

UGANDA

ENTREPRENEURIAL ECOSYSTEM INITIATIVE: PHASE I



Summary Report of Findings & Recommendations

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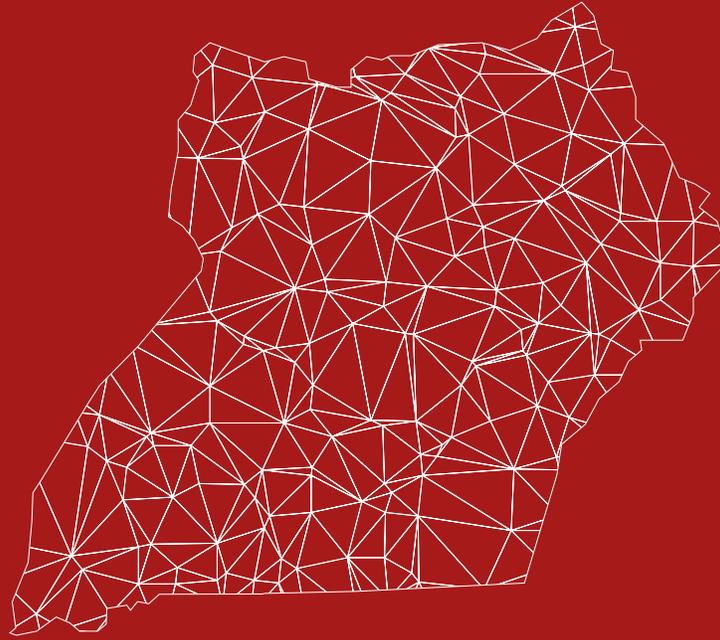


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ACRONYMS AND ABBREVIATIONS

AGM	Annual General Meeting
ANDE	Aspen Network of Development Entrepreneurs
BBA	Bachelor of Business Administration
BDS	Business Development Services
BSc	Bachelor of Science
CAGR	Compound Annual Growth Rate
CDA	Centre for Development Alternatives
CRB	Credit Reference Bureau
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
DGGF	Dutch Good Growth Fund
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GIIN	Global Impact Investing Network
ICT	Information and Communications Technology
KCB	Kenya Commercial Bank
KCCA	Kampala Capital City Authority
LRA	Lord's Resistance Army
MBA	Master of Business Administration
MFI	Microfinance Institution
MSc	Master of Science
MUBS	Makerere University Business School
NGO	Non-governmental Organization
NU-TEC	Northern Uganda - Transforming the Economy through Climate Smart Agribusiness
SACCO	Savings and Credit Cooperative
SGB	Small and Growing Business
SME	Small and Medium Enterprise
UEEI	Uganda Entrepreneurial Ecosystems Initiative
UGX	Ugandan Shillings
UPDF	Uganda People's Defense Forces
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau

| ANDE, PHASE I TEAM & SPONSORS

THE ASPEN NETWORK OF DEVELOPMENT ENTREPRENEURS

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of more than 290 organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits. Ultimately, ANDE believes that SGBs can help lift countries out of poverty.

UEEI PHASE I TEAM AND SUMMARY REPORT AUTHORS

Centre for Development Alternatives (CDA), Kampala. CDA is a Kampala-based think-and-do-tank that fosters home-grown and locally contextualized ideas for economic transformation in East Africa. CDA brings those ideas to life through the design of programs, policies and business models, engagement with decision-makers and influencers, and implementation through partnerships. CDA consultancy services span market systems insights, project design, political economy analysis, monitoring & evaluation, capacity building, and dialogue moderation.

Enterprise Uganda (EUg), Kampala. EUg is an NGO specialized in training, mentoring, and coaching for micro-enterprises and SMEs throughout Uganda. For the past 17 years, EUg has supported over 86,000 entrepreneurs to start and grow their businesses with training, business mentoring, and business advisory services. This has been done in partnership with development agencies, corporate institutions, NGOs, and the Government of Uganda.

Koltai & Company LLC (KolCo), Washington, D.C. KolCo is a boutique consulting firm specializing in the development of entrepreneurship ecosystems in emerging markets. KolCo designs and implements programs that spur entrepreneurial activity at the city, regional, and national levels. KolCo takes a holistic approach to entrepreneurship captured by its Six + Six Ecosystem Model.

UEEI PHASE I SPONSORS

Argidius Foundation. The Argidius Foundation promotes the growth of small- and medium-sized enterprises (SMEs) in order to improve the lives of the poor through increased income generation. Argidius helps build effective ecosystems that provide SMEs with the right services in all stages of their growth. It does this by supporting growing SMEs to be investment ready and gain access to finance, and by providing tailored capacity development services that enable entrepreneurs to meet the challenges of growth such as incubation, acceleration, training, coaching, mentoring, and networking.

Dutch Good Growth Fund. The Dutch Good Growth Fund is a “fund of funds” investment initiative from the Dutch Ministry of Foreign Affairs that aims to improve financing for the “missing middle” — i.e. entrepreneurs who have outgrown microfinance but do not yet have access to conventional capital markets. The Seed Capital and Business Development facility is established to further the impact of the DGGF by providing technical assistance and business support services to intermediary funds and local SMEs. In addition, the program incorporates a knowledge development and sharing component that supports research, tests assumptions, and shares insights on financing SMEs in developing countries and emerging markets thus fostering industry-wide knowledge exchange.

Small Foundation. The Small Foundation is working to end extreme poverty and chronic hunger in Sub-Saharan Africa by 2030. The foundation aims to do this by catalyzing the proliferation of sustainable income-generating opportunities for extremely poor people in rural areas, most of whom are smallholder farmers. To that end, the Small Foundation supports finance and technical assistance providers that improve the business ecosystem for on-farm and off-farm micro, small, and medium rural enterprises by expanding access to knowledge, finance, technology, and markets. The Small Foundation supports highly-leveraged interventions that do this in ways that are effective, sustainable, and scalable.

INTRODUCTION, METHODOLOGY, & CONTEXT

THE UGANDA ENTREPRENEURIAL ECOSYSTEM INITIATIVE

In March 2018, the Aspen Network of Development Entrepreneurs (ANDE) launched the Uganda Entrepreneurial Ecosystem Initiative (UEEI), a two-phase initiative aimed at bolstering entrepreneurship in two regions of Uganda. Phase I, the subject of this report, comprised an assessment of the environment in which small-and-growing businesses (SGBs)¹ operate in Kampala and Gulu, as well as the design of a strategy to strengthen those two entrepreneurial ecosystems. Phase II envisions implementing such a strategy through a multi-year, multi-stakeholder, multi-million-euro program commencing in 2019. The Phase I analysis and recommendations will serve as critical input for the design and implementation of Phase II.

The Phase I analysis, led by the Centre for Development Alternatives along with Enterprise Uganda and Koltai & Company (the Phase I Team), entailed:

- a mapping of ecosystem actors via the Koltai Six + Six Entrepreneurship Ecosystem Model;
- a diagnostic of the strengths, weaknesses, and binding constraints of the Kampala and Gulu ecosystems;
- the design of priority action pathways — and attendant activities — to address constraints and bolster the two studied ecosystems.

Section 1 describes the methodology and analytical framework applied in Phase I. This is followed by a brief overview of contextual economic data from Uganda (Section 2). The report then summarizes Phase I findings and recommended action pathways for Kampala (Sections 3, 4, 5) and Gulu (Sections 6, 7, 8).

¹ For the purposes of this report – and UEEI – small-and-growing businesses are defined as commercially viable, high-potential businesses employing five to 250 people and seeking growth capital of US\$20,000 to US\$2 million (see ANDE, 2018).



METHODOLOGY AND ANALYTICAL FRAMEWORK

The Phase I Team gathered a range of qualitative and quantitative data towards the above-described mapping, diagnostic, and design work. Information was obtained from:

- a *literature review* of over 70 reports, books, and other sources from academia, the economic development sector, and elsewhere;
- a *firm perspective survey* designed by the Phase I Team and administered to 111 SGBs in Kampala and 57 in Gulu;
- *key stakeholder interviews* and *focus group discussions* with 80 ecosystem actors across Kampala and Gulu;
- *validation, design, and dissemination workshops* in July and September 2018 attended by ANDE, sponsor representatives, and ecosystem actors (including entrepreneurs), where initial findings were presented and discussed, and intervention ideas collectively generated for Phase II.

