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A Comparison of Entrepreneurship: Uganda and the United States of America

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School for International Training

**A COMPARISON OF ENTREPRENEURSHIP
UGANDA AND THE UNITED STATES OF
AMERICA**

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Abstract

In this preliminary research assignment I compared and contrasted entrepreneurship and what it means to be an entrepreneur or small business owner in the United States and Uganda as well as offer suggestions that could potentially strengthen the Ugandan economy using American business practices and solutions. I utilized both secondary sources and my own experiences and knowledge about small businesses and entrepreneurs in Uganda. This data is compared to both my own experiences in the United States as well as information provided by scholarly articles to provide a more complete and well-rounded comparison of the two countries. Uganda, being a country whose economy is estimated to be roughly 80% informal, is inherently a country full of entrepreneurs and small business owners alike. Therefore I found that studying these micro-businesses is a key element to the further development of Uganda on its path to becoming a fully developed country.

While many Ugandans do not identify themselves as entrepreneurs, the mindset and business practices of nearly every Ugandan are entrepreneurial in nature. From small mobile ice cream carts to businesses with multiple branches Ugandan business people are everywhere and are ever-increasing with the rapidly expanding labor force.

This study focused mainly on my encounters with business people within Uganda and therefore many of the subjects were informally interviewed within Kampala and Busia. The many people highlighted throughout this essay are all local business owners and farmers that I experienced during my stay in both Nabweru as well as Busia.

These first-hand accounts are compared to my own experiences as both an entrepreneurship major at the University of Vermont as well as a small informal business owner myself. In the United States I have been running an informal furniture moving and odd-job business for the last six years and many of the themes discussed throughout this report will directly relate to the experiences I have encountered during this time as an informal business owner.

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Research Objectives

The first research objective is to identify what specific functions of small businesses and entrepreneurial practices are causing many informal businesses to run inefficiently and ineffectively.

The other objective is to deduct what factors allow for American entrepreneurs to be successful and determine how these can be adopted by Ugandan small business owners.

Research Questions

What are some of the major issues faced by entrepreneurs and small businesses in Uganda and the United States alike? How can American practices be adopted within Uganda in order to make small businesses more profitable and better protect Ugandan entrepreneurs and keep them in business?

Research Justification

With such an enormous percentage of the economy and GDP being a part of the informal economy in Uganda it is important to recognize that these establishments are essentially the machine that keeps Uganda running and therefore holds all of the potential to increase development exponentially. These are the businesses that can stimulate the economy and eventually cause enough economic change to create national development. Because Uganda relies on this sector so heavily, protections and practices need to be implemented to protect these micro-businesses and ensure

they are staying open and profitable because without them nearly the entire Ugandan economy could collapse. Many of these policies could be modeled after business practices in the United States which could potentially help to keep these businesses running longer, more effectively, and stimulate the economy even further.

Being that I have first-hand experience as an informal business owner and an entrepreneurship major I find the sheer number of informal and micro-businesses within the Ugandan economy incredibly intriguing. These businesses have a huge potential to assist in the development of Uganda and by adapting business practices already in place in the United States this process could be expedited. As a student studying development I see the potential for the informal economy to transition towards a more formal economy which would drastically impact the development plan through tax revenue, job creation, and trickle-down economics. Much of development stems from the businesses and workforce within a country and in the case of Uganda it is clear that the entire nation could benefit by adding reforms to the informal economy.

Literature Review

Comparison of Ugandan and American micro-businesses

An overarching theme throughout research that focuses on micro-business owners and entrepreneurs, regardless of what country the business is located in, is the idea that a “sound business sense” is of key importance. Generally, studies within this field emphasize that the need for this natural ability to run a business is far more important within the United States than in developing countries. This is largely because the United States has many entrepreneurs who have little to no experience doing any of the back end work of a company. Instead, the United States has an entire labor force that is heavily conditioned to work for a large corporate company who has entire departments to complete the important behind the scenes business functions such as marketing and financials. This is quite the opposite case when compared to a country like Uganda. Being that Uganda is made up of such a massive number of small businesses, many people are exposed to the workings of businesses past surface-level positions early in life. The small size of these local businesses forces employees to do more than just one position, instead, people who may usually work behind the counter at a butcher’s shop for example are also forced to learn pieces of advertising and how to balance the business’ finances. This can be highly beneficial to prospective entrepreneurs because they are already experienced in many of the necessary fields which are critical to running a successful business. In the United States the only workers who are exposed to this type of experience are those who attend business classes which is a minority of workers.

