information, and 3) business networks. This improves their capabilities of starting up their own enterprises.

Furthermore, 76% (N=38) of respondents strongly agreed that their previous work experience was relevant and instrumental to the current success of their ongoing businesses. Studies on the experience of an entrepreneur reveal that entrepreneurs with more managerial experience tend to form ventures that have greater employment and sales growth than founders with less managerial experience (Duchesneau & Gartner, 1990; Lee & Tsang, 2001; Bigsten & Gebreeyesus, 2007; Unger et al., 2009).

These entrepreneurs can manage their firms more effectively because previous experience from managing a business provides training in many of the skills needed for recognizing and acting on entrepreneurial opportunities, including negotiation, decision making styles, ways to serve markets, and methods for dealing with customers and employees (Shane, 2007).

Also, many Ugandans doing business usually maintain their customer base. That is to say they have strong, lasting networks and depend on referrals. These networks can be obtained over time in one's current firm or even previous work experiences. Some of comments under the qualitative study show the significance of networking and how it can improve entrepreneurial earnings. For instance, a respondent who is a business consultancy owner (Interviewee 01) stated that:

'My consultancy networks have helped expand my business. I have been referred to new clients by my previous clientele. This has boosted the growth of my networks and business. If you offer a good service to an existing client, he/she will always refer you to another potential client'.

This shows that not only is previous experience vital to the success of SMEs, the resulting networking and referrals equally as important.

G. Education and family background of the respondent

Storey and Greene (2010), suggest five justifications for the alternative argument which is that the education level of the entrepreneur enhances new/small business growth. These are:

1) Education enhances the skill base of an individual, enabling them to address and overcome the problems associated with running a rapidly growing enterprise.
2) Education may be a selection mechanism which sorts the able from the less able. If it is the ability of the entrepreneur that influences business performance, then education is likely to be associated positively with business performance.
3) Education influences the sectors in which the individual begins a business, and a lack of formal educational qualifications can effectively be a barrier to entry. This is particularly relevant in a knowledge-based economy where faster growing businesses are more likely to be concentrated. Examples include high-tech sectors where virtually all entrepreneurs have a university degree or equivalent (Lindelof and Lofsten, 2002).
4) All else being equal, educated individuals are more likely to be able to access resources from a financial institution than those with low educational attainment (Storey, 2005).
5) Economic choice theory predicts that educated individuals have, on balance, higher earning opportunities as an employee than those with low or no educational qualifications. Hence, if their business fails to achieve a level of income which they can earn as an employee, then they will switch to employment. Since the income generated by the business is likely to be broadly related to its size and growth, the expectations of growth by the educated entrepreneur will be greater than of those with lower educational qualifications.

Furthermore, education is one of the key components of human capital (Becker, 1993). This component is the source of knowledge, skills, discipline, motivation and self-confidence (Cooper, 1994). Building upon the human capital theory, a lot of research has been done to examine the effect of education on the performance of SMEs, and the major assumption lies in the notion that individuals with a higher level of

education are able to manage their firms more effectively than individuals with a lower level of education (Cooper, Folta, Gimeno-Gaswpscon, & Woo, 1992; Storey, 1994; Rutashobya, 1995; Trulsson, 2000; Mead & Liedholm, 1998; Wiklund & Shepherd, 2003).

In regard to family background, literature suggests that there is a positive link between family-owned businesses and growth. This positive link is normally proposed on two grounds. First, family businesses may have fewer 'principal-agent' problems. In other words, the family who owns the business (principal) are also the workers (agents) in the business. Such a unified governance structure means that compared with non-family businesses, there are likely to be fewer monitoring costs (Westhead and Howarth, 2006).

The second basis for the positive link derives from stewardship theory. This stewardship theory emphasizes that the markers of behavior are collectivism, altruism and trust amongst those who are responsible for the business. This behavior is said to be more prevalent amongst family businesses because of close family bonds which allow the family to steward the business to achieve stronger business growth (Corbetta and Salvato, 2004).

Family background is also critical in the knowledge an entrepreneur picks up as he or she works for the family business. Research done on family business argued that the children of entrepreneurs should be more likely to be self-employed than other people. Scholars have suggested several reasons as to why the children of entrepreneurs are more likely to be self-employed. These factors are generally drawn from exposure and closure mechanisms (Kim et al., 2006; Sørensen, 2007).

It is assumed that having at least one self-employed parent not only helps to develop the human capital of the child but also modifies expectations about what business ownership entails (Niittykangas & Tervo, 2005). It is suggested that these individuals are more likely to be successful in their businesses for several reasons, such as an ability to seek managerial expertise from their parents in case of business problems, easier access to information on the market as well as on other related issues (Mungai & Velamuri, 2010).

Also, Duchesneau & Gartner (1990) argued that lead entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents, to have had a broader business experience and more prior startup experience, and to believe that they had more control of their success in business, than unsuccessful entrepreneurs. These lead entrepreneurs in successful firms worked long hours, had a personal investment in the firm, and were good communicators.

Regarding education, most of the respondents in the selected sample have attained some basic education with the lowest being primary education. Of the sample, 4% (N=2) did not possess any kind of education. The respondents between primary level and diploma level accounted for 46% (N=23) of the sample. Those respondents with vocational qualification were 12%(N=6) and finally 38% (N=19) of the respondents had tertiary education.

Based on the interviews from the qualitative study, there is some evidence to suggest that individuals with some degree of education have gained human capital in the form of technical skills, helping them to manage their firms more effectively than individuals with hardly any or no form of education. As a result, this effectiveness boosts entrepreneurial earnings. For example, an electronics business owner (Interviewee 06) states that:

> *'My Bachelor's degree has facilitated the progress I have made in my business. I can manage to do the financial accountability and recording keeping without any help from an outsider.'*

The literacy levels in Uganda have improved after the country became the first nation in Sub-Saharan Africa to introduce Universal Secondary Education (USE) in 2007. Coming ten years after it introduced Universal Primary Education (UPE), it represented a bold step by the government. This justifies the high number of the educated respondents in the samples. Therefore, the study will test whether there is a positive relationship between education and an entrepreneur's income. The research will do this by testing for the hypothesis – ***H3: The education of an entrepreneur is significant in determining his/her entrepreneurial income*** in the quantitative section of this chapter.

Additionally, 72% (N=36) of the sample claimed that their family background and education have had a positive impact in their business success. This has mainly been in terms of start-up capital from their family and business management skills acquired throughout their educational background. Entrepreneurship literature by Dickson, Solomon, Weaver (2008) suggest that there's a positive link between education and both the choice to become an entrepreneur and subsequent entrepreneurial success.

Under the qualitative study, a poultry farm owner (Interviewee 02) believes that his education and the financial help from his family were significant in his business success. He stated that:

'*I have been able to put the knowledge I acquired from a poultry farming vocational school into practice and my family also helped because I am doing the business on family premises.*'

5.2.2 Profile of the firm

Table 5.2 The characteristics and opinions of the firm

Variable	Description	Frequency	Percent (%)
Business ownership structure	Sole trader	**43**	**86**
	Partnership	**6**	**12**
	Limited Company	**1**	**2**
Relevance of Structure	Yes	**47**	**94**
	No	**3**	**6**
Duration in business	1-3	**25**	**50**
	3-5	**15**	**30**
	5+	**10**	**20**
Business type	Manufacturing	**22**	**44**
	Service	**18**	**36**
	Agriculture	**10**	**20**
Managerial experience gained	Yes	**33**	**66**
	No	**17**	**34**
Number of people employed	None	**14**	**28**
	1-3	**27**	**54**
	4 or more	**9**	**18**
Distance having impact on business	Yes	**43**	**86**
	No	**7**	**14**
Distance from the nearest trading center (TC)	Within TC	**10**	**20**
	0-1	**23**	**46**
	1-3	**9**	**18**
	3 +	**8**	**16**

A. Ownership

Empirical studies have argued that most small businesses are managed by their owners because they cannot afford to hire expertise to run the businesses for them (Rajaram, 2008). Consequently, small business owners perform so many operational tasks and management functions themselves (Kirsten, 2013), which may often result in business failure (Ihua, 2009). The independent and private ownership (sole proprietorship or partnership) of small business promotes uncertainty (Keasey and Watson, 1993).

In Uganda, unsurprisingly, most of the small businesses begin their existence as sole proprietorships. The sample is comprised of 86% sole proprietors (N=43). These entrepreneurs are responsible for securing and investing the funds for the business. The funds may come from the owner's existing or borrowed financial resources. An owner of a sole proprietorship retains all the profits derived from the operation.

Further still, the owner has the authority to make all the decisions relating to the business. Since there are no co-owners, there is no need to hold policy-meeting sessions or form a group like a board of directors. The owner, of course, must bear the responsibilities that resulting from the decisions made. Other business ownership structures that were identified in the sample were: partnership structures which consisted of 12% (N=6) and limited company structures which had only 2% (N=1) of the selected sample.

The qualitative findings show the comments of one of the sole proprietors (Interviewee 23) who owns a beauty parlor and boutique business. She remarks:

> '*I am the sole owner of my business and I am happy with this arrangement. Sometimes people may have business partners who end up disagreeing with each other and the business growth is affected*.'

This could illustrate that the respondent has managed to grow in her business because she is the sole proprietor of her business. This stand is supported by Keasey and Watson (1993) who argues that a sole proprietor may promote more efficiency and growth compared to a partnership.

Another argument in support of the sole proprietor can be seen under the agent-moral-hazard predicament. It's well known that 'agents' (professional managers) without ownership interests are hypothesized to impose costs on the firm. These costs are derived from the divergence of interests between owners and managers, and the moral hazard and potential for opportunism that comes about when ownership and control are separate. The resulting cost when the interests of principals (owners) diverge from those of agents (managers) and the agents cannot be monitored easily or inexpensively (Eisenhardt, 1989). This simply means that managers and owners maximize their own utility functions, and these are contrasting functions.

However, partnerships also present some advantages. Choosing the right ownership at the right time can either make or break a business model. The qualitative study submits the views of an owner in a partnership structure (Interviewee 04). In her comments, she illustrates the importance of a partnership. She's a milk distributor and states:

> '*I am in a partnership business with my spouse. Despite not being around full time, he provides very useful ideas that I always implement in our business.'*

Therefore, despite the moral hazard argument presented in the literature by professional agents, it's prudent to note that partnerships also possess merits for the shareholders as an ownership structure. Westhead (1995) suggests that firms with more than one shareholder when it was set up were significantly more likely to survive. Consequently, under the quantitative section in this chapter, we shall ascertain if there is a significant relationship between ownership structure and entrepreneurial income. This will be done by testing the following hypothesis – ***H4: The ownership structure of a firm is significant in determining entrepreneurial income.***

B. Industry

The industry sector has been shown to be a significant variable when analyzing firm growth (Davidsson et al., 2002). Several scholars conclude that the more dynamic industries are, the more growth expected in the firm (Jovanovic, 1982; Audretsch, 1995; Carroll and Hannan, 1989, 2000). This suggests that firms which have differentiated themselves through innovation, experienced management, and strategic capital infrastructure investment, are more likely to experience high entrepreneurial earnings.

Firms in the sample broadly fall into three industrial categories: Manufacturing 44% (N=22), Service 36% (N=18), and Agriculture 20% (N=10). Some of the manufacturing industries (based on Uganda Industry Sector, 2010) mentioned were: bakery, electronics, hardware merchandise, milk production, etc. In the service delivery category there were legal / advocacy, business and management consultancy, internet service provision, stationery and computing services, phone and mechanical repair, among others. Lastly, the agricultural category contained diary, poultry and piggery farms.

Some of the respondents in the qualitative sample submitted information on the challenges they are facing in their industries. Interviewee 08, an internet café owner had this to say:

> *'I have been providing internet services for the last three years. However, I have experienced a few challenges with electricity power cuts during the day.'*

Additionally, many of the entrepreneurs 66% (N=33) stressed that they have gained vast experience from their businesses. Many of the respondents also attributed their networks and mentoring opportunities (from friends and business acquaintances) as a reason for start-up and experience gained. Like most of the entrepreneurs in developing countries, the majority of Ugandan entrepreneurs start their businesses mainly out of necessity as opposed to finding an opportunity.

The qualitative finding established that many of the entrepreneurs seek out guidance, financial aid and mentorship from their family and friends before embarking on their business journeys. They basically say that the kind of industry they operate was determined by three main entry barriers. These are: 1) the initial capital they need to start-up their business, 2) the advice and mentorship they receive from an experienced friend or family member and 3) their previous managerial experience.

Interviewee 21, a salon owner says:

> '*I used to visit my friend's salon many times. After a while, I was inspired to start my own.*'

Another respondent who owns a Mobile Money business (Interviewee 24) commented that:

> *'Before I started my own business, I was working as an employee in the same kind of business. This helped me acquire managerial skills and expertise in running such a business.*'

The two respondents suggest that they are trading in those categories because of the advice and managerial skills (sector specific human capital) they received prior to starting up their businesses. This study will try and establish whether there is a significant relationship between the industry of a firm and entrepreneurial income. This will be done under the quantitative study by testing for the following hypothesis – ***H5: The industry of a firm is significant in determining entrepreneurial income.***

C. Age of a Firm

It seems reasonable to assume that a positive relationship exists between firm age and SME performance or entrepreneurial earnings. Kristiansen, Furuholt, & Wahid (2003) argue that the time in operation is significantly linked to business success. Older firms have accumulated more experience than younger firms. The firms are expected to learn and improve their efficiency over time. Therefore, old players most probably have learned much from their experiences compared to the newcomers. Also, the study will help us understand which characteristics of the entrepreneur contribute to firms becoming old.

In the sample of firms most were 1-3 years old 50%(N=25), 3-5 years old were 30%(N=15), and the firms which 5 years old and over were 20%(N=10). The National Small Business Survey of Uganda (2015) showed that an estimated 80% of enterprises do not last more than three years from their inception.

Additionally, firm age is also important because credit rationing can be expected to adversely affect younger firms more. Central to this proposition is the idea that the risk associated with any loan varies with the duration of the relationship between the firm and financial institutions (Diamond, 1991).

Having mentioned the arguments above, however, a negative relationship involving firm age might also be observed. This is because adjustment generally is more difficult to be achieved in older firms. Therefore, one could predict that it is much easier for younger SMEs to quickly adjust to current marketing trends or demand compared to older ones. This is seen with the remarks of a respondent in the qualitative study. The respondent (interviewee 25) owns a three-year-old women's clothing business. She said:

> *'Most of my customers are young girls between 18-25. I sell affordable clothes, shoes and bags for ladies. They always change their dressing styles and therefore I am always ready to change with the new demands. I get new stock every end of month.'*

D. Size of a Firm

Emerging empirical evidence supports the view that firm size responds to national characteristics. A large theoretical literature holds that firm size distribution is a function of national endowments, technologies, national policies and institutions (Kumar et al., 2001; Hallberg, 2001; Snodgrass and Biggs, 1996; You, 1995; Caves, Porter, and Spence, 1980). Beck, Demirguc Kunt, and Maksimovic (2003) found that more financially developed countries have larger firms. This suggests that financial development eases financial constraints on successful firms and allows them to grow.

There is no universal definition of a small business, and the definition varies from country to country (Collins et al., 1977, Edmondson, 1977). In the context of Uganda and the sample collected, most of the businesses that were studied had four or less employees working for the entrepreneur. These small and medium firms can be defined as an enterprise employing 4 people or less and reporting an annual sales or revenue turnover of not more than 12 Million Uganda Shillings.

In this study, the number of workers being employed by the entrepreneurs was used as a measure of firm size. The study finds that 28% (N=14) of the entrepreneurs did not have any employees, 54% (N=27) employed between 1-3 workers and 18% (N=9) employed 4 workers or more.

The survey went on to ask about the effect of having multiple employees. Of the sample, 80% (N=40) supported this argument despite differing sentiments. Many of the respondents' emphasis was on the marginal productivity of labour. Some entrepreneurs said having many workers could have a negative impact on their earnings due to the costs of employment (being monthly salary and upkeep / allowances). These views can be seen from two respondents, a bar owner (Interviewee 27) and a hardware business owner (Interviewee 17).

The two respondents defended their decision on employing fewer workers. They made the following remarks respectively:

> *'I have two workers and I think employing more workers can lead to insecurities and theft. Few workers are easier to manage*.'

> *'My business is still too small to employ more than two workers. More workers may lead to inefficiencies and more business expenses. However, I could consider more workers as the business expands.*

These comments could suggest that there is an aspect of agency or monitoring cost that arises with more workers. This means that if the entrepreneur manages the number of workers, they are likely to make more returns from their investments given the benefit of efficiency in worker output and less expense on wages.

However, considering the other side of the coin, another entrepreneur said when production is booming there are scenarios where more workers will get more work done and this will result in greater earnings at the end of the day. Like in all business production cases, these Ugandan entrepreneurs take into consideration various aspects of cost and benefits of employing a worker before they can bring one on board.

The qualitative study confirms these suggestions with the remarks of a bakery owner (Interviewee 26). This respondent comments:

> *'I employ 6 people in total. In my business, more employees boost production and services to the customers hence high sales and customer satisfaction*.'

This could suggest that this particular respondent is utilizing economies of scale. It is possible that the cost unit of output decreases as he employs more workers i.e. productivity is increasing with the increase of number of employees.

Therefore, under the quantitative section of this chapter, the study will test for the following hypothesis – ***H6: The size of a firm is significant in determining entrepreneurial income.*** This will help us identify whether there is a significant relationship between the size of the firm and entrepreneurial income.

E. Location of a business or Distance of a business from Trading Center

There are three main theoretical grounds for believing that there are advantages (positive externalities) in a business located in or nearby the trading centers where there are expected to be many more other businesses. These are: access to pools of labour; cost advantages and the possibility of knowledge spillovers.

Storey and Greene (2010) explain these positive externalities by arguing that new businesses benefit from other businesses around them (being in the trading centers) by exploiting prices and quality advantages. A ready stock of workers opens up the possibility of employing specialist workers. Such workers may increase the quality of what a business has to offer. Being close to suppliers also means that they are likely to save, at the very least, on transport costs. Finally, because knowledge is often 'tacit' there are likely to be informational benefits from being close to other businesses. In other words, businesses can get the opportunity to understand business practices much more clearly (know-how) and develop their existing contacts (know-who).

Ishengoma (2005) argues that the economic infrastructure and social services are not equally distributed in developing countries. The favored areas (trading centers) may tend to attract capital (and perhaps foreign investment) and skilled labor, which together with the presence of a supply of non-tradable inputs may increase market linkages in these areas. Thus, firms located in these areas (trading centers) are likely to perform better or experience growth faster than those outside.

Also, studies done in Uganda by Gollin and Rogerson (2010) show that much of the country's roads and other transportation infrastructure are very poor. This means that rural markets in Uganda are characterized by high transportation and transaction costs. Therefore, the distance from the trading centre is very significant in determining the level of entrepreneurial earnings. The assumption is, the further away the business is from the trading centre, the more costs the entrepreneur incurs, leading to a reduction in earnings.

According to the sample, 20% (N=10) of the entrepreneurs were located within the trading centre. However, those who were between 0 - 1 km outside the trading centre were 46% (N=23), those between 1 - 3kms were 18% (N=9) and those 3kms and more from the nearest Trading Centre were 16% (N=8).

Of the 50 firms studied, 86% (N=43) of the entrepreneurs confirmed that the distance from the nearest trading centre has a significant impact on the earnings of the firm. They said that the nearer a business was to the centre, the more customers it got and hence more earnings for the business. However, it should also be noted that the businesses nearer the centre pay more rent to the owners of the land or buildings they occupy. As a result, these high rental prices will considerably diminish the earnings of the entrepreneur.

With that in mind, the qualitative study presents two kinds of deductions regarding the distance from the trading centre.

First, respondents who enjoy the privileges of being nearer to trading centre, such as a Mobile Money owner (interviewee 16) commented as follows:

> *'My mobile money business is less than 1 km away from the main trading centre. This helps because I don't incur transport costs and I have many customers because I am strategically located.'*

Second, respondents who are not near the trading entre but enjoy the privileges of not paying rent to the authorities or owners of the land in the trading centre. An example is the horticulture business owner (Interviewee 28) who states that:

> *'I am a farmer and my farm is 7 kms away from the trading centre. I incur transportation costs for taking my products to the markets in the trading centre. However, I own the land, so I don't pay any ground taxation or rent. I can also expand as I wish.'*

However, evidence is not conclusive with respect to the effect firm location has on growth (Birley and Westhead 1990; Storey 1994; Davidsson et al. 2002). Therefore, the quantitative section of this study will test whether there is a relationship between the distance from the trading centre and entrepreneurial income by testing the following hypothesis – H7: ***The distance from the Trading Centre of a firm is significant in determining entrepreneurial income***.

5.2.3 Income and Expenses of the Entrepreneur

I. Introduction

Research in the field of entrepreneurship over the years has faced difficulties in measuring the success and failure of the entrepreneurs (Chakravarthy, 1986). There are eight dimensions of performance measurement in entrepreneurship which are widely used in research. These dimensions are efficiency, growth, profit, size, liquidity, success/failure rate, market share and leverage (Murphy et. al., 1996; Brush and Vanderwerf, 1992). Most of these dimensions are measured through in a financial prospective and small portion of measurement is done through operational and non-financial performance measurement (Murphy et. al., 1996; Venkattraman and Ramanujam, 1986).

II. The Labour Market Situation in Uganda

The researcher used secondary literature that is obtained from the Labour Market Profile (2016). The Labour Market Profile is an annually updated report that provides a broad overview of the country's labour market development. It is based on the latest data and follows trends in the economy. The highlights below are documented by the labour market profile for Uganda in 2016. It reveals that the following:

Uganda's labour market underwent legal reforms during the last three years. Among others, since 2016 all employers will be required to issue itemized pay slips and Key Employment Terms (KETs) to employees covered under the Employment Act. However, the overall legislation coverage has poor compliance, according to the International Trade Union Confederation, 2014. It is not only due to flaws in the legislation, but also a large majority of the labour force is not covered by the regulations in practice and are operating in the informal economy. By the same token, it is not easy doing business in Uganda, which has a strenuous business registration process complicated by bureaucracy and graft. These are some of the entry barriers being discussed in this chapter.

The average earnings in Uganda have been on a steady increase. This has, however, been negatively affected by the volatile inflation in consumer prices. The standing minimum wage is outdated from 1984 and a new draft Minimum Wage Bill is still waiting to be approved. On the positive side, the government has taken steps in 2016 to prosecute registered institutions and workplaces that do not comply with the Occupational Safety and Health standards.

The labour market is fragmented by a narrow formal sector and an absorbing informal economy. Estimations suggest that at least nine out of ten workers are in informal employment. This latter segment of workers is confronting vulnerable working conditions and does not stand to benefit from the wage standards. The total number of wage and salaried workers is growing slowly in Uganda and in particular, the rate of employment in the industrial sector has remained stagnant. While the agricultural sector employs three out of four of the total employment, this sector contributes only 27% of the GDP. This explains, to some extent, why the labour productivity has been relatively low and the growth has been flat during the last five years. It is noteworthy to mention that the ownership of businesses in Uganda is dominated by very small enterprises, which is a challenge of the tax regime.

Additionally, access to economic opportunities has gender disparities in Uganda. This has been related to cultural customs such as women getting married at a young age which can be seen as an entry barrier to the female entrepreneur. However, the country has also experienced some changes to address these gender disparities. This has been observed through the rising school enrolment and attainment for both males and females.

Lastly, the social protection in Uganda is very underdeveloped. Only 2% of the population is covered by health social protection and the relatively high health-care expenditure is financed by private household's out-of-pocket payments for the remaining 98%. This has been a stumbling block for the entrepreneurs who are constantly digging into their business budgets to carter for their family health care.

III. Working Conditions in Uganda

The Uganda Labour Market Profile, 2016 goes on to state that the legal minimum wage was set at 6,000 Uganda Shillings per month (US$2.2) back in 1984 and has not been updated since then. In 2003 the government and the private sector attempted to negotiate the minimum wage, raising it to 54,000 per month Shillings (US$21). The initiative did not pass by law, though. In 2015 a new initiative, the draft Private Member's Minimum Wages Bill, was presented to the Parliament.

Public service unions, including medical staff and teachers, can negotiate salaries and employment terms for members. The government fixed salaries for "essential government employees," including police, military, and management-level officials. However, many of these government workers in Uganda get as little as 250,000 Shillings (US$84) per month, which is about half of the minimum wage in Kenya (Uganda Market Profile, 2016).

According to the Equal Opportunities Commission (2015), the wage/salary disparity in Uganda could become a cause of concern for the country's efforts to keep its best professionals at home. For a long period, brain drain has affected the economy. The neighbouring countries are benefitting from the best of Uganda's professionals, especially in the medical and education fields as they seek greener pastures abroad.

Many employers have been observed to resort to the practices of sub-contracting and outsourcing services or hire workers temporarily to avoid entering binding agreements with employees/suppliers. In the same fashion, most employers do not give employees written contracts of employment, resulting in lack of job security and union representation.

The market profile goes on to reveal that the total population in Uganda is 38.3 million of which 17.2 million (45%) makes up the labour force. Around three-quarters of the population are below the age of 30 years old. This shows that Uganda has one of the youngest and fastest growing populations in Africa, which is creating even higher pressure on job creation. In the employment-to-population ratio men are slightly more economically active than women at 85% and 79%, respectively. It is interesting to register that Uganda has a relatively higher employment-to-population ratio than the sub-Saharan Africa average on all levels, but especially among youth.

Labour statistics in the country reveal that the informal economy provides the vast majority of employment in Uganda. Therefore, the formal sector does not create sufficient new jobs to curb the rapidly rising labour force. Consequently, many are forced to take up employment in the informal economy, which is known for crowding out jobs in the formal sector, low skilled, poorly remunerated, hazardous and precarious jobs with almost no access to social protection. It also absorbs many of the youth. The coverage of employment in the informal economy has been estimated at 94% of the total non-agricultural employment (Uganda Market Profile, 2016). This informality includes lack of access to social security contribution and the enterprise's registration status.

The section goes on to establish what a typical small and medium entrepreneur earns from his business and what he pays for his expenses. This shows a typical example of an SME owner in Uganda.

IV. Income and Expenses of a Typical (average) Entrepreneur in the Sample

Table 5.3: Income and expenses of the entrepreneur

Variable	Items in UGX Shillings	Frequency	Percent
Earnings	200,000 – 500,000	14	28
	500,001 – 1,000,000	23	46
	1,000,001 – 2,000,000	6	12
	2,000,001+	7	14
Business expenses	0	2	4
	1 – 100,000	18	36
	100,001 – 500,000	21	42
	500,001+	9	18
Personnel expenses	0	8	16
	1 – 100,000	23	46
	100,001 – 200,000	11	22
	200,001+	8	16
Other expenses (taxes, transport, utilities, license)	0	4	8
	1 – 50,000	22	44
	50,001 – 100,000	17	34
	100,001+	7	14
Saving on business account	0	9	18
	20,000 – 100,000	11	22
	100,001 – 300,000	18	36
	300,001+	12	24
Saving on personal account	0	13	26
	1 – 100,000	18	36
	100,001 – 300,000	14	28
	300,001+	5	10
Take home	0	10	20
	1 – 100,000	10	20
	100,001 – 300,000	18	36
	300,001+	12	24
Payment to employees per month	0	14	28
	1 – 100,000	14	28
	100,001 – 300,000	15	30
	300,001+	7	14

Differences Between a Salaried Worker and a Typical Entrepreneur in Uganda

From table 5.3, the average small and medium entrepreneur in Uganda receives an income of about 750,000 UGX ($250) monthly.

Using table 5.4 to compute the business expenses of the entrepreneur, we find that 80% of the respondents have monthly business expenses of 200,000UGX. If we go on to subtract these business expenses from the income, we have an estimated take home of about 550,000UGX ($180).

In the case of salaried workers in Uganda, a board was established in August 2013 and tasked to review minimum wages. A progress reports reveals that the average wage in Uganda as documented in 2011 was 384,465 UGX ($110). The Uganda Market Profile (2016) documents that public service unions, including those for medical staff and teachers, can negotiate salaries and employment terms for members. Over the years, the government of Uganda has had salary consultations and negotiated with "essential government employees," including teachers, doctors, police, military, and management-level officials. Government has provided salary increments for many of these key workers and the average wage in 2016 was reported to have increased to about 500,000 UGX ($142) per month (Uganda Market Profile, 2016).

Overall, without considering the expenditures of both salaried workers and entrepreneurs, we can see that if we are to compare the average income of a salaried worker ($142) and the average income of the entrepreneurs ($180) in our sample, we can conclude that entrepreneurs receive more than the earnings of a salaried/wage worker in Uganda.

5.3 Quantitative Analysis

5.3.1 Introduction

The quantitative section in this chapter focuses on testing the hypotheses generated from the literature review and the qualitative sections. Using snowball sampling, a sample of 400 SMEs were collected for the quantitative section of this study.

The data was collected in 2016 from Uganda (Case study) by means of semi-structured questionnaires that were personally administered by the PhD student. Most of the businesses were in Mbarara district (70%). The reason for this is that Mbarara district is one of the fast-growing districts in the country and has had an influx of businesses being started there. The neighbouring districts involved in the survey were

Bushenyi, Ibanda, Isingiro, Kiruhura, and Sheema. Approximately 30% of the questionnaires were completed in these five districts.

The table below shows the descriptive statistics of the variables that are used in the quantitative section of this chapter. There is a total of 400 observations in the table below. These variables are the characteristics of the entrepreneur and the firm.