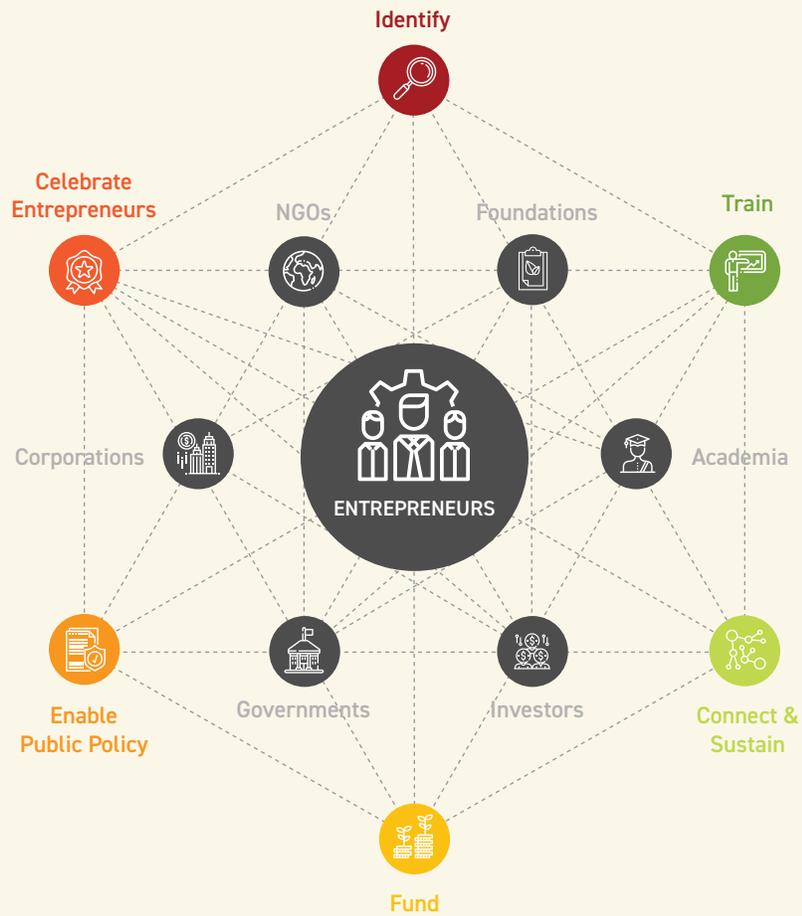
The data acquired from these sources were analyzed via several techniques.

First, the Phase I Team employed the Koltai Six + Six Entrepreneurship Ecosystem Model to map and assess the Kampala and Gulu ecosystems. The model provides a framework organized along six ecosystem activity domains (*identify, train, connect & sustain, fund, enable/regulate, and celebrate* entrepreneurs) and six categories of ecosystem actors (*foundations, academia, investors, governments, corporations, and NGOs*) to describe and help understand the complex systems and interactions involved in a particular ecosystem (see Figure 1).

The model is based on the theory that entrepreneurs are most likely to thrive when all elements of an ecosystem are extant and effective. Analysis of strengths and gaps across the Six + Six elements helps reveal exactly how an ecosystem might be bolstered and, correspondingly, the model holds that programmatic interventions (like UEEI Phase II) should take a holistic approach. A new seed fund for SGBs, for example, is unlikely to move the entrepreneurship needle unless the ecosystem also supports entrepreneurs through mentorship networks, favorable regulatory policies, high-quality skills training, and other activities.²

2 Koltai & Muspratt, 2016

FIGURE 1: SIX + SIX ENTREPRENEURSHIP ECOSYSTEM MODEL



Source: Koltai & Co. LLC

In Sections 3 and 6 below, data collected and analyzed from the Phase I *literature review*, *firm perspective survey*, *key stakeholder interviews*, *focus group discussions*, and *validation & design workshops* are summarized according to the Six + Six Model's six activity pillars in order to better understand the strengths, weaknesses, and gaps of the Kampala and Gulu ecosystems:

- **IDENTIFY** represents all activities towards discovering new entrepreneurs or new business ideas. It includes but is not limited to business plan competitions, pitch events, and innovations labs.
- **TRAIN** refers to standardized academic education and applied training interventions that share the broad objective of providing individuals with the entrepreneurial mindsets and skills to support participation and performance in entrepreneurial activities.
- **CONNECT** refers to all the networks that allow information to flow among entrepreneurs as well as between entrepreneurs and other actors (e.g. government, business support service providers, funders, partners, etc.). Both physical and virtual spaces and channels facilitate these connections.
- **SUSTAIN** refers to non-financial support that helps entrepreneurs grow their businesses, including tailored training, mentorship, and business support services. This support is commonly delivered through incubators or accelerators.
- **FUND** refers to all types of financing (debt, equity, grant, etc.) aimed at starting or growing an SGB, and encompasses access to capital for all stages of a venture (early, growth, and onwards).

- **ENABLE** refers to the legal, fiscal, and regulatory environment that influences the ability of an entrepreneur to operate and succeed. It also encompasses the policy influences surrounding an entrepreneur's decision to formalize (i.e. legally register) a business.

Celebrate refers to activities that increase the visibility of entrepreneurial successes and reinforce the positive role they play in society.

This report also includes *Annex I - Kampala Entrepreneurial Ecosystem Map* and *Annex II - Gulu Entrepreneurial Ecosystem Map*, which are organized along the six ecosystem domains and six organization types which present a full picture of all significant ecosystem players relevant to SGBs.

Secondly, the Phase I Team applied a "binding constraints" and "5 Whys" diagnostic approach to the Kampala and Gulu ecosystem data. In short, this technique presumes that, in any given system, some constraints are more binding than others. A binding constraint is one that, if unlocked, would allow for progress towards a defined goal in the overall system. The most binding constraints holding back substantial progress in the studied ecosystems were identified by combining direct evidence from surveys and previous studies with an application of the 5 Whys³ technique, an iterative interrogative technique used to explore the cause-and-effect relationships underlying a particular problem⁴ by repeating the question "Why?".

For this project, the Phase I Team structured *stakeholder* and *focus group* discussions around the question "What are the key constraints holding back the growth of SGBs in this ecosystem?" and followed up responses with two to four "Why?" questions.

The analysis in this report rests on the argument that without addressing the most binding constraints, UEEI Phase II will not make substantial progress in the Kampala and Gulu ecosystems. The action pathways and related recommended activities in this report can mitigate these binding constraints though their solution is not assured given their complex nature.

THE UGANDAN CONTEXT

Uganda with its mainly agrarian economy has seen its population almost triple from about 15.7 million in 1987 to 42.9 million in 2017. Demographically, it is now the world's second youngest country (behind Niger).⁵ While official unemployment rates are low, various forms of underemployment and labor market exclusion are widespread in Uganda. A large proportion of the workforce is primarily employed in near-subsistence agricultural and in informal, low-productivity household enterprises where jobs are precarious and low-paying⁶. The vast majority of the workforce is self-employed, with wage and salaried workers accounting for only 21.2% of the total labor force (see Figure 2).⁷

While Uganda's economy has grown rapidly in terms of overall output in the last two decades — registering an average compounded annual GDP growth rate of 5.7% in the last decade — it has not seen the structural transformation needed to create decent jobs at scale. In agriculture, which employs more than 70% of the labor force, productivity has stagnated for several decades. In the service sectors,

3 The technique was originally developed by Sakichi Toyoda and was used within the Toyota Motor Corporation during the evolution of its manufacturing methodologies. The architect of the Toyota Production System, Taiichi Ohno, described the 5 Whys method as "the basis of Toyota's scientific approach . . . by repeating why five times, the nature of the problem as well as its solution becomes clear." (Ohno, 1988)

4 Asian Development Bank, 2009

5 United Nations Statistics Division, 2018

6 Kiranda et al., 2017

7 World Bank Data, Population Data.

which have overtaken agriculture in terms of output and now account for over half of Uganda's GDP, growth has been driven by areas such as telecommunications, finance, and real estate which are not labor-intensive and thus have not created decent jobs at a large scale. Instead most new jobs have been created in low-productivity trade and small-scale agriculture.⁸ As a result, there has been increasing concern about a large and growing deficit of decent jobs. Uganda's labor force grew at a compound rate of 3.8% in the last five years resulting in 606,000 new jobseekers; yet only 147,000 formal jobs were created last year (see Figure 3).

FIGURE 2: LABOR FORCE AND WORKERS PER TYPE
2007 – 2017



Source: Team Analysis, World Bank Data

FIGURE 3: NEW JOB DEFICIT
2013 – 2017



Source: Team Analysis, World Bank Data

UEEI rests on the conviction that SGBs are the most promising engine for the creation of decent jobs which will drive inclusive economic development in Uganda⁹. First, compared to most micro-enterprises, they create higher-productivity, higher-paying, and higher-quality jobs. Second, they are distinguished from other SMEs by their high level of growth potential and ambition. Finally, they tend to create more jobs, on aggregate, than the small number of large firms that may play leading roles in the development of a sector. Thus, if enabled, SGBs create decent, formal, and productive jobs and create more of these jobs than other SMEs or large firms.

The government's National Development Plan II (2015 - 2020)¹⁰ has identified SMEs as fundamental contributors to job creation and economic growth in Uganda, as well as to the development of entrepreneurial and managerial skills. The Plan emphasized opportunities in the following priority sectors:

- **AGRO-PROCESSING-** manufacture of food; beverages; textile wearing apparel and leather; wood products including furniture; paper and paper products; and rubber products.
- **OTHER MANUFACTURING-** metal fabrication and light engineering; metal casting and foundry; electrical and electronic hardware engineering; ceramics; pottery and construction.
- **ENERGY, OIL, AND GAS.**
- **SERVICE SECTORS-** ICT; business process outsourcing; tourism and transport; trade and marketing; business incubation and training; education, hospitality, and health support services.

Still, Uganda is currently dominated by very small firms, few of which are growing. According to the Global Entrepreneurship Monitor (GEM) 2015¹¹, Uganda is the most entrepreneurial country in the world, with 28% of adults owning or co-owning a new business. However, most businesses are small-scale and informal, with little employment effect and a high discontinuation rate¹². The most recent census of business establishments in Uganda in 2010/11 found that there were only about 17,000 (about 4% of total) businesses that had both five employees or more and an annual turnover over USD 2,600¹³.