Another commonly identified similarity between Ugandan and American entrepreneurs is the reliance on family and friends. In both cases, studies found that many of these business owners heavily relied on the people in their lives for help with everything from finances to physical help running the businesses. These strong family ties tend to be even more important during the early stages of business in both countries alike. This is because the initial years of any business, especially micro-businesses, tend to be by far the hardest because they must establish themselves and develop a client base.

Perhaps the area where the two countries differ the most in terms of entrepreneurship is competition. While both of the countries have competition, the type of competition is very different. In the United States micro-businesses are forced to compete with large corporations that can cut expenses and therefore sell products at more than competitive prices. The internet also poses a whole other set of difficulties for small local businesses within the United States and the constant struggle to compete with online retailers is ever increasing. This is hardly a problem at all within Uganda and online retailers are almost non-existent. However, direct competition is plentiful with thousands of micro-businesses throughout the country all providing the same goods and services with very similar pricing.

Many reports also point at the issue of market access as a similarity between the entrepreneurs of the United States as well as Uganda. While physical access is a much larger issue for Ugandan businesses, both Ugandan and American business owners struggle with access to the markets that larger corporations are dominating. By having such a localized client base, micro-businesses are heavily limited in their ability

to expand and enter larger markets with larger demands and exponentially higher numbers of buyers. These micro-businesses also lack the knowledge of where to purchase items and other ways of keeping overhead costs low and therefore are not very effective in maximizing profit.

A Personal Approach to Identifying the Problems

During my time in Uganda I was able to conduct many informal “interviews” of sorts by simply engaging in conversation with local business owners during my daily life in both Busia and Kampala. While there were no set research questions, no formal sit-downs, and no official “on the record” conversations, simply speaking to the people who made their livelihoods the way roughly 80% of Ugandans do gave me a very clear and genuine idea of how entrepreneurs within Uganda operate. These conversations ranged from shortstop ins and curious questions during short grocery shopping trips, to lengthy conversations about financial specifics. While this is not always the most secure or even most effective way of conducting research, it is my opinion that this style of interviewing prompted the most honest answers from each of the business owners I spoke to.

Many of the business owners, upon finding out that I planned to study small businesses, immediately were interested in both discussing their hardships and asking many questions about how their practices compare to those in the United States. While the questions about American business practices did not surprise me, the similarities in all of the complaints I heard from business owners across Uganda shocked me. Regardless of region, size, or type of business spanning from a small general store in a

stall in front of a home to a relatively large pig and chicken farm, all entrepreneurs pointed out one common obstacle to business growth and profit maximization: reliable transportation. While the specifics of what transportation was lacking varied from business to business, they all seemed to have complaints that they were unable to reliably get their products to market and conversely get their goods to sell effectively.

While I was not unfamiliar with the lack of sound physical infrastructure before my research period, I was surprised at the fact that even urban businesses faced challenges with the poor roadways and drainage systems. For example, in a casual conversation with the woman who owned a shop around the corner from my homestay in Nabweru, she mentioned her shortage of soda and spices due to trucks not being able to pass through Bwise due to recent rains flooding the streets and making them impassible for large freight trucks. This was seriously affecting her business as much of her income throughout the day came from the sales of these two specific items.

This same problem was felt but from the opposite perspective in the case of a chicken farmer in Busia who claimed they could be making almost triple their money every day if they had a more reliable method of transporting their eggs to the markets.

An additional interesting topic that many business owners brought to my attention was their lack of formal schooling, rather than being taught business practices through schooling, they simply utilized the “trial by fire” method which is perhaps to blame for why so many of these micro-businesses fail. Only one business owner, of the tens that I spoke to, had any formal schooling in business. This meant that a vast majority of the business owners I spoke to had no lessons in things such as marketing, accounting, and business management. When I asked each of them if they

had an interest in getting any type of education that was relevant to their business they almost all highlighted their need for financial literacy courses. These are readily available in the United States and while they are not necessarily as utilized as they have the potential to be, but they are in place. These types of night and adult education classes could be incredibly beneficial to micro-businesses throughout all of Uganda. Many of the business owners I spoke to did not even have a formal way to track their expenses and profits and instead lived day to day and used nearly all of their income to pay for expenses and had little to no savings.