Table 5.4: The quantitative characteristics of the entrepreneur and firm.

Variables	Frequency	Percent
Gender		
Male	240	60
Female	160	40
Age		
18-29	97	24
30-39	219	55
40-49	79	20
50-59	5	1
Marital status		
Married	287	72
Single	75	19
Divorce/Separated	16	4
Widowed	22	5
Number of children		
None	45	11
1-2	182	46
3-4	151	38
5 and more	22	5
Type of entrepreneur		
Opportunity	212	53
Necessity	188	47
Education		
None	16	4
Primary	35	9
Secondary	98	24
Certificate	104	26
Degree	147	37
Ownership Structure		
Sole trader	256	64
Partnership	105	26

Limited company	39	10
Age of a firm		
Less than a year	7	2
1-2 years	62	16
3-5 years	277	69
6 years and over	54	19
Firm size		
None	20	5
1 worker	43	11
2-3 workers	212	53
4-5 workers	75	19
6-10 workers	36	9
10 workers and over	14	3
Distance to trading centre		
In and around the TC	61	15
1-2 kms	201	50
3-4 kms	110	28
5 kms and over	27	7
Industry		
Manufacturing	66	17
Service	173	43
Agriculture	161	40

The quantitative section will employ an ordered probit modelling strategy to test the hypotheses suggested in the literature review and the qualitative sections. The empirical model will include two categories of control variables: the entrepreneur's characteristics (the entrepreneur's gender, age, number of children of the entrepreneur, marital status, type of entrepreneur - opportunity/necessity and the entrepreneur's level of education) and the firm's characteristics (ownership structure, age of a firm, industry, firm size and distance to trading center). These variables are expected to influence the entrepreneur's income.

5.3.2 The modelling strategy and the control variables

To test the hypotheses, this study will employ an ordered probit modelling strategy. This is mainly because income, the dependent variable, is an ordered variable in the data. Therefore, the empirical model will follow the equation:

Pr (Incomej = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)…….(1)

The model shall estimate how much each of the control variables stated above will affect the income of the entrepreneur.

5.3.3 Results of the Model

Variables	Model
Panel A – Entrepreneur Characteristics	
Gender	
Female	**0.088 (0.148)**
Age	
30-39	**0.741*** (0.227)**
40-49	**0.849*** (0.304)**
50-59	**1.422** (0.794)**
Marital status	
Single	**-0.013 (0.260)**
Divorce/separated	**-0.417 (0.345)**
Widowed	**-0.482 (0.339)**
Number of children	
1-2	**-0.242 (0.279)**
3-4	**0.003 (0.321)**
5+	**1.149** (0.474)**
Type of entrepreneur	
Necessity	**-0.157 (0.147)**
Education	
Primary	**-0.023 (0.375)**
Secondary	**0.294 (0.361)**
Degree	**0.949** (0.373)**

Panel B – Firm Characteristics	
Ownership structure	
Partnership	**0.458*** (0.158)**
Limited company	**0.821*** (0.281)**
Age of the firm in years	
1-2	**-0.575 (0.524)**
3-5	**-0.471 (0.512)**
6 and more	**-0.253 (0.543)**
Firm Size	
1 worker	**-0.051 (0.364)**
2-3 workers	**0.506(0.324)**
4-5 workers	**0.581*(0.356)**
6-10 workers	**1.703***(0.435)**
More than 10 workers	**2.495***(0.545)**
Distance to trading centre in km	
1-2	**-0.326** (0.186)**
3-4	**0.034 (0.208)**
5+	**0.475 (0.314)**
Industry	
Service	**-0.440** (0.248)**
Agriculture	**0.106 (0.248)**
Pseudo R-squared	**0.307**
No. of observations	**400**
Standard errors are reported in parentheses. *, **, * indicates significance at the 90%, 95%, and 99% level, respectively.**	

5.3.4 Interpretation of Results and Answering the Hypotheses

The gender of an entrepreneur isn't significant in our model. In trying to investigate whether the age of an entrepreneur is significant in determining the entrepreneur's income, we find that age is significant in all three categories: Age 30-39 (0.741) ***; Age 40-49 (0.849) ***; Age 50-59 (1.422) **. The categories are ordinal and the coefficients are all positive. It would suggest, therefore, that the older the entrepreneur is, the more income they are likely to earn. This is because the older entrepreneurs have more job experience, available capital and more social and professional contacts to successfully grow a business.

The marital status variable in our model is not significant in any of the categories. However, the number of children of an entrepreneur is significant in determining the entrepreneur's income. The results show that at the '5 children and more' category, the coefficient is positive 1.149 and is significant at the 0.05% level. This could imply that the entrepreneur's children are most likely working in his/her business and therefore are contributing to the increase of the entrepreneur's income. Literature by Lentz and Laband (1990) confirms that children of entrepreneurs acquire informal business experience from their parents. This ties in well to our findings that also suggest that when the children of the entrepreneur are of age, they are likely to join the family business.

Regarding the type of entrepreneur, the model shows that being an opportunity or necessity entrepreneur is not significant in determining the entrepreneur's income. However, the entrepreneur's level of education is significant in determining their income. The (university) degree education variable noticed in the model is positive and significant at the 0.05% level. This degree category is the highest level of education in the interviews. The positive coefficient could suggest that education enhances the skill base of an individual, enabling them to address and overcome the problems associated with running a rapidly growing enterprise. Similarly, entrepreneurship literature reviewed by Kim, Aldrich, & Keister (2006) shows a positive relationship between education and the growth of SMEs.

The results also establish that the ownership structure of a firm is significant in determining entrepreneurial income. The ownership is strongly significant at all categories and the coefficients are positive. That is, the partnerships variable is significant at (0.458) *** and the limited companies limited variable is significant at (0.821) ***. The ordinal increase would suggest that both partnerships and limited companies are more stable financially compared to sole ownership. It is likely that the sole traders have very little in terms of resources. Therefore, partners or shareholders involved in partnerships or limited

companies are likely to have more income. This result agrees with findings by Westhead (1995) who suggests that firms with more than one shareholder when it was set up were significantly more likely to survive and expand. Therefore, choosing the right ownership at the right time can either make or break a business model.

The model shows that the age of the firm (experience) is not significant in determining the entrepreneur's income. However, the model establishes that the size of a firm is significant in determining entrepreneurial income. The size of the firm in our case will be measured by profits and the number of workers. The model shows that the size of the firm is significant in the categories: '4-5', '6-10' workers and 'more than 10' workers. These categories are strongly significant and have positive coefficients. That is, 0.581, 1.703 and 2.495 respectively. The ordinal increase could mean that the more labour-intensive firms in the sample are associated to high income for the entrepreneur.

The model also establishes that the industry in which a firm is operating is significant in determining the entrepreneur's income. The results show the service industry is significant despite having a negative coefficient of (-0.440) **. The negative coefficient in this result is associated with decreasing income for the entrepreneur. Therefore, we shall use the reference category that is manufacturing firms and conclude that this industry is likely to be associated with higher income for entrepreneurs in Uganda. This high income in the manufacturing category can be due to higher entry barriers in this industry and hence less competition for the entrepreneurs in this category and as a result high income.

Lastly, as we look at the location of a firm. The model shows that the distance from the trading centre of a firm (location of a firm) is significant in determining entrepreneurial income. The distance to the trading centre is significant at the category 1-2 kms and the coefficient is negative. This result is (-0.326) **. Since the reference category is the firms in the center, the negative coefficient simply means the firms outside the center are associated with lower incomes. The assumption is that there are two main disadvantages of being further away the from the trading center: 1) the high the costs (e.g. transport costs) that the entrepreneur incurs and 2) the less demand for their products. Both these reasons will decrease the profits of the entrepreneur.

5.4 Conclusions:

This chapter sets out to establish the main entrepreneur and firm characteristics that determine success in terms of entrepreneurial income and firm growth. Through the qualitative method – using interview guides, the study broadly establishes that:

1. The older entrepreneurs are more successful than young entrepreneurs mainly because of the experience they have acquired over the years. Experience and the fact that older entrepreneurs tend to have better access to finance is very significant in the growth of their businesses.
2. In regard to number of children of the entrepreneur, the study finds that most entrepreneurs will try to ensure the continuity of the business for the next generation by encouraging their children to work in the family business. This usually boosts the growth of the business as many of these children will work wholeheartedly as they know they are taking over the business eventually.
3. Based on the interviews, there is some evidence to suggest that individuals with some degree of education have gained human capital in the form of technical skills, helping them to manage their firms more effectively than individuals with hardly any or no form of education. As a result, this effectiveness boosts entrepreneurial earnings.
4. In regard to ownership structure, the study finds that most of the small businesses begin their existence as sole proprietorships. The sample is comprised of 86% sole proprietors. These entrepreneurs are responsible for securing and investing the funds for the business. The funds may come from the owner's existing or borrowed financial resources. However, some argue that the growth of these sole proprietors is quite slow and they are less financially stable compared to partnerships and limited companies.
5. Regarding the size of a firm (in terms of number of workers), the qualitative results presented two contradictory findings. One group of respondents argued that because their businesses are still small, managing few workers is helping them achieve their business objectives and thus growth of the firm. However, another group of entrepreneurs said when demand is high, there are scenarios where more workers would effectively get more work done and this will result in greater earnings at the end of the day. Therefore, choosing the right ownership at the right time can either make or break a business model.
6. In regard to location of a firm, the qualitative results found that positive externalities such as access to pools of labour, cost advantages and the possibility of knowledge spill-overs are very significant in the success and growth of a firm. Therefore, firms in the trading centers or near the trading center which experience these positive externalities are more likely to be associated with high earnings for the entrepreneurs compared to the firms outside the trading centers.
7. Lastly, the industry of the firm was also tackled. The qualitative results show that the majority of Ugandan entrepreneurs start their businesses mainly out of necessity as opposed to finding an opportunity. Also, many of these entrepreneurs seek out guidance, financial aid and mentorship from their family and friends before embarking on their business journeys. They basically say that the kind of industry they operate was determined by three main entry barriers. These are: a)

the initial capital they need to start-up their business, b) the advice and mentorship they receive from an experienced friend or family member and c) their previous managerial experience.

Furthermore, through the positivist approach (quantitative method), the study generated hypotheses to establish the key characteristics of the entrepreneur and the firm that are significant in determining the success/ growth of an SME in Uganda. The quantitative results showed that:

First, the age of the entrepreneur – the age categories had an expected ordinal increase that suggests that the older the entrepreneur grows, the more income they are likely to earn and hence business success.

Second, the number of children of the entrepreneur –we found that having 5 children and more was significant in determining success. This could simply suggest that the entrepreneur's children are probably working in the business in question.

Third, the education of the entrepreneur – the findings show that the degree level of education is significant in determining success of an entrepreneur, suggesting that high formal education for an entrepreneur has a positive correlation to his/her income.

Fourth, the ownership structure of a firm – the findings show that partnerships and limited companies are significant in determining the success of an SME. The findings suggest that partnerships and limited companies are more stable financially compared to sole ownership firms that hardly have the resources to have an impact on the market.

Fifth, the size of a firm – we find that having six workers and more is significant in determining firm success. This could suggest that the greater sized businesses (or the greater the size of a firm) in the sample are likely to experience more success for the entrepreneurs.

Sixth, the location of a firm – the findings reveal that the location of a firm (in terms of distance from the trading center) is significant in determining its success. This finding suggests that firms outside the center are associated with lower incomes because of high transportation costs, low demand for their products and the lack of informational benefits in terms of knowledge spill-over.

Last, the industry of a firm – the findings establish that the service industry is significant but is associated with lower income for the entrepreneurs. The findings further show that the manufacturing industry in Uganda is associated with higher income for entrepreneurs in Uganda. This high income in the manufacturing category is due to higher entry barriers in this industry, resulting in less competition for the entrepreneurs.

All in all, both the qualitative and quantitative methods complement each other as they both reveal the same key variables (characteristics) that are associated to the growth entrepreneurial income. Given the similarities between the picture the quotes (from the interviews) and the regressions are trying to paint, the chapter concludes that the aforementioned variables under this study are indeed the key characteristics to the growth of entrepreneurial income in Uganda.

CHAPTER SIX

EMPIRICAL RESULTS: EXTERNAL BARRIERS TO GROWTH

6.1 Introduction

This chapter explores the external barriers to the growth of SMEs in Uganda. The external barriers mentioned in this chapter are: corruption, government policy, unreliable electricity, poor infrastructure and high taxes. These external barriers arise because of the contractual relationship between the state, the state's agents and the entrepreneurs. In Uganda, these barriers are widespread and are great obstacles to the country's economic development and the provision of quality public services. They impose a disproportionately high burden on small and medium firms in the country.

The ineffective governance and policy arena in Uganda contribute to the existence of these external barriers. Most of the policy making and implementation takes place in a complex political and social setting, in which individuals and groups with unequal power interact within changing rules as they pursue conflicting interests. The commitment of the state and small-scale entrepreneurs to cooperate and achieve socially desirable goals is what matters for effectiveness. However, the stakeholders and the decision to include/exclude their participation determines the impact on development outcomes.

This chapter seeks to understand why government's policy implications are highly visible in some firms and much less visible in others, why the role of governments is more/less restricted in some SMEs than in others; and why there is limited regulation to which nobody complies. The main concept here is whether we can establish if the government is practicing good governance and if not, where it is going wrong.

Denhardt and Denhardt (2003) suggest that governments should focus on service delivery that serves by helping citizens articulate their shared interests, instead of steering and controlling society. In most developing countries like Uganda, governments had to accept that societies cannot be controlled hierarchically, and the civil servants employed by the government must build relations based on trust, collaborate with citizens and focus on community values and professional standards.

There is a noticeable link between the external barriers in this chapter. For instance, if the government of Uganda struggles to collect taxes (which the entrepreneurs consider to be high), it will not be able to provide good infrastructure and may not pay officials 'living' wages. This will force the officials to raise revenues themselves to supplement their wages through bribes and hence low-level corruption is then part of the system.

This corruption drains resources from the state which could have been used on better infrastructure and may lead to increased tax rates. Additionally, many of the respondents in this study have complained that the civil servants in government positions are very corruptible and are looking out for only themselves and their immediate families. The civil servants have responded to these claims by stating that the salaries the government pays them monthly can hardly pay off their monthly expenses that include accommodation, food, children's school fees, healthcare, etcetera. They say these kickbacks are inevitable for their survival.

Therefore, this chapter will try to establish if there is a relationship between the kind of governance being carried out by the state and the external barriers identified in this study. It will also demonstrate the complexity of the problem, the appropriate instruments and recommended solutions the state can put in place to rectify the issues at hand.

The chapter provides the qualitative and quantitative findings of the study. Qualitative interview guides and questionnaires were used to obtain the results of the study. The qualitative section will shed light on the respondents that were interviewed whilst the quantitative section will capture the regression results of the hypotheses that were tested under this chapter. The chapter starts off by giving descriptive statistics of each of the external barriers. It then explains each of the barriers, giving the general background of what is happening in Uganda and provides empirical entrepreneurship literature on the similarities in other developing countries. It goes on to describe the quantitative findings and the suggested hypotheses of the study. Finally, conclusions of the entire chapter are presented.

6.2 Qualitative Analysis

This section provides the findings of the qualitative study. Under this study, 50 people were examined using interview guides that have open ended questions. The respondents were asked to access the external barriers based on their experiences in western Uganda. The descriptive statistics in table 6.1 shows each external barrier and the number of respondents.

Table 6.1: External barriers faced by SMEs

Variable	Item	Frequency
Corruption	Yes	**30**
	No	**20**
Government policy	Yes	**33**
	No	**17**
Unreliable electricity	Yes	**29**
	No	**21**
Poor infrastructure	Yes	**24**
	No	**26**
High taxes	Yes	**32**
	No	**18**

6.2.1 Corruption

In regarding to corruption, 60% (N=30) of the respondents agreed that corruption exists in most sectors of the country. They specifically stated that most government officials expected a bribe to process any kind of paper-work related to the operation of a business.

A. Definition of corruption in the study's context

Shleifer and Vishny (1993) argue that there are two different kinds of corruption:

1. In corruption-without-theft, government agents demand a bribe above any required fees (so the government still receives its fees).
2. In corruption-with-theft, government agencies demand a bribe but do not give the government its fees (as with customs agents who take a bribe instead of collecting customs fees). Both buyers and sellers benefit from corruption-with-theft (since government services can be procured more cheaply), so one of the first steps in ending corruption is developing adequate accounting systems to prevent the theft.

Corruption can be defined as an agency problem where an official entrusted with carrying out a task by the state engages in some sort of malfeasance for private enrichment which is difficult to monitor for the principal (Bardhan, 1997). Corruption refers to illegal or unauthorized acts on the part of public officials who abuse their positions of authority to make personal gains. Therefore, corruption is a symptom of poor governance.

Broadly speaking, we can identify two very general types of corruption; bureaucratic and political corruption. Bureaucratic or "petty" corruption is associated with subordinate public officials using authority transferred to them by the government to extract bribes, embezzle public funds, commit fraud, and other forms of corruption. Studies have shown that such illegal payments are so widespread that they often happen with public officials openly asking for bribes in exchange of services, and citizens/companies openly paying without complaining (Inspectorate of Government - Uganda, 2014).

On the other hand, political or "grand" corruption is related with the political elite designing public policies or changing laws and regulations for their own benefit at the expense of the populace. Political corruption sometimes is hard to detect. Normally, there is no explicit bribe involved (Forgues-Puccio, 2013). This kind of corruption is common with many developing countries where the regulating bodies are very lax in their monitoring systems.

Rose-Ackerman (1996) argues that bribes are paid for two reasons - to obtain government benefits and to avoid costs. There is little evidence on how often officials, private firms, and individuals take advantage of corrupt opportunities and on how much money is paid in bribes. Surveys suggest that where corruption is endemic, it imposes a disproportionately high burden on the smallest firm. But, importantly, the most severe costs are often not the bribes themselves, but the underlying distortions they reveal. Despite the costs of widespread corruption, they are a symptom of disease, not the disease itself. Eliminating corruption makes no sense if the result is a rigid, unresponsive, autocratic government. Instead, anticorruption strategies should seek to improve the efficiency and fairness of government and to enhance the efficiency of the private sector.

Aterido et al. (2007) found that corruption hampers employment growth in small and medium firms. This is true regardless of whether corruption is measured as incidence of bribes, bribes as percentage of sales, incidence of "gifts" to government officials, or gifts as percentage of government contracts.

Luthans, Stajkovic and Ibrayeva (2000) further assert that the political and administrative discretion not only invites corruption but generates uncertainty, making it difficult for potential entrepreneurs to plan thereby leaving individual and property rights less secure. Such events increase the risk associated with pursuing entrepreneurial activities, which risk factor is among the many reasons several potential entrepreneurs are hesitant to pursue their dreams. This is a major deterrent factor to entrepreneurship.

Additionally, one explanation for high entry barriers is corruption. Captured by the governing elite, the rents generated by the entry fees end up in private accounts. In this case the fixed costs to entry do not translate into larger fiscal revenue. If the capture theory is right we shouldn't observe a positive relationship between the level of entry fees and tax revenue, on the contrary (Auriol, 2013).

The debate on the effects of corruption is particularly fervent. Beginning with Leff [1964] and Huntington [1968], some authors have suggested that corruption might raise economic growth, through two types of mechanisms. First, corrupt practices such as "speed money" would enable individuals to avoid bureaucratic delay. Second, government employees who are allowed to levy bribes would work harder, especially in the case where bribes act as a piece rate.

Finally, corruption can be costly for two broad reasons: First, weak central government. When the central government can't prevent agencies from claiming new turf, they will all want a claim on every transaction so that they can get more revenue. For example, there is very little foreign investment in Russia because you have to bribe - every agency involved in foreign investment, including the foreign investment office, the relevant industrial ministry, the finance ministry, the executive branch of the local government, the legislative branch, the central bank, the state property bureau, and so on (Shleifer and Vishny, 1993).

Second, the distortions entailed by the necessary secrecy of corruption. The demands of secrecy can shift a country's investments away from the highest value projects, such as health and education, into potentially useless projects, such as defence and infrastructure, if the latter offer better opportunities for secret corruption. The demands of secrecy can also cause leaders of a country to maintain monopolies, to prevent entry, and to discourage innovation by outsiders if expanding the ranks of the elite can expose existing corruption practices. Such distortions from corruption can discourage useful investment and growth (Shleifer and Vishny, 1993).

B. Corruption in Uganda

Corruption in Uganda is widespread and is seen as one of the greatest obstacles to the country's economic development and the provision of quality public services. Corruption is perceived as the most problematic factor for doing business in the country according to nearly 19% of business people surveyed under the 2012 Enterprise Survey (World Economic Forum, 2013).

Additionally, Uganda has been implementing public financial management reforms since the early 1990s, and while recent assessments show impressive improvements in many areas, there are still many challenges, particularly with regard to the effectiveness and efficiency of government spending and the quality of the services delivered with these resources (Ministry of Finance, Planning, and Economic Development, 2011).

In a recent report published by Transparency International, Uganda registered a score of 25 as its corruption perception index in 2016. The report indicates that the corruption levels in Uganda have worsened because the corruption index has steadily declined from a score of 29 that was reported in 2012. In this report, the lower ranked countries are plagued by untrustworthy and malfunctioning public institutions like the police and judiciary. Even where anti-corruption legislation exists, in practice it is often ignored. People frequently face situations of bribery, extortion and rely on basic services that have been undermined by the misappropriation of funds (Transparency International, 2016).

According to respondents of the National Integrity Survey conducted by the Inspectorate of Government in 2008, the most recurrent forms of corruption in the country include the payment of bribes (66% of the respondents), embezzlement of public money (15%), nepotism (5%), and favoritism (3%). Further surveys showed that companies doing business in Uganda have to deal with complex bureaucracy and high levels of discretion. The large numbers of documents, payments and procedures required for business operations certainly encourage companies and individuals to pay bribes or offer gifts to speed up such processes (Doing Business in Uganda, 2013). The common type of corruption affecting the SMEs in this study is bureaucratic or petty corruption.

In Uganda, the firms most vulnerable to corruption are SMEs due to the liability of their size and thus limited resources and capabilities to avoid it (Svensson, 2003). Most of the respondents in my study attested to having faced this predicament. However, many of the respondents in the sample collected also

agreed that corruption and bribery can also open doors to easier investment conditions, which ultimately represents a dilemma for SMEs when weighing the merits and demerits of engaging in corrupt behaviour.

Based on data collected on bribe payments across firms in Uganda, Svensson (2003) investigated the concern related to who must pay bribes and how much. He came to the following conclusions:

1. A firm with extensive dealings with the public sector is more likely to be under bureaucratic control and therefore faces a higher probability of having to pay bribes.
2. There's no evidence that the firm's profitability or alternative return on capital influences the likelihood of having to pay bribes. Thus, even firms with low profits will be forced to pay bribes if officials have control rights over the firm's business.
3. Larger firms also appear to be more likely to have to pay bribes.

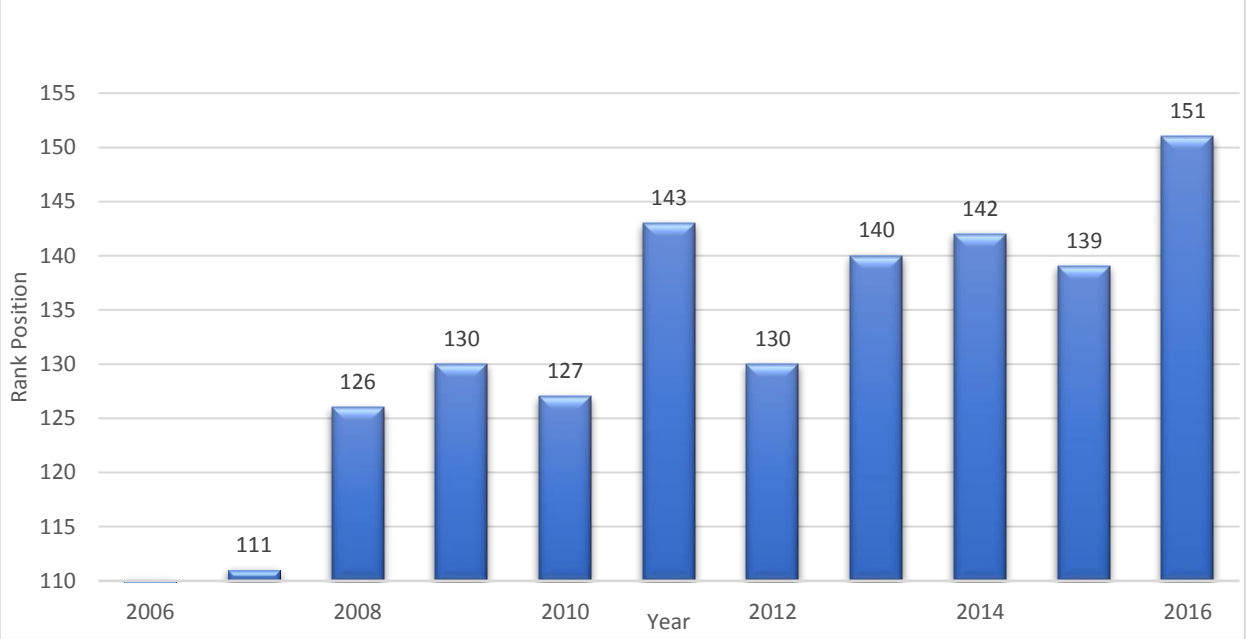
Further, in this study, 60% of the respondents claimed corruption exists. This covers both the young and older firms of the sample. This could suggest that there is a likelihood that all firms of whatever age are experiencing corruption. Therefore, to understand if there is a relationship between the age of a firm and corruption levels in Uganda, the quantitative section of this chapter will test the hypothesis - ***H8: The age of the firm is significant in determining whether corruption acts as a barrier to growth***.

Fishman and Svensson (2002) have shown that the effect of corruption on short-run growth rates of Ugandan firms by far exceeds the retarding effect of taxation. In the theoretical framework used by these authors, three reasons are put forward to explain differences in amounts of bribes paid across firms. First, firms may be dealing with public officials who differ with respect to the personal (moral) cost of demanding bribes. Secondly, public officials' perception of the likelihood of getting caught in corrupt practices and the perceived punishment if found guilty may also differ.

However, the most important explanation is that the opportunity for officials to extract bribes differs across sectors and locations. The control rights determine the threat point in the negotiation between a public official and a firm. When public officials maintain control over firms through regulation, the firms must either pay the required bribe or exit the market. Thus, if a firm operates in a sector or organizes production in such a way that the need/demand for public services is minimized, then it is also more likely to be able to avoid paying bribes without any major impact on its business.

The Corruption Perceptions Index reported by Transparency International ranked Uganda as the 151 most corrupt nation out of 175 countries in 2016. This is an all-time high compared to the record low of 43 in 1996.

Figure 6.1 Uganda's corruption rank between 2006-2016



Source: Transparency International, 2016

A country's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very honest). Denmark is listed as the least corrupt country in the world, followed by New Zealand, Finland, Sweden, Norway, Switzerland, Singapore, Netherlands, Luxembourg and Canada. The Berlin-based watchdog notes that countries are grappling with corruption are known for poorly equipped schools, counterfeit medicine and elections decided by money (Transparency International, 2016).

The report goes on to say - 'Bribes and backroom deals don't just steal resources from the most vulnerable – they undermine justice and economic development and destroy public trust in government and leaders.' (Transparency International, 2016). Additionally, José Ugaz, the chair of Transparency International stated: "Countries at the bottom need to adopt radical anti-corruption measures in favour of their people. Countries at the top of the index should make sure they don't export corrupt practices to underdeveloped countries." (Transparency International, 2016)

In Uganda, corruption affects a wide range of sectors and government institutions. The main sectors affected are: health, infrastructure (in terms of roads), education, police and the army. As a country dependent on aid, Uganda needs to improve on its financial management system to ensure donors' funds continue to come and are spent wisely. There is still room for reforms to improve the financial management of public funds (Transparency International, 2016).

A report by Transparency International, 2013, emphasizes that the Ugandan government has acknowledged that corruption is one of the main challenges facing the country. But recent developments have raised questions on the government's political will to address it. Several reforms, laws and new institutions to fight corruption have been established. However, in spite of recent investigations and corruption trials, an effective enforcement of the law in place is still lacking.

C. Qualitative findings of the study

All the qualitative findings were reviewed and documented. Of the 50 respondents that participated in the qualitative study, 60% (N=30) said corruption was a barrier to their business.

Although most respondents identified corruption as a barrier, their qualitative responses demonstrate a few nuances. For instance, a business consultancy owner (Interviewee 01) stated:

> *'I always budget for a token of appreciation for officials who help me get my paper work done. I don't term this as a bribe. But without this token, you will find a lot of resistance'.*

A poultry farm business owner (Interviewee 02) similarly stated that:

> *'There's a lot of bureaucracy in the government institutions. These officials expect payment (a bribe) to process your business paper work'.*

Both responses identify bribes as a means of keeping business going and reflect the 'bribes' payment findings in the National Integrity Survey. They portray the payment of bribes as a routine act, rather than an ad hoc payment. While they are a financial burden to businesses, these answers suggest that bribes are a predictable element of the business environment, a fee or transaction cost rather than an element of uncertainty.