A closer look at the specific economic contexts of Kampala and Gulu follow in Sections 3 and 6, respectively, below.

9 Aspen Network of Development Entrepreneurs, 2012

10 National Planning Authority, 2015

11 Global Entrepreneurship Monitor, 2015

12 Bertelsmann Stiftung, 2018

13 Uganda Bureau of Statistics, 2011. Note: >10m UGX was the highest annual turnover bracket category used in the census. Today, we estimate that there are 25,000 - 40,000 such firms in Uganda. When applying a minimum annual turnover of USD 50,000, which would more closely approximate the working definition of an SGB, it can be assumed that the number of SGBs in Uganda drops to 2,500 - 8,000.

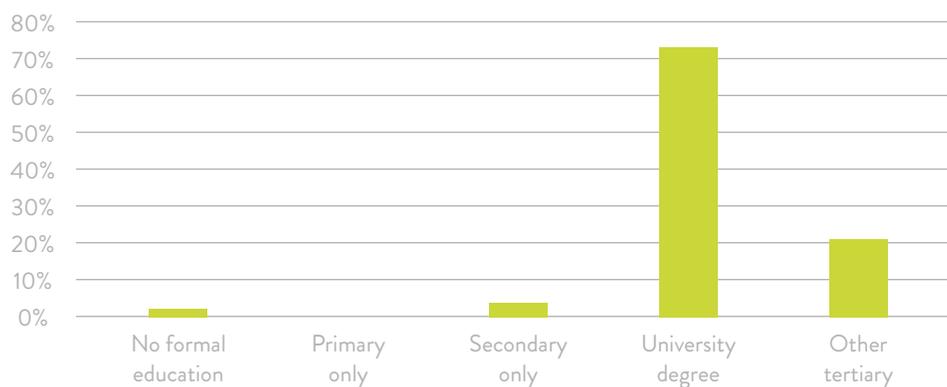
KAMPALA'S ENTREPRENEURIAL ECOSYSTEM

KAMPALA: ECONOMIC CONTEXT

Kampala is Uganda's political and economic capital with a population of 1.75 million people and an estimated daily workforce of 4.5 million people¹⁴. Kampala Capital City is surrounded by the Wakiso, Mukono, and Mpigi districts which form part of the Greater Kampala Metropolitan Area which was the area of focus in this study. It represents a third of Uganda's economic output and hosts 46% of all formal employment¹⁵. Kampala also hosts 70% of Uganda's manufacturing plants, making it the manufacturing hub of the country. Investment in Kampala, especially in sectors with strong linkages to the rural economy such as food processing, not only benefits the city but also results in significant consumption gains for the rest of the country¹⁶. Kampala's economy has registered higher GDP per capita growth rates than cities with similar levels of income, but underemployment and informality remain major concerns¹⁷.

The UEEI Phase I Team estimates that there are between 15,000 and 30,000 firms in Kampala today that have at least five employees and an annual turnover of over USD 2,600— the highest revenue bracket used in the national census of business establishments¹⁸. When applying a minimum annual turnover of USD 50,000, which more closely approximates UEEI's working definition of an SGB, the number of such firms in Kampala drops to between 1,500 and 6,000. According to the UEEI *firm survey*, Kampala-based SGBs operate predominantly in the trade and service sectors. Most of these SGBs are owned and operated by educated, experienced, and older entrepreneurs. The median annual turnover of their SGBs was USD 195,000.

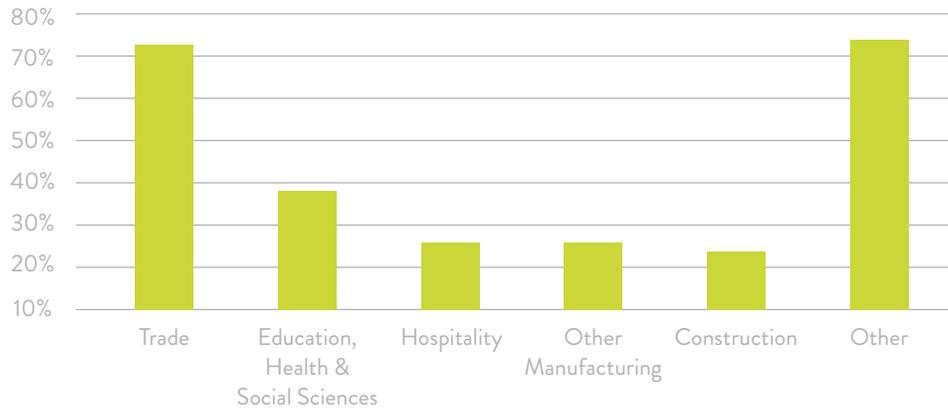
FIGURE 4: EDUCATION LEVEL OF SURVEYED SGB ENTREPRENEURS IN KAMPALA



Source: UEEI Phase I firm survey (N = 111SGBs)

- 14 Kampala Capital City Authority, 2015
- 15 ibid
- 16 ibid
- 17 ibid
- 18 Uganda Bureau of Statistics, 2011

FIGURE 5: KAMPALA SURVEYED SGBS BY SECTOR



Source: UE EI Phase I firm survey (N = 111SGBs)

The SGBs surveyed by the Phase I Team in Kampala had a median real (adjusted for inflation) compound annual growth rate (CAGR) of 18%. Using data from the UE EI *firm survey* and the World Bank Enterprise Surveys, we estimated that, of the SMEs that survive Uganda's high firm "death rate," 19 to 46% can be considered high-growth firms (with a CAGR of over 20%), and a further 17 to 28% can be considered moderate-growth firms (with a CAGR between 10 and 20%).

KAMPALA: ENTREPRENEURIAL ECOSYSTEM OVERVIEW

Using the Six + Six Model, the Phase I Team assessed data collected from its *literature review*, *SGB firm survey*, and *stakeholder interviews* within the Kampala ecosystem, noting the following characteristics for each of the Six + Six Model's activity domains:

IDENTIFY

Kampala's ecosystem features a number of actors and activities that foster the discovery of new entrepreneurs and business models, including sector innovation labs, business plan competitions, incubators, and accelerators catering to seed-stage businesses. However, most of these initiatives are themselves at an early stage of organizational development and are thus providing limited services to a limited subsection of entrepreneurs, producing only modest numbers of high-potential startups.

A number of Kampala's tech hubs do host occasional startup competitions and facilitate innovation hubs focused on specific subsectors of digital technology. Yet these hubs operate largely as co-working spaces, providing little in the way of additional services to startups. With more systematic business plan competitions and innovation labs focusing on specific tech subsectors and stronger value-added services for startups, some of these existing hubs could become national leaders in the identification and facilitation of promising technology-focused startups.

TRAIN

Several universities in Kampala like Makerere University offer training and certificates/degrees in entrepreneurship. Though curricula vary across the schools, they all tend to be highly theoretical and rarely make use of locally relevant business case studies. Likewise, entrepreneurship has also been incorporated into the national secondary school curriculum, though this also largely remains theoretical, lacking clear bridges to practice.

CONNECT & SUSTAIN

A prominent avenue for connections among SGBs in Uganda is the various business associations operating nationwide, especially those organized around small-scale industry, manufacturing, traders, and other entrepreneurship or private sector spheres. Collectively, these national associations have a significant networking effect, though stronger capacity could amplify their impact considerably. These associations also engage in public-private dialogue and policy advocacy, though there remains a lack of coordination and dialogue between government and the private sector.

Kampala does boast several hubs that help sustain tech-focused SGBs, but the space is still in its infancy, especially compared to Nairobi in neighboring Kenya. Non-tech companies, which constituted the majority of those surveyed in Phase I, complain of a lack of access to accelerators and incubators.

FUND

The most common financing methods used by entrepreneurs in Uganda (as is generally true the world over) are self-financing, reinvestment of retained earnings, and bank loans, in that order¹⁹. Though the leading commercial banks operating in Kampala all have some SME portfolio, and all serve SGBs' typical financing requirements, in most cases conditions are restrictive to the extent that they severely limit SGBs' access to bank loans. SGBs face high interest rates, short loan tenors, high collateral requirements, inflexible loan conditions, and complicated application procedures²⁰. This was confirmed overwhelmingly by *key stakeholder interviews*, *focus groups*, and the *firm survey*.

Kampala's SGBs constitute much of Uganda's impact investing market which is now the second largest in East Africa, after Kenya²¹. By 2015 there had been at least 139 impact deals in Uganda resulting in more than USD 300 million disbursed, or more than 20% of all investment activity in East Africa overall. Several impact investment funds (financed by DFIs and philanthropists mainly) with a physical presence in Kampala are investing significant amounts of money at ticket sizes between USD 200,000 and USD 2 million in SGBs throughout Uganda.

The Government of Uganda runs two heavily funded initiatives to support entrepreneurs, but they tend to target youth groups and entrepreneurs at the micro-level (i.e. not growth-oriented entrepreneurs). Other government/development partner supported programs include grants, lines of credit, and guarantee facilities for the agribusiness sector.

19 Argidius Foundation, 2016

20 See for example: Graca Machel Trust & Women in Finance Network, 2017; Argidius Foundation, 2016; GIIN & Open Capital Advisors, 2015; Tagoe et al., 2005.