Another major issue that many of the small business owners and prospective entrepreneurs in Uganda face is the lack of reliable funding through lending services. Many businesses are failing to expand or to become more formal due to having a lack of trust for the local credit unions, which are notorious for being ill-managed. These micro-businesses are also unable to receive funding from more formal institutions due to being informal and unregistered. This is a vicious cycle in the case of a farmer in Busia who would like to expand his coffee growing operation to become a formally registered business as a part of a co-op which would then maximize his profits. But because he cannot become a formal business without outside funding, and he is unable to secure reliable loans due to being an informal business he is currently at a standstill in terms of business development. This is a clearly defined issue across many industries in Uganda and not enough emphasis is being put on supporting these micro-businesses that are they underlying backbone to all of the Ugandan economy.

One conversation that piqued my interest was one that was exchanged with the Uganda Chamber of Commerce. This was intended to be a governmental agency that

was put in place to assist businesses by offering things such as classes for business owners to become more well versed in responsible business practices. If this agency was able to accomplish their goals and provide the services that they intend to offer to businesses of all sizes it could be incredibly effective in eliminating many of the issues small business owners face. However, after engaging in conversation with board members it became clear that the services offered by the agency were simply too expensive for the businesses it intended to help to afford. This meant that mostly large businesses, who likely are already well educated in the subjects the Chamber offers classes in, are the ones who can reap the benefits. To an outsider this comes across as incredibly ineffective and appears as though the Chamber has all of the right intentions, it is just a lack of funding and governmental support keeping them from being effective in their mission.

The Ugandan Chamber of Commerce could easily be compared to the adult education programs that exist in nearly every town within the United States. These programs also have a similar goal in mind, to provide inexpensive and widely accessible classes that are intended to provide basic help and education in many subjects including business practices. The key difference between these two different programs is the actual accessibility and who can receive the benefits that these classes intend to provide. Many times in the United States these classes are offered for free and after traditional business hours. This means that those seeking an education in things such as business finances for small businesses can easily attend and learn the necessary skills to operate a business efficiently.

If the Ugandan Chamber of Commerce was able to get more government funding and offer free classes instead of charging membership fees that are frequently unobtainable to a vast majority of the micro-businesses they are intending to help, they could drastically change the informal sector of Uganda for the better. If entrepreneurs with no formal business education were then given financial literacy classes, they would be able to receive the reliable funding they require to transition into the formal sector which could then spark the economy even further and lead to even more development in the future.

Conclusions

In conclusion, entrepreneurship within the two countries, and even globally, is overwhelmingly similar. Many of the same struggles are faced by nearly anyone who owns and operates a small business regardless of where the entity exists. However, the United States has several factors that allow small businesses to flourish that Uganda is severely lacking. If Uganda were to use an adaptation of these strategies to encourage small business and entrepreneurial practices the economic and other developmental effects would be massive.

Perhaps the most important difference between the two countries and their respective business owners is the support of both the local and federal government in all forms. In the United States small business owners can receive support from many facets of government in terms of loans, grants, and tax support. This factor, which is unfortunately out of the control of small business owners is likely the largest obstacle for Ugandan entrepreneurs. Government help for small businesses in Uganda is grossly unavailable and therefore businesses have seemingly no support whatsoever which makes establishing and running a small business nearly impossible. If Uganda were to take into consideration a governmental system that favored small businesses and created a welcoming business environment then both the current small businesses, and future entrepreneurs would be able to not only survive, but instead thrive. Things such as tax initiatives, grants, and low-interest loans all provided by the government could become hugely popular to better support a business model that makes up a vast majority of Uganda's economy.

Another major difference that differentiates businesses in the United States and Uganda is a sheer lack of infrastructure. Logistics of transporting both raw materials and finished products becomes exponentially harder when a business is operating in a country with a severely underdeveloped and ill-maintained infrastructure system. This creates an environment that is unwelcoming for small businesses and therefore yet another of the largest struggles faced by Ugandan entrepreneurs is due to a lack of governmental support. If the government of Uganda was to continue their current infrastructure expansion plan and create a reliable transportation system throughout the entirety of the country, Ugandan businesses would be greatly impacted. Having a reliable infrastructure system, which allows for steady and reliable transportation of goods, is perhaps one of the major benefits of businesses within the United States. By fixing these issues within Uganda the government would be greatly benefiting small Ugandan businesses and therefore the economic development gains would be astronomical.

Lastly, the other important takeaway that Uganda can Utilize from the American business system is financial literacy education. Without resources to learn about finances and more specifically business finances Ugandan businesses are never going to be able to run efficient businesses capable of expansion and broader development. By introducing a public system of teaching financial literacy from an early age the Ugandan government can rapidly increase development and enable its population to expand into global markets. If Uganda were to follow the lead of the United States and offer business classes starting as early as secondary school, through university, and

into adult education classes, Uganda would find that they had much stronger and longer-lasting small businesses.

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