The results also confirmed the Enterprise Survey done in 2012 in Uganda that emphasized rampant corruption in the economy. Some of the respondents claimed that corruption practices have become

acceptable in our societies. This interpretation is further underlined by Interviewee 03, a restaurant owner, who stated that:

> '*There's a lot of corruption and bribery in our society. I have accepted this in my line of business.'*

However, the respondents' qualitative responses also bring out another side of corruption in Uganda. As stated earlier, corruption is an institutional expression of the contractual relationship between the state, the state's agents and business (or individuals). In the preceding discussions, the payment of bribes, or gifts, is a means of ensuring that the state, or the state's agent performs its/their official role, such as certifying documents, issuing licenses et cetera thereby enabling business to operate legitimately. These roles are part of the revenue generating side of the state's interaction with civil society and business owners.

Some respondents, however, also identified the payment of bribes as a means of circumventing official requirements or as a means of reducing/ smoothing the overall cost of business. For instance, according to a milk distributor business owner (Interviewee 04):

> *'Sometimes when I delay on my license payments, the officials in charge always ask for bribes in order for my business to keep operating. This has happened to me on several occasions.'*

The extent to which bribes in such circumstances are an absolute and/or relative burden becomes more blurred here. If the delaying of license payment allows the entrepreneur to reduce statutory payments and the bribe paid is a lesser sum than the saving, then despite being a financial outlay, the payment of bribes can be seen as means of minimizing overall costs of business. This type of bribe also illustrates a pertinent agency problem. Here the state's agent potentially embezzles some of the funds belonging to the state.

The evidence above suggests that the payment of bribes is an expected/accepted part of doing business in western Uganda. A key question in the literature is, "In addition to the extent to which such bribes are linked to the profitability of business, do bribes operate as a set fee or are they proportional to the profit, or revenue, of the firm?" This matters as the latter scenario could constitute an incentive not to grow the business beyond some level, and thus negatively impact the ability of entrepreneurship for poverty reduction or incentivize entrepreneurs to hide economic activity and operate in the grey or black economy.

In the qualitative data a few respondents did not identify corruption as a barrier to entrepreneurship. For instance, a fruit and vegetable business owner (Interviewee 05) stated:

> *My business is still small, and I don't get disturbed or affected by government officials. I can firmly say corruption doesn't affect my business earnings and growth.*

Unlike Svensson (2003) this quote suggests that size does affect the likelihood of paying bribes. Importantly though, Svensson also concludes that it is particularly businesses under 'bureaucratic control' that are exposed to payment of bribes.

While providing some evidence that size is relevant to entrepreneur's perception of corruption as a barrier, it is often difficult to generalize from such qualitative evidence without also controlling for additional firm and industry characteristics. We shall test the hypothesis that bribes are a function of size and profitability. Alternatively, since any businesses of any size generates a turnover of funds and requires some interaction with public officials, size is unrelated to the payment of bribes. This does not exclude some firms not paying bribes or not perceiving bribes as a barrier but says that there is no systematic relationship between size and payment of bribes.

In all, the quotes and remarks on corruption clearly conform to the entrepreneurial literature that is currently happening in Uganda and most of the developing countries worldwide. Most of the respondents (60%) confirm that corruption in Uganda is widespread and is seen as one of the greatest obstacles to the country's economic development and the provision of quality public services.

6.2.2 Government policies

In the study, 66% of the respondents claimed that unfriendly government policies are a big obstacle to their business. They said many of these policies negatively affect the growth of their earnings.

A. Uganda's reforms and government policy

Before the 1980's Uganda had a closed economy in which the government protected the local market. This changed in the late 1980's when Uganda took on a set of reforms in the shape of Structural Adjustment Programmes (SAPs). The World Bank gave loans to the government under certain conditions with the aim of promoting the liberalization of the markets. Liberalization promoted free movement of capital, opened national markets to international competition, privatized public services and companies, deregulated labour relations, and improved competitiveness (Toissaint and Comanne, 1995).

Jauch (2009) argues that SAPs imposed severe hardships on the poor. He claims that despite some statistical economic growth, the implied policies resulted in the collapse of small enterprises and in trade unions losing 60% of their members since 1990.

My study engaged the respondents to capture solutions that they think the government of Uganda can put in place to formulate an efficient policy framework that can guarantee a prosperous future for local enterprises.

A report by the Economic Commission for Africa (2001) emphasised the role of government in creating an enabling regulatory and policy environment for entrepreneurship. It recommended that the regulatory and policy environment should be such that it creates a stable fiscal and monetary policy setting with sustainable interest rates, a system of financial markets that provides incentives to save, and mechanisms to channel savings into investments. Furthermore, policies that minimise the cost of business licensing and registration while at the same time safeguarding public interests and policies that facilitate business transactions such as infrastructure development were recommended.

In another study, Porteous (2002) recommended assessing the impact of all new legislation to ensure that the costs and complexities of registration for new businesses are not increased by its passing. Strengthening new business lobby groups and a national audit of legislation affecting or constraining small businesses was also recommended Rogerson (2005) who proposed the need for specific policy interventions which are designed to enhance the successful survival and growth of small business, more especially in light of the structural difficulties in the business environment.

Several studies by Simrie *et al.,* 2011, Herrington, *et al.,* 2010, Herrington, *et al.,* 2009, Maas and Herrington, 2006 attempted to find solutions to other factors such as low levels of education, lack of access to finance, lack of or limited access to the necessary resources, poor infrastructure etc. However, little has been said about the business regulatory environment. It is paramount to note that even with availability of resources, skills and infrastructure, without addressing issues in the business regulatory environment the much-needed improvement in entrepreneurial activity may not be achieved. The government of Uganda should address the regulatory environment in order to boost the success of SMEs in the country.

The regulatory environment has been identified (Dixon, Gates, Kapur, Seabury and Tally, 2007) as a controlling element for business to legally and freely function. In this study the business regulatory environment will be thought of in terms of legislative, political and administrative factors that have an influence on businesses. Consequently, the role that business and corporate laws play in the formation, growth and transition of small entrepreneurial ventures will be investigated.

Venter, Urban and Rwigema (2011) pointed out that arbitrary enforcement and erratic administration laws act as barriers to new venture creation and hence to entrepreneurship. It was further argued that the more

complex the procedure of registration or licensing a new business, the easier it is for governmental bureaucrats to abuse their power and impose their own discretion and complications for a new entrepreneurial venture. This makes the argument that the problems in the business regulatory environment go beyond just mere laws and policies to include the associated criminal activities and corruption by political and other administrators. The influence of the business regulatory environment can also go beyond the features of the regulation itself to include the procedural rules of the regulatory agency responsible for implementation.

There is on-going concern that some regulations, rules, and government policies place a disproportionate burden on small businesses and entrepreneurs (Dixon, Gates, Kapur, Seabury and Talley, 2007). Further concerns are based on the argument that some of the regulatory reforms that are intended to support small businesses and entrepreneurship may not achieve the intended outcomes. Dixon *et al.* (2007) further argued that the desire to support small businesses and entrepreneurship through regulatory reforms may come into conflict with the reason why the regulations were passed in the first place.

Dixon *et al.* (2007) further question the effects of special regulatory treatment on small businesses and new entrepreneurs. Questions raised include:

1) Why and under what circumstances does special regulatory treatment for small businesses occur?
2) Why does it take the specific form it takes?
3) What objectives is it designed to serve, and how effective is it in achieving these objectives?

Dixon *et al.* (2007) further point out that there is no quantitative evidence to demonstrate the specific impacts of policies and regulations on entrepreneurs, nor has there been much evidence showing whether rules and exemptions designed to benefit small businesses and entrepreneurs actually have that effect. Despite lack of empirical evidence, challenges in the business regulatory environment continue to emerge in literature as impediments to entrepreneurial activity in both developing and developed economies (Economic Commission for Africa, 2001, Herrington, 2011, Herrington *et al.*, 2009).

B. Qualitative findings of the study

Of the respondents that were interviewed, 66% (N=33) of them said some of the government's policies are an obstacle to the growth of their businesses.

Most of the respondents conformed to the literature by Jauch (2009) that argued that the SAPs started by the Ugandan government in the late 1980s imposed several hardships on SMEs. The liberalization promoted free movement of capital and opened national markets to international competitors. Some of the international companies that entered the country were exempted from tax or given tax holidays. This created a lot of competition for the local firm who either collapsed or struggled with a drastic reduction in their earnings.

The government should look into trademarks that help to deal with adverse selection and help to allow the provision of higher quality goods. Trademarks play an essential role in protecting consumers and in promoting global economic growth. They also facilitate consumers' choice among experience goods and transmit quality signals for infrequently consumed goods. The effects of trademarks on barriers of entry are ambiguous. An example where government isn't fully looking into trademarks as it regulates imports into the country can be illustrated by one of the electronic business owner (Interviewee 06) who states:

> *'Weak government regulations to avoid importation of counterfeit electronic appliances coming into the country have led to loss of my trustworthy customers.'*

This clearly shows that trademarks are indispensable for the efficient provision of products with the wide range of variety and quality combination demanded in Uganda.

Many of the qualitative respondents cited the complex procedure of registration or licensing a new business as a daunting challenge. They claimed that government bureaucrats often abuse their power and impose their own discretional and complicated procedures for new entrepreneurial ventures. This argues that the problems in the business regulatory environment go beyond just mere laws and policies to further involve the associated criminal activities and corruption by political and other administrators. This kind of predicament is happening in Uganda and can be seen by a butchery owner (Interviewee 07) who states:

> *'Government requires unnecessary medical certificates every six months, which are very expensive to get.'*

Entrepreneurship literature emphasizes on-going concern that some regulations, rules, and government policies place a disproportionate burden on small businesses and entrepreneurs (Dixon, Gates, Kapur, Seabury and Talley, 2007). A few of the qualitative respondents claimed that the burdens they face from some of the government policies are simply because of their size. They strongly argue that some of the regulatory reforms that are intended to support SMEs in the country may not achieve the intended outcomes mainly because of the liability of the firm's size. Remarks by a milk distributor (Interviewee 04) confirm this by stating:

'Government forces us to use cans and coolers for milk storage. These are very expensive and consume a lot of electricity. They should implement a better policy for a small firm like mine.'

However, some of the respondents claimed that when they conform to government policies, they do not experience them as a barrier. An example of this can be observed by a café business owner (Interviewee 08) who remarked:

'I am in line with most of the government polices so I am not affected by this barrier.'

Previous work has suggested that the ownership structure of a firm is an effective way to determine the rate at which firms adhere to government policies. Many economists have argued that small and informal firms intentionally remain invisible to avoid new government policies that may negatively affect their growth. Therefore, the quantitative section of this chapter will run a hypothesis – ***H9: A firm's ownership structure is significant in determining whether government policies act as a barrier to growth.***

6.2.3 Unreliable Electricity

Unreliable electricity is a common phenomenon in most of the rural parts of the country. The respondents were asked if these power cuts affected their businesses and 58% (N=29) of the entrepreneurs agreed that these power cuts negatively affect the growth of their business.

A. Access to electricity in Uganda

Electricity remains critical for Uganda to attain the growth trajectory and socio-economic transformation required to match the country's fast-growing population. The limited access to electricity (15% at the national level and about 7% in rural areas) has affected the delivery of social services, constrained the development of small-scale industrial and commercial enterprises, and adversely affected larger-scale industrial and commercial investment (Uganda Rural Electricity Access project, 2015).

To alleviate this situation, the Government of Uganda has formulated and is implementing several measures to achieve its electricity access targets:

1) the Uganda Vision 2040 - access to 80 % by 2040

2) the National Development Plan 2015/16 – 2019/20 access from 14% to 30%

3) the 2013-22 Rural Electrification Strategy and Plan sets out a target to increase access to electricity in rural areas from 7% to 26% (Uganda Rural Electricity Access project, 2015).

Uganda currently has 850 Megawatts (MW) of installed capacity (with effective generation of approximately 710 MW), of which approximately 645 MW is hydro and 101.5 MW is thermal generating capacity. The government of Ugandan is building additional large hydropower facilities, such as the 600 MW Karuma hydro and the 183 MW Isimba Falls hydro project. Today, distribution is regulated and cost-reflective tariffs are utilized, with 54% of power generation coming from independent power producers (USAID, 2017).

The largest provider, Umeme, has repeatedly promised to invest in electrical substations and replace old poles to cope with load growth as well as to ensure the reliability of supply. Between 2005-2012, Uganda was producing less electricity than it needed, which necessitated load-shedding. This prompted entrepreneurs to invest in generators for their businesses. However, many small entrepreneurs found this very challenging due to the cost of a generator.

A World Bank Enterprise Survey done in 2006 showed that Uganda was facing load-shedding (experiencing powers shortages in intervals for different regions in the country) up to 11 times in a month on average. The load-shedding stopped when the 250 Mega Watt (MW) Bujagali Hydro Power Plant was commissioned in 2010. Uganda now has an installed electricity generation capacity of 850MW, even though peak demand is 528MW.

A Report done by Energypedia Uganda in 2017 said wood fuels are largely used for cooking in rural areas while charcoal mostly provides for the cooking needs of the urban population. High demand for these inefficiently used wood fuels results in waste and depletion of forests. Similarly, households use biomass in a very inefficient way as the three-stone fire is still widely spread. Urban and rural households are facing increasing energy costs and spend more time collecting firewood.

Furthermore, the traditional use of firewood is responsible for high indoor air pollution levels, thus causing respiratory diseases that affect women and children. The latter spend many hours and travel long distances to collect fuel wood. This deprives women of valuable time to engage in income generating activities and children to go to school and study. A total of 93% of rural households without access to electricity are currently using traditional lighting technologies such as candles or kerosene lamps that give inadequate quality lighting, emit noxious fumes and present hazards in terms of fires or burns (for children).

Most of the social institutions (e.g. schools and health centers) in rural areas do not have access to electricity, which leads to inferior health and education services in comparison to electrified institutions.

Lack of access to electricity also severely constrains the economic development of rural areas in Uganda, preventing the establishment of businesses that require electricity or forcing companies to buy diesel or petrol generators that are costly to operate and negatively impact the environment.

Job creation is being seriously constrained by the lack of adequate investment in the provision of rural infrastructure services, of which electricity is a key component. Lack of electricity also prevents access to information and communication technologies like mobile phones, computers and internet access. This further isolate rural areas from the rest of the country. The quality of rural life is hampered by lack of electricity, particularly as rural public institutions responsible for health, educational and water facilities would be able to provide better services if they had access to electricity.

B. Access to electricity in developing countries

Access to a reliable electricity supply is widely considered to be vital to the operations of most small- and medium-scale businesses. Surveys suggest that in middle and lower income countries, firms themselves consider access to electricity to be one of the biggest constraints to their business (Scott, Darko, Lemma and Rud, 2014). Inadequate electricity services constrain business operations when a supply of electricity is unavailable or difficult to secure reliably, even before cost considerations. High quality and accessible (electricity) infrastructure encourage productivity, business growth and investment, but when it is poor and unreliable, business productivity and growth suffer.

Scott (2014) argues that an unreliable electricity supply, electricity insecurity, can affect several aspects of business operations. The most significant impact to productivity may manifest in forced/unexpected interruption to the manufacturing process including running assembly lines and machine tools. Communications, delivery times, lighting and refrigeration are also affected by electricity insecurity, with consequences for the routine operation of businesses and their ability to ensure delivery times and product quality.

Many small and medium-scale enterprises invest in their own stand-by generators to ensure an electricity supply, but these are often expensive compared to electricity from the grid. Generators also require some technical expertise as well as reliable supplies of fuel and spare parts. Yet, in sub-Saharan Africa and elsewhere own generation by firms is reported to have increased in recent years. Enterprise survey data carried out by Foster and Steinbuks (2008) showed that on average 46.1% of firms in sub-Saharan Africa had a generator.

Electricity infrastructure and its subsequent consumption are generally understood to be positively correlated with productivity and economic growth (Rud, 2012). Adenikinju (2005) goes so far as to say, "It is fairly settled in the literature that infrastructure plays a critical and positive role in economic development." The available evidence is more nuanced, however, and provides a more complex picture, mainly because causation is hard to disentangle. Isaksson (2010) cites findings that output per capita and energy infrastructure are co-integrated and causation runs in two directions but concludes from analysis of cross-country data that energy infrastructure is a significant factor in explaining differences in industrial development between countries.

Escribano et al. (2009) found that poor infrastructure quality has a significant negative impact on total factor productivity, and that poor-quality electricity supply is the infrastructure element that has the strongest negative effort on enterprise productivity especially in poor African counties. Additionally, in a study of the impact of rural electrification on household income in India, Chakravorty et al. (2012) found that the reliability of electricity supply is more important than being connected to the grid.

The impact of electricity insecurity on SMEs' productivity is clearly variable and depends on factors related to both the external context that a firm is operating in and to its internal capabilities. Variation in the findings between countries appears to be related to differences in geography, structure of the economy and SME sector, and the overall business environment. This is consistent with the findings of previous research (World Bank, 2010 and Chissokho and Seck, 2013).

Interruptions to power supplies potentially affect SMEs' costs of production through the expense of repairing or replacing damaged equipment, the cost of spoiled goods and the additional cost of alternative sources of energy, such as generators (Cissokho et al., 2013). The effect of these costs on the competitiveness of SMEs depends in part on their impact on total costs. Reliance on generators for electricity during outages can be expected to increase the cost of electricity, and the effect on cost-competitiveness is related to the proportion of total costs accounted for by electricity.

There is some evidence to suggest that manufacturing SMEs may perceive smaller gains from electricity than service sector firms. In Uganda, Neelsen and Peters (2013) found that manufacturing firms were less inclined to connect to the grid or use decentralized electricity than service firms, because of the high investment costs of electric machinery coupled with sharp competition in the market for manufactured goods. Therefore, the quantitative section of this chapter will test for the hypothesis – ***H10: The industry of a firm is significant in determining whether electricity insecurity acts as a barrier to growth.***

C. Qualitative findings of the study

In the qualitative study, 58% (N=29) of the respondents claimed unreliable electricity was a barrier to their businesses. Many of the qualitative responses confirmed the current electricity insecurity in the country. The country is experiencing limited access to electricity of 15% at the national level and about 7% in rural areas. This lack of electricity prevents access to information and communication technologies (e.g. mobile phones, computers, and internet) that are very common in western Uganda.

The respondents claimed their quality of life is hampered by lack of electricity, particularly as rural public institutions such as health, educational and water facilities would be able to provide better services if they had access to electricity. Others claimed that it was significantly affecting the growth of their businesses as they were being forced to buy diesel or petrol generators that are costly to operate and negatively impact the environment.

The lack of electricity has severely constrained information flow as communication remains traditional and unable to keep up with current trends such as mobile phones, computers or the internet. Not only does this adversely affect communication, the benefits of online banking or money transfers are kept out of the reach of SMEs in remote areas. In order to overcome this adversity, local business have had to resort to generators which come at a capital cost and incur maintenance and fuel cost in addition to their negative environmental impact. Interviewee 09, a bar and restaurant owner stated that:

> *'When I experience power cuts, I lose a lot of customers because they are unhappy that my drinks are not cold.'*

Many respondents also associated the numerous power cuts to their specific geographical area. They were unhappy that their region had more power cuts compared to other regions in the country. World Bank literature on electricity insecurities has supported these assertions. For instance, reports by the World Bank in 2010 state that the impact of electricity insecurity on SMEs' productivity is clearly variable and depends on factors related to both the external context that a firm is operating in and to its internal capabilities. Variation in the findings between countries appears to be related to differences in geography, structure of the economy and SME sector, and the overall business environment. A restaurant owner (Interviewee 03) states:

> *'In our area, power mainly goes off in the evenings, but this isn't common in other areas. This greatly distorts my work because many of my customers come in the evenings.'*

However, 42% (N=21) of the qualitative respondents claimed that electricity insecurity was not a barrier. Some of these firms invested in their own stand-by generators to ensure an electricity supply always. Many of them are very small in terms of size. An enterprise survey carried out by Foster and Steinbuks (2008) showed that on average 46.1% of firms in sub-Saharan Africa had a generator. The 42% of the firms surveyed fairly represent the findings of that study. A furniture business owner, Interviewee 10, stated that:

> *'Power doesn't affect my work. I display most of my furniture outside and I hardly have any use for electricity to make any sales.*

The quantitative study will establish whether the firms' age may differ significantly in the challenges they face with electricity insecurities in Uganda. From the literature, we shall assume that more experienced firms have more resources to afford alternative power sources like solar and generators which the small firms may not be able to afford.

6.2.4 Poor infrastructure

When the entrepreneurs were asked about whether infrastructure is a barrier in terms of poor roads, 48% of the respondents answered 'yes' and 52% said 'no'. One would ordinarily expect poor roads to have a bigger negative impact on the respondents, but most of the respondents' businesses are located within the trading centers (where their clients/customers are) and hence may not necessarily be affected by the poor upcountry roads that exist in many rural areas of the country.

A. An overview of the Infrastructure Networks in Uganda

The transport modes and infrastructure in Uganda are served by road, rail, inland water and air transport. Road is by far the dominant transport mode in terms of scale of infrastructure and the volume of freight and people movements. Road infrastructure comprises of classified (national) roads, feeder (district) roads, urban roads as well as community access roads. The size of the network can be summarized as follows: classified roads – 9,496 km (23.5% paved) - feeder roads – 24,326 (virtually all unpaved) and urban roads 1,376 km (42.9% paved). A total of 35,198 km.

Figure 6.2 Road map of Uganda

The Uganda Railways Corporation was established by presidential decree in 1977 to take over the operation of the parts of the former East African Railways network within Uganda. The Uganda railway network totals 1,244 km and comprises of the central line between Kampala and Malaba (Kenya border).

With regard to air transport, Uganda has only one truly international airport, which is Entebbe International airport (EIA). A further five upcountry airports, Arua, Gulu, Kasese, Kidepo and Pakuba were designated as international entry points in 1994. International flights are allowed directly in and out of these upcountry airports without the requirement for prior or subsequent landings and customs clearance at Entebbe. There are seven additional smaller domestic airfields.

Like most developing countries, Uganda faces two major rural transport gaps, namely: the operating environment and the fixed and variable cost of vehicle operation. The former includes infrastructure, demand, income levels and institutional factors while the latter comprises vehicle operating costs. These principal elements affect and influence the level of competition, diversity of vehicle types, vehicle utilization, service frequency and ultimately cost of travel. By far much of the transport and travel activity in Uganda occurs in rural areas where approximately 85% of the population lives. The greater part of transport in rural areas, in terms of both distances and amounts carried, is usually off road. Almost all this transport is non-motorized and dominated by head-loading of women and children with loads of up to 30kg.

According to some of the studies carried out by "The Rural Travel and Transport Programme", low density of demand for transport is the largest single obstacle to the improved provision of rural transport services in Sub-Saharan Africa (Uganda inclusive). It is, however, considered that more can be done to maximize effective demand. This can be achieved through increased provisions of rural markets (so that peasants do not walk long distances to the markets), ensuring that rural road networks have a minimum degree of inter-connectivity to reduce dead end routes and use of modern communication devices such as radios and telephones to link isolated places to centers with vehicle services.

In Uganda, measures were put in place to establish and operate a Rural Communications Development Fund to cater for rural areas. Mobile telephone services have also expanded rapidly and are already being used by some boda-boda (motorcycle) operators in some parts of the country. Due to the very low-income levels of the rural poor, even where transport services have been provided, they simply cannot afford them. Although transport providers tend to be organized into "Associations" which have become so powerful that they set fares without government regulation (The Rural Travel and Transport Programme, 2015). These associations tend to keep the fares high. There is a need to reduce the powers of the transport associations through dialogue between the Transport Licensing Board (a government agency) and/or town councils and the various transport associations.

Lastly, the problem of acquisition and operation of vehicles is noteworthy. The most suitable vehicles for rural Uganda are the four-wheel drive pick-ups, tractors, motorcycles and bicycles on account of poor road surfaces. Acquisition and maintenance of the above vehicles is too expensive for the rural poor. Motor vehicles aside, acquisition of bicycles is very low and limited to well-to-do households. Head-loading by women thus remains the principal mode of transporting goods in rural Uganda. As a mode of transport, it is very inefficient, time consuming, costly in time and the opportunity cost of engaging in other productive activity like farming, has a high loss rate and suffers lower carrying capacity.

B. Challenges of the poor infrastructure in Uganda

Measures of road length support the notion that Uganda's road network is far behind those found in developed countries. In 2003, Uganda reported a network of paved roads consisting of 16,300 km in a land area of 200,000 km (CIA Fact-book 2009). For a startling benchmark, we note that this was not much greater than the paved road density found in Britain in AD 350, when the retreating Roman Empire left a network of 12-15,000 km of paved roads in a land area of 242,000 km (Lay, 1992). In this specific sense, then, Uganda lags Britain by almost two thousand years in the development of its road infrastructure.

According to Boter and Lundstrom (2005), provision of infrastructural facilities can make or break entrepreneurs and determine the success and/or the failure of small businesses. In Nigeria, these problems have been around for decades and still linger on. Crucial facilities such as uninterrupted electric supply, good road networks, good water supply, sewers and efficient waste disposal facilities, and other essential infrastructure needed to support society and business operations are lacking.

Studies done in Uganda by Gollin and Rogerson (2010) show that much of the country's roads and other transportation infrastructure are very poor. This means that rural markets in Uganda are characterized by high transportation and transaction costs. Their model correspondingly includes an iceberg cost of moving goods from rural areas to urban areas (and vice versa).

Ishengoma (2005) argues that the economic infrastructure and social services are not equally distributed in developing countries. The favored areas (trading centers) may tend to attract capital (for example foreign investment) and skilled labor, which together with the presence of a supply of non-tradable inputs may increase market linkages in these areas. Thus, firms located in these areas (trading centers) are likely to perform better or experience growth faster than those outside. Therefore, this study will test for the hypothesis – ***H11: The firm's location (distance from the trading center) is significant in determining whether poor infrastructure in terms of poor roads acts as a barrier to the firm's growth.***

Further, like most countries in sub-Saharan Africa, Uganda has very low levels of physical infrastructure and public services. All forms of physical infrastructure are underdeveloped, and this is widely cited as one of the country's main constraints to development. The lack of infrastructure is particularly acute in rural areas. Existing road networks leave many communities inaccessible by vehicles, and very few rural residents have access to electricity or piped water.

Frost & Sullivan (2012) found that the infrastructure sector in Uganda is expected to grow as the government prepares to meet surging demand across all sectors. It aims to encourage investments in an economy that are forecast to grow rapidly because of the discovery of oil in the region.

They continue to emphasize that the government of Uganda had already committed $400 million to road improvement projects. It has also allocated another $900 million to the development of Priority Proposed Projects by 2015. However, inconsistent investments and poor implementation of measures to address maintenance, repair and construction issues has led to the decay of several government-managed subsectors. This deplorable state of infrastructure has even delayed the production of newly discovered oil resources in the Lake Albert region.

Despite the numerous challenges thrown up by the poor state of infrastructure, the sector presents numerous investment opportunities. The government needs to actively seek and promote long-lasting partnerships that will facilitate the continuous improvement of infrastructure in the country. The introduction of long-term, reliable partners will aid the government in improving service delivery, and in turn promote economic growth.

Nevertheless, some progress is being observed. For example, the road linking Uganda with South Sudan is due to be completed, as well as the many other rural feeder roads in the countryside. In the recently passed budget, 2011, infrastructure took a massive 13% of funds allocated. Defending this unusually huge proportion, President Museveni said: 'When you talk of agriculture, you must not forget the roads.' Arguably, the construction of good roads across Uganda will boost the economy, create additional jobs opportunities and improve market and health access for the rural people. As a landlocked country, a functioning road network will improve trade relations with the neighboring countries and improve Uganda's access to seaports.

The government of Uganda has highlighted the need for infrastructure development in a series of planning documents, including a series of Poverty Eradication Action Plans and its most recent National Development Plan. In addition, a consortium of donors, including the World Bank, the African Development Bank, and several key national aid agencies issued a Joint Assistance Strategy for Uganda in 2006. This document identified the most pressing needs for development investments in Uganda and agreed on a coordinated set of programs, with rural transportation infrastructure featuring high on the list of priorities.

C. Qualitative findings of the study

In the qualitative study, 48% (N=24) of the respondents claimed poor infrastructure in terms of bad roads was a barrier to their businesses. In Uganda, much of the transport and travel activity occurs in rural areas where approximately 85% of the population lives. In 2009, it was reported that a network of paved roads consisted of only 8% and most of this was in the capital city, Kampala. The unavailability of infrastructural facilities in mostly the rural regions of the country can determine the success and/or failure of small businesses.

The qualitative responses in this study conformed to the existing studies done in Uganda. For instance, studies done in Uganda by Gollin and Rogerson (2010) show that much of the country's roads and other transportation infrastructure is very poor. This means that rural markets in Uganda are characterized by high transportation and transaction costs. This is clearly illustrated by a milk distributor (Interviewee 11) who stated:

> *'The poor road access from my farm to the markets has greatly hindered the growth of my earnings. I incur heavy transport costs for my produce.'*

However, 52% (N=26) claimed poor infrastructure was not a barrier. This high percentage may simply mean that many of the respondents in the sample own shops in the trading centers and hence may not necessarily be affected by the poor state of the roads in the country.

Typical remarks by a bakery owner (Interviewee 12) and an internet café owner (Interviewee 08) stated, respectively:

- *'Infrastructure in form of road access isn't a problem for my business because my bakery is in the middle of town and my clients buy and collect directly from my shop.'*

- *'My business is located within town. I provide internet and printing services. I therefore don't incur any expenses on transportation.'*

On a positive note, recent budgets have allocated a reasonable percentage of the budget to the construction of infrastructure. Government critics have applauded this move and President Museveni has often emphasized in his speeches that if you're embarking on improving and focusing on agriculture, you must

not forget the roads. Arguably, the construction of good roads across Uganda will boost the economy, create additional jobs opportunities and improve market and health access for the rural people.