21 GIIN & Open Capital Advisors, 2015

ENABLE

Arguably, the three most relevant national government institutions for entrepreneurs in Uganda are the Uganda Registration Services Bureau where new formal businesses register, the Uganda Revenue Authority (URA) which administers tax, and the Uganda National Bureau of Standards which issues quality certificates for SGBs dealing in physical products. Locally, the Kampala Capital City Authority (KCCA) issues local trading licenses against fees. Phase I research noted significant improvements in all these organizations in recent years, though there remain significant constraints for SGBs in each of the bodies' areas. Furthermore, though SGBs may interact with a host of other government bodies — from courts to ministries — it is the Office of the President from which power overwhelmingly emanates in Uganda, and which must champion or at least support any significant policy change in entrepreneurship or related field.

CELEBRATE

While Gugu and Mworira note that in Uganda, "the problem of entrepreneurship supply is really about developing a culture of entrepreneurship, specifically the propensity for risk taking and a tolerance for failure,"²² respondents to Phase I's *firm perspective survey* rated family influence on their business career as "very strong," social beliefs on their business career as "strong," perception of society when starting a business as "moderately strong," and level of support from successful business people as "neutral." But UEEI Phase I respondents also recognized that though necessity may elevate risk tolerance in much of the population, those potentially best placed to start successful SGBs (i.e. highly educated people with work experience, sector insights, and strong networks) might have a much lower propensity to take risks because they are in secure and decent employment and must attend to dependents in the extended family network.

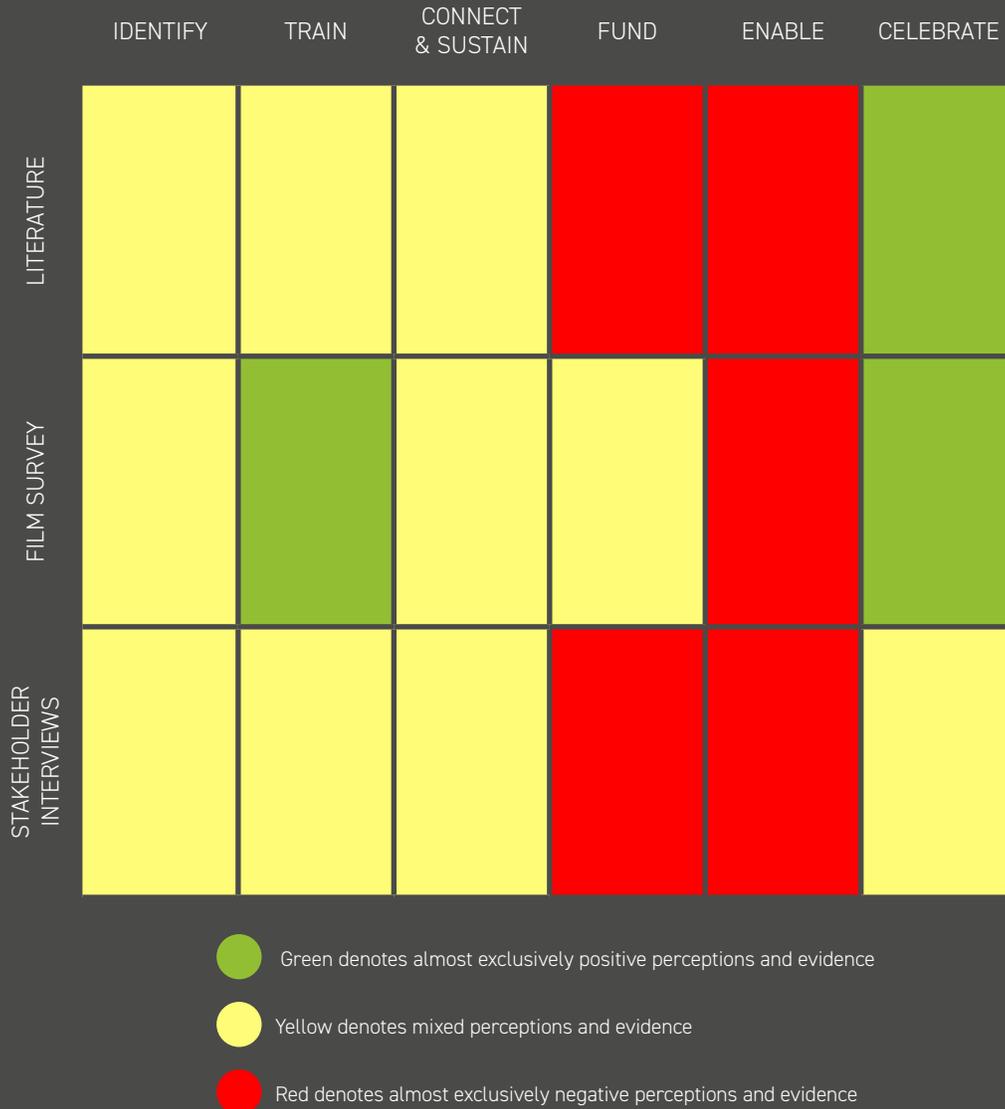
Several Kampala-based television and radio stations run business programs that touch on entrepreneurship, and entities from accounting firms to associations to mobile providers to universities issue various annual business awards. Nonetheless, such media coverage appears *ad hoc* and there is significant room for stronger systematic reporting on entrepreneurship and the sharing of local entrepreneurial success stories.

22 Gugu & Mworira, 2017

KAMPALA: BINDING CONSTRAINTS

Figure 6 provides a high-level, three-grade scoring of the six domains of Kampala's entrepreneurial ecosystem — derived from the Phase I *literature review*, *SGB firm survey*, and *stakeholder interviews and focus groups* — and a “top 3” summary of the ecosystem's most frequently cited strengths and weaknesses according to the *firm survey*. The *celebrate* domain is generally perceived as the most positive aspect of the ecosystem; the key weaknesses are perceived to be in the *enable* and *fund* domains.

FIGURE 6: KAMPALA ECOSYSTEM SCORECARD AND PRIMARY STRENGTHS AND WEAKNESSES

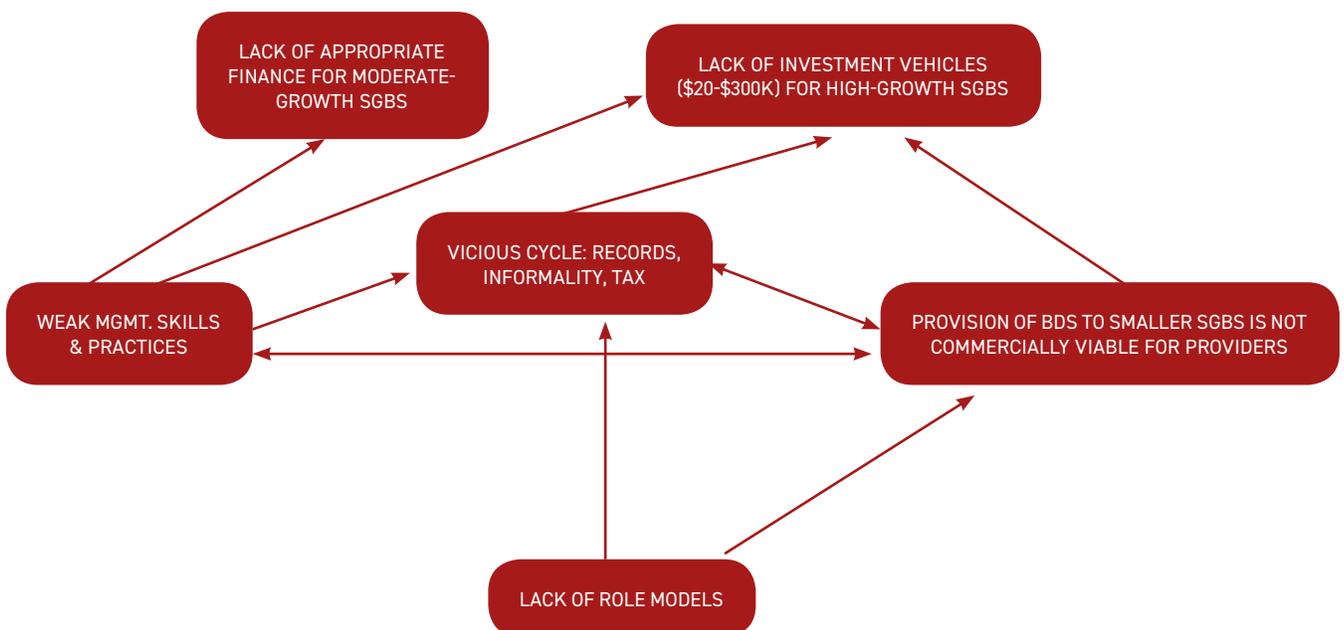


TOP 3 ECOSYSTEM STRENGTHS	TOP 3 ECOSYSTEM WEAKNESSES
<p>Large domestic demand for products/ services. Kampala’s market is filled with untapped opportunities and is fertile ground for entrepreneurship.</p> <p>Supportive family, cultural beliefs, and social/informal networks. Emotional, labor, and financial support from family and informal networks were identified as key for starting and growing a business.</p> <p>Ease of starting a business. Relatively straightforward processes reflect improved service delivery by the Uganda Registration Services Bureau.</p>	<p>Tax rates and tax administration. Most SGBs identified tax administration as a key constraint given perceived heavy-handed methods of tax collection and relatively high tax burdens on SGBs that choose to comply.</p> <p>Corruption. Graft and pay-offs at various levels increase the cost of doing business for SGBs and often leads to unfair competition.</p> <p>Trust. Distrust within the business community, crime, theft, and disorder remain challenges.</p>

Drawing on a more intricate analysis of the ecosystem’s strengths and weaknesses, the Phase I Team identified six complex and interrelated binding constraints in Kampala’s entrepreneurial ecosystem (see Figure 7 below). Lifting any one of these constraints is likely to unlock some progress in driving the entry and growth of SGBs in Kampala. However, these constraints are highly interrelated and mutually reinforcing, implying that a concerted effort to holistically tackle all these constraints could unlock disproportionately more progress than focusing on individual constraints.

