Increasing Profits through Subsidized Microenterprise Relocation in Uganda

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Sector(s): Firms, Labor Markets

Fieldwork: Kutamani Agency

Location: Kampala, Uganda

Sample: 2,880 microentrepreneurs

Initiative(s): Jobs and Opportunity Initiative

Those self-employed in microenterprises, who often report low profits and own few assets, account for fifty percent of the labor force in low-income countries. Researchers are conducting a randomized evaluation to test the effect of relieving constraints to microenterprise relocation, on business income in Kampala, Uganda.

Policy issue

In low-income countries, self-employment accounts for fifty percent of the labor force, and most enterprises hire few or no employees and have low profits. These microenterprises typically operate in mobile, low-capital sectors such as street vending and transportation. Self-employment in these sectors may be involuntary, as many microentrepreneurs may lack the opportunity for wage work within the local labor market.

Most traditional microfinance programs that seek to alleviate poverty, bolster opportunity, and increase profits for the self-employed have yielded mixed results, increasing incomes for select groups, such as experienced entrepreneurs, but not for others. Moreover, programs that address workers' geographic restrictions have increased earnings, but many microentrepreneurs may not be taking advantage of location-based financial opportunities. This study examines whether an alternative program that subsidizes business relocation within the city can increase profits for microentrepreneurs. If so, what types of constraints limit a firm's ability to relocate to more profitable areas?

Context of the evaluation

In Uganda, self-employment accounts for over 77 percent of the labor force as of 2019. In Kampala, where this evaluation takes place, 90 percent of microentrepreneurs earn less than US$1.90 per day, 80 percent are located within walking distance from their homes, and nearly 50 percent identify competition or lack of customers as an impediment to business growth. These urban microenterprises most often work as vendors selling goods and services and typically own few assets.

In an earlier pilot study conducted in partnership with the Kutamani Agency (a firm that works with small business owners in Kampala), researchers found substantial variation in microenterprise profits throughout the city. Microentrepreneurs reported a high desire to expand their businesses but may not be taking advantage of potentially profitable business relocation opportunities. Microentrepreneurs in the study have an average of five years of business experience, less than 10 percent hire any paid employees, and many have low levels of formal education. The median income of each firm is US$2.83 per day and nearly 95 percent of firms in the sample also express wanting to expand their business.
Details of the intervention

In partnership with the Kutamani Agency, researchers conducted a randomized evaluation to test the impact of business relocation on the profits of mobile, low-capital microentrepreneurs. Researchers randomly assigned 2,880 entrepreneurs into one of six groups:

1. **In-kind cash grant (720 firms):** Participants received a conditional cash grant valued at US$2 per day for ten working days. The in-kind grant may be used for transportation costs to a new business location within Kampala, conditional on relocating the business.
2. **In-kind cash grant and Information (720 firms):** Participants received a conditional cash grant valued at US$2 per day for ten working days, along with information about the profit dispersion for businesses in their sector operating throughout the city.
3. **Unconditional cash grant (360 firms):** Participants received an unconditional cash grant valued at US$2 per day for ten working days.
4. **Unconditional cash grant and Information (360 firms):** Participants received an unconditional cash grant valued at US$2 per day for ten working days, along with information about the profit dispersion for businesses in their sector operating throughout the city.
5. **Information only (360 firms):** Participants received information about the profit dispersion for businesses in their sector operating throughout the city.
6. **Comparison group (360 firms):** Participants did not receive any form of monetary compensation.

The researcher also assessed the behavioral (like risk aversion), geographic, and daily timing constraints that may prevent a firm's ability to relocate to more profitable locations within the city through in-kind and unconditional cash grants of equal amounts. Some participants also received information about variations in potential profits throughout the city.

Results and policy lessons

*Research ongoing; results forthcoming.*