6.2.5 High taxes

Most of the respondents (64%) claimed that high taxes were negatively affecting the growth of their earnings. Some claimed that after paying the high taxes imposed on them by government, they can barely make any profits from their business, let alone save for their future.

A. Tax description in Uganda

Uganda's tax system is residence-based, with a standard corporate tax rate of 30%. Capital gains are aggregated with business income and taxed at the standard corporate income tax rate.

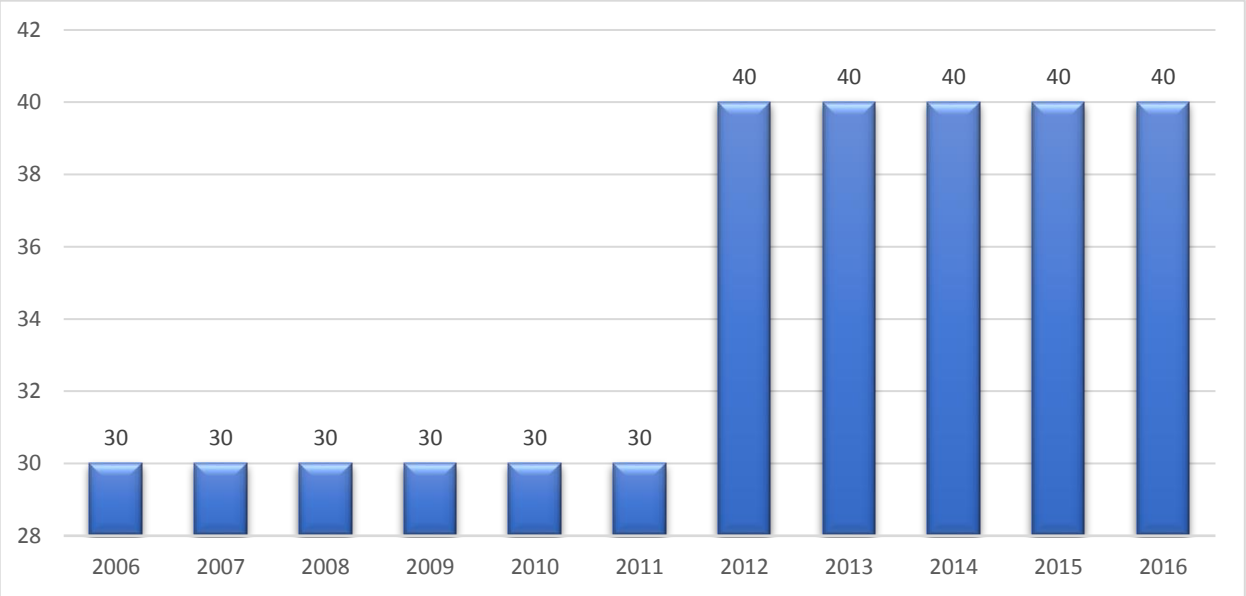
VAT is at a standard rate of 18%. It is imposed on imported goods and the local supply of goods and services. Withholding tax is deducted at source on specified payments both to residents and non-residents. Withholding tax is generally an advance tax in the case of residents and a final tax in the case of non-residents.

In Uganda, every corporate entity (excluding exempt entities) that has chargeable income for the year of income is subject to corporate income tax. Uganda tax residents are subject to income tax on their world-wide income, whereas non-residents are subject to tax on income from a source in Uganda. A company is a Ugandan tax resident if it is incorporated or formed under the laws of Uganda, has its management and control exercised in Uganda or undertakes the majority of its operations in Uganda during the year of income.

Tax exempt entities include religious, charitable or educational institutions of a public character, trade unions, employees' associations, association of employers, and certain associations established for the purpose of promoting farming, mining, tourism, manufacturing, or commerce and industry and amateur sporting associations.

The Personal Income Tax Rate in Uganda stands at 40%. Personal Income Tax Rate in Uganda averaged 33.85% from 2004 until 2016, reaching an all-time high of 40% in 2012 and a record low of 30% in 2005.

Figure 6.3 Personal Income Tax Rate in Uganda



Source: TradingEconomics.com / Uganda Revenue Authority

In Uganda, the Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labour, pensions, interest and dividends. Revenues from the Personal Income Tax Rate are an important source of income for the government of Uganda.

B. SMEs and taxes in Uganda

In Uganda, many SMEs are mostly concerned with the viability of the business and not the compliance with tax law. Many of these SMEs simply do not know which tax to pay and the procedure to follow. In most cases, they end up evading the tax and are bound to lead them into bad records with the revenue authority. A spokesperson for Kampala City Traders Association once said: 'I believe any good tax policy should not isolate a business because of its size and this should be done equitably free and fair' (Monitor Newspaper, 2016).

According to the National Small Business Survey done in Uganda by Financial Sector Deepening Uganda (FSDU) in 2015, about 75% of SMEs did not have a tax identification number and hence do not pay taxes. They report that the government of Uganda should educate and give tax information to the populace and business community through its revenue authority. It should be clear and informative. This will help guide the entrepreneurs on the taxes they are expected to pay for their businesses and in turn increase the tax base for the government.

In the Finance Amendment Bill, 2016, the minister of finance, Hon. Kasaija proposed to increase the rate of the environmental levy imposed on used clothing, used shoes and other used articles from 15% to 20% of the cost, insurance and freight (CFI) value. However, there has been an outcry from the public and SME entrepreneurs. These have urged the government to reduce this high tax and also boost the citizens' household incomes to enable them purchase brand new cotton products.

Government collects taxes from SMEs through registration processes and requirements. As addressed by Levenson and Maloney (1998), among the requirements for financial institutions to extend funds to business entities is the latter's registration with government authorities. Government asks financial institutions to identity of their business partners for tax purposes.

C. High taxation in developing countries

Joseph Schumpeter (1918) stated, "The fiscal history of a people is above all an essential part of its general history. An enormous influence on the fate of nations emanates from the economic bleeding which the needs of the state necessitates, and from the use to which the results are put." To understand taxation, economic development and the relationships between them, we need to think about the forces that drive the development process. Poor countries are poor for certain reasons and these reasons can also help to explain their weakness in raising tax revenue.

(Keefer, 2000) argues that the limited performance of SMEs has been associated with unfavourable systems of taxation and a high regulatory burden. High taxes limit the performance and growth potential of SMEs in several ways. They reduce their internal sources of financing and discourage them from expanding, formalizing and, hence, participating in subcontracting arrangements (Ishengoma and Kappel 2008).

Auriol and Warlters (2005) show that this is consistent with a deliberate government policy for raising tax revenue. In the formal sector the barriers to entry generate market power for the firms. The rents are confiscated by the government through entry fees and taxes. Entry fees then fulfil two purposes. As barriers to entry they create market power for firms whose rents are captured by the government. As tax instruments they have low administrative cost. The relevance of the theory is assessed on a sample of 63 countries.

Studies done by Ishengoma and Kappel (2007), suggest that high tax rates reduce firms' internal sources of finance. In some developing countries, including Uganda, they also discourage MSEs from expanding

their operations and becoming visible to government officials, since being visible or operating formally is likely to increase the cost of operating.

More studies done in Uganda indicate that when SMEs are relieved of severely high taxes, the probability of their income growing increases by 17%(Ishengoma and Kappel, 2008). These results confirm that high taxes constrain the growth potential and performance of MSEs. Other findings corroborate these observations, including Sengendo et al., (2001) and Kappel, Lay, Steiner (2004), which clearly state that high tax is an obstacle to business development in Uganda.

Among the reasons why tax limits the growth and performance of MSEs is the fact that some MSEs may prefer to remain informal and much smaller to avoid being visible and paying tax, a situation that may limit their enjoyment of economies of scale. However, remaining informal and smaller (micro) limits their potential to participate in subcontracting arrangements, particularly those involving large firms and public projects (Ishengoma and Lokina, 2007, Mlinga and Wells, 2002, and Arimah 2001), and their access to productive resources (Loayza 1997; Weder 2003). Tokman (2001) reports that high taxes subtract a substantial amount from the income generated by Latin American microenterprises. This decreases their internal sources of funding for the expansion of production operations and the growth of their business.

Allingham and Sandmo (1972) found that intrinsic motives to pay taxes and to follow the law are also important determinants for tax compliance in addition to the material costs and benefits of tax compliance. It is important to note that creating a culture of compliance may be central to raising revenue. Thus, one reason why low-income countries have lower levels of taxation may be a weaker ethic of tax-paying than that evolved in high-income countries. The absence of a strong compliance norm means that any given statutory level of taxation will raise less revenue than would otherwise be expected (Besley and Persson, 2014).

D. Qualitative findings of the study

Of the 50 respondents asked about taxes, 64% (N=32) claimed that high taxes have a negative effect on their businesses. The majority of these respondents were more concerned with the viability of the business and not compliance with the tax law. Most of them do not know which tax to pay and the procedure to follow. As a result, they end up evading the tax and getting into trouble with the revenue authority. Many experts in the tax sector have maintained that high taxes are an obstacle to business development. These enormous taxes limit the performance and growth potential of SMEs in Uganda in several ways. This can clearly be illustrated by two different retail shop owners (Interviewees 13 and 14) who state respectively:

'The returns I get from my sales are very negligible because the taxes imposed on my products are very high. The government should look into the tax base on private small businesses.'

'Yes, the high taxes reduce on the profitability of my business. I hardly make any profits off my business and I can't grow to the next level.'

Another argument economists have suggested for the aversion to high taxes by SMEs can be seen by work done by Ishengoma and Kappel (2007). They suggest that SMEs may prefer to remain informal and much smaller to avoid being visible and paying tax, a situation that may limit their enjoyment of economies of scale. With that in mind, this study will try to establish the relationship between the age of a firm and high taxes by testing the hypothesis – ***H12: The age of a firm is significant in determining whether high taxes acts as a barrier to growth of SMEs.***

Some of the respondents in the qualitative study claimed that expanding their operations and becoming visible to governmental officials increases the taxation they will end up paying. This can be illustrated by an internet café owner (Interviewee 08) who stated:

'The taxes levied on us by the municipal council are very high. Moreover, as you expand, the tax is expected to increase. These enormous taxes are straining the growth of my business.'

There's a significant link between the prevailing corruption in the country and high taxes that can be explored in this study. Collection of taxes is an institutional expression of the contractual relationship between the state, the state's agents and the entrepreneurs. The government collects taxes from SMEs through registration processes and monthly/annual requirements. The state's agents under its revenue authority undertake this process. These roles are part of the revenue generating side of the state's interaction with civil society and business owners.

The literature and qualitative findings reveal that during this taxation process, most of the entrepreneurs claimed that they are less willing to pay tax because the taxes are high, and some corrupt officials give them a way out. This suggests that there is a relationship between high taxes, corruption and widespread tax evasion. For instance, an entrepreneur interviewed said he would rather forgo paying the entire tax as a requirement by the state, and instead easily pay a bribe of 30% of the required tax to a government

official who would in turn get him cleared. However, this bribing process must continue with the same officials over a period. Therefore, these bribes are a necessary evil because they are a means of not adhering fully with official requirements but more importantly, reduce the overall cost of business.

Some respondents had mixed feelings regarding the high taxation predicament in Uganda. They claimed that they were willing to pay the high taxes if the government would improve services like public healthcare, public education and infrastructure. However, the respondents who gave this view also felt that because of the rampant corruption in many government institutions, these services were not likely to be realized regardless of whether they paid the high taxes or not.

6.3 Quantitative Analysis

6.3.1 Introduction

The quantitative section in this chapter focuses on testing the hypotheses generated from the literature review and the qualitative section. Using the snowballing technique, a sample of 400 SMEs were collected for the quantitative section of this study. The data was collected in 2016 from Uganda (Case Study) by means of structured questionnaires that were personally administered by the PhD student. Most of the businesses were in Mbarara district (70%). The reason for this is Mbarara district is one of the fastest growing districts in the country and hence has had an influx of business start-ups. The other neighboring districts involved in the survey were Bushenyi, Ibanda, Isingiro, Kiruhura, and Sheema. Approximately 30% of the questionnaires were collected in these five districts.

This section focuses on five barriers. These are: corruption, government policy, electricity insecurity, poor infrastructure and high taxes. These barriers may, on the one hand, limit physical capital accumulation and on the other hand, may constrain a firm's ability to undertake its daily operations since they reduce its internal financing and its capacity to make optimal business decisions. In some developing countries, including Uganda, barriers like high taxes discourage SMEs from expanding their operations and becoming visible to government officials, since being visible or operating formally is likely to increase the cost of operating (Ishengoma and Kappel, 2007).

Several academic papers indicate some of the straining factors on SME growth in Uganda are: inadequate provision of public infrastructure and services that affect private investment (Svensson and Reinikka, 2001), unfavorable taxation systems, a heavy regulatory burden and administrative bureaucracy (Keefer, 2000), high transportation and transaction costs (Rudaheranwa, 2000, 2006) and corruption (Svensson,

2002). In this section, we shall run regressions making each of the externals barriers the dependent variables and the entrepreneur and firm characteristics will be the control variables.

Table 6.2 shows the descriptive statistics of the external barriers (dependent variables) that are used in the quantitative section of this chapter. It shows the frequency of the respondents on a Likert scale ranging from 'Strongly Disagree' to 'Strongly Agree'. The total observations in the table below are 400. These external barriers will each be used as a dependent variable in our models.

Table 6.2 Descriptive statistics of the external barriers and response rate

Variables	Frequency	Percent
Gender		
Male	**240**	**60**
Corruption		
Strongly Disagree	**-**	**-**
Disagree	**3**	**1**
Neither Agree nor Disagree	**15**	**4**
Agree	**115**	**29**
Strongly Agree	**266**	**66**
Government Policy		
Strongly Disagree	**1**	**-**
Disagree	**5**	**2**
Neither Agree nor Disagree	**12**	**3**
Agree	**212**	**53**
Strongly Agree	**169**	**42**
Electricity Insecurity		
Strongly Disagree	**2**	**-**
Disagree	**116**	**29**
Neither Agree nor Disagree	**21**	**5**
Agree	**93**	**23**
Strongly Agree	**197**	**43**
Poor Infrastructure		
Strongly Disagree	**3**	**-**
Disagree	**167**	**41**
Neither Agree nor Disagree	**43**	**11**
Agree	**114**	**29**
Strongly Agree	**72**	**19**
High Taxes		
Strongly Disagree	**-**	**-**
Disagree	**2**	**-**
Neither Agree nor Disagree	**5**	**2**
Agree	**111**	**28**
Strongly Agree	**280**	**70**

6.3.2 Control variables

Controlling for other factors when associating SMEs' growth potential to business constraints is very important because SMEs are heterogeneous and hence differently affected by business constraints. Some business constraints or barriers might be serious problems to SMEs in some subsectors but not to others. For example, limited access to long-term financial resources and operation space are the major obstacles to the growth potential of Ugandan manufacturing MSEs in wood/furniture and metal but not to those in textiles (Sengendo et al., 2001). Also, some obstacles are identified by House (1984) as serious constraints to manufacturers but not to traders and service providers. These examples emphasize the need to control for the entrepreneur and firm characteristics when analysing the extent to which business constraints affect the performance of SMEs.

The empirical models will include two categories of control variables – the entrepreneur's characteristics (gender, age, marital status, number of children, type of entrepreneur, and level of education) and a firm's characteristics (ownership structure, age of a firm, industry, number of employees/size of a firm and distance to trading center). These variables are expected to influence the perception of growth potential and performance of SMEs as they interface with the different business barriers.

6.3.3 The modelling strategy

The study will employ the Ordered Probit modelling strategy to test all the hypotheses in this chapter. The study will generate five different models to carter for each of the dependent variables being studied in this section. That is: corruption, government policy, infrastructure, electricity insecurity and high taxes. All these are ordinal variables in the dataset used for the quantitative study.

An ordered probit model is used to estimate relationships between an ordinal dependent variable and a set of independent variables. An ordinal variable is a variable that is categorical and ordered. In this section, we shall generate five models to represent each of the ordinal variables named above.

In an ordered probit, an underlying score is estimated as a linear function of the independent variables and a set of cut points. The probability of observing outcome "*i*" corresponds to the probability that the estimated linear function, plus random error, is within the range of the cut points estimated for the outcome:

$$Pr(outcomej = i) = Pr(\kappa i-1 < \beta 1x1j + \beta 2x2j + \cdots + \beta kxkj + uj \leq \kappa i)$$

"uj" is assumed to be normally distributed. In either case, we estimate the coefficients β1, β2, ..., βk together with the cut points κ1, κ2, ..., κI−1, where *i* is the number of possible outcomes. κ0 is taken as −∞, and κI is taken as +∞.

Under this section, we shall run the same model with five different dependent variables. That is: corruption, government policy, poor infrastructure, electricity insecurities and high taxes. The model will estimate how much each of the control variables will influence each of the barriers. Therefore, the model will follow the following equations:

I. Corruption

Pr (corruption j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)

II. Government Policy

Pr (gov't policy j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)

III. Poor infrastructure

Pr (poor infrastructure j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)

IV. Electricity insecurity

Pr (electricity insecurity j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)

V. High taxes

Pr (high taxes j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)

6.3.4 Results of the model

Panel A – Entrepreneur Characteristics

Variables	Corruption	Government Policy	Electricity Insecurity	Poor Infrastructure	High Taxes
Gender					
Female	0.144	-0.034	-0.115	-0.035	0.025
	(0.155)	(0.145)	(0.142)	(0.138)	(0.160)
Age					
30-39	-0.346*	-0.076	-0.402**	0.321*	0.130
	(0.223)	(0.212)	(0.205)	(0.205)	(0.226)
40-49	0.023	0.197	-0.627**	0.140	-0.026
	(0.314)	(0.294)	(0.285)	(0.280)	(0.319)
50-59	-1.019	0.158	-1.125*	0.019	0.033
	(0.827)	(0.727)	(0.782)	(0.760)	(0.842)
Marital Status					
Single	-0.166	-0.163	-0.069	0.230	-0.09
	(0.259)	(0.246)	(0.239)	(0.244)	(0.259)
Divorce/Separated	-0.718**	-0.514*	-0.365	0.132	-0.578**
	(0.341)	(0.323)	(0.320)	(0.324)	(0.341)
Widowed	0.117	-0.115	-0.169	-0.262	-0.068
	(0.368)	(0.322)	(0.315)	(0.323)	(0.360)
Number of children					
1-2	-0.754	0.566**	-0.338	-0.208	-0.428*
	(0.290)	(0.269)	(0.265)	(0.305)	(0.287)
3-4	-0.338	0.348	-0.339	-0.215	-0.362
	(0.332)	(0.310)	(0.305)	(0.305)	(0.337)
5 and more	0.474	-0.447	0.278	-0.052	-0.130
	(0.554)	(0.453)	(0.475)	(0.446)	(0.517)
Type of entrepreneur					
Necessity	-0.439	-0.179	0.169	0.021	-0.004
	(0.154)	(0.143)	(0.142)	(0.137)	(0.158)
Education					
Primary	0.516	0.048	0.322	0.612**	0.152
	(0.396)	(0.375)	(0.386)	(0.359)	(0.409)
Secondary	0.071	-0.202	0.823**	0.488*	0.017
	(0.369)	(0.357)	(0.371)	(0.340)	(0.382)
Degree	0.187	0.048	0.962**	0.167	0.288
	(0.383)	(0.370)	(0.384)	(0.352)	(0.395)
Certificate	0.381	-0.051	0.959**	0.154	0.428
	(0.378)	(0.364)	(0.378)	(0.346)	(0.393)

Panel B – Firm Characteristics

Ownership structure					
Partnership	-0.043	-0.122	0.325**	0.406***	-0.153
	(0.158)	(0.150)	(0.148)	(0.146)	(0.168)
Limited company	1.035***	0.543**	0.903***	0.430**	-0.359
	(0.364)	(0.283)	(0.304)	(0.259)	(0.307)
Age of the firm (years)					
1-2	1.575***	0.565	1.059**	0.095	0.643
	(0.489)	(0.486)	(0.466)	(0.483)	(0.516)
3-5	1.628***	0.306	1.136**	-0.102	0.589
	(0.478)	(0.475)	(0.454)	(0.473)	(0.502)
6 and more	1.292**	0.608	0.709*	-0.187	0.774*
	(0.510)	(0.508)	(0.484)	(0.503)	(0.543)
Firm size (employees)					
1	-0.466	-0.303	-0.456	-0.236	-0.225
	(0.367)	(0.348)	(0.331)	(0.327)	(0.363)
2-3	-0.144	-0.145	-0.310	-0.480**	0.188
	(0.330)	(0.309)	(0.294)	(0.289)	(0.326)
4-5	-0.414	-0.183	-0.404	-0.485*	0.254
	(0.362)	(0.342)	(0.326)	(0.322)	(0.370)
6-10	-0.345	-0.649*	-0.026	-0.101	0.123
	(0.453)	(0.416)	(0.416)	(0.396)	(0.449)
Over 10	0.096	-0.518	-0.061	-0.343	-0.430
	(0.558)	(0.485)	(0.494)	(0.470)	(0.507)
Distance to trading centre (km)					
1-2	-0.305*	-0.014	-0.029	0.197	0.148
	(0.203)	(0.182)	(0.175)	(0.177)	(0.195)
3-4	-0.233	-0.109	-0.239	0.687***	0.271
	(0.225)	(0.202)	(0.200)	(0.196)	(0.222)
Over 5	-0.362	0.283	-0.172	1.835***	-0.261
	(0.331)	(0.306)	(0.298)	(0.320)	(0.319)
Industry					
Service	-0.009	-0.707***	-0.423**	-0.886***	-0.393*
	(0.247)	(0.244)	(0.242)	(0.236)	(0.278)
Agriculture	0.243	-0.577**	-0.675***	-1.027***	-0.256
	(0.259)	(0.251)	(0.247)	(0.239)	(0.285)
Pseudo R-squared	0.092	0.077	0.148	0.147	0.055
No. observations	398	398	398	398	397

Standard errors are reported in parentheses. *, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

6.3.5 Interpretation and discussion of results

Corruption

Overall, the gender of the entrepreneur is not significant in this model. However, the age of the entrepreneur is significant at the 30-39 category and it has a negative coefficient. Most of the sample (55%) of the respondents fall under that category. The negative coefficient shows that the respondents do not perceive there to be corruption. This suggests that the respondents have accepted corruption (in form of bribes) as a way of life. That is, since it's very rampant, many may have incorporated these bribes in their daily outlay because they feel like it is inevitable one may have to pay a bribe to get along. Therefore, they may not consider it a barrier since it's a part of life. This is similar to some of the arguments in the qualitative section which shows some respondents have accepted corruption as a way of getting things done in their businesses.

The marital status of the entrepreneur is significant in the divorced/separated category and the coefficient is negative. This category comprises of only 4% of the sample. The negative coefficient could simply suggest that these respondents feel like corruption is a normal part of their business life and so may consider it to be less of a barrier to the growth of their business. The number of children of the entrepreneur, the education levels and the type of entrepreneur are all not significant in the model.

However, the ownership structure of the firm is very significant in the limited company category and has a positive coefficient. This category represents 10% of the sample. The positive coefficient confirms that these respondents agree that corruption exists and acts as a barrier to the growth of their businesses. This fits in well with empirical evidence observed in Uganda by Svensson (2003). He found that a firm with extensive dealings with the public sector is more likely to be under bureaucratic control and therefore faces a higher probability of having to pay bribes. Therefore, it is likely that the limited companies in the study are facing the same predicament.

The age of a firm (experience) is significant at all categories of the study. The coefficients for the categories are all positive. The positive coefficient shows that there is no difference in perception of corruption for firms that are older than the base category. This could suggest that regardless of the age of a firm (old or young), they are all experiencing corruption as a barrier to growth. This result answers the hypothesis of the study which proposes that the age of a firm is significant in determining whether it

experiences corruption. If a firm is dealing with the public, it will face corruption (bribes) regardless of its age. In this model, neither the size nor the industry of the firm are significant.

Lastly, the location of a firm or the 'distance of a firm to the trading center' is significant in the 1-2 km category and has a negative coefficient. This category represents 50% of the sample. Since the firms in the center are the reference category, the negative coefficient in this category could suggest that firms located further from the trading center are likely to experience less corruption compared to the ones in the center. That is, more bribes are experienced by firms in the center.

Government policy

The gender and age of the entrepreneur are not significant in the model. However, the martial status is significant and has a negative coefficient. This suggests that these respondents are less likely to rate government policies as a hindering factor to their business. However, they comprise only 4% of our sample. The number of children of the entrepreneur is significant in the 1-2 category and has a positive coefficient. This suggests that these respondents consider government policy to be a major barrier to the growth of their business. Entrepreneurship literature suggests that the more children the entrepreneur has, the more earnings for the entrepreneur. These children work in the firms and contribute to production. In this case, the 1-2 category that is significant does not enjoy the privilege of additional workers and thus experience government policy as a barrier.

The education levels and type of entrepreneur are both not significant in this model. However, the ownership structure of a firm is significant in the limited category. This category represents 10% of the sample and has a positive coefficient. This suggests that the respondents in the limited category consider government policy to be a barrier to the growth of their business. These firms are formal, registered and visible to some unfriendly government policies like high taxes. This confirms the hypothesis of the study which suggests that the ownership structure of a firm is significant in determining whether government policy acts as a barrier to the growth of a business. That is, the formality and visibility of the firms in the limited category make them perceive government policy as a barrier.

The size of a firm is significant in the 6-10 workers category. The coefficient is negative, and this shows that this category is less likely to find government policy a barrier. The age and location of the firm are both not significant in this model.

Lastly, the industry of a firm in the service and agriculture categories are significant and both have negative coefficients. These categories represent 43% and 40% of the sample respectively. This suggests that the

respondents in both categories are less likely to consider government policy as a barrier to the growth of their businesses. Consequently, the firms in the manufacturing category which is the reference category are more likely to experience government policy as a barrier. This suggests that these manufacturing firms are more formal and visible to the government. So, they are likely to experience unfavourable government policies which have a deterrent effect on their growth.

Electricity insecurity

The gender of the entrepreneur is not significant in this model. However, the age is significant at all three categories and the coefficients are all negative. The negative coefficients tell us that the respondents are less likely to experience electricity insecurity is a barrier to the growth of their business. It could also suggest that the reference category (18-29) would find electricity insecurity more of a barrier than the other categories. This could suggest that the older entrepreneurs in significant categories may have access to alternative sources of power like generators or solar energy for their businesses compared to the younger entrepreneurs. The marital status of the entrepreneur, number of children of the entrepreneur and type of entrepreneur are all insignificant in this model.

Education is significant in the secondary, bachelors and certificate categories. Their coefficients are all positive and the categories comprise 25%, 37% and 26% of the sample respectively. The positive coefficient suggests that these respondents experience electricity insecurity as a barrier to their business growth. This is probably because their businesses are more dependent on energy. The ownership structure is significant in the partnership and limited company categories and their coefficients are both positive. The positive coefficient confirms that these respondents agree that electricity insecurity exists and acts as a barrier to the growth of their businesses, and also that these firms do not have alternative sources of power.

The age of a firm is significant in all categories of the sample, and the coefficients are all positive. The positive coefficients in these categories shows that there is no difference in perception of electricity insecurity for firms that are older than the base category. That is, regardless of the age of the firm (old or young), they are all experiencing electricity insecurity as a barrier to growth. This clearly illustrates the concerns in the literature that show that the limited access to electricity of 15% at the national level and about 7% in rural areas has constrained the development of small-scale enterprises (Uganda Rural Electricity Access Project, 2015).

Lastly, the size and location of the firm is insignificant in this model. However, the industry of the firm is significant in the services and agriculture categories. Both the coefficients of these industries are negative, and they represent 43% and 40% of the sample respectively. The negative coefficient suggests the firms in the two industries are less likely to experience electricity insecurity as a barrier to the growth of their business. The reason could be that the firms in these categories are less dependent on energy. Also, the respondents in the manufacturing industry, which is the reference category, are likely to experience electricity insecurity as a barrier compared to the rest. That is, they are more dependent on energy.

This finding is similar to results by a World Bank Enterprise Survey (2006) done in Uganda. The analysis reveals that many manufacturing firms face electricity insecurities, and this leads to lower productivity. Therefore, this can answer the hypothesis that suggests that the industry of a firm is significant in determining whether electricity insecurity acts as a barrier to growth.

Poor infrastructure

The gender of the entrepreneur is not significant in this model. However, the age of the entrepreneur is significant in the 30-39 years category and has a positive coefficient. The positive coefficient could suggest that these respondents are experiencing poor infrastructure as a barrier to their business growth. Since the assumption is that the firms located further away from the trading centers experience poor infrastructure as a barrier because of the poor state of the roads in the rural arears, the respondents in the significant category (30-39 years) are likely to have their businesses located further away from the trading centers and thus face the barrier in question.

The education of the entrepreneur is significant in the primary and secondary categories, with positive coefficients in both. Also, these categories comprise of 9% and 25% of the sample respectively. The positive coefficients suggest that these respondents experience poor infrastructure in terms of roads as a barrier to their business growth. It is likely that the kind of businesses owned by these primary and secondary entrepreneurs cannot compete favourably with the graduate entrepreneurs who are likely to be in the trading center and enjoying the privileges of more demand for their products. In this model, the martial status, number of children and type of entrepreneur are all insignificant.