The six binding constraints are not presented in any order of severity, though constraints further down the list tend to be root causes of or contributing factors to the constraints further up the list.

FIGURE 7: KAMPALA’S SIX INTERRELATED BINDING CONSTRAINTS





1. LACK OF APPROPRIATE FINANCE FOR MODERATE-GROWTH SGBS

Access to finance is recognized as a major constraint on the productivity and growth of all SGBs throughout Uganda by the Phase I analysis as well as several studies²³. Uganda is a clear demonstration of the often observed "missing middle," with SGB financing needs (typically in the USD 20,000 - 100,000 range) severely underserved by the finance market.

But the solutions for filling this gap tend to differ between high-growth and moderate-growth SGBs, which have different financing needs. Generally, while high-growth SGBs are more suited to equity investment and growth capital, moderate-growth SGBs typically have a need for stability (as they are often family businesses and more risk-averse) and prefer debt or bootstrapping over equity²⁴. Investors tend to prefer equity over debt, which moderate-growth SGBs are less interested in, and focus on high-growth SGBs that can produce relatively high returns within a few years of investment, again to the exclusion of moderate-growth SGBs.

Banks may therefore be more likely to fill the financing gap for moderate-growth SGBs than investors. However, in the Kampala UEEL *firm survey*, access to bank debt, loan requirements, and interest rates were all overwhelmingly scored as "very weak." Kampala's SGBs struggle to access bank loans because of high interest rates, short loan tenors, high collateral requirements, and complicated application procedures. Ugandan banks prefer high-interest earning government bonds to investing in riskier ventures; they complain of high default rates, even with conservative selection criteria. At the firm level, SGBs often lack strong management skills and teams, and informal management practices are prevalent, such as the diversion of loan funds for personal use. Many SGBs fail to meet banks' criteria because they lack proper financial records or proper collateral that can be used to secure loans. A weak Credit Reference Bureau renders it difficult (and costly) to assess SGBs' creditworthiness.

The lack of appropriate financing for most moderate-growth SGBs in Kampala further slows their growth and dampens their growth potential. Some entrepreneurs interviewed by the Phase I Team resorted to informal moneylenders who provide unsecured loans at extortionate interest rates.

23 See e.g. MFPED, 2014a; World Bank, 2006, 2013a, 2017; Hausmann et al., 2014.

24 Intellectap, 2015

2. LACK OF INVESTMENT VEHICLES IN THE USD 20,000 - 300,000 RANGE FOR HIGH-GROWTH SGBS

Though most Kampala SGBs seek financing in the USD 20,000 to 100,000 range, the financing needs of most high-growth SGBs are likely to reach USD 300,000. Better-suited for equity investment, high-growth SGBs nonetheless tend to prefer debt according to the UEEI *firm survey* and *interviews*. Investment funds in Kampala have responded to this by providing convertible notes, mezzanine financing, and flexible debt with more attractive terms than banks. Nevertheless, the majority of high-growth SGBs may likely remain underserved, largely due to the fact that most investment is flowing into ticket sizes above USD 300,000. Investors that do venture below ticket sizes of USD 300,000 are almost exclusively impact investors and tend to focus on specific sectors or seek firms that generate specific types of social impact.

The preference among investors for larger ticket sizes revolves around amortizing high risk, transaction costs, selection costs, and capacity building costs. Though investors often cite investment readiness as the primary challenge limiting deal flow, Kampala's existing incubators, accelerators, and other support providers serve only a small number of early-stage companies. Uganda's weak business development service (BDS) infrastructure makes early-stage investing prohibitively costly and risky. The provision of quality BDS in this segment often falls to investors which takes time and resources from fund managers, thereby discouraging forays into early stage SGBs.

The majority of investment going into high-growth SGBs, especially at ticket sizes below USD 1 million, is to a significant degree driven by a social impact motive²⁵. The funds serving this bracket of SGBs are almost always principally financed by development finance institutions, philanthropic investors, and, to a lesser degree, NGOs. A significant proportion of these funds have moved towards adopting flexible definitions of social impact, including job creation, and away from focusing on a small number of specific economic sectors. However, those investing below USD 300,000 (and only impact funds are doing so) tend to have narrower and stricter definitions of social impact and tend to focus on specific sectors, to the exclusion of most SGBs in that bracket.

While 78% of SGB entrepreneurs in the UEEI *firm survey* consider themselves to be at least partly driven by social impact, most do not fit into these funds' target sectors or social impact categories. World Bank Enterprise Survey data suggests that most high-growth SGBs in Uganda operate in manufacturing and construction²⁶, where only a small minority would meet the requirements of impact funds investing below USD 300,000. The fact that impact investors ignore most of the population of SGBs means that they are working with a very limited pool of potential investees. The smaller the pool, the more difficult deal flow, and the less commercially viable early-stage investing becomes.

3. WEAK MANAGEMENT SKILLS AND PRACTICES

The development of entrepreneurship and management skills occurs on the job, in formal education such as high school and university business courses, and in settings tailored to the entrepreneur such as incubators, accelerators, and other BDS. Across the *literature review*, *firm perspective survey*, and *stakeholder interviews*, however, the Phase I Team found reports of significant skills gaps, especially in areas such as: financial modelling; market identification & customer segmentation; growth strategy; bookkeeping; marketing and business strategy. A lack of professional management techniques among high- and mid-level managers limits organizational efficiency and thus the ability to operate at scale. Skills gaps are also a frequent reason why SGBs are not considered investor-ready.

25 Based on UEEI Kampala ecosystem mapping, stakeholder interviews and focus groups

26 World Bank, 2006 & 2013a

The underlying reasons for the shortage of strong management skills among Kampala's SGBs are three-fold:

- University management courses are excessively theoretical and lack reference to real/practical, locally relevant business cases. Though entrepreneurship has also been incorporated into the national secondary school curriculum, this largely remains theoretical.
- There is a lack of accessible, affordable, and patient management training provided through accelerators, incubators, and other BDS channels. While several accelerators and incubators exist, they serve a small fraction of Kampala's high-growth SGBs. At the root of this constraint is the issue that quality BDS for small firms is not seen as commercially viable in Uganda, as in many similar markets. This is explored as a separate binding constraint below.
- A culture of informality perpetuates management practices that hinder scalability. The trusted word of business partners trumps formal records; family members are prioritized over skilled employees; personal and business finances mix. Given the prevalence of informal family businesses, many young entrepreneurs look to their parents for guidance rather than successful entrepreneurs who have achieved business growth in the formal system.

4. PROVISION OF BDS TO SMALLER SGBS IS NOT COMMERCIALY VIABLE FOR PROVIDERS

Stakeholders in the ecosystem agree that Kampala's SGBs require heavy-touch, longer-term, pre- and post-investment BDS. Both investors and the few existing BDS providers in Kampala are finding that the cost of BDS provision to smaller SGBs simply does not pay off, no matter the model (e.g. user fees, success fees, equity, debt repayments, revenue-sharing, etc.). SGBs in Kampala generally have a low ability and/or willingness to pay for BDS, stemming from low purchasing power, a lack of awareness of the benefits of BDS, and a reluctance to share financial details with outsiders. The fact that most SGBs are starting from a low base in terms of management and financial systems and records exacerbates the cost of assisting SGBs to become investment-ready.

Existing BDS providers serving early-stage firms in Uganda are usually leveraging subsidized or grant-based BDS and focusing on social enterprises to the exclusion of most SGBs. While some accelerators and intermediaries are providing quality grant-subsidized BDS, as a result of not being commercially viable, much of the BDS provided to early-stage firms is light-touch, focused almost exclusively on making the firm attractive to investors or compliant with bank/investor requirements, and short-term (often project-driven).

5. VICIOUS CYCLE: RECORDS, INFORMALITY, TAX

One of the overwhelming findings from *key stakeholder interviews* and *focus group discussions* was that Kampala's SGBs often have weak, absent, or dubious financial records. This makes the assessment of SGBs by banks and investors more difficult, raises the cost of BDS provision, lowers the efficiency of internal business management, and hampers SGBs' access to government and corporate procurement processes.

It was repeatedly explained by various ecosystem stakeholders that the prospect of a heavy tax burden is a key driver of the lack of records among SGBs in Kampala. *Firm survey* respondents cited "tax and tax administration" as "very weak" aspects of the entrepreneurial ecosystem. Thus, evading the tax burden becomes a strong reason hindering the maintenance and sharing of strong records. These issues are intimately connected to the issue of informality. For instance, ecosystem stakeholders repeatedly pointed to the tax apparatus (and heavy tax burden) as a key driver of informality among Kampala SGBs. Tax-compliant SGBs face a significant disadvantage in terms of price competitiveness and margin versus informal, non-tax paying firms.