The ownership structure is significant in the partnership and limited company categories and the coefficients are both positive. These categories represent 26% and 10% of the sample respectively. The positive coefficient confirms that these respondents agree that poor infrastructure acts as a barrier to the growth of their businesses. This could suggest that the firms in these categories are located outside the trading center and are therefore experiencing the poor infrastructure barrier. Also, the size of the firm is

significant in the 2-3 and 4-5 workers categories. The coefficients are both negative and the categories represent 53% and 19% of the sample respectively. The negative coefficients suggest that these significant categories are less likely to experience poor infrastructure as a barrier to growth. That could suggest that these firms are located within the trading center.

The age of the firm is not significant in this model. However, the industry of the firm is significant in the services and agriculture categories. The coefficients of both categories are negative, and they represent 43% and 40% of the sample respectively. The negative coefficient suggests the firms in the two industries are less likely to experience poor infrastructure as a barrier to the growth of their business. This could suggest that these firms are located in the trading center and possibly in the manufacturing industry which is the reference category. They are more likely to experience poor infrastructure as a barrier compared to the rest.

Finally, the location of the firm or the distance of the firm to the trading center is very significant in the 3-4 and over 5 km categories. The coefficients of these categories are both positive and this could suggest that the respondents in these categories experience poor infrastructure as a barrier to the growth of their businesses. Based on the assumption that firms further away from the center are more likely to experience the infrastructure barrier, we can conclude that the firms in these categories are experiencing the barrier because they are located further away from the trading center.

This ties in well with empirical literature by Ishengoma (2005) who argues that the economic infrastructure and social services are not equally distributed in developing countries. The favored areas (trading centers) may tend to attract capital (for example foreign investment) and skilled labor, which together with the presence of a supply of non-tradable inputs may increase market linkages in these areas. Thus, firms located in these areas (trading centers) are likely to perform better or experience growth faster than those outside. This assertion and the results answer the hypothesis that the firm's location/distance from the trading center is significant in determining whether poor infrastructure in terms of poor roads acts as a barrier to the firm's growth.

High taxes

The marital status of the entrepreneur is significant in the divorce/separate category. It represents only 4% of the sample and the coefficient is negative. This could tell us that these respondents are less likely to consider high taxes as a barrier to the growth of their business. The 4% of respondents in this category are

too small to make any conclusive remarks on why this is the case. The gender and the age of the entrepreneur are both not significant in this model.

The number of children of the entrepreneur is significant in the 1-2 children category. The coefficient is negative and that tells us the respondents are less likely to experience high taxes as a barrier. Based on the literature, there is a possibility that some of these respondents are paying bribes or engaging in corruption, hence avoiding/evading taxes. The education levels and type of entrepreneur are both not significant in this model.

The age of a firm in the 6 years and more category is significant and has a positive coefficient. This suggests that the respondents in this category are more likely to consider high taxes as a barrier to the growth of their business. It also shows that the older firms are more established, formal and visible to the government revenue authorities and as a result are more likely to be taxed highly because of their status.

Empirical studies show that the firms that remain informal and small (micro) limit their potential to participate in subcontracting arrangements, particularly those involving large firms and public projects (Ishengoma and Lokina, 2007). The big firms (in this case 6 years and over) in this study are likely to be more formal and visible and will consequently be more likely to experience the burden of high tax. This further supports the hypothesis that suggests that the age of a firm is significant in determining whether high taxes act as a barrier to growth. However, the size and ownership structure of a firm are not significant in this model.

The industry of the firm is significant at the service category and has a negative coefficient. This shows that firms in this category are less likely to experience high taxes as a barrier to growth. This could mean these firms are less formal and visible to the government taxing authorities. The result could also suggest that firms in the reference category (manufacturing) are more likely to experience high taxes compared to the other industries and possibly the firms in the manufacturing industry are more formal and visible to the authorities, thereby attracting a higher tax burden. The location of a firm is not significant in this model.

6.4 Conclusions

In trying to establish whether there is a relationship between the country's governance and the external barriers identified in this study, the qualitative findings (done using interviews) show the following differing levels of agreement to the external barriers mentioned in this chapter – corruption (60%), government policy (66%), poor infrastructure (48%), electricity insecurity (58%) and high taxes (64%).

This shows that they are indeed hindering factors to the growth of SMEs in the country. The chapter shows that these barriers are widespread and are great obstacles to the country's economic development and the provision of quality public services in Uganda. This is partly the reason why the Global Entrepreneurship Monitor (2015) shows that in Uganda 70% of the SME start-ups do not survive beyond 24 months of the start-up date.

The quantitative findings from the regression models conclude that the main characteristics of the entrepreneur and firm that are significant in determining the external barriers (when used as the dependent variables in the model) can be briefly presented as:

First, when corruption is the dependent variable in the model, the age of the entrepreneur is significant at the 30-39 category and it has a negative coefficient. The negative coefficient shows that the respondents do not perceive there to be corruption. This result defers from the qualitative results mentioned earlier. This could suggest that the respondents have accepted corruption (in form of bribes) as a way of life. That is, since it's very rampant, many may have incorporated these bribes into their daily outlay because they feel it is inevitable to pay a bribe to get along.

Second, when government policy is the dependent variable in the model, the ownership structure of a firm is significant in the limited category and has a positive coefficient. This suggests that the respondents in the limited category consider government policy to be a barrier to the growth of their business. These firms are formal, registered and visible to some unfavourable government policies like high taxes. That is, the formality and visibility of the firms in the limited category make them perceive government policy as a barrier. This result paints a similar picture to what the qualitative results present – 66% of the respondents think government policy is a barrier. An example is an electronic business owner (Interviewee 06) who states: *'Weak government regulations to avoid importation of counterfeit electronic appliances coming into the country have led to loss of my trustworthy customers.'*

Third, when electricity insecurity is the dependent variable, the industry of the firm is significant in the services and agriculture categories. Both the coefficients of these industries are negative. The negative coefficient suggests the firms in the two industries are less likely to experience electricity insecurity as a barrier to the growth of their business. The reason could be that the firms in these categories are less dependent on energy. This is in line with literature done in Uganda. Studies done in Uganda by Neelsen and Peters (2013) found that manufacturing firms experienced higher investment costs of electric machinery coupled with sharp competition in the market for manufactured goods. Therefore, this shows that the service firms in Uganda are less affected by the electricity insecurity barrier compared to manufacturing firms.

Fourth, when poor infrastructure is the dependent variable, the location of the firm or the distance of the firm to the trading center is very significant in the 3-4 km and over 5 km categories. The coefficients of these categories are both positive and this could suggest that the respondents in these categories experience poor infrastructure as a barrier to the growth of their businesses. Based on the assumption that firms further away from the center are more likely to experience the infrastructure barrier, we can conclude that the firms in these categories are experiencing the barrier because they are located further away from the trading center. This finding sits well with the literature done by Ishengoma (2005). She argues that the economic infrastructure and social services are not equally distributed in developing countries. The trading centers tend to attract capital and skilled labour. Thus, firms located in these areas are likely to perform better or experience growth faster than those outside.

Lastly, when high taxes is the dependent variable, the age of a firm in the 6 years and more category is significant and has a positive coefficient. This could suggest that the respondents in this category are more likely to consider high taxes as a barrier to the growth of their business. It also shows that the older firms are more established, formal and visible to the government revenue authorities and as a result are more likely to be taxed highly because of their status. This result conforms to literature by Ishengoma and Kappel (2007). They suggest that SMEs may prefer to remain informal and much smaller to avoid being visible and paying tax, a situation that may limit their enjoyment of economies of scale. Also, respondents in this study present similar sentiments. For example, an internet café owner (Interviewee 08) stated: *'The taxes levied on us by the municipal council are very high. Moreover, as you expand, the tax is expected to increase. These enormous taxes are straining the growth of my business.'*

Furthermore, the chapter establishes that the barriers are interlinked in one way or the other. For example, the government collects taxes from SMEs through registration processes and monthly requirements. However, the qualitative findings reveal that during this taxation process, most of the entrepreneurs claimed that they are less willing to pay tax because the taxes are high and some corrupt government officials give them a way out. This suggests that there is a relationship between high taxes, corruption and wide spread tax evasion.

An interviewee said he would rather forgo paying the required tax by the state, and instead easily pay a bribe of 30% of the required tax to a government official who would in turn get him cleared. However, this bribing process must continue with the same officials over a period. Therefore, these bribes are a necessary evil because they are a means of not adhering fully with official requirements while (more importantly), reducing the overall cost of business.

Finally, the findings reveal that some respondents have mixed feelings regarding the high taxation predicament in Uganda. They claimed that they were willing to wholeheartedly pay the high taxes if the government would improve services like public health care, public education and infrastructure. However, many of them also feel that because of the rampant corruption in many government institutions, these services were not likely to be realised regardless of whether they paid the high taxes or not. The commitment of the government of Uganda and SME entrepreneurs to cooperate to achieve socially desirable goals is what matters for effective governance and survivability of SMEs in Uganda.

Finally, with all the mixed views and opinions from the respondents, the chapter concludes that the barriers highlighted in this chapter are indeed obstacles to the growth of SMEs in Uganda. The government of Uganda should look into establishing remedies to curb these barriers and provide a conducive entrepreneurial environment.

CHAPTER SEVEN

EMPIRICAL RESULTS: INTERNAL & FINANCIAL BARRIERS TO GROWTH

7.1 Introduction

Several studies on SME growth and the barriers they face have focused on urban areas and have neglected rural entrepreneurship (Naude, 2011). These studies have shown how firms in urban areas have coped amidst entrepreneurial barriers and challenges. This chapter will investigate the growth of SMEs in rural Uganda and the barriers they are facing. The study will focus and examining three specific internal and financial barriers. These are access to finance, forced mutual help and risk attitude. The study will explore the ways small and medium entrepreneurs manage these barriers and possible solutions to curb these barriers and attain business growth.

When considering access to finance and risk attitude, entrepreneurship literature by Demirgüç-Kunt and Levine (2007) suggest that the structure of occupational choices – whether people can become entrepreneurs or should remain wage earners determines how much they can save and what risks they can bear, with long-term implications for growth and income distribution. These models show that lack of access to finance can be the critical mechanism for generating persistent income inequality or poverty traps, as well as lower growth.

It is common knowledge that credit availability, accessibility and above all affordability is crucial in driving the engine of SMEs not only in Uganda but worldwide. However, it is important to note that credit accessibility has increasingly become a challenge in Uganda due to high lending rates by the commercial banks which range between 23-25%, way higher than the Central Bank Rate (CBR) of 14% (Bank of Uganda, 2016). The lending rate has been left to be determined by the market forces of demand and supply, which if unchecked by the central bank to revise them to manageable levels, may pose a big challenge to the operations of the SMEs in Uganda.

The National Small Business Survey of Uganda (2015) revealed that SMEs usually lack the requirements to assess the various funding options open to business firms. However, in their efforts to expand and grow their businesses, SMEs owners engage in various credit options which further expose them to financial risks. This is because most SMEs find it difficult to fulfil their financial obligations to various creditors, eventually resorting to early liquidation in order to pay their debts with business assets.

Olalekan (2013) stresses that SMEs face a lot of competition from their larger counterparts. This usually puts them in poor strategic positions because they lack adequate resources needed to withstand such

competition like qualified & skilled workforce, professionalism and limited capital. This exposes them to serious strategic risks and limits their chance of survival.

When examining forced mutual help as a barrier to growth of SMEs, empirical studies by Alby and Auriol (2010) show that local successful entrepreneurs in developing countries have the social obligation to provide a job and to redistribute their wealth to the members of their extended family. Such firms are thus less productive than their foreign counterparts. The less productiveness in this concept refers to unqualified family members being employed instead of competent workers. Therefore, high family taxes and reduced profits discourage entrepreneurship. This was earlier suggested by work done by Firth (1951). He argued that in the absence of a public safety net, Africans have developed a culture of "forced mutual help". Wealthy Africans have the social obligation to share their resources with their needy relatives and extended family.

The chapter employs qualitative and quantitative approaches to establish whether there is a relationship between access to finance, forced mutual help, risk attitude and the growth of SMEs. Ideally, better access to finance, reduced forced mutual help and calculated risk taking in business should lead to business growth.

Usually most of the decision making is implemented by the firm owner in small firms. Without intermediate levels of management and workers, we expect the human capital of the owner to play a key role in determining which business decisions are made. The regression models run in the quantitative section control for firm owner's characteristics like education and experience. It is likely that more educated and experienced owners will find it easier to learn and adopt good business practices and thus overcome the barriers mentioned in this chapter.

This chapter provides a comparison between the qualitative and quantitative findings of the study. The chapter starts by giving descriptive statistics of the internal barriers. It moves on to explaining each of the internal barriers whilst giving the general background of what is expected in Uganda and provides empirical entrepreneurship literature on the similarities to other developing countries. It then tests for the hypotheses in the quantitative section and finally makes conclusions on the entire chapter.

7.2 Qualitative Analysis

This section provides the findings of the qualitative study. Under the qualitative study, 50 respondents were interviewed. The respondents were asked to what extent the barriers mentioned in this chapter affected their businesses. The barriers in question are: access to finance, forced mutual help and risk attitude.

The descriptive statistics in table 7.1 show the extent or degree each barrier affects the business owners (respondents).

Table 7.1 Internal and financial barriers faced by SMEs

Variable	Item	Frequency
Access to finance	Yes	**38**
	No	**12**
Forced mutual help	Yes	**35**
	No	**15**
Risk attitude	Yes	**36**
	No	**14**

7.2.1 Access to finance

Finance is a crucial lubricant for small business. Without finance, the life blood of a business, it is difficult to see how a business can start, grow or survive. Businesses typically need finance to pay for assets (e.g. plant, machinery and vehicles), to fund the operation of business (working capital) and grow the business (Storey and Greene, 2010).

In this study, 76 % (N=38) respondents claimed access to finance was a constraint to the growth of their businesses. Almost all of these respondents said they have tried to get credit from various financial institutions but they have failed and been left frustrated. However, 24% (N=12) did not think finance was a barrier.

According to empirical studies done in Uganda, many researchers have cited lack of access to finance as the number one barrier to entrepreneurial growth. Entrepreneurial finance theory in SMEs not only in Uganda but worldwide draws upon the following:

First, agency theory which implies a relationship between the small business (agent) and the bank (principle). The central problem for the bank is how to ensure that the small business uses its finance in a manner likely to lead to repayment of the loan, with interest, in full and on time. The extent to which the bank is able to monitor the actions of the small business is variable, and likely to be minimal in the case of small businesses, compared with larger businesses. This is because the bank may have many small business customers who borrow modest sums of money, making it cumbersome to keep track of these customers.

Second, information asymmetries which arise when information is unevenly shared amongst the bank and the small business. In most cases the asymmetry information favours the small business as they are more likely to be better informed about their business. Informational asymmetries have two key consequences:

1. Adverse selection – occurs because the party with poor information (bank) is unable to distinguish the good borrowers and as a result makes poor lending decisions.
2. Moral hazard – this occurs when the behaviour of an agent is unfavourably changed by the often desirable, behaviour of the principle (Reid, 1998).

A. Access to finance in developing countries

SMEs have been recognized as being great contributors to national economies offering both employment and a platform for innovative ideas. They form a larger percentage of the businesses that operate in developing countries. However, they are faced by many constraints that hinder their profitability and consequently their growth. One of the main constraints that have been highlighted over the years is financial limitation. The need for finance is of paramount importance for the success of any firm, be it big or small (IMF, 2007 and 2008).

Using the World Bank Enterprise Survey between 2006 and 2009 in 123 countries and 100,000 randomly sampled firms, Chavis, Klapper, and Love (2010) found that 31% of examined firms regarded access to finance as the major constraint. Of these, 40% were young firms with less than 3 years' experience in the industry. Further analysis addressed the relationship between the firm's age and its access to finance. The empirical results showed that younger firms were more reliant on informal financing rather than bank financing. Bank finance gradually increased with age, while informal finance gradually decreased with age.

Han (2009) argues that the small business finance marketplace is very different from the large business marketplace. He presents three arguments why small firms are more likely to be denied a loan as opposed to large firms:

1. The entrepreneur's personal characteristics play a much more pivotal role in financing small, than large, businesses. For example, the personal wealth of the owner is frequently used to access bank loans and so is closely linked with the assets of the business (Ang *et al*, 1995). Because of this, a distinction is often made between entrepreneurial finance and corporate finance.
2. Compared to corporate finance, entrepreneurial finance places are greatly associated with business closure as smaller businesses have a higher likelihood of defaulting on their loan. This is because business closure is far more characteristic of new and small business than it is of large and mature businesses.
3. The market for entrepreneurial finance is marked by lack of information. Collecting such information is, therefore, costly for the finance provider, particularly in proportion to the amounts borrowed. The term that is used to describe the marketplace for entrepreneurial finance, reflecting these information imperfections, is opaque.

Berger and Udell (1998) refer to the small business financing marketplace as characterized by information opacity. By this they mean that, whilst some information is available to outsiders, it is imperfect. The external provider of finance to a small business is akin to one peering into a fog, through which only a somewhat blurred picture emerges (Storey and Greene, 2010). This predicament is very common with the SMEs in the Uganda context.

Fjose (2010) acknowledges that growth opportunities in Sub-Saharan Africa are severely disadvantaged by access to finance. He advises that the obvious long-term solution for improved access to finance is policy improvement in areas such as property rights, regulations on bankruptcy and financial market reforms. Literature indicates that there are three factors that might explain variances in SMEs' access to credit: lending terms which include collateral, loan repayment periods and interest rates (Stiglitz& Weiss, 1981).

Entrepreneurship literature by Demirgüç-Kunt and Levine (2007) suggests that the structure of occupational choices – whether people can become entrepreneurs or should remain wage earners, in turn determines how much they can save and what risks they can bear, with long-run implications for growth and income distribution. Hence, these models show that lack of access to finance can be the critical mechanism for persistent income inequality or poverty traps, as well as lower growth.

Several studies have established that the most common influencing factors of debt finance access in Africa are the firms' profiles which includes ownership structure, size of the firm, business type, and age of the business (Musamali and Kipkirong, 2013). While running regressions in the quantitative study, the model will control for those variables to ascertain whether they are significant in determining access to finance in this study.

Abdulsaleh (2013) determined that access to debt finance was particularly more important for establishing smaller businesses such as retail businesses, and for the expansion of small businesses into medium-sized enterprises. He postulated that the growth and development of existing businesses would consequently boost the national economic growth of any country.

Fatoki and Asah (2011) proposed that because relatively young SMEs are characterized by a lower portion of tangible assets in their total assets, they are more likely to encounter difficulties in applying for external finance due to lack of collateral. Also, safe borrowers prefer a higher degree of joint liability and a lower interest rate while risky borrowers a lower degree of joint liability and a higher interest rate. However, since the lender does not know borrower type and collateral is not available, it must offer the same interest rate to all borrowers. Consequently, safe borrowers are driven out of the credit market (Stiglitz and Weiss, 1981). This relates to the informational asymmetries discussed earlier.

Several empirical studies have used the lifecycle theoretical model by Modigliani as cited in Deaton (2005) as their favoured approach to understanding the fiscal behaviour of SMEs (Phelps, 2007; Nofsinger, 2011 and Holzl, 2009). In line with these studies, Fatoki and Asah (2011) observed that SMEs that have been in business for more than five years have a far better chance of being successful in their credit applications compared with SMEs established for less than five years. From the banks' perspective, experienced entrepreneurs are believed to be better performers than less experienced entrepreneurs. It is therefore cogent to factor experience into the process of appraising the solvency of SMEs (Gompers, 2010).

In a study by Atupele (2013) using company level statistics from the World Bank Enterprise Survey, results indicated that firm size and asset structure, access to information and interest rates considerably determined the use of debt financing, while firm age and trading history were moderately decisive in determining the use of debt financing. The results also indicated that there were noteworthy differences in the use of debt financing between small and medium firms, with small and younger firms using less debt compared to medium firms.

Further, Rocha *et al* (2011) in a study about the status of bank financing for SMEs in the Middle East and North Africa that was based on a survey of 139 banks in 16 countries established that in spite of a positive

perception of the allure of the sector, the SME sector in the region remained mostly underserved. Direct government intermediation through public banks, credit guarantee schemes and other forms of subsidized financing were suggested to play a significant role in SME lending, partly recompensing for the low level of private sector involvement, which in turn reflects the MENA's weak financial infrastructure.

B. Access to finance in Uganda

According to the Uganda Small Scale Industries Association (USSIA), SMEs constitute 90% of the private sector and contribute 70% to GDP. It is common knowledge that credit availability, accessibility and above all affordability is crucial in driving the engine of SMEs not only in Uganda but globally. However, it is important to note that credit accessibility has increasingly become a challenge in Uganda due to the high lending rates by the commercial banks standing in the range of 23% to 25% way higher than the central bank rate (CBR) at 14% (Bank of Uganda, 2016).

Most SMEs in Uganda rely on the owner's financing as the major or only source of finance. This can be attributed to the excessive cost of capital in Uganda compared to other East African states. In Kenya interest rates on loans are approximately 9% and 12% in Tanzania, yet in Uganda they average 23%. The lending rate has been left to be determined by the market forces of demand and supply which, in the absence of action by the central bank to lower them, may pose a big challenge to the operations of the SMEs in Uganda (Bank of Uganda, 2016).

SMEs in Uganda are required to present collateral of at least 150% of the loan amount and are usually given short repayment periods not exceeding twenty-four months with interest rates ranging from 23 percent to 30 percent per month (Kakuru, 2008; Seibel, 2003). Some of the entrepreneurs in this study claimed that they acquired loans to finance their businesses but found the interest rates on the loans too high and consequently are struggling to repay back these loans.

Poor accounting and financial records severely impair informed business decision-making. This ties in with the information asymmetries discussed earlier in this section. The information between the bank (lender) and the entrepreneurs (borrower) is imperfect and the financial information of the borrowers is being unequally shared between the two parties. Most banks and micro-finance institutions are particularly nervous of smaller businesses due to the perception that they present a greater credit risk. SME's in Uganda rarely have a long history or successful track record that potential investors can base an investment on. This makes it extremely difficult for the small firms to access credit in Uganda.

Nahamya (2013) and Atupele (2013) have also suggested that the fundamental challenge of SMEs is the extent to which financial institutions have stringent requirements around security (collateral) which SMEs

are not able to meet. In fact, numerous SME owners (91%) raise their own start-up capital compared to only 9% who take a loan to start the businesses in Uganda. The National Small Business Survey Report (2015) emphasizes that those who take loans mostly rely on family and friends (39%), money lenders (26%) and SACCOs (13%), but very few take loans from financial institutions (10%).

A report published by African Development Bank (2012) advises that authorities in Uganda need to pay more attention to addressing the key financial limitations of SMEs if the sector is to become competitive in the long run. The difficulty of meeting the specified collateral requirements by banks has been cited as a major cause of these financing problems, coupled with misuse of funds meant to assist SMEs grow into sustainable ventures (Mwangi, 2011).

In the quest to improve access to formal credit by SMEs, most commercial banks have recently included SMEs in their portfolios through their micro-lending schemes (Kakuru, 2008). In spite of this initiative, SMEs continue to borrow less often from commercial banks. In this study, we establish that the informal credit option is being used simply because the respondents do not have the legitimate documentation required to borrow from formal avenues (commercial banks). According to Heikkila, Kalmi and Ruuskanen (2009), out of 1,128 SMEs in Uganda that applied for loans, only 179 SMEs were successful.

Ironically, evidence suggests that most SMEs in Uganda rely more on the informal credit than the formal, yet the informal sources have left them with insufficient capital to grow and expand (Mutesasira *et al*. 2001, Uganda Bureau of Statistics 2007, Stevenson and St. Onge 2005, Aryeeteny, 2008).

Predictably, Odongo (2014) exposed impediments like unsatisfactory liquidity, ineffectual financial efficiency of resource utilization, high risk of solvency leading to financial distress and high lending terms of financial institutions as being linearly related to the financial performance of SMEs, with the lending terms contributing to 26.6% loss in revenue of SMEs that borrowed in Uganda, which in turn handicapped their growth efforts.

According to the respondents in the study, the growth of the micro-finance industry in the country has significantly improved the ability of SMEs to access finance. These have replaced commercial banks and their cumbersome loan procedures. Most of the respondents in the sample claimed they received finance from micro-finance institutions as opposed to formal established banks.

That notwithstanding, the researcher established that some of the key reasons why respondents in the study face access to finance as a barrier are:

1. A lack of collateral security required by the lending party.

2. The unrealistically high interest rates and the unfriendly payment periods being offered by the lending institutions in Uganda.
3. The age of a firm – young firms are less likely to get finance compared to the older ones.
4. The daunting role of information asymmetries and market imperfection.

C. Qualitative findings of the study

All the qualitative findings were reviewed and documented. Of the 50 respondents that participated in the qualitative study, 76% (N=38) said access to finance was indeed a barrier to their business. They said accessing finance was nearly impossible in most cases. The remaining 24% (N=12) said it was not a barrier as they had sources of accessing finance for their business growth.

Although most of respondents identified access to finance as a barrier, their qualitative responses demonstrate three major areas as to why access to finance is a barrier to their business. Literature presented by Stiglitz & Weiss (1981) identified the same reasons. In their work, they indicate that the two key reasons that might explain variances in SMEs' access to credit are lending terms (which include collateral) and interest rates.

In this study the respondents commented on the high interest rates offered by financial institutions in Uganda. For instance, a barber shop owner (Interviewee 15) stated:

> *'Lack of finance has affected my business because I don't have enough capital to expand on my business. Sometimes I get many customers but I don't have enough machines. Most of them end up walking away as they can't wait for the long queues. The high interest rate on loans charged by banks has been the biggest hindering factor.'*

A restaurant owner (Interviewee 03) similarly stated that:

> *'Access to finance is a barrier to my business because the interest rates charged by commercial banks are very high and I cannot afford it.'*

Both entrepreneurs remark on the first area of concern – high interest rates. This is one of the main reasons entrepreneurs cannot afford bank finance in Uganda. High interest rates are common with most of the commercial banks and this is confirmed by the Uganda Small Scale Industries Association (2009). The association states that the reason many SMEs rely on owner financing as the major or only source of finance is attributed to the excessive cost of interest rates charged by the banks in Uganda. This is evident when one compares these outstanding rates to the rest of the East African states. In Kenya interest rates on loans are approximately 9%, in Tanzania 12% yet in Uganda they average 23%.

Most of the banks and micro-finance institutions defend their stand on the high interest rates by claiming that they are particularly nervous of smaller businesses due to a perception that they present a greater credit risk. This illustrates two main scenarios:

1. The adverse selection occurs because the bank with poor information is unable to distinguish the good (low risk firms) from the bad (high risk firms) and therefore makes poor lending decisions.
2. Agency theory that shows that the main problem for the bank (principal) is how to ensure that the small business (agent) uses its finance in a manner likely to lead to repayment of the loan, with interest, in full and on time. Most financial institutions in Uganda have submitted evidence that SMEs rarely have a long history or successful track record that potential investors can rely on in making investment. Therefore, this makes it extremely cumbersome for the small firms to access credit in Uganda.

The second cause of concern for the respondents in this study regarding accessing finance is collateral. A milk distributor (Interviewee 11) illustrates this by saying:

> *'Yes, I don't have collateral security to get a loan to invest in my business. Therefore, I can't get a facility from the bank.'*

This respondent remarks on the predicament of collateral. This has become a common reason the financial institutions are rejecting loan applications from many SMEs in Uganda. Empirical studies done by Nahamya (2013) and Atupele (2013) have suggested that the fundamental challenge of SMEs is the extent to which financial institutions have stringent requirements around security (collateral) which SMEs are not able to meet. In fact, numerous SME owners (91%) raise their own start-up capital compared to only 9% who take a loan to start the businesses in Uganda.

Further, Fatoki and Asah (2011) proposed that because relatively young SMEs are characterized by a lower portion of tangible assets in their total assets, they are therefore more likely to encounter difficulties in applying for external finance due to their incapacity to provide the collateral required. This is the case with many of the SMEs in the study and clearly conforms to the assertion.

The third common reason why SMEs' have their loan applications rejected is the age of the firm. Over 70% of the SMEs in this study claimed that they couldn't get loans from banks because of their firm's age. For instance, a mobile money owner (Interviewee 16) stated that:

> *'Acquiring credit has been hard for my business because the banks claim my business is still too young for them to trust with a loan.'*

A firm's age has become very critical in the decisions made by banks to offer a loan. Many investors say it's safer to invest in an experienced business than a younger inexperienced business. This claim is supported by a World Bank Enterprise Survey between 2006 and 2009 done by Chavis, Klapper, and Love (2010) who found that 31% of the examined firms regarded access to finance as the major constraint. Of these, 40% were young firms with less than 3 years' experience in the industry. This survey was done in 123 countries from a pool of 100,000 randomly sampled firms.

The commercial banks are using methods like credit scoring/credit rationing through credit reference or fraud prevention agencies to bridge the gap in the information asymmetries in the imperfect financial markets. Credit scoring is designed to assess the risk of default and determine a price/access accordingly. Every credit application involves a certain level of repayment risk for the lender, no matter how reliable or responsible an applicant is (Storey and Greene, 2010). Therefore, since the older firms are statistically more likely to have better credit ratings because of their long successful history (the firms that have been paying deductively), the commercial banks will definitely prefer to lend money to such firms compared to a new business with no credit score to refer to. So, one can say the age of a firm is likely to be a way of operationalising the risk of default.

Further analysis in the quantitative section of this chapter will seek to establish the relationship between the firm and the entrepreneurs' ages and the accessibility to finance. A hypothesis will be tested – ***H13: The entrepreneur's age is significant in determining whether access to finance acts as a barrier to the growth of the firm.***

Despite all the above remarks, a few of the respondents (24%) claimed that access to finance was not a barrier to their business. For instance, a hardware store owner (Interviewee 17) stated:

> *'Finance has not been a problem in my case. I organized my business documents and acquired a business loan from a micro-finance institution in my area. I invested this money in my business and it has helped in the expansion of my business.'*

This shows us that despite the access to finance predicament, some entrepreneurs in Uganda notably the ones who have been in business for 5 years and more have had success in obtaining finance from banks. These firms not only have experience but also have sound financial records that the banks can use to offer them loans. That notwithstanding, most of the SMEs in Uganda are disadvantaged by access to finance. The long-term solution for improved access to finance is policy improvement in areas such as property rights, regulations on bankruptcy, bridging the gap in information asymmetries and financial market reforms.

7.2.2 Forced mutual help

Empirical studies done by Alby and Auriol (2010) using surveys from 10,480 enterprises across 31 Sub-Saharan African countries performed between 2002 and 2007 found that local successful entrepreneurs in developing countries have the social obligation to provide a job and to redistribute their wealth to the members of their extended family. Such firms are thus less productive than their foreign counterparts. High family taxes and reduced profits discourages entrepreneurship. This was earlier suggested by Firth (1951). He argued that in the absence of a public safety net, Africans have developed a culture of "forced mutual help". Wealthy Africans have the social obligation to share their resources with their needy relatives and extended family.

In this study, 70% of the respondents agreed that forced mutual help acts as a barrier to the growth of their business. Most of them said that they employ family members and friends because of the pressure from their relatives. They added that, that in most cases, these family members and friends are incompetent on the job. Some respondents also mentioned that relatives and close friends ask for financial favours which are never repaid.

A. Forced mutual help in developing countries

Forced mutual help is a term that refers to entrepreneurs being forced to employ unqualified/ incompetent family members. It can simply mean donating money to needy relatives. In the African context, becoming an entrepreneur in the formal sector marks economic success, and inevitably involves substantial family taxation from the entrepreneur's needy relatives and extended family. This is very common in Uganda because of the lack of social structures like social security and public retirement plans.

There are a number of reasons why working with family or family business may be suboptimal. Studies by Perez-Gonzalez (2006) suggests that there may be contradictions between family goals and business objectives, which may harm the economic performance of the business. Family members do not necessarily share the same goals or objectives as the business owner(s). That is, the principal-agent theory. Such family arrangements are more focused on a family agenda than a business agenda. This argument supports the fact that forced mutual help is likely to deny the business the access to superior skills of non-family members and thus affect the progressive growth of the business.

Woodburn (1998) during a survey in Tanzania argued that people who have more than they manifestly need are put under relentless pressure to share. In fact, in most social networks in Africa sharing is a moral

principle and accumulation is bad. The impact of these social norms on economic outcome has been shown to distort the growth of SMEs across Africa.

In most African business set-ups, the family members do not necessarily have the right qualifications for the job. Recruiting family and relatives rather than the best qualified people distorts productive efficiency. Everything else being equal, local firms are less productive and less profitable than firms owned by foreigners. (Ably and Auriol, 2010).

In studies conducted in rural Kenya within a controlled laboratory environment, Jakiela and Owen (2010) found that (particularly unmarried) women, and men, particularly when they have recently been asked for gifts or loans by relatives, are willing to reduce their expected profits to avoid making positive income shocks observable to the community. Similarly, studies conducted in Liberia by Nillesen, Beekman, and Gatto (2011) combining survey and experiment data, found that individuals with strong family ties within the community tend to make lower profitable investments than individuals with weaker family ties. They are also willing to pay to hide their money.

In addition, Alby and Auriol (2010) using surveys from 10,480 enterprises across 31 Sub-Saharan African countries performed between 2002 and 2007 tried to establish the effect of forced mutual help on the productivity of a firm. They found that:

1. The labour force of local firms is less qualified and less competent than the labour force of other type of firms. This implies that the labour force composition and presumably training programs offered by the local firms differ from those offered by regular firms.
2. Everything else being equal, the theory predicts that the local firm has a larger labour force embodied in a larger labour/capital ratio
3. The labour productivity of a local firm is lower than the labour productivity of a regular firm.

If the problem of forced solidarity is indeed relevant, the results should be different in countries with relatively better social protection than in countries without.

B. Qualitative findings of the study

Forced mutual help is very common in Uganda and is clearly illustrated in some of the responses in this study. For example, a hotel owner (Interviewee 18) stated that:

'My family has put me under too much pressure to employ some of my relatives. This has affected the growth of my business. They expect me to employ them regardless of their lack of qualifications.'

He claimed many of these relatives are the children of his brothers and cousins, making it difficult to turn them down because they were so closely related. This was a typical response from one of the respondents but many respondents in the interview highlighted forced mutual help as a barrier to business growth.

Auriol and Nguimkeu (2013) suggest that countries with poor social protection are strongly affected by the forced solidarity constraint while it is not the case for countries with better social protection. This suggests that social security, public retirement plans, and other public schemes aimed at protecting unemployed, sick or old people in advanced economies are not solely explained by the inner taste for solidarity and redistribution. They are, in effect, economic tools to prevent an ineffective allocation of labour. The lack of such mechanisms in Sub-Saharan Africa seems very costly.

In most developing countries including Uganda, the alarming corruption in government institutions hinders the establishment of efficient public social mechanisms. As a result, most of the social structures like social security and public retirement plans are running very inefficiently. The lack of such public mechanisms in the country erodes the local firms' productivity and promotes forced mutual help as an additional barrier to entrepreneurship. Some of the interviews collected confirm this predicament. For instance, a bar and restaurant owner (Interviewee 09) stated:

'Employing unqualified family members has distorted the growth of my business earnings. However, they would not afford necessities like private healthcare if I was not employing them.'

This respondent tries to explain that because of the poor state of the public hospitals in the country, he has an obligation to employ some of his relatives else they will fail to afford the available private healthcare and they will probably end up blaming him for any consequences. Some of the respondents said they are unwillingly employing a few of their relatives. They claimed if they did not do this, their relatives would not be happy. This situation is observed in the qualitative interviews. A construction and carpentry business owner (Interviewee 18) stated that:

'Yes, I employ some of my relatives in my business. If I didn't employ them, it would create a lot of intrigue in the family.'

This shows that many entrepreneurs in Uganda end up employing their family members regardless of whether they are competent to do the work or not. This suggests that the family ties in Uganda are very strong.

Forced mutual help reduces the capacity of these entrepreneurs to pay tax. This in turn reduces the government's ability to develop social security and insurance, reinforcing the need for family/ethnic solidarities. Therefore, there is a relationship between forced mutual help and the government's ability to carry out its duties. The more this phenomenon exists in societies, the more entrepreneurs are unable to pay the tax and the less government can build or improve the damaged infrastructure in form of hospitals, improvise for the public retirement, and put in place functioning public schemes aimed at protecting unemployed, sick or old people, thus creating a vicious cycle.

Needy relatives will, in one way or the other, affect the financial growth of the business. This is evident through incompetent work by relatives (as employees) or a loan being offered by the entrepreneur to the needy relatives who do not repay promptly, if at all. Some of the frustrated respondents aired their views on this subject. For example, a retailer (Interviewee 13) stated that:

> '*I'm not happy with some of my relatives because most of the time they ask for financial assistance and they don't usual pay back. This affects my business because I sometimes lend them money from my business account when they're desperate.*'

Surveys done in Uganda by the Uganda Investment Authority (2011), found that most small and medium firms are characterized by use of family and unpaid labour. It is prudent to establish what type of entrepreneur is prone to forced mutual help. Is it necessity or opportunity entrepreneurs who experience forced mutual help as a barrier? Under the quantitative section of this chapter, the study will test for the hypothesis – ***H14: The type of entrepreneur is significant in determining whether he experiences forced mutual help as a barrier to growth.***

Lastly, it's important to note that 30% (N=15) of the respondents claimed that forced mutual help is not a barrier to their business. An example is a dairy farm owner (Interviewee 19) who said:

> *'I don't think I have been affected by forced mutual help as a barrier to my business. I employ three of my sons and we have a good working relationship. Besides, this business will become theirs eventually.'*

7.2.3 Risk Attitude

The attitude of entrepreneurs toward business risk was queried in this study. Of the sample, 72% (N=36) confirmed that uncalculated risk taking is a barrier to the growth of their business. For instance, many entrepreneurs said that they had lost money whilst making risky business decisions. They attributed this loss to a lack of training in risk management, which serves the purpose of controlling and mitigating the existing risks of a company so to keep the long-term organizational goals attainable.

In this section, we shall examine two kinds of risk faced by entrepreneurs in small and medium firms. These are:

1. Operational risk that arises from situations like product development, product failure, information technology, management fraud and employee agitation.
2. Strategic risk that relates to factors like competition, customer preferences, technological innovation and regulatory/political issues. A lot of emphasis is on strategic risks in the business arena.

A. Risk attitude in developing countries

Most SMEs in Uganda are faced by stiff competition from their larger counterparts. This usually puts them in poor strategic positions because they lack the resources needed to withstand this competition like a qualified and skilled workforce, adequate professionalism, limited capital and other resources. This exposes them to serious strategic risks which limit their chance of survival.

Although many of the SMEs in the study survive in a niche market, many of them get frustrated because the large companies are still flooding the markets with similar products and they cannot handle the competition. Most of them resort to taking uncalculated risks for survival, many of which end up causing financial loss to the company.

In looking to control this high-risk behaviour, the studies by Henschel and Gao (2010) affirm that a risk management system is necessary for SMEs not only because it is required by law but rather because it is in the essential interest of the SME. Risk management is a major concern for SMEs particularly because of their sensitivity to business risk and competition (Smith and Watkins, 2012). It will, therefore, help in the development of contingency plans to stop the erosion of organizational income and improve performance.

Kelkar (2008) suggests that SMEs are weak in terms of business plan, management structure and in decision making when compared to large organizations. This increases SMEs' inability to absorb most business uncertainties and risks. SMEs and large firms operate in the same business environment but there is evidence that they derive different benefits and opportunities therein. They are exposed to diverse categories of risk. This is because of their differences in economic capacity including access to human capital and material resources.

B. Qualitative responses in the study

According to the Uganda Small Scale Industries Association (2015), many SMEs in Uganda face varied operational risks. This stems mainly from the fact that most SMEs are family businesses structured along sole proprietorship or partnership. In this study, almost 90% of the small businesses interviewed are either sole traders or partnerships. Managerial decisions here are usually at the mercy of the key owner who in most cases lacks basic managerial skills and qualities to manage a business successfully. Most of the business decisions and business risks taken are by the firm owner with little, if any consultation. The qualitative study confirms these practices from the response of a restaurant owner (Interviewee 03), who when asked about the ownership structure of their business said:

> *'I am the sole owner of my business. My husband advises me on a few things but I make all the financial decisions and I take all the risks myself.'*

According to Suh (2010), the SME sector is the worst affected by the economic environment and bears the initial impact of any external shock. As a result, there are more SME closures than establishments, with approximately only 1% of SMEs growing from having five or less employees to ten or more (Mead and Liedholin 1998; Smith and Watkins, 2012). The implication is that SMEs face a wider range of business risks which are rooted in both the internal and external environment of the enterprises (AIRMIC, ALARM and IRM, 2002).

Most of this literature points to the predicament evident in Uganda. For instance, this study established that some of the respondents were facing challenges in the growth of their businesses because of their business decisions. For example, two respondents a retailer (Interviewee 14) and a bar and restaurant owner (Interviewee 09) respectively stated:

'I sometimes take the risk and give credit facilities to my loyal customers. However, some of them don't keep their word on the payments. This at times disorganizes my budgeting process.'

'Some of my customers drink on credit and don't pay in a timely fashion. This makes me lose trust in them and affects the proceeds of my business earnings.'

These remarks illustrate what is happening in the Ugandan context. Many entrepreneurs take the risk of trusting their customers and offering credit facilities but are disappointed many a time. Some bar owners went as far as saying their bars are completely run down because of these credit facilities that are never paid on time, if at all. However, it is noteworthy that business opportunities lie in risk, and therefore risks could be exploited in favour of business objectives. Risks should also be seen as potential profit or value creating opportunities (Darcy and Brogan, 2001). Entrepreneurs should conduct risk management and evaluate all risks in order to identify their potential before taking the decision about how best to treat them.

Watt (2007) opines that the risk function in SMEs is usually at the prerogative of the owner. This means that SMEs risk management will greatly be influenced by the owner's risk perception and his attitude towards risk management (Ntihane, 1995) cited by Smit and Watkins (2012). They also maintain that entrepreneurs should acquire the skills of risk identification, analysis and control. Alternatively, the function of risk management should be assigned to another person with the necessary skills within or outside the enterprise to eliminate self-review/bias.

A few respondents agree with this literature and stated that they practice risk management in their business models and therefore it doesn't affect their business as a barrier. For instance, a consultant business owner (Interviewee 01) states that:

'I have always taken risks in my business investment projects. On average, I have made more profits off these well calculated risks.'

This suggests that despite the some of the disadvantages of pursing risk in business ventures, if managed well, risk management can indeed control and manage the existing risks of a company so as to minimise the hinderances limiting the organization from achieving its main and long-term goal.

In this study, we observe that many of the businesses being affected by risk are SMEs with either a sole trader or partnership ownership structure. These SMEs face a wider range of business risks which are rooted in both the internal and external environment of the enterprises. Therefore, it is imperative to establish if there is a relationship between firm size and experience to taking risk or if it acts as a barrier to growth. So, the quantitative section of this study will investigate if the size of the business is significant in determining whether risk acts as a barrier to growth. The hypothesis tested will be – ***H15: The size of a firm is significant in determining whether it experiences risk attitude as a barrier to growth.***

7.3 Quantitative Analysis

7.3.1 Introduction

The quantitative section in this chapter focuses on testing the hypotheses generated from the literature review and the qualitative section. This section focuses on three barriers: access to finance, forced mutual help and risk attitude. These barriers constrain a firm's ability to undertake its daily operations since they reduce its internal financing and the capacity to make sound business decisions. This section shall run regressions making each of these barriers the dependent variables while the entrepreneur and firm characteristics will be the control variables.

Table 7.2 shows the descriptive statistics of the internal barriers (dependent variables) that are used in the quantitative section of this chapter. It shows the frequency of the respondents on a Likert scale ranging from strongly disagree to strongly agree. The total observations in the table below are 400. Each of the barriers will be used as a dependent variable in the models.

Table 7.2 Descriptive statistics of the internal & financial barriers and the response rate

Variables	Frequency	Percent
Gender		
Male	**240**	**60**
Access to finance		
Strongly Disagree	**-**	**-**
Disagree	**5**	**2**
Neutral	**3**	**-**
Agree	**143**	**36**
Strongly Agree	**248**	**62**
Forced mutual help		
Strongly Disagree	**1**	**-**
Disagree	**19**	**4**
Neutral	**38**	**10**
Agree	**294**	**74**
Strongly Agree	**47**	**12**
Risk attitude		
Strongly Disagree	**1**	**-**
Disagree	**15**	**5**
Neutral	**28**	**7**
Agree	**189**	**47**
Strongly Agree	**165**	**41**

7.3.2 Control variables

Controlling for other factors when associating SMEs' growth potential to business constraints is very important because SMEs are heterogeneous and therefore differently affected by business constraints. Some business constraints or barriers might be serious problems to SMEs in some subsectors but not to others. For example, limited access to long-term financial resources and operation space are the major obstacles to the growth potential of Ugandan manufacturing MSEs in wood/furniture and metal but not to those in textiles (Sengendo *et al*., 2001). Also, some obstacles are identified by House (1984) as serious constraints to manufacturers but not to traders and service providers. These examples emphasize the need to control for the entrepreneur and firm characteristics when analysing the extent to which business constraints affect the performance of SMEs.

The estimation models will include two categories of control variables: the entrepreneur's characteristics (gender, age, marital status, number of children, type of entrepreneur and level of education) and the firm's

characteristics (ownership structure, age of the firm, industry, number of employees/sizes of the firm and distance to trading centre). These variables are expected to influence the growth potential and performance of SMEs as they interface with the different business barriers.

7.3.3 The modelling strategy

The study will employ an Ordered Probit modelling strategy to test all the hypotheses in this chapter. The study will generate three different models to cater for each of the dependent variables being studied in this section. That is: access to finance, forced mutual help and risk attitude. All these are ordinal variables in the data set used for the quantitative study.

An ordered probit model is used to estimate relationships between an ordinal dependent variable and a set of independent variables. An ordinal variable is a variable that is categorical and ordered. In this section, we shall generate three models to represent each of the ordinal variables named above.

In an ordered probit, an underlying score is estimated as a linear function of the independent variables and a set of cut points. The probability of observing outcome *i* corresponds to the probability that the estimated linear function, plus random error, is within the range of the cut points estimated for the outcome:

$$Pr(outcomej = i) = Pr(\kappa i-1 < \beta 1x1j + \beta 2x2j + \cdots + \beta kxkj + uj \leq \kappa i)$$

uj is assumed to be normally distributed. In either case, we estimate the coefficients β1, β2, ..., βk together with the cut points κ1, κ2, ..., κI−1, where *I* is the number of possible outcomes. κ0 is taken as −∞, and κI is taken as +∞.

This section shall run the same model with three different dependent variables. That is: access to finance, forced mutual help and risk attitude. The model will follow the following equations:

1. **Access to finance**

Pr (finance j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry

2. Forced mutual help

Pr (Forced Mutual Help j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)

3. Risk attitude

Pr (Risk Attitude j = i) = Pr (κi−1 < β gender j + β age j + β marital status j + β children j + β type of entrepreneur j + β education j + β structure j + β age of a firm j+ β firm size j + β distance to trading center j + β Industry j)

The model will estimate how much each of the control variables stated above will influence each of the barriers.

7.3.4 The results of the model

Panel A – Entrepreneur Characteristics

Variables	Finance	Forced Mutual Help	Risk Attitude
Gender			
Female	**0.095**	**-0.351****	**-0.093**
	(0.150)	**(0.149)**	**(0.138)**
Age			
30-39	**-0.379***	**0.129**	**0.195**
	(0.233)	**(0.219)**	**(0.203)**
40-49	**-0.249**	**0.255**	**0.142**
	(0.311)	**(0.299)**	**(0.279)**
50-59	**0.454**	**0.545**	**-1.56****
	(0.753)	**(0.739)**	**(0.699)**
Marital status			
Single	**0.246**	**0.261**	**-0.433****
	(0.279)	**(0.256)**	**(0.235)**
Divorce/separated	**0.164**	**0.588****	**0.003**
	(0.358)	**(0.344)**	**(0.318)**
Widowed	**0.263**	**1.215*****	**1.022*****
	(0.357)	**(0.341)**	**(0.343)**
Number of children			
1-2	**0.123**	**0.258**	**-0.075**
	(0.306)	**(0.276)**	**(0.254)**
3-4	**0.169**	**0.121**	**-0.381**
	(0.345)	**(0.319)**	**(0.297)**
5 or more	**-0.727***	**-0.599***	**-0.167**
	(0.473)	**(0.452)**	**(0.439)**
Type of entrepreneur			
Necessity	**0.415*****	**0.232***	**-0.025**
	(0.153)	**(0.144)**	**(0.136)**
Education			
Primary	**-0.199**	**-0.214**	**0.539**
	(0.389)	**(0.383)**	**(0.367)**
Secondary	**-0.161**	**-0.343**	**0.356**
	(0.368)	**(0.367)**	**(0.347)**
Degree	**-0.483**	**-0.419**	**0.699****
	(0.382)	**(0.375)**	**(0.358)**
Certificate	**-0.341**	**-0.383**	**0.808****
	(0.374)	**(0.371)**	**(0.354)**

Panel B – Firm Characteristics

Ownership Structure			
Partnership	**-0.177**	**0.046**	**-0.015**
	(0.160)	**(0.155)**	**(0.146)**
Limited company	**-0.441***	**-0.056**	**0.228**
	(0.289)	**(0.273)**	**(0.255)**
Age of the firm (in years)			
1-2	**-**	**-0.749**	**0.428**
		(0.539)	**(0.461)**
3-5	**-**	**-0.474**	**0.808****
		(0.530)	**(0.454)**
6 and more	**-**	**-0.234**	**1.365*****
		(0.558)	**(0.491)**
Firm size			
1 worker	**0.019**	**0.210**	**-0.096**
	(0.377)	**(0.357)**	**(0.332)**
2-3 workers	**0.119**	**0.106**	**-0.133**
	(0.338)	**(0.314)**	**(0.294)**
4-5 workers	**0.212**	**-0.100**	**-0.424**
	(0.371)	**(0.348)**	**(0.326)**
6-10 workers	**0.386**	**-0.048**	**-0.349**
	(0.457)	**(0.415)**	**(0.389)**
10 workers or more	**0.337**	**-0.115**	**-0.857****
	(0.519)	**(0.487)**	**(0.452)**
Distance to trading centre (in km)			
1-2	**-0.023**	**0.326****	**0.169**
	(0.192)	**(0.185)**	**(0.178)**
3-4	**-0.073**	**0.249**	**0.014**
	(0.216)	**(0.206)**	**(0.197)**
5 or more	**-0.364**	**-0.102**	**-0.123**
	(0.314)	**(0.305)**	**(0.287)**
Industry			
Service	**-0.423***	**-0.475****	**0.181**
	(0.266)	**(0.245)**	**(0.224)**
Agriculture	**-0.616****	**-0.105**	**0.361***
	(0.266)	**(0.250)**	**(0.230)**
Pseudo R-squared	**0.062**	**0.074**	**0.076**
No. observations	**398**	**398**	**398**

Standard errors are reported in parentheses. *, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

7.3.5 Interpretation and discussion of results

Access to finance

The gender of the entrepreneur is not significant in this model. However, the age of the entrepreneur is significant at the 30-39 category and it has a negative coefficient. The negative coefficient could suggest that the respondents in this category are less likely to face access to finance as a barrier compared to the other categories, meaning that these respondents find it easier to access finance compared to the older categories. It's likely that this category of respondents (30-39) find the bank policies on acquiring loans more favourable compared to the other categories. This could also mean that the entrepreneurs in this category have better credit scoring in terms of getting a loan. That is, their firms have better credit history regarding repayment of loans and are rated as low risk firms compared to the other categories. The adverse selection predicament is managed because the lending institution has enough information about the borrower and therefore can make good lending decisions. This also supports the hypothesis that the age of an entrepreneur is significant in determining whether he experiences access to finance as a barrier to the growth of their business.

The number of children of the entrepreneur is significant at the 5 or more category and the coefficient is negative. The negative coefficient could suggest that this category of entrepreneurs is less likely to experience access to finance as a barrier. Based on the interviews, some of these entrepreneurs have older children. So, it is likely that some of the children of the entrepreneur have invested in the business itself, meaning the entrepreneur does not have to get loans from banks or micro-finance institutions to invest in the business. However, the marital status and the education of the entrepreneur are both not significant in the model.

The type of entrepreneur is very significant in the necessity category. The coefficient is positive which tells us that these entrepreneurs experience access to finance as a barrier to growth. Most necessity entrepreneurs start up their businesses purely to make money for their survival and that of their families. It's common that such entrepreneurs may have the following characteristics:

1. They may not have the necessary collateral security to acquire a loan to expand their business.
2. They are likely to present the bank with the agency theory predicament. The assumption of this theory is that the bank (principal) has imperfect control/knowledge of the actions of the entrepreneur (agent), and that the entrepreneur has objectives that differ from those of the bank.

For example, money lent to the entrepreneur for investment in his business could be diverted to more pressing family issues. Because of these differing objectives, it's likely that the bank will not lend the entrepreneur money in the first place and they will most likely have challenges in accessing finance.

The ownership structure of the firm is significant at the limited category and has a negative coefficient. This category represents 10% of the sample. The negative coefficient suggests that these respondents are less likely to experience access to finance as a barrier compared to the other categories. This could suggest that these limited companies are more stable financially and have a good financial track record. It's also likely that they have a high credit scoring rate with credit references or fraud prevention agencies and therefore it's easier for such firms to access credit. The age of a firm (experience), size of a firm and its location are not significant in this model.

Lastly, the industry of a firm in the service and agriculture categories are significant and both have negative coefficients. This suggest that the respondents in both categories are less likely to consider access to finance as a barrier to the growth of their business. The manufacturing category which is the reference category should experience access to finance as a barrier. This suggests that: first, these manufacturing firms have more need for finance, i.e. they require higher Manufacturing Execution Systems (MES) compared to service and agriculture firms. Second, these manufacturing firms are less financially stable or may not have the necessary financial requirements e.g. collateral needed to acquire a business financial loan. Finally, these manufacturing firms are presenting the bank with an informational asymmetry dilemma because they are unequally sharing information about the firm. This situation favours the firm and puts the bank at a disadvantage. As a result, the bank chooses not to offer them credit/finance.

Forced mutual help

The gender of the entrepreneur is significant and has a negative coefficient. This suggests that these respondents are less likely to consider forced mutual help as a barrier to their business. This could also suggest that female entrepreneurs in the sample are less likely to employ relatives and friends compared to their male counterparts in their businesses. In this model, the age of the entrepreneur is not significant.

The martial status is significant in both the divorce/separation and widowed categories. They both have positive coefficients which suggests that these respondents experience forced mutual help as a barrier to their businesses. It could imply that these categories of entrepreneurs have stronger family ties and are

employing more relatives in their businesses. Many of these relatives may not be competent to carry out the work.

The number of children of the entrepreneur is significant at the '5 or more' category and has a negative coefficient. Entrepreneurship literature suggests that the more children the entrepreneur has, the more likely these children work in the family business. The negative coefficient could suggest that these entrepreneurs are less likely to experience forced mutual help as a challenge because they are probably employing their children in the businesses and may not be paying them a salary. The education of the entrepreneur is not significant in this model.

The type of entrepreneur is significant in the necessity category in this model. The coefficient is positive which suggests that these entrepreneurs are experiencing forced mutual help as a barrier to growth. It is likely that these necessity entrepreneurs are employing unqualified relatives because they have started up their businesses purely out of necessity and not a good business plan. The use of this cheap unprofessional labour is likely to have a negative impact on the productivity of the business. This answers the hypothesis of the study which shows that the type of entrepreneur is significant in determining whether forced mutual help acts as a barrier to the growth of a business.

The ownership structure of a firm, the age of a firm and the size of a firm are not significant in this model. The location of the firm in the 1-2 km category is significant and has a positive coefficient. The positive coefficient demonstrates that this category experiences forced mutual help as a barrier. It could simply imply that firms nearer the trading centres are more attractive (in regard to employability) and hence these entrepreneurs face more of the problem of relatives/friends asking for jobs even though they are not qualified.

Lastly, the industry of a firm is significant at the services category and has a negative coefficient. This suggests that the respondents in the service category are less likely to experience forced mutual help as a barrier to the growth of their business. The manufacturing category, which is the reference category, is more likely to experience forced mutual help as a barrier. This suggest that these manufacturing firms attract more unprofessional/unskilled workers who are relatives and friends of the entrepreneurs.

Risk Attitude

The gender of the entrepreneur is not significant in this model. However, the age is significant at the 50-59 category and the coefficient is negative. The negative coefficient tells us that the respondents in this

category are less likely to experience risk attitude as a barrier compared to the other categories. It could suggest that these older entrepreneurs are more experienced and likely to handle risk better than the younger entrepreneurs. The marital status of the entrepreneur is significant at the single category (with a negative coefficient) and widowed category (with a positive coefficient). The coefficients suggest that singles are less likely to experience risk attitude as a barrier compared to the widowed category. This is possibly because the singles are more experienced in handling risky business decisions. The number of children of the entrepreneur and the type of entrepreneur are both insignificant in this model.

Education is significant at the bachelors and certificate categories. Their coefficients are both positive and the categories comprise 37% and 26% of the sample respectively. The positive coefficient suggests that these respondents experience risk attitude as a barrier to their business growth. The implication is that the more educated entrepreneurs are likelier to take risks compared to their less educated counterparts and thus face more risk related issues in their businesses. The ownership structure and the location of the firm are both insignificant in this model.

The age of a firm is significant at the 3-5 and 6 and more categories of the sample. The coefficients are both positive and this could suggest that the older firms experience risk attitude as a barrier to growth. This illustrates that unlike the young firms that may be risk averse, the older firms are probably taking more uncalculated risks that are detrimental to their growth.

The size of the firm is significant at the 10 or more workers category and has a negative coefficient. This suggests the respondents in this category are less likely to experience risk attitude as a barrier to the growth of their business. It could also suggest that the bigger the size of a firm (in terms of workers), the less likely the firm is to face external shocks caused by risky financial decisions. The smaller firms with sole proprietors are more likely to engage in high risk business activities because they do not have anyone to question their decisions and are frequently the subject of external shocks. It also answers the hypothesis in this study by showing that the size of a firm is significant in determining whether a firm experiences risk attitude as a barrier to growth.

Finally, the location of a firm is not significant in this model. The industry of a firm is, however, significant in the agriculture category and has a positive coefficient. This suggests that the respondents in the agriculture category experience risk attitude as a barrier to the growth of their business and also that the entrepreneurs in these agriculture related businesses are taking uncalculated risks thereby making risk attitude a barrier.

7.4 Conclusions

The findings in this chapter show that there is a relationship between the internal and financial barriers of this study (access to finance, forced mutual help and risk attitude) and the growth of SMEs in Uganda. The microenterprise sector in Uganda is highly heterogeneous with some owners drawn by opportunities to create a business and others drawn by the necessity to scrape out a living. The findings present a variety of entrepreneur and firm characteristics that are viewed as the main underlying sources of heterogeneity.