Informal competition was cited as a key constraint in the UEEI firm survey, and 95% of firms in the 2013 World Bank Enterprise Surveys reported that they compete against informal or unregistered businesses²⁷.

Other reasons why Kampala's SGBs do not become fully formal or tax compliant reinforce this vicious cycle. Many SGBs still rightly believe they can simply get away with avoiding taxation, which points to weaknesses in tax enforcement. SGBs struggle to access the knowledge and support to become fully tax compliant and to benefit from provisions that reduce the tax burden, such as deductions. Furthermore, there is a perception among SGBs that money paid to the government is more likely to be mishandled by corrupt officials than be spent on public goods that help SGBs succeed. Finally, various stakeholder reported a deep mistrust of government among the business community.

Numerous Phase I respondents — including entrepreneurs — explained that many entrepreneurs prefer "staying small," operating informally or semi-formally and essentially growing sideways rather than upwards. When their first venture reaches a certain size where informality and/or tax compliance becomes a binding constraint on its growth, the entrepreneur starts a second venture, and so on. Thus, none of the entrepreneur's ventures grow into medium or large companies.

6. LACK OF ROLE MODELS

A paucity of media stories featuring strong entrepreneurial role models — founders who have succeeded without cheating or having political connections/a wealthy family (or so perceived), and who have done so in the formal sector — has serious negative effects on entrepreneurs' growth ambitions and was cited by numerous stakeholders as a key constraint in Uganda. Stakeholders highlighted the fact that a lack of role models has also had a negative effect on the confidence of female entrepreneurs specifically. The Phase I Team heard reports of the media tending to focus on "get rich quick" entrepreneurial success stories, glossing over the complexities of starting and growing a business in Uganda.

KAMPALA: ACTION PATHWAYS

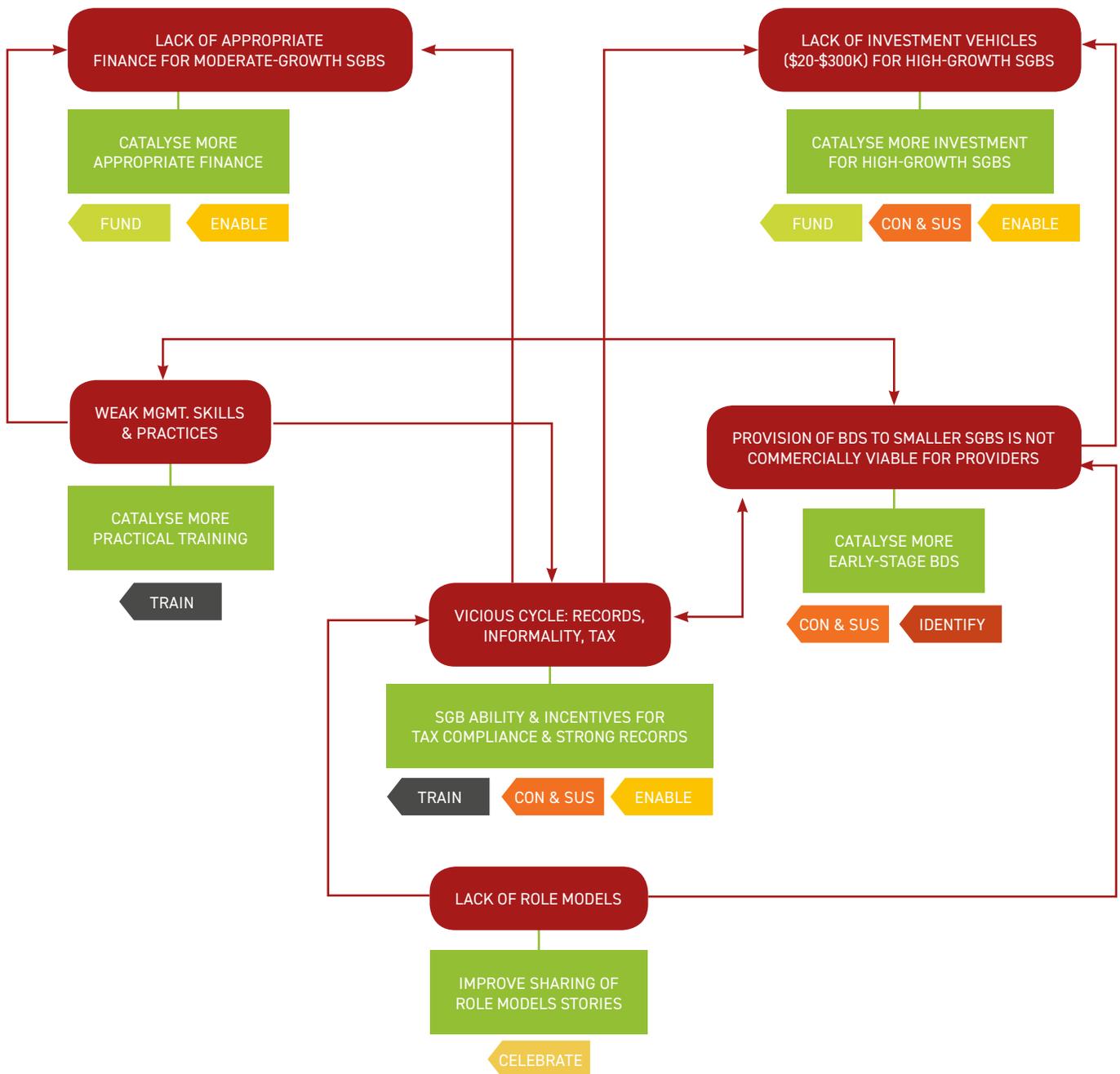
The above Six + Six Model and binding constraints analyses form the foundation of this report's recommendations for bolstering entrepreneurship in Kampala. The Phase I Team believes that ecosystem builders — via a UEEI Phase II or otherwise — should adopt a flexible approach, adapting priorities as windows of opportunity open or close and as the ecosystem evolves. To begin, however, they should consider pursuing the action pathways and attendant activities below which address the most binding constraints and glaring gaps identified in Phase I.

Figure 8 presents six action pathways against the six binding constraints identified in Kampala above, while noting relevant activity domains from the Six + Six Entrepreneurship Ecosystem Model. The figure also highlights five specific activities under the pathways. These are drawn from the more detailed discussion below and represent activities that the Phase I Team expects would have an especially promising effect on the ecosystem.

Though to some extent each constraint can be alleviated through interventions that tackle the given constraint directly, the interrelatedness of the constraints and action pathways should not be underestimated. A strategy to tackle any individual constraint must in fact tackle multiple constraints. The result should be a holistic approach.

27 World Bank, 2013a

FIGURE 8: BINDING CONSTRAINTS, ACTION PATHWAYS, AND ECOSYSTEM DOMAINS; HIGH PRIORITY ACTIVITIES (KAMPALA)



HIGH PRIORITY ACTIVITIES

- Incentivize and enable commercial banks and microfinance institutions to scale up appropriate financial instruments for moderate-growth SGBs
- Set up or scale-up BDS subsidy / grant fund(s), strengthening integration between BDS and finance
- Facilitate establishment / market entry of new SGB funds investing \$20k - \$300k
- Strengthen evidence-based discourse on SME tax regime
- Develop portfolio of Ugandan business cases and integrate these into management and entrepreneurship courses

The table below describes the full list of recommended action pathways and attendant activities.

ACTION PATHWAY #1	Catalyze more appropriate finance for moderate-growth SGBs (USD 20,000 - USD 100,000)
ACTIVITY 1A	<p>Incentivize and enable commercial banks and microfinance institutions to scale up appropriate financial instruments for moderate-growth SGBs</p> <p>Several DFI- and donor-backed facilities are available to commercial banks to de-risk or subsidize SME lending. Several activities could incentivize and enable banks and MFIs to scale up appropriate financial products for SGBs, in part by leveraging these facilities more effectively, including:</p> <ul style="list-style-type: none"> ■ technical assistance to banks on product design, training loan officers, optimizing incentives for loan officers with a focus on products such as asset financing, leasing, factoring, contract finance, convertible debt, etc.; ■ presenting banks with a clear business case for using existing subsidy instruments more actively for customer acquisition; ■ urging Bank of Uganda to put pressure on commercial banks to use the facilities; ■ raising SGBs' awareness of loan subsidy facilities through media and business associations; ■ a seed fund for new appropriate finance vehicles for moderate-growth SGBs.
ACTIVITY 1B	<p>Set up / scale up guarantee fund(s)</p> <p>Guarantee funds have a track record of giving banks the confidence to lend to SMEs that they would otherwise deem too risky. There is opportunity to work with existing guarantee schemes to scale those into new sectors and/or work with the Uganda Development Bank, whose policy proposal for an SME Guarantee Fund is currently under parliamentary review.</p>
ACTIVITY 1C	<p>Build more robust Credit Reference Bureau</p> <p>Uganda's Credit Reference Bureau (CRB) currently lacks utility for SME lending as the data it contains on SMEs is rather scarce. An activity partnering with the Uganda Bankers' Association to capture additional data (from sources like the National Identification and Registration Authority, Bank of Uganda, telcos, utility companies, microfinance institutions, SACCOs, etc.) could produce a stronger CRB, reducing the cost of credit assessments for banks and incentivizing them to scale up SME lending.</p>

**ACTION
PATHWAY #2**

Catalyze more investment for high-growth SGBs, especially for SGBs that do not fall into narrow social impact categories (USD 20,000 - USD 300,000)

Assist existing funds to make investing below \$300,000 more viable

There are a number of impact-driven funds of significant size that currently invest in Ugandan SGBs in the range of about \$300,000 and above and that apply a relatively broad and flexible definition of social impact. Interventions that reduce the risk, transaction costs, and BDS costs of investing in small high-growth firms would incentivize these investors to venture into lower ticket sizes.