The qualitative findings done through the interviews show that the internal and financial barriers mentioned in this chapter, namely access to finance (76% agree), forced mutual help (70% agree) and risk attitude (72% agree) are indeed barriers to the growth of SMEs in the country.

The quantitative findings derived from the regressions conclude that the main characteristics of the entrepreneur and firm that are significant in determining the barriers (when used as the dependent variables in the model) can be briefly presented as:

First, when access to finance is used as the dependent variable in the model, the age of the entrepreneur is significant in the 30-39 category and it has a negative coefficient. The negative coefficient could suggest that the respondents in this category are less likely to face access to finance as a barrier. It's likely that this category of respondents (30-39) find the bank policies on acquiring loans more favourable compared to the other categories. This could also mean that the entrepreneurs in this category have better credit scoring required to get a loan. That is to say their firms have better credit history regarding repayment of loans and they are rated as low risk firms compared to the other categories. This conforms to literature by Fatoki and Asah (2011) who proposed that because relatively young SMEs are characterized by a lower portion of tangible assets in their total assets, they are more likely to encounter difficulties in applying for external finance due to their inability to provide the collateral required. The younger entrepreneurs (29 years and below) are more likely to experience access to finance as a barrier compared to their older counterparts.

Second, when forced mutual help is used as the dependent in the model, the type of entrepreneur is significant in the necessity category. The coefficient is positive which suggests that these entrepreneurs are experiencing forced mutual help as a barrier to growth. It is likely that these necessity entrepreneurs are employing unqualified relatives because they have started up their businesses purely out of necessity and not a good business or development plan. The use of this cheap unprofessional labour is likely to have a negative impact on the productivity of their businesses. This regression result is similar to the qualitative interviews which showed that entrepreneurs were employing their unqualified relatives. For example, a construction and carpentry business owner (Interviewee 18) stated: *'Yes, I employ some of my relatives in my business. If I didn't employ them, it would create a lot of intrigue in the family.'* This shows that many

entrepreneurs in Uganda end up employing their family members regardless of whether they are competent to do the work or not. This suggests that the family ties in Uganda are very strong.

Third, when risk attitude is used as the dependent variable in the model, the size of the firm is significant at the 10 or more workers category and has a negative coefficient. This suggests the respondents in this category are less likely to experience risk attitude as a barrier to the growth of their business. It could also suggest that the bigger the size of a firm (in terms of workers), the less likely the firm is to face external shocks caused by risky financial decisions. It is also likely that the barrier of risk attitude is faced by the smaller SMEs. Literature by Watt (2007) argues that the risk function in SMEs is usually the prerogative of the owner. This means that the sole proprietor (in most of cases) makes all these risky decisions solely.

In conclusion, the qualitative and quantitative methods in this chapter give us a comprehensive view of how the barriers mentioned relate to the entrepreneur and firm characteristics. These barriers affect the SMEs in different ways and if not managed properly, can lead to the failure of the enterprise.

CHAPTER EIGHT

CONCLUSIONS

8.1 Introduction

Although entrepreneurship research has put in a commendable effort in understanding entrepreneurship (SME growth) and its contribution to economic development in Uganda, the discipline is still characterised by multifaceted conceptual perspectives that have not been exhaustively studied. Consequently, there are many research gaps that require both empirical and theoretical attention. Thus, the debate on entrepreneurship and its contribution to poverty reduction is not yet conclusive.

This chapter will present the summary of the thesis by briefly revisiting the study objectives and findings. The key research questions of the thesis will be answered and the underlining barriers faced by SMEs in this study will clearly be documented. The overall contributions, limitations experienced and finally recommendations of the study will then be presented. These recommendations are solutions as suggested by the respondents in this study.

Methodologically, the study used a mixed research method that collected both qualitative and quantitative data using in-depth interview guides and questionnaires respectively. This data was used to test hypotheses and the relationships in the models generated. The findings from the information gathered were robust and give a comprehensive picture of the study objectives.

8.2 Summary of the thesis

Wiggens (2000) lamented that little is known about Africa's rural non-farm economy beyond an embryonic set of ideas. Today, although we know more about the magnitude and contribution of rural non-farm enterprises to household income, most empirical evidence is based on one-period, single country, and rather limited survey data. The majority of studies have focused on urban areas, neglecting rural entrepreneurship (Naude, 2011). Therefore, this thesis presents new findings in an effort to contribute to the discussion of rural enterprises and their contribution to economic development.

This thesis sets out to answer two key research questions. These are:

1. What are the main entrepreneur and firm characteristics that are associated with high entrepreneurial income in SMEs in Uganda?

2. What are the barriers hindering the growth of SMEs in Uganda?

Using the qualitative and quantitative approaches, the thesis concludes that the key characteristics of the entrepreneur and the firm that are significant and are associated with high entrepreneurial income in SMEs in Uganda can be briefly outlined as:

Age of the entrepreneur – the age categories had an expected ordinal increase that suggests that the older the entrepreneur grows, the more income they are likely to earn. It should be noted that this result is not specific to SMEs, nor to Uganda, but to a certain extent it is the nature of employment through increasing age.

Number of children the entrepreneur has – we found that having 5 children and more is significant and is associated with high income. This could suggest that the entrepreneur's children are probably working in the business and are contributing to the high earnings/income.

Education of the entrepreneur – the findings show that the degree level of education is significant and is associated with higher income. This suggests that high formal education for an entrepreneur has a positive correlation to their income.

Ownership structure of a firm – the findings show that partnerships and limited companies are significant and are associated with high income of an SME. They suggest that partnerships and limited companies are more stable financially compared to sole ownership firms that hardly have the resources to have an impact on the market.

Size of a firm – we find that having six workers or more is significant and is associated to higher income in a firm. This could suggest that the greater sized businesses (the bigger the size of a firm) in the sample are likely to experience more income for the entrepreneurs.

Location of a firm – the findings reveal that the location of a firm (in terms of distance from the trading center) is significant and associated to high income. This finding suggests that firms outside the centre are associated with lower incomes because of high transportation costs, low demand for their products and the lack of informational benefits in terms of knowledge spill-over.

Industry of a firm – the findings establish that the service industry is significant but is associated with lower income for the entrepreneurs. They further demonstrate that the manufacturing industry in Uganda is associated with higher income for entrepreneurs due to higher entry barriers in this industry, resulting in less competition for the entrepreneurs.

It should be noted that the findings in this thesis exhibit similar characteristics to previous studies done in entrepreneurship. For instance, in most developing countries, non-farm enterprises (SMEs in the study context) are operated in their majority out of necessity (Herrington and Kelly, 2012). This is also the case in this study. However, households in rural areas also face a range of opportunities. For opportunity motivated enterprises, households make use of their capabilities and assets, as well as individual characteristics (Barrett et al., 2001). Capabilities and assets include gender, age (also a proxy for experience), education, marital status (Abdulai and Delgado, 1999), as well as financial assets (Bhaumik et al., 2011; Ackah, 2013), and the size of the household itself. Education has been found to be relatively more important for individuals to enter wage employment than for starting a new business (Elbers and Lanjouw, 2001). The thesis portrays similar findings to these various studies.

Using the qualitative and quantitative approaches, the thesis concludes that the core barriers hindering the growth of SMEs in Uganda can be briefly elucidated as:

1. Corruption – under the qualitative study, the findings show that 60% of the respondents think corruption is a barrier to growth. However, the qualitative responses demonstrate a few nuances. Some outrightly claimed corruption is a massive barrier to the growth of their business while others had contradicting views, saying the payment of a bribe may be a failure in compliance but it could reduce the overall cost of business. For instance, according to a milk distributor business owner (Interviewee 04): *'Sometimes when I delay on my license payments, the officials in charge always ask for bribes in order for my business to keep operating. This has happened to me on several occasions.'* This illustrates that the extent to which bribes in such circumstances are an absolute or relative burden becomes more blurred. If the delaying of license payment allows the entrepreneur to reduce statutory payments and the bribe paid is a lesser sum than what would be due, the payment of bribes can be seen as means of minimizing overall costs of business. This type of bribe also illustrates a pertinent agency problem – that of the state's representative potentially embezzling funds due to the state.

That notwithstanding, the quantitative section of this thesis concludes that the age of a firm (experience) is significant in determining whether it experiences corruption as a barrier. The coefficients for all the age categories in our regression model were positive. This suggests that regardless of the age of a firm (old and young), they are experiencing corruption as a barrier to growth. It follows that if a firm is dealing with the public, it will face corruption (bribes) regardless of age. These findings are in line with data collected on bribe payments across firms in Uganda by Svensson (2003). He concluded that firms with extensive dealings with the public sector are more likely to be under bureaucratic control and therefore face a higher probability of having to pay bribes.

2. Government policy – the qualitative study shows that 66% of the respondents claimed that unfavourable government policies are a big obstacle to the growth of their business. Many of the respondents cited the complex procedure of registering or licensing a new business as a challenge. They claimed the government bureaucrats abuse their power and impose their own discretional and complicated procedures for new entrepreneurial ventures. This argues that the view that the problems in the business regulatory environment go beyond just mere laws and policies to further involve corruption by political and other administrators. A butchery owner (Interviewee 07) illustrates this predicament when he states: *'Government requires unnecessary medical certificates every six months, which are very expensive to get.'*

The quantitative section of the thesis shows that the ownership structure of a firm is significant at the limited company category. This category has a positive coefficient and is significant in determining whether government policy acts as a barrier to the growth of a business. This could suggest that the firms in the limited company category consider government policy to be a barrier to the growth of their business. These firms are likely to be formal and very visible to adverse government policies like high taxes.

3. Electricity insecurity – the qualitative study of the thesis shows that 58% of the respondents agreed that electricity insecurity was a barrier to the growth of their businesses. The respondents claimed their quality of life is hampered by lack of electricity, particularly as rural public institutions like health, educational and water facilities would be able to provide better services if they had access to electricity. Others claimed that it was significantly affecting the growth of their businesses as they were being forced to buy diesel or petrol generators that are costly to operate and negatively impact the environment.

The quantitative study established that the industry of a firm is significant in determining whether electricity insecurity acts as a barrier to growth. The study showed that the industry of the firm is significant in the services and agriculture categories. Both coefficients of these industries are negative which could suggest that the firms in these two industries are less likely to experience electricity insecurity as a barrier to the growth of their business. This could also suggest that the firms in the manufacturing industry, which is the reference category, are likely to experience electricity insecurity as a barrier compared to the rest. This finding is consistent with results by a World Bank Enterprise Survey (2006) done in Uganda. The analysis reveals that many manufacturing firms face electricity insecurities and this leads to lower productivity.

4. Poor infrastructure – the qualitative study shows that 48% of the respondents said poor infrastructure was a barrier to their business. One would ordinarily expect poor roads to have a more negative impact on the respondents, but most of the businesses surveyed are located within the trading centers (in close

proximity of their clientele) and hence may not necessarily be affected by the poor upcountry roads. For example, a bakery owner (Interviewee 12) said, *'Infrastructure in form of road access isn't a problem for my business because my bakery is in the middle of town and my clients buy and collect directly from my shop.'*

The quantitative study concludes that the firm's location is significant in determining whether poor infrastructure in terms of poor roads acts as a barrier to growth. These findings tie in well with empirical literature by Ishengoma (2005) who argues that the economic infrastructure and social services are not equally distributed in developing countries. The favoured areas (trading centres) tend to attract capital (such as foreign investment) and skilled labour, which together with a supply of non-tradable inputs may increase market linkages in these areas. Consequently, firms located in these areas (trading centres) are likely to perform better or experience growth faster than those outside.

5. High taxes – the qualitative study established that 64% of the respondents claim that high taxes were a barrier to the growth of their businesses. The majority of these respondents were more concerned with the viability of the business, not the compliance with the tax law. Most of them did not know which tax to pay or the procedure to follow. As a result, they ended up evading the tax and getting into trouble with the revenue authority. Many experts in the tax sector have maintained that high taxes are an obstacle to business development. These high taxes limit the performance and growth potential of SMEs in Uganda in several ways.

The quantitative study concludes that the age of a firm is significant in determining whether high taxes acts as a barrier to growth. These findings conform to empirical studies by Ishengoma and Lokina (2007) who suggest that in some cases, firms might remain informal and smaller (micro) to avoid high taxes. Consequently, the bigger firms (6 years or more) in this study were likely to be more formal and visible to the government, making them likelier to experience the burden of high tax.

6. Access to finance – the qualitative study shows that 76% of the respondents claim that access to finance is a barrier to their business. They said accessing finance was nearly impossible in most cases. The respondents cited three major areas they are denied access to finance. These are high interest rates, lack of adequate collateral security and the age of the firm. Interestingly, literature presented by Stiglitz and Weiss (1981) identified the same reasons when they stated that the two key reasons that might explain variances in SMEs' access to credit are lending terms which include collateral and high interest rates.

The quantitative study concludes that the age of an entrepreneur is significant in determining whether he experiences access to finance as a barrier to the growth of their business. The quantitative findings show that respondents between the age of 30-39 are less likely to face access to finance as a barrier compared to the other age categories. This suggests that these respondents find it easier to access finance compared to the other categories. It's likely that this category of respondents (30-39) find the bank policies on acquiring loans more favourable compared to the other categories. This could also suggest that the entrepreneurs in this category have better credit scoring in terms of getting a loan. Their firms are likely to have a better credit history regarding repayment of loans and are rated as low risk firms compared to the other categories. The adverse selection predicament is better managed because the lending institution has adequate information about the borrower and can therefore make good lending decisions.

7. Forced mutual help – The qualitative study shows that 70% of the respondents agreed that forced mutual help acts as a barrier to the growth of their business. Most of them said that they employ family members and friends because of the pressure from their relatives. They added that in most cases, these family members and friends are unqualified to do the job.

The quantitative study concludes that the type of entrepreneur is significant in determining whether forced mutual help acts as a barrier to the growth of a business. The type of entrepreneur is significant at the necessity category in the model used. The coefficient is positive, suggesting that these necessity entrepreneurs experience forced mutual help as a barrier to business growth. It is likely that these necessity entrepreneurs are employing unqualified relatives because they have started up their businesses purely out of necessity and may not have a good business plan. In this scenario, employing cheap unprofessional family labour makes business sense for necessity entrepreneurs.

8. Risk attitude – the qualitative study shows that 72% of the respondents agreed that risk attitude (to the business uncertainties taken by entrepreneurs) is a barrier to the growth of their business. For instance, many respondents said that they have lost money by making poor risky business decisions. They attributed this loss to the fact that they did not have any kind of training in risk management. It's important to note that the purpose of risk management is to mitigate the existing risks of a company so as to minimise the threats that may hinder the organisation from achieving its long-term goals.

The quantitative study shows that the size of the firm is significant in determining whether a firm experiences risk attitude as a barrier to growth. The significant category in the study was the category which had 10 or more workers and the category had a negative coefficient. This suggests the respondents

in this category are less likely to experience risk attitude as a barrier to the growth of their business. It could also suggest that the bigger the size of a firm (in terms of workers), the less likely the firm is to face external shocks caused by risky financial decisions. The smaller firms owned by sole proprietors are more likely to engage in riskier business activities because they do not have anyone to question their decisions and are frequently exposed to external shocks.

The barriers in this study were drawn from the literature and thus the literature informed the survey design. Most of the studies were previously done on developing countries. They all establish that these barriers hinder the growth of SMEs in developing countries like Uganda.

By and large, the interpretivist and positivist perspectives of the findings suggest that the qualitative and quantitative methods of this study complement each other because the picture painted by both perspectives is more or less similar. That is to say, both approaches tell the same story regarding the characteristics of the entrepreneur and the firm as well as the barriers they face. Therefore, by answering the two research questions mentioned earlier, the study shows that there is a link between growth of SMEs and the barriers they face. If the barriers are successfully tackled by government (by providing a conducive entrepreneurial environment), the SMEs will grow and the country shall achieve economic development and poverty reduction. Thus, the study findings answer the overall broader objective of the thesis – 'entrepreneurship significantly increases entrepreneurial income, contributes to poverty reduction and leads to economic development in Uganda.

8.3 Contributions of the study

Despite the introduction of entrepreneurship strategies in terms of SMEs as a vehicle for poverty reduction in the early 90's, poverty is still a challenging issue in Uganda. While aggregate level statistics indicate that national poverty levels have fallen from 56% in 1992 to 31% in 2006 (UNDP, 2007), there are still significant regional disparities and trends in poverty within the country. This study critically looks at a sample of SMEs in western Uganda and establishes the reasons for low income amongst the respondents in this study. Through the feedback from the respondents, the study provides potential solutions the government can put in place to improve the SME sector in Uganda.

The Global Entrepreneurship Monitor (GEM, 2014) describes Uganda as the most entrepreneurial country in the world at a start-up rate of 28%. This means 3 out of 10 Ugandans are starting-up businesses. However, they also note that 70% of these firms do not survive 24 months from the date of their inception. The study carried out an in-depth /rigorous qualitative study, identified the key barriers hindering the

growth of SMEs in Uganda and offered solutions to curb the overwhelming failure rate of the SMEs in Uganda.

This study contributes to the area of structural characteristics and business growth. Several studies have looked at these attributes in developed countries, but there is still a gap in the literature with developing countries. The first step of business growth is to look critically at the entrepreneur and firm characteristics that contribute to this growth. The study identifies and shows the characteristics of the entrepreneur and firm that can have a significant impact on entrepreneurial income.

Lastly, the United Nations Development Program introduced the 17 Sustainable Development Goals (SDGs) in 2016. The broader theme of this study is in line with goal number one which addresses poverty eradication. 'While the number of people living in extreme poverty dropped by more than half between 1990 and 2015 – from 1.9 billion to 836 million, too many are still struggling for the most basic human needs (SDGs, 2016)'. The study addresses issues related to the poverty eradication goal. That is to say it has established how SME growth can improve the livelihood of entrepreneurs and thus reduce poverty in Uganda.

8.4 Limitation of the study and areas for further research

Although efforts were made to investigate several SMEs in Uganda, not enough were obtained for a comprehensive cross validation exercise. Further studies may involve respondents from other regions of the country to observe whether there is any kind of variation in the findings. This would help in answering questions about whether the same findings and solutions attained are applicable in other regions of the country.

Methodologically, a cross-sectional design may not fully capture interactions between the entrepreneur's characteristics, SME growth and the dynamics of the changing business environment. Future studies can utilise a longitudinal study to examine the extent to which the characteristics of the entrepreneur and firm contribute to entrepreneurial income in rural areas of the country. It would be prudent to establish which of these underlining characteristics are significantly affected by income.

All of the respondents were conversant with the language (English) that was used while collecting data. However, some respondents did not fully understand a few questions in the questionnaire. The researcher tried to make all questions clear and comprehensible but he feels like some of the more complex issues were lost in translation during the probing section of the interviews.

While it is argued in this study that there is a strong relationship between the experience of the entrepreneur and his income, it is not clear why the relationship is not significant in the regression models of the quantitative study. There is, therefore, a need for further research about the experience of the entrepreneurs and their income in SMEs in Uganda.

Lastly, while analysing the findings, the researcher establishes that there is a potential possibility of an endogeneity issue arsing in the results. This broadly refers to situations in which an explanatory variable is correlated with the error term.

8.5 Recommendations

Most of the recommendations in this section were derived from the responses in the qualitative study of this research. Many of the respondents highlighted the following solutions as a way the government can help them overcome the barriers they face in their businesses. By doing this, the government will create a more conducive business environment for SMEs in the country. These can briefly be outlined as follows:

The respondents identified rampant corruption in many of the government institutions across the country. Most respondents expressed the desire for government to start by cleaning up the Uganda Revenue Authority (URA) that is in charge of collecting government taxes. This institution is very instrumental in the growth of the economy and the sustainability of SMEs. With the taxes collected properly, the government can improve on infrastructure like road networks and electricity output which boosts business growth. However, they claimed that the country is losing a lot of its revenue to the corrupt authorities in the URA. They suggested a restructuring process and more responsible leadership to clean up the whole institution.

The respondents also said the government should tax and regulate imports in order to support the local SMEs in the country. This could give a slight advantage to the local SMEs who claim untaxed foreign imports are circulating the market and eating into their market segments and margins. Most of the respondents give an example of Chinese products which have recently flooded the Ugandan markets. The government can also become a customer to various local SMEs in the country (buying local). In so doing, the SMEs will have a consistent market base for their product and services. They categorically stated that the assurance of having the government as a customer will significantly increase their earnings and reduce uncertainty.

Some of the respondents stated that small and medium entrepreneurs lack skills in book-keeping and are unaware of the link between book-keeping and tax paying. Currently, when a local business owner is unable to show the URA their books, they are penalised, which increases the amount due to levels which

most cannot afford. The government should educate these entrepreneurs by setting up entrepreneurial seminars and workshops in their communities. These should impart the necessary information on running a business and the taxation policy in the country whilst providing an environment where traders can freely interact with the URA so the latter can keep a pulse on business operations in the country. With the dissemination of this knowledge, entrepreneurs are empowered to challenge any malpractice within the revenue collection process and this paves the way for the revenue collection authority to be held accountable.

Respondents also expressed a desire for policy-makers to improve the reliability of the electricity supply for SMEs. This needs to be measured and monitored. It may require short-term action to reduce technical faults, for example, through maintenance of the transmission and distribution infrastructure, or it may require longer-term interventions to expand generating capacity. The policy-makers should endeavor to build and spread out the distribution of the power-line infrastructure evenly throughout the country. This will prevent entrepreneurs from moving from region to region looking for better and lasting electricity supply to manage their businesses successfully.

The policy-makers in the government of Uganda can help to mitigate the impact of electricity insecurity on SMEs by ensuring that outages are planned and by facilitating access to alternative supplies of electricity, including generators and renewable energy. This can be done by:

- ✓ Providing the SMEs with reliable load-shedding schedules, which would enable them to plan production around outages.
- ✓ Sharing backup generators would help more SMEs to access and use backup power during outages. However, sharing generators requires good relationships and trust between firms and for some, distance from other firms may be a constraint.
- ✓ Considering the use of renewable energy technologies by SMEs during outages – this can be facilitated by availing information about them and implementing measures to reduce their costs (e.g. through generator sharing, subsidies and credit schemes).

Finally, to tackle poor infrastructure in the country, the respondents claimed that the government of Uganda should allocate funds and improve the feeder road network in the rural areas that are badly affected by impassable roads. The local governments should endeavour to set up more rural markets so that the rural population do not have to travel long distances for access to commodities and telephone companies should be given incentives to link up the villages through telecom-centres. This would improve the network communication between entrepreneurs and their customers.

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10. APPENDIX 1: RESULTS

1.1 Results when Income is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 399; LR chi2(30) = 251.69; Prob > chi2 = 0.0000; Log likelihood = -284.03889; Pseudo R2 = 0.3070

Income	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	.0878765	.1481713	0.59	0.553	-.2025338	.3782869
age						
30-39	.7409835	.2267888	3.27	0.001	.2964857	1.185481
40-49	.8487942	.304162	2.79	0.005	.2526476	1.444941
50-59	1.422468	.7935786	1.79	0.073	-.132917	2.977854
martial_status						
Single	-.0128323	.2596581	-0.05	0.961	-.5217529	.4960883
Divorced/Separated	-.4174228	.3445833	-1.21	0.226	-1.092794	.257948
Widowed	-.4818026	.3393495	-1.42	0.156	-1.146916	.1833102
No_children						
1-2	-.2415148	.2790859	-0.87	0.387	-.7885131	.3054835
3-4	.0030968	.3210034	0.01	0.992	-.6260584	.632252
5 and above	1.148511	.4742556	2.42	0.015	.2189867	2.078034
Entrepreneur						
Necessity	-.1567463	.1474974	-1.06	0.288	-.4458358	.1323433
education						
Primary	-.0232131	.3752287	-0.06	0.951	-.7586478	.7122216
Secondary	.294104	.3605887	0.82	0.415	-.4126368	1.000845
Bachelors	.9493837	.3728991	2.55	0.011	.218515	1.680252
Certificate	.4308811	.3647385	1.18	0.237	-.2839931	1.145755
structure						
partnership	.4579583	.1582249	2.89	0.004	.1478432	.7680735
Limited company	.8206508	.2810044	2.92	0.003	.2698923	1.371409
experience						
1-2	-.5751588	.5237078	-1.10	0.272	-1.601607	.4512896
3-5	-.4708145	.5120109	-0.92	0.358	-1.474337	.5327084
6 and above	-.252578	.5425269	-0.47	0.642	-1.315911	.8107551
Firm_size						
One	-.0508325	.3643316	-0.14	0.889	-.7649092	.6632442
2-3	.5057213	.3241969	1.56	0.119	-.129693	1.141136
4-5	.5807338	.3562758	1.63	0.103	-.117554	1.279022
6-10	1.703309	.4351448	3.91	0.000	.850441	2.556177
More than 10 and less than 50	2.494643	.5451039	4.58	0.000	1.426259	3.563026
DistanceTC						
1-2 kms	-.3258245	.1862766	-1.75	0.080	-.69092	.039271
3-4 kms	.0344103	.2081688	0.17	0.869	-.3735931	.4424137
5 and above	.4748819	.3139993	1.51	0.130	-.1405453	1.090309
industry						
Services	-.4398117	.2479156	-1.77	0.076	-.9257174	.046094
Agriculture	.1055478	.2522437	0.42	0.676	-.3888409	.5999364

1.2 Results when Corruption is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 398
LR chi2(30) = 57.88
Prob > chi2 = 0.0016
Log likelihood = -284.61399 — Pseudo R2 = 0.0923

Corruption	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	.1444989	.1545215	0.94	0.350	-.1583577	.4473556
age						
30-39	-.3458107	.2228166	-1.55	0.121	-.7825232	.0909018
40-49	.0230788	.3142384	0.07	0.941	-.5928172	.6389749
50-59	-1.01944	.827068	-1.23	0.218	-2.640463	.6015834
martial_status						
Single	-.1662229	.2585027	-0.64	0.520	-.6728788	.3404331
Divorced/Separated	-.7180006	.341405	-2.10	0.035	-1.387142	-.0488591
Widowed	.1174101	.3679366	0.32	0.750	-.6037324	.8385526
No_children						
1-2	-.1753619	.2902863	-0.60	0.546	-.7443126	.3935887
3-4	-.3379937	.332342	-1.02	0.309	-.989372	.3133846
5 and above	.4735855	.5536432	0.86	0.392	-.6115353	1.558706
Entrepreneur						
Necessity	-.0439926	.1544337	-0.28	0.776	-.3466771	.2586919
education						
Primary	.5157663	.3956234	1.30	0.192	-.2596413	1.291174
Secondary	.0712253	.3687118	0.19	0.847	-.6514365	.7938871
Bachelors	.1873311	.3834007	0.49	0.625	-.5641205	.9387828
Certificate	.3811009	.378278	1.01	0.314	-.3603103	1.122512
structure						
partnership	-.04359	.1584495	-0.28	0.783	-.3541453	.2669652
Limited company	1.034591	.363699	2.84	0.004	.3217538	1.747428
experience						
1-2	1.591091	.4888612	3.25	0.001	.6329405	2.549241
3-5	1.628418	.4775516	3.41	0.001	.6924342	2.564402
6 and above	1.291858	.510109	2.53	0.011	.2920624	2.291653
Firm_size						
One	-.4658333	.3670341	-1.27	0.204	-1.185207	.2535404
2-3	-.144155	.3300312	-0.44	0.662	-.7910044	.5026943
4-5	-.4144522	.362985	-1.14	0.254	-1.12589	.2969853
6-10	-.3452259	.4528016	-0.76	0.446	-1.232701	.5422489
More than 10 and less than 50	.0960525	.5577059	0.17	0.863	-.9970311	1.189136
DistanceTC						
1-2 kms	-.3051294	.2033072	-1.50	0.133	-.7036041	.0933453
3-4 kms	-.2331604	.2253962	-1.03	0.301	-.6749289	.2086081
5 and above	-.3618738	.3306207	-1.09	0.274	-1.009879	.2861309
industry						
Services	-.0087579	.2469606	-0.04	0.972	-.4927917	.475276
Agriculture	.2431641	.2590468	0.94	0.348	-.2645583	.7508865

1.3 Results when Government Policy is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 398; LR chi2(30) = 53.61; Prob > chi2 = 0.0051; Log likelihood = -321.51263; Pseudo R2 = 0.0770

Govt_Policy	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	-.0340504	.1446166	-0.24	0.814	-.3174938	.2493929
age						
30-39	-.0758527	.2121823	-0.36	0.721	-.4917223	.340017
40-49	.1973275	.2938482	0.67	0.502	-.3786043	.7732593
50-59	.1579414	.726526	0.22	0.828	-1.266023	1.581906
martial_status						
Single	-.1630529	.2458264	-0.66	0.507	-.6448638	.3187579
Divorced/Separated	-.513526	.3225058	-1.59	0.111	-1.145626	.1185738
Widowed	-.1151439	.3221497	-0.36	0.721	-.7465458	.516258
No_children						
1-2	.5658452	.2685183	2.11	0.035	.039559	1.092131
3-4	.347819	.3102695	1.12	0.262	-.2602981	.955936
5 and above	-.4468916	.4528625	-0.99	0.324	-1.334486	.4407027
Entrepreneur						
Necessity	-.17864	.1432715	-1.25	0.212	-.4594471	.102167
education						
Primary	.04784	.3751319	0.13	0.899	-.687405	.783085
Secondary	-.2020089	.3573688	-0.57	0.572	-.9024388	.498421
Bachelors	.0480281	.3696842	0.13	0.897	-.6765397	.7725958
Certificate	-.0512296	.3638834	-0.14	0.888	-.764428	.6619688
structure						
partnership	-.1223079	.1519479	-0.80	0.421	-.4201202	.1755045
Limited company	.5434538	.2832157	1.92	0.055	-.0116387	1.098546
experience						
1-2	.5654819	.4860169	1.16	0.245	-.3870938	1.518058
3-5	.305843	.4745424	0.64	0.519	-.624243	1.235929
6 and above	.6075487	.507702	1.20	0.231	-.387529	1.602626
Firm_size						
One	-.3027531	.3479102	-0.87	0.384	-.9846446	.3791384
2-3	-.1453432	.3087279	-0.47	0.638	-.7504388	.4597525
4-5	-.183502	.3415244	-0.54	0.591	-.8528776	.4858735
6-10	-.6486707	.4162531	-1.56	0.119	-1.464512	.1671704
More than 10 and less than 50	-.5178677	.4852868	-1.07	0.286	-1.469012	.4332769
DistanceTC						
1-2 kms	-.0144206	.1824897	-0.08	0.937	-.3720939	.3432527
3-4 kms	-.1086022	.202458	-0.54	0.592	-.5054127	.2882082
5 and above	.2887821	.3063365	0.94	0.346	-.3116263	.8891905
industry						
Services	-.706999	.2442194	-2.89	0.004	-1.18566	-.2283378
Agriculture	-.576588	.2507793	-2.30	0.021	-1.068106	-.0850697

1.4 Results when Electricity Insecurity is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 398; LR chi2(30) = 146.80; Prob > chi2 = 0.0000; Log likelihood = -421.98262; Pseudo R2 = 0.1482

electricity_cuts	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	-.1153805	.1416807	-0.81	0.415	-.3930695	.1623086
age						
30-39	-.4024111	.2045084	-1.97	0.049	-.8032401	-.0015821
40-49	-.6274049	.2846037	-2.20	0.027	-1.185218	-.0695919
50-59	-1.124726	.7816574	-1.44	0.150	-2.656746	.4072941
martial_status						
Single	-.0693682	.2392151	-0.29	0.772	-.5382211	.3994848
Divorced/Separated	-.3653515	.3196163	-1.14	0.253	-.9917881	.261085
Widowed	-.168644	.3145402	-0.54	0.592	-.7851314	.4478434
No_children						
1-2	-.3377096	.2647513	-1.28	0.202	-.8566127	.1811936
3-4	-.3391862	.3047559	-1.11	0.266	-.9364967	.2581244
5 and above	.2776862	.4748288	0.58	0.559	-.6529613	1.208334
Entrepreneur						
Necessity	.1694142	.1423061	1.19	0.234	-.1095007	.4483291
education						
Primary	.3218377	.3856788	0.83	0.404	-.4340788	1.077754
Secondary	.8234516	.3710364	2.22	0.026	.0962336	1.55067
Bachelors	.9620924	.3839335	2.51	0.012	.2095965	1.714588
Certificate	.9587798	.3780806	2.54	0.011	.2177555	1.699804
structure						
partnership	.3246237	.1483199	2.19	0.029	.0339221	.6153253
Limited company	.9026785	.3038112	2.97	0.003	.3072195	1.498138
experience						
1-2	1.059083	.4661534	2.27	0.023	.145439	1.972727
3-5	1.135795	.4535377	2.50	0.012	.2468774	2.024712
6 and above	.7086914	.4844893	1.46	0.144	-.2408901	1.658273
Firm_size						
One	-.4564261	.3315701	-1.38	0.169	-1.106292	.1934394
2-3	-.3100949	.2938011	-1.06	0.291	-.8859345	.2657446
4-5	-.4036057	.3259542	-1.24	0.216	-1.042464	.2352529
6-10	-.0256696	.4159873	-0.06	0.951	-.8409898	.7896507
More than 10 and less than 50	-.06134	.4936364	-0.12	0.901	-1.02885	.9061697
DistanceTC						
1-2 kms	-.0296827	.1750554	-0.17	0.865	-.372785	.3134195
3-4 kms	.2396937	.2004137	1.20	0.232	-.15311	.6324973
5 and above	-.1724957	.2983094	-0.58	0.563	-.7571714	.41218
industry						
Services	-.4228204	.2416246	-1.75	0.080	-.896396	.0507552
Agriculture	-.679556	.2465652	-2.76	0.006	-1.162815	-.1962972

1.5 Results when Poor infrastructure is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 398; LR chi2(30) = 152.79; Prob > chi2 = 0.0000; Log likelihood = -444.74671; Pseudo R2 = 0.1466

Infrastructure	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	-.0034711	.1379394	-0.03	0.980	-.2738273	.2668851
age						
30-39	.3212872	.204886	1.57	0.117	-.080282	.7228564
40-49	.1398483	.2797165	0.50	0.617	-.4083861	.6880826
50-59	.0197528	.7603589	0.03	0.979	-1.470523	1.510029
martial_status						
Single	.2300159	.2437957	0.94	0.345	-.2478148	.7078466
Divorced/Separated	.1324229	.3242432	0.41	0.683	-.5030822	.767928
Widowed	-.2615698	.3233145	-0.81	0.419	-.8952546	.372115
No_children						
1-2	-.2078427	.2635649	-0.79	0.430	-.7244203	.308735
3-4	-.2151135	.304627	-0.71	0.480	-.8121715	.3819444
5 and above	-.0518236	.4463324	-0.12	0.908	-.926619	.8229719
Entrepreneur						
Necessity	.0214899	.1373168	0.16	0.876	-.2476461	.2906258
education						
Primary	.6123369	.3588121	1.71	0.088	-.0909219	1.315596
Secondary	.4885262	.3403823	1.44	0.151	-.1786109	1.155663
Bachelors	.1672076	.3519811	0.48	0.635	-.5226627	.8570779
Certificate	.1537001	.3461911	0.44	0.657	-.524822	.8322222
structure						
partnership	.405866	.1461954	2.78	0.006	.1193282	.6924038
Limited company	.4308662	.2586114	1.67	0.096	-.0760028	.9377353
experience						
1-2	.0954051	.4827338	0.20	0.843	-.8507357	1.041546
3-5	-.1016059	.4727151	-0.21	0.830	-1.02811	.8248986
6 and above	-.1871848	.5025896	-0.37	0.710	-1.172242	.7978728
Firm_size						
One	-.2356299	.3269347	-0.72	0.471	-.87641	.4051503
2-3	-.4801177	.2894126	-1.66	0.097	-1.047356	.0871206
4-5	-.4848963	.3224961	-1.50	0.133	-1.116977	.1471844
6-10	-.1013443	.3962864	-0.26	0.798	-.8780513	.6753627
More than 10 and less than 50	-.3432382	.4701552	-0.73	0.465	-1.264725	.5782491
DistanceTC						
1-2 kms	.1969727	.1767947	1.11	0.265	-.1495385	.5434839
3-4 kms	.6871097	.1960431	3.50	0.000	.3028723	1.071347
5 and above	1.834676	.3197255	5.74	0.000	1.208026	2.461327
industry						
Services	-.8865636	.2359049	-3.76	0.000	-1.348929	-.4241985
Agriculture	-1.026587	.2386421	-4.30	0.000	-1.494317	-.5588572

1.6 Results when High taxes is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 397; LR chi2(30) = 29.65; Prob > chi2 = 0.4837; Log likelihood = -256.5707; Pseudo R2 = 0.0546

High_taxes	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	.0214982	.1598058	0.13	0.893	-.2917154	.3347119
age						
30-39	.1298437	.2262196	0.57	0.566	-.3135386	.573226
40-49	-.0255804	.3197542	-0.08	0.936	-.652287	.6011263
50-59	.0334632	.842285	0.04	0.968	-1.617385	1.684311
martial_status						
Single	-.0998502	.2595297	-0.38	0.700	-.608519	.4088187
Divorced/Separated	-.5780575	.3414635	-1.69	0.090	-1.247314	.0911986
Widowed	-.0684403	.3608414	-0.19	0.850	-.7756765	.638796
No_children						
1-2	-.4277194	.2870929	-1.49	0.136	-.990411	.1349723
3-4	-.3615599	.3368115	-1.07	0.283	-1.021698	.2985784
5 and above	-.1302266	.5167039	-0.25	0.801	-1.142948	.8824944
Entrepreneur						
Necessity	-.0037806	.1580992	-0.02	0.981	-.3136494	.3060883
education						
Primary	.1528651	.4096918	0.37	0.709	-.6501161	.9558464
Secondary	.0173138	.3815025	0.05	0.964	-.7304174	.7650449
Bachelors	.0288241	.3952268	0.07	0.942	-.7458063	.8034545
Certificate	.4277487	.3926516	1.09	0.276	-.3418343	1.197332
structure						
partnership	-.1527207	.1676962	-0.91	0.362	-.4813992	.1759578
Limited company	-.359459	.3073046	-1.17	0.242	-.9617649	.2428469
experience						
1-2	.6432274	.5162916	1.25	0.213	-.3686855	1.65514
3-5	.588717	.502193	1.17	0.241	-.3955632	1.572997
6 and above	.7741784	.543095	1.43	0.154	-.2902683	1.838625
Firm_size						
One	-.2253077	.3632141	-0.62	0.535	-.9371943	.4865789
2-3	.0188077	.3264327	0.06	0.954	-.6209885	.658604
4-5	.253832	.3702964	0.69	0.493	-.4719357	.9795996
6-10	.1228045	.4492314	0.27	0.785	-.7576729	1.003282
More than 10 and less than 50	-.4303115	.5066781	-0.85	0.396	-1.423382	.5627593
DistanceTC						
1-2 kms	.1476603	.1947709	0.76	0.448	-.2340837	.5294043
3-4 kms	.2709609	.2216277	1.22	0.221	-.1634215	.7053432
5 and above	-.2607541	.319176	-0.82	0.414	-.8863275	.3648194
industry						
Services	-.3934475	.2780783	-1.41	0.157	-.9384709	.1515759
Agriculture	-.2599437	.2849003	-0.91	0.362	-.818338	.2984506

1.7 Results when Access to finance is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 398; LR chi2(30) = 36.97; Prob > chi2 = 0.1780; Log likelihood = -281.72222; Pseudo R2 = 0.0616

Finance	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	.0950994	.1521474	0.63	0.532	-.2031041	.3933029
age						
30-39	-.3796814	.2329244	-1.63	0.103	-.8362048	.0768421
40-49	-.2498539	.3114543	-0.80	0.422	-.8602931	.3605852
50-59	.4537562	.7533115	0.60	0.547	-1.022707	1.93022
martial_status						
Single	.2464571	.2791387	0.88	0.377	-.3006446	.7935589
Divorced/Separated	.164071	.3579778	0.46	0.647	-.5375526	.8656946
Widowed	.2632298	.35733	0.74	0.461	-.437124	.9635837
No_children						
1-2	.1231514	.3062321	0.40	0.688	-.4770524	.7233552
3-4	.1697458	.3447118	0.49	0.622	-.5058769	.8453686
5 and above	-.7265616	.4733496	-1.53	0.125	-1.65431	.2011866
Entrepreneur						
Necessity	.4152721	.1526196	2.72	0.007	.1161433	.714401
education						
Primary	-.1999341	.3889475	-0.51	0.607	-.9622571	.562389
Secondary	-.1613444	.3683653	-0.44	0.661	-.8833272	.5606384
Bachelors	-.4826259	.3817519	-1.26	0.206	-1.230846	.2655941
Certificate	-.3408912	.3742078	-0.91	0.362	-1.074325	.3925426
structure						
partnership	-.177004	.1600987	-1.11	0.269	-.4907916	.1367836
Limited company	-.4414814	.2888467	-1.53	0.126	-1.007611	.1246478
experience						
1-2	-4.635165	129.2743	-0.04	0.971	-258.0081	248.7378
3-5	-4.581917	129.2742	-0.04	0.972	-257.9548	248.7909
6 and above	-4.623046	129.2744	-0.04	0.971	-257.9961	248.75
Firm_size						
One	.0185243	.3766752	0.05	0.961	-.7197456	.7567941
2-3	.1197218	.3377137	0.35	0.723	-.542185	.7816285
4-5	.2117655	.3714592	0.57	0.569	-.5162811	.9398122
6-10	.3860492	.4570978	0.84	0.398	-.509846	1.281944
More than 10 and less than 50	.3370918	.5193211	0.65	0.516	-.6807588	1.354942
DistanceTC						
1-2 kms	-.0225126	.192439	-0.12	0.907	-.3996861	.354661
3-4 kms	-.0731155	.2156481	-0.34	0.735	-.495778	.3495469
5 and above	-.3641556	.3142749	-1.16	0.247	-.9801231	.2518118
industry						
Services	-.4231556	.2656154	-1.59	0.111	-.9437523	.097441
Agriculture	-.6158315	.2660724	-2.31	0.021	-1.137324	-.0943391

1.8 Results when Forced Mutual Help is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 398
LR chi2(30) = 50.63
Prob > chi2 = 0.0107
Log likelihood = -316.02928 — Pseudo R2 = 0.0742

forced_help	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	-.3514569	.1488431	-2.36	0.018	-.643184	-.0597299
age						
30-39	.1286304	.2197826	0.59	0.558	-.3021356	.5593964
40-49	.2549233	.2995094	0.85	0.395	-.3321043	.841951
50-59	.5448063	.7397397	0.74	0.461	-.905057	1.99467
martial_status						
Single	.260687	.2560333	1.02	0.309	-.2411291	.7625031
Divorced/Separated	.5883319	.3439035	1.71	0.087	-.0857065	1.26237
Widowed	1.215374	.3409703	3.56	0.000	.5470844	1.883664
No_children						
1-2	.2577605	.2763627	0.93	0.351	-.2839005	.7994215
3-4	.1209718	.3188044	0.38	0.704	-.5038734	.745817
5 and above	-.5993547	.4520946	-1.33	0.185	-1.485444	.2867343
Entrepreneur						
Necessity	.23199	.1435023	1.62	0.106	-.0492694	.5132494
education						
Primary	-.2138794	.3830733	-0.56	0.577	-.9646893	.5369305
Secondary	-.3434138	.3665735	-0.94	0.349	-1.061885	.375057
Bachelors	-.418509	.3751291	-1.12	0.265	-1.153748	.3167305
Certificate	-.382901	.371015	-1.03	0.302	-1.110077	.3442751
structure						
partnership	.0461397	.1549125	0.30	0.766	-.2574833	.3497627
Limited company	-.0556238	.2729265	-0.20	0.839	-.5905499	.4793022
experience						
1-2	-.7486699	.5386972	-1.39	0.165	-1.804497	.3071571
3-5	-.4743207	.5300022	-0.89	0.371	-1.513106	.5644646
6 and above	-.2339885	.5583177	-0.42	0.675	-1.328271	.8602941
Firm_size						
One	.2102101	.3565417	0.59	0.555	-.4885989	.909019
2-3	.1066266	.3140285	0.34	0.734	-.5088579	.7221112
4-5	-.1002774	.3477361	-0.29	0.773	-.7818277	.5812728
6-10	-.0476484	.4154071	-0.11	0.909	-.8618314	.7665346
More than 10 and less than 50	-.1151792	.4867278	-0.24	0.813	-1.069148	.8387899
DistanceTC						
1-2 kms	.3255121	.1858422	1.75	0.080	-.0387318	.689756
3-4 kms	.2491096	.2055127	1.21	0.225	-.153688	.6519072
5 and above	-.1023362	.3052646	-0.34	0.737	-.7006439	.4959715
industry						
Services	-.4754314	.2446872	-1.94	0.052	-.9550095	.0041468
Agriculture	-.105175	.2500017	-0.42	0.674	-.5951694	.3848194

1.9 Results when Risk Attitude is the dependent variable Vs the Control Variables (Entrepreneur and Firm Characteristics)

Ordered probit regression — Number of obs = 397; LR chi2(30) = 63.01; Prob > chi2 = 0.0004; Log likelihood = -383.26526; Pseudo R2 = 0.0760

Social_beehaviour	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
gender						
Female	-.092709	.1377249	-0.67	0.501	-.3626448	.1772268
age						
30-39	.1947082	.2034549	0.96	0.339	-.2040561	.5934724
40-49	.1417523	.2796178	0.51	0.612	-.4062886	.6897932
50-59	-1.55908	.6990464	-2.23	0.026	-2.929185	-.1889739
martial_status						
Single	-.432777	.2351382	-1.84	0.066	-.8936393	.0280854
Divorced/Separated	.0029627	.3183991	0.01	0.993	-.6210882	.6270135
Widowed	1.021795	.343431	2.98	0.003	.3486831	1.694908
No_children						
1-2	-.0753931	.2540605	-0.30	0.767	-.5733426	.4225563
3-4	-.381202	.2965352	-1.29	0.199	-.9624004	.1999964
5 and above	-.1668891	.4389635	-0.38	0.704	-1.027242	.6934635
Entrepreneur						
Necessity	-.0249944	.1363763	-0.18	0.855	-.2922871	.2422982
education						
Primary	.5391032	.3670106	1.47	0.142	-.1802243	1.258431
Secondary	.3561843	.3468951	1.03	0.305	-.3237175	1.036086
Bachelors	.699504	.358342	1.95	0.051	-.0028335	1.401842
Certificate	.8080521	.3539278	2.28	0.022	.1143663	1.501738
structure						
partnership	-.0148715	.1460555	-0.10	0.919	-.301135	.271392
Limited company	.2275989	.2550506	0.89	0.372	-.2722912	.7274889
experience						
1-2	.4276485	.4614184	0.93	0.354	-.476715	1.332012
3-5	.8084552	.4544094	1.78	0.075	-.0821709	1.699081
6 and above	1.365138	.4908305	2.78	0.005	.4031282	2.327148
Firm_size						
One	-.0960307	.3327896	-0.29	0.773	-.7482863	.556225
2-3	-.1325268	.2940778	-0.45	0.652	-.7089087	.443855
4-5	-.4242904	.3253877	-1.30	0.192	-1.062039	.2134578
6-10	-.3491635	.3898197	-0.90	0.370	-1.113196	.414869
More than 10 and less than 50	-.8571356	.4528318	-1.89	0.058	-1.74467	.0303985
DistanceTC						
1-2 kms	.1696649	.1783107	0.95	0.341	-.1798177	.5191474
3-4 kms	.0142464	.1970129	0.07	0.942	-.3718919	.4003846
5 and above	-.1237015	.2870533	-0.43	0.667	-.6863157	.4389126
industry						
Services	.1811914	.223522	0.81	0.418	-.2569037	.6192865
Agriculture	.3610966	.2301487	1.57	0.117	-.0899866	.8121798

APPENDIX 2: QUESTIONNAIRE AND INTERVIEW GUIDE OF THE STUDY

2.1 Questionnaire

I am a PhD student at University of Reading, UK. This questionnaire is a part of my PhD degree. The data obtained and your responses to this questionnaire will only be used for the purpose of academic research.

My questionnaire broadly covers the area of Entrepreneurship (start-ups), poverty reduction and Economic Development in Uganda. I want to explore the main characteristics of entrepreneurs and firms that are associated with entrepreneurial income in Uganda. In addition, I am also interested in determining the barriers hindering the growth of earnings of Small and Medium Enterprises (SMEs) in Uganda. With your input, I'll be able to come up with solutions to some of the barriers faced by SMEs in Uganda.

There are four sections of this questionnaire:

- A: Demographic profile
- B: Entrepreneurship and Business Structure
- C: Earnings
- D: Barriers/Challenges and General Well-being

I would appreciate if you answer all parts of the Questionnaire. Many thanks for your cooperation and help.

Kind regards,

RBakashaba

Rennie Bakashaba

PhD Student,

University of Reading, UK

ETHICAL CONSIDERATION- You'll give the researcher consent to use this information for only research purposes by filling in this form.

Date: _____Questionnaire Number:

Name of the Entrepreneur/ Manager (optional): _____

A**rea (City/Village and Town/District)**:

A- Demographic Profile

Kindly tick (√) the appropriate answer to questions.

A1- What is your gender?

Male

Female

A2- Which of the following age brackets do you fall in?

18-29

30-39

40-49

50-59

60 or More than 60

A3- Which of these options best describes your current marital position?

Marrie
d
Single

Divorced/Separat
ed Widowed

A4-How many children do you have?

None

1-2

3-4

5-6

More than 6
Not
Applicable

A5- Are you an opportunity driven Entrepreneur (Taking advantage of an opportunity and by so doing, starting up a business to fully utilize this opportunity) or necessity driven Entrepreneur (Have no option to salaried work and therefore have no choice but to start up a business to carter for your financial necessities and wellbeing)?

Opportunity

Necessity

A6- What is the highest education qualification you have? Please Tick

A	No Academic qualifications	
B	Primary	
C	O-Level Certificate	
D	A-Level Certificate	
E	Bachelor's Degree	
F	Master's Degree	
G	Vocational qualifications	
H	Other qualifications	

B- Entrepreneurship and Business Structure

Kindly tick (√) the appropriate answer

B1-What is the ownership structure of the business?

Sole Trader
Partnership

Limited company

B2- How long have you been trading in this business?

Less than 1 year 1-2 years

3-5 years

6-10 years

More than 10 years Not applicable

B3- What is your percentage of ownership in the business?

1-25%

26-50%

51-75%

76- 100%

Not applicable

B4- Which form of business do you have and also give details of the business type like milk distributor, bakery, phone & software distributor, poultry farming, cattle keeping etc.

Manufacturing_____
Services _____
Agriculture _____
Other_____
Not applicable

B5- How many people do you employ?

Myself only

One

2-3

4-5

6-10

More than 10 and less than 50 More than 50 and less than 100 Not applicable

B6- Do you use unpaid services of your family, friends or relatives in your business?

Yes

No

Not applicable

B7- What are the sources of start-up capital of your business? (You can tick more than one option)

Self-funded

Loans from friends, family, neighbours Loans from landlord or moneylenders

Loans from Commercial Banks or Financial Institutions

Loans from Microfinance Institutions

Loans from other microfinance providers--- NGO, Rural Support Programme Loans from government initiatives

Not applicable

B8.1 - Do you think the location of your business or the distance to the trading centers increases your earnings?

Yes

No

Not applicable

B8.2- If you answered yes above, approximately how many kilometers is your business to the trading centers?

Less than 1 KM

1-3 KMs
3-5 KMs

5-10 KMs

Over 10 KMs

B9-Please rate the following questions on a scale of 1-5, 1 no involvement, 2 very limited control, 3 partial control, 4 significant control and 5 full control.

Do you have control over the following decisions relating to the business?

	Control on decisions relating to:-	No involvement	Very Limited	Partial	Significant	Full
i)	**The production process** like purchase of raw material, production of goods or rendering	1	2	3	4	5
ii)	**Hiring of labour**	1	2	3	4	5
iii)	**Sale and marketing** of the products or services	1	2	3	4	5
iv)	**Finance and accounting** like pricing of goods or services, calculating expenses and	1	2	3	4	5
v)	**Purchase and sale of business asset**	1	2	3	4	5

C- Earnings

C1 – Approximately how much money do you make per month from your business?

Less than 100.000/=

100.000 – 500.000/=

500.000 – 1.000.000/=

1.000.000 – 2.000.000/=

0ver 2.000.000/=

C2 – Approximately how much money do you pay your employees per month? Please select the average amount paid to most of the employees.

Less than 100.000/=

100.000 – 300.000/=

300.000 – 500.000/=

500.000 – 1.000.000/=

Over 1.000.000/=

D – Barriers to the growth of business

D1-Who encouraged you or how did you think of starting up this business?

An opportunity arose

Out of Necessity

Friends/
Colleagues

Family member

Your entrepreneurial skill set

Require more finances

Not applicable

Please rate the following questions on a scale of 1-5, 1 being strongly disagree, 2 disagree, 3 neither agree nor disagree, 4 agree and 5 strongly agree

D2 –To what extent are the barriers and challenges listed in the table below applicable to your business?

No.	Barrier Description	Strongly disagree	Disagree	Neither disagree nor agree	Agree	Strongly agree
i)	Lack of adequate finances to expand the business	1	2	3	4	5
ii)	Poor infrastructure in form of roads and networks has hindered the growth of the business	1	2	3	4	5
iii)	Forced Mutual Help - Continuous participation and pressure from relatives and friends has distorted the growth of earnings of your	1	2	3	4	5
iv)	Poor Government policies and regulations affect the smooth running and expansion of the	1	2	3	4	5
v)	Money spent on your health and family upkeep impacts on the earnings and growth of the	1	2	3	4	5
vi)	Lack of appropriate electricity (power cuts) has a bearing on the growth of earnings of the business	1	2	3	4	5
vii)	Corruption and bribes of government officials in obtaining the necessary paper work has affected the growth of earnings	1	2	3	4	5
viii)	Social behavior like risk attitude have an impact on the growth of earning of the business	1	2	3	4	5
ix)	High Taxes have an impact on the growth of earnings	1	2	3	4	5
x)	Poor delegation practices (involving family members only and not professionals) has a bearing on the growth of earnings	1	2	3	4	5
xi)	Firms dealing in the same product and in the same area reduce on the earnings of a business.	1	2	3	4	5

2.2 Interview Guide

DATE:

INTERVIEW GUIDE NUMBER:

NAME OF ENTREPRENEUR (optional):

AREA (City/Village and Town/District):

Section A-DEMOGRAPHIC PROFILE

A 1.1 What is your gender?

A1.2 Has being male or female yielded an expansion in your business? If yes, briefly explain how?

A2.1- How old are you?

A2.2- Have you gotten more knowledgeable and significantly more experienced the older you get?

A3.1 -What is your current marital status?

A3.2- Has this status helped in the growth of your business? If yes, briefly elucidate how it has?

A4.1-How many children do you have?

A4.2 Do family responsibilities like taking care of your children have a significant restriction on the amount of time you spend on the business? If yes, by how many hours per week on average?

A5.1- What kind of entrepreneur are you?

Are you an opportunity driven Entrepreneur (Taking advantage of an opportunity and by so doing, starting up a business to fully utilize this opportunity) or necessity driven Entrepreneur (Have no option to salaried work and therefore have no choice but to start up a business to carter for your financial necessities and well-being)?

A5.2- If you are a necessity entrepreneur, under what circumstances pushed/forced you to start your current business?

A5.3- If you are an opportunity entrepreneur, what inspired you to come up with this business idea?

A6.1 - What kind of experience do you have?

A6.2- Did that previous work give you some experience in what you're currently doing?

A7.1- What is your highest education qualification?

A	No Academic qualifications	
B	Primary	
C	O-Level Certificate	
D	A-Level Certificate	
E	Bachelor's Degree	
F	Master's Degree	
G	Vocational qualifications	
H	Other qualifications -Certifications/Diplomas	

A.7.2 Has your level of education and family background affected the kind of success you have achieved in your business? E.g. have you done any courses that have impacted on your business success? If yes, briefly explain how?

Section B – BUSINESS STRUCTURE

B1.1-What is the ownership structure of the business?

B1.2- Do you think this kind of structure has helped in the expansion or growth of your business?

B2- How long have you been trading in this business?

B3- What is your percentage of ownership in the business?

B4.1- Which form of business do you have and also give details of the business type like milk distributor, bakery, phone & software distributor, poultry farming, cattle farming, etc.?

B4.2- Did you gain some kind of Managerial experience or any kind of experience in the industry above before venturing in it?

B5.1- How many people do you employ?

B5.2- Do you think have more or less employees would affect the growth of your business?

B6.1- Do you use unpaid services of your family, friends or relatives in your business?

B6.2- If yes, do you pay these less than you would pay a professional qualified employee?

B7- What were the sources of start-up capital of your business?

B8.1 - Do you think the location of your business or the distance of your business to the nearest trading center increases your earnings?

B8.2- If you answered yes above, approximately how many kilometers is your business to the trading center and how has the location or distance to the nearest trading center affected the growth of your business?

Section C - INCOME

C1 – Approximately how much money do you make per month from your business?

C2- Of the money you have mentioned above, how much of it do you use to:

1. Pay business expenses?
2. Pay personnel expenses?
3. Pay for other activities (E.g. Taxes). Please mention what activities.
4. Save on business account?
5. Save on personal account?
6. Take home after all of the above?

C3 – Approximately how much money do you pay your employees per month? Please also state if you give any kind of benefits to your workers?

Section D – BARRIERS

D1- Please state whether the following barriers have affected your business (i.e. are they a significant barrier to your business)? And if they are, to what extent has each of them affected your business?

I. Lack of access to adequate finances to grow/expand the business.

II. Poor infrastructure in form of roads and networks has hindered the growth of the business.

III. Forced Mutual Help. That is; pressure from unqualified/ incompetent relatives and friends to work in the business has distorted the growth of your business

IV. Some unfriendly or poor government policies and regulations has affected the growth of the business.

V. Corruption (paying out bribes) in the government institutions has hindered the growth of the business.

VI. Lack of appropriate electricity (electricity insecurities).

VII. Unexpected money spent on your health and the health of your family.

VIII. Uncalculated Risk taking or attitude has negatively impacted on the growth the business.

IX. High Taxes has had an impact on the growth of earnings.

X. Poor delegation practices (e.g. involving family members who are not professionals).

XI. Product duplication or Firms dealing in the same product and in the same area has affected growth of businesses.

D2- What other barriers have you experience in your business that are not listed above?

D3- What recommended solutions do you think would curb all the challenges stated in D1 and D2 above? Also, do you think the government can help in solving these barriers to create a more conducive environment for business growth?