ACTIVITY 2A

A separate activity to scale up BDS grant funding, especially tied to investment, is contemplated separately below, and would likely tackle the most binding constraint curtailing investment in SGBs below \$300,000.

However, the precise reasons why existing funds and intermediaries have shied away from smaller ticket sizes could be further investigated and targeted activities devised to address these reasons. Additionally, mechanisms for fund managers to learn from success stories and promising investment models from Kampala and similar markets could be facilitated.

Facilitate establishment / market entry of new SGB funds investing \$20,000 - \$300,000

One of the reasons why many investment funds do not serve SGBs raising less than \$300,000 is that the funds do not have a physical presence in Kampala, which limits their understanding of and engagement with the local market. A number of such funds, often based in Nairobi, either have Uganda in their investment mandate but have had little activity in Uganda or are interested in adding Uganda to their portfolio. Attracting the market entry of these investors could inject significant new investment and energy into the ecosystem.

ACTIVITY 2B

- Apart from facilitating the market entry of existing funds, ecosystem stakeholders could incentivize and support the creation of new funds for Kampala's SGBs through:
- grants towards the first year(s) launch/setup costs of a new fund;
- catalytic first-loss capital or guarantee scheme that de-risks local investors to incentivize them to partner with external impact investors whose returns expectations may be lower;
- support to subsidize pre-investment BDS provided by funds to SGBs during the first 1-2 years (before a fund has a strong enough track record to raise BDS grant funding from donors);
- support in catalyzing deal flow, including grants for sourcing and investment-readiness work;
- outcome-based payment model whereby a fund receives a grant as a result of investing in a Ugandan SGB;
- subsidies for follow-up and monitoring costs for foreign (e.g. Kenya) based funds, including to pay for the time of locally-based providers in a cost-sharing approach.

Investor delegations

Investor delegations are tours for accomplished entrepreneurs and angel investors from rich economies and the Ugandan diaspora whereby participants judge pitch competitions, mentor startups, and network with local angel investors (who join the delegation), among other activities. Such "entrepreneurship delegations" open markets to international angel and seed investors; inspire investments by local angels; create mentoring relationships for entrepreneurs and business relationships for new and established companies; generate buzz around entrepreneurship; and ease pathways for Ugandan diaspora to connect with startups back home. Such delegations dovetail well with other action pathway activities, from trainings to fund launches.

ACTIVITY 2C

**ACTION
PATHWAY #2**

Catalyze more investment for high-growth SGBs, especially for SGBs that do not fall into narrow social impact categories (USD 20,000 - USD 300,000)

Catalyze angel investment and investment clubs

Angel investments are usually structured directly between investor and investee but can be introduced and facilitated in a structured group or club, which may specialize by industry, geography, or type of entrepreneur. Interventions to catalyze angel investment may include:

ACTIVITY 2D

- training for would-be and new angel investors;
- coaching on starting and running angel clubs;
- development and dissemination of solutions for angel investors: (e.g. software packages to manage such groups; sample contracts and term sheets; business model examples for angel groups);
- facilitating linkages between angels / angel groups and existing funds;
- sharing success stories of angel investors and clubs from other ecosystems;
- advocacy for tax incentives for angel investors.

**ACTION
PATHWAY #3**

Catalyze more patient and affordable early-stage BDS

Set up or scale-up BDS subsidy / grant fund(s), strengthening integration between BDS and finance

A grant fund with smart incentives structures for the delivery of BDS to firms raising \$20,000 - \$300,000 would allow impact investors, accelerators, hubs, and other BDS providers struggling to serve clients in a commercially viable manner to begin or scale up their support for early-stage firms. These grant funds should target the strengthening of perpetual organizations providing quality BDS rather than time-bound projects and should not incentivize providers to offer BDS free-of-charge. Client SGBs should have skin in the game.

ACTIVITY 3A

Just one of several potential ways to deliver these funds would be to install a voucher system whereby select startups receive coupons that they can redeem for services from BDS providers. These organizations in turn are compensated for the services they provide under the system. Vouchers not only help startups obtain services, but also provide revenue streams to new BDS providers, which in Uganda are still developing their own business models.

Grant funds could also be targeted at strengthening the integration between BDS and finance. For instance, grants could be targeted at strengthening the BDS provision of funds and banks and/or at strengthening the investor/financial matchmaking function of BDS providers.

Support for new and existing early-stage BDS providers

ACTIVITY 3B

Non-financial support for existing local incubators and accelerators (i.e. mentors-in-residence and technical assistance) would allow the highest-potential actors to scale up their support for startups and SGBs.

Support for new outfits could entail advice on setup in Uganda; sourcing strategy; revenue strategy; accelerator design and setup; Uganda-specific legal/tax/finance/culture issues; market linkages; Uganda market intelligence; lessons learnt by existing ecosystem actors, etc.

**ACTION
PATHWAY #3**

Catalyze more patient and affordable early-stage BDS

Establish BDS one-stop shop(s)

ACTIVITY 3C

A single port-of-call for entrepreneurs/SGB managers to find out what BDS is and where they can find the support they need given their specific challenges. It would be ideally be housed under an existing structure with a strong outreach to SGBs, such as a business association. A central seat under a trusted national body could be closely linked with one-stop shop representatives at business associations serving more specific sectors. Existing hubs could also host a one-stop shop representative.

The success of this activity would depend largely on its ability to effectively collate information on BDS providers, i.e. through a portal or directory of providers, as well as to effectively communicate this information to SGBs in a tailored manner.

Set up a BDS regulatory body

ACTIVITY 3D

A BDS regulatory body would serve the principal role of ensuring certain standards are upheld by registered and certified BDS providers.

Introduce / scale up innovative tools for bookkeeping and business management (e.g. apps)

ACTIVITY 3E

The field of digital management and bookkeeping tools is rapidly developing globally, with lighter-touch, cloud-based, and more intuitive applications replacing heavy, specialized software and making such tools more accessible to general managers who may not have an accounting degree. Kampala's SGBs would benefit from leveraging these tools, which can simultaneously enhance their productivity, bankability/investor-readiness, and tax compliance capability by enabling them to maintain proper financial records. A program of support could catalyze the development, dissemination and utilization of such tools in Kampala.

**ACTION
PATHWAY #4**

Increase SGBs' ability and incentives to become tax compliant and maintain strong records

Tax compliance and record keeping training for SGBs

ACTIVITY 4A

The Uganda Revenue Authority (URA) is cognizant of the fact that SGBs feel more harassed than supported by it, and that there is a severe lack of capacity on the side of SMEs to effectively manage their tax compliance without paying excessive taxes. SMEs and their associations, on the other hand, have proven unaware of many tax law provisions such as deductions that could help them reduce their tax burden. Good tax advice is hard to come by. Conversations between the Phase I Team and URA suggest there is willingness at URA to collaborate to strengthen URA's support to SMEs.

Strengthen evidence-based discourse on SME tax regime

ACTIVITY 4B

The goal of this activity would be to strengthen the evidence base and convene public and private actors around a constructive dialogue to improve the SGB tax regime in an interest-based, incentive-compatible manner. Such an initiative would involve partners within both URA and the Ministry of Finance (which sets revenue collection targets and defines the tax regime), and could involve, for example, cross-country research to explore whether reducing the tax burden on SGBs in Uganda in the short run would increase total tax revenue in medium run.

**ACTION
PATHWAY #5**

Catalyze more practical entrepreneurship and management training

Strengthen offering of entrepreneurship/management short-courses

ACTIVITY 5A

A cost-effective way of providing key basic skills to entrepreneurs is through short courses/ bootcamps ranging from a few days to a few weeks in length. Though some such short courses are already available in Uganda, entrepreneurs are generally reluctant to pay to participate given a history of free-of-charge, donor-funded programs. Thus, this activity would need to be based on a better understanding of how entrepreneurs can be better incentivized to see the value in and pay for short-courses.

Develop portfolio of Ugandan business cases and integrate these into management and entrepreneurship courses

ACTIVITY 5B

Management/entrepreneurship courses, including BBAs and MBAs but also modules taken by students from other degrees or departments, could be strengthened through the inclusion of Ugandan business cases that present true stories of how firms succeed or fail in Uganda's specific context. Some universities already use some local business cases, but much more can be done to enrich curricula. Such business case studies would provide useful learning material not just for university courses but also for non-academic training and BDS providers as well as the media.

**ACTION
PATHWAY #6**

Improve sharing of entrepreneurial role models

Generate entrepreneur spotlight series

ACTIVITY 6A

A new video and/or audio series to spotlight the stories of Ugandan entrepreneurs could create a new standard in entrepreneurship journalism in Uganda, with the effect of stimulating higher quality reporting by the broader media. This series could directly address some of the perception gaps identified in the Phase I analysis, sharing more detailed and holistic stories of entrepreneurship success and failure in Uganda, particularly female entrepreneurs, formally employed people who made the jump into full-time entrepreneurship, and stories of the transition from semi-formality into full formality and tax compliance. These stories could be disseminated through media (incl. social media), associations, events, and community organizations such as churches.

Entrepreneurship reporting prize

ACTIVITY 6B

A prize for excellence in entrepreneurship journalism and workshops for media run by international journalists who cover entrepreneurship could further stimulate entrepreneurship journalism in Uganda. The Entrepreneurship Reporting Prize could award a cash prize each year to the "the print or radio personality who makes the greatest contribution towards the positive coverage of entrepreneurship in Uganda through their published stories or radio show". Annual (or more frequent) workshops for Ugandan journalists with experienced journalists from abroad who regularly cover the entrepreneurship scene in their home country would improve the media's understanding and coverage of entrepreneurship.

GULU'S ENTREPRENEURIAL ECOSYSTEM²⁸

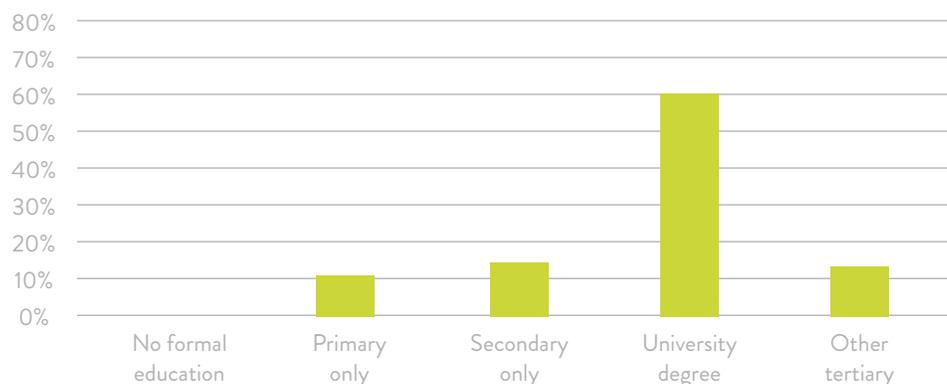
GULU: ECONOMIC CONTEXT

Gulu is the largest municipal town in Northern Uganda with a population of 150,000 people. It is part of Gulu District which has a population of 275,000 people²⁹. Only 8% of Uganda's businesses are based in the northern region (compared to 29% in greater Kampala). Gulu's economy has seen turbulence for decades, destabilized by 20 years of violent conflict (ending in the late 2000s) between the Lord's Resistance Army (LRA) and the Uganda People's Defense Forces (UPDF) and then influenced by the heavy presence of international organizations involved in humanitarian assistance and post-war recovery. From 2011, following the independence of neighboring South Sudan and reconstruction investment in Juba, Gulu-based trade to South Sudan boomed momentarily.

Yet both of these drivers of Gulu's economy have shrunk considerably since 2013, with renewed violence erupting in South Sudan and the majority of postwar NGOs leaving Gulu. Nevertheless, Gulu has the potential to become a regional economic hub serving the large rural population of northern Uganda, agglomerating and processing agricultural outputs including maize, beans, cassava, and other cash crops, providing public and private services to the surrounding rural populations, and acting as a trade and logistics hub thanks to its strategic proximity to both South Sudan and the Democratic Republic of the Congo. In addition, an uptick in economic activity can be expected in the coming years as a result of the massive influx of South Sudanese refugees into the region as well as humanitarian organizations responding to that refugee situation.

According to the UEEI *firm survey*, Gulu-based SGBs predominantly operate in the trade and services sectors. Most SGBs are owned and operated by relatively educated, experienced, and older entrepreneurs. Only 43% of the SGBs surveyed were registered as limited liability companies, which points to a lower level of formalization in Gulu compared to Kampala. The median 2017 annual sales for Gulu SGBs was about USD 47,000.

FIGURE 9: EDUCATION LEVEL OF SURVEYED SGB ENTREPRENEURS IN GULU

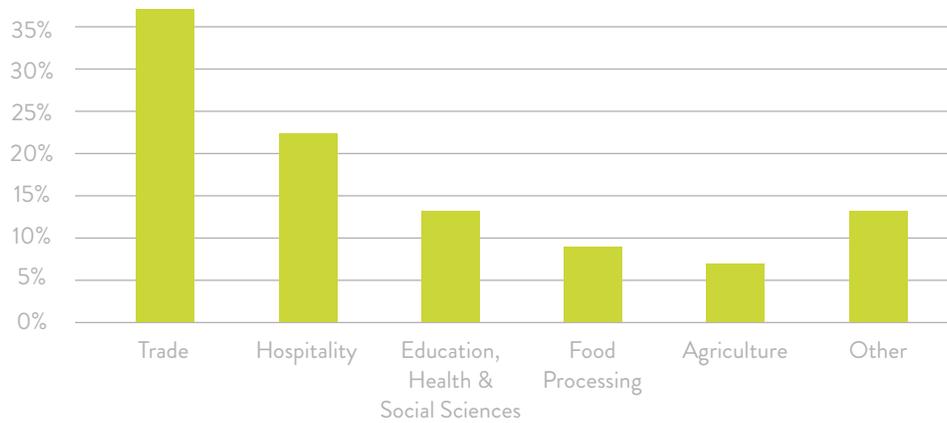


Source: UEEI Phase I firm survey (N = 57 SGBs)

28 This report occasionally uses identical language in the Kampala and Gulu sections when observations are perfectly relevant to both. The repetition of language is intended and meant to allow the Kampala and Gulu sections to each stand alone.

29 Uganda Bureau of Statistics, 2017

FIGURE 10: GULU SURVEYED SGBS BY SECTOR



Source: UEEL Phase I firm survey (N = 57 SGBs)

The SGBs surveyed by the Phase I Team in Gulu were asked to report their annual turnover for the past three years. The real (adjusted for inflation) average compound annual growth rate (CAGR) was computed to be 18% and the median 15%. 37% of the surveyed SGBs had a CAGR of more than 20% and can be considered high-growth firms. 22% had an annual growth rate of 10-20% and can be considered moderate-growth SGBs.

GULU: ECOSYSTEM OVERVIEW

Using the Six + Six Model, the Phase I Team assessed data collected from its *literature review*, *SGB firm survey*, and *stakeholder interviews* within the Gulu ecosystem, noting the following characteristics for each of the Six + Six Model's activity domains.

IDENTIFY

In terms of initiatives to identify entrepreneurs and new business models, Gulu's ecosystem is very limited and scattered. The Phase I *firm survey* assessed "SGB's access to incubators, accelerators, and co-working space to develop new business ideas" as "very weak." Still, a few actors are active in this realm including a university, a private company, and a government youth program. Several startups from Gulu have advanced beyond the early stages of an entrepreneurship competition run by the pan-African Regional Universities Forum for Capacity Building in Agriculture. The Government of Uganda runs two heavily funded initiatives that give seed funding to youth microentrepreneurs (i.e. not growth-oriented entrepreneurs).

TRAIN

Gulu University, the only university in Gulu, provides entrepreneurship and management training through its bachelor's and master's courses. However, "availability of university entrepreneurship programs" was scored as "very weak" by SGBs surveyed in Gulu during the *firm survey*. This was true also for "access to quality entrepreneurial and management skills training," "access to funding for training," "access to quality technical skills training," and "availability of mid- or top-level managers."

CONNECT & SUSTAIN

Several national business associations are open for Gulu-based members, though the level of engagement is low. Gulu is an agribusiness-focused economy and the relevant associations therefore revolve around agribusiness and farmers. A few non-profit actors provide tailored entrepreneurship and BDS, but almost exclusively to micro-enterprises. NU-TEC, a donor-funded time-bound project, focuses on smallholder farmers and specific agribusiness value chains.

FUND

Gulu-based SGBs rated nearly all aspects of access to finance as "very weak" or "weak" in the UEEI *firm survey*, despite the fact that "ease of access to credit from financial institutions" was also the third-most cited *strength* of the ecosystem. This largely reflects a recognition of the fact that many banks have recently opened a Gulu branch and accessing loan officers has therefore become easier in recent years. The commercial banks with Gulu branches all give loans in the full range of an SGB's typical financing requirements but, as in the rest of the country, with terms and conditions that render them largely inaccessible to SGBs in Gulu. Other government/development partner supported programs include grants, lines of credit, and guarantee facilities for the agribusiness sector.

ENABLE

The three most relevant national government institutions for entrepreneurs in Uganda are, arguably, the Uganda Registration Services Bureau (URSB) where new formal businesses register, the Uganda Revenue Authority (URA) which administers tax, and the Uganda National Bureau of Standards which issues quality certificates for SGBs dealing in physical products. Locally, the Gulu Municipal Council is the government body mandated to collect local taxes including property tax and trading licenses. Phase I research noted significant improvements in all of these organizations in recent years, though there remain significant constraints for SGBs in each of the bodies' areas. Furthermore, though SGBs may interact with a host of other government bodies – from courts to ministries – it is the Office of the President from which power overwhelmingly emanates in Uganda, and which must champion or at least support any significant policy change in entrepreneurship or related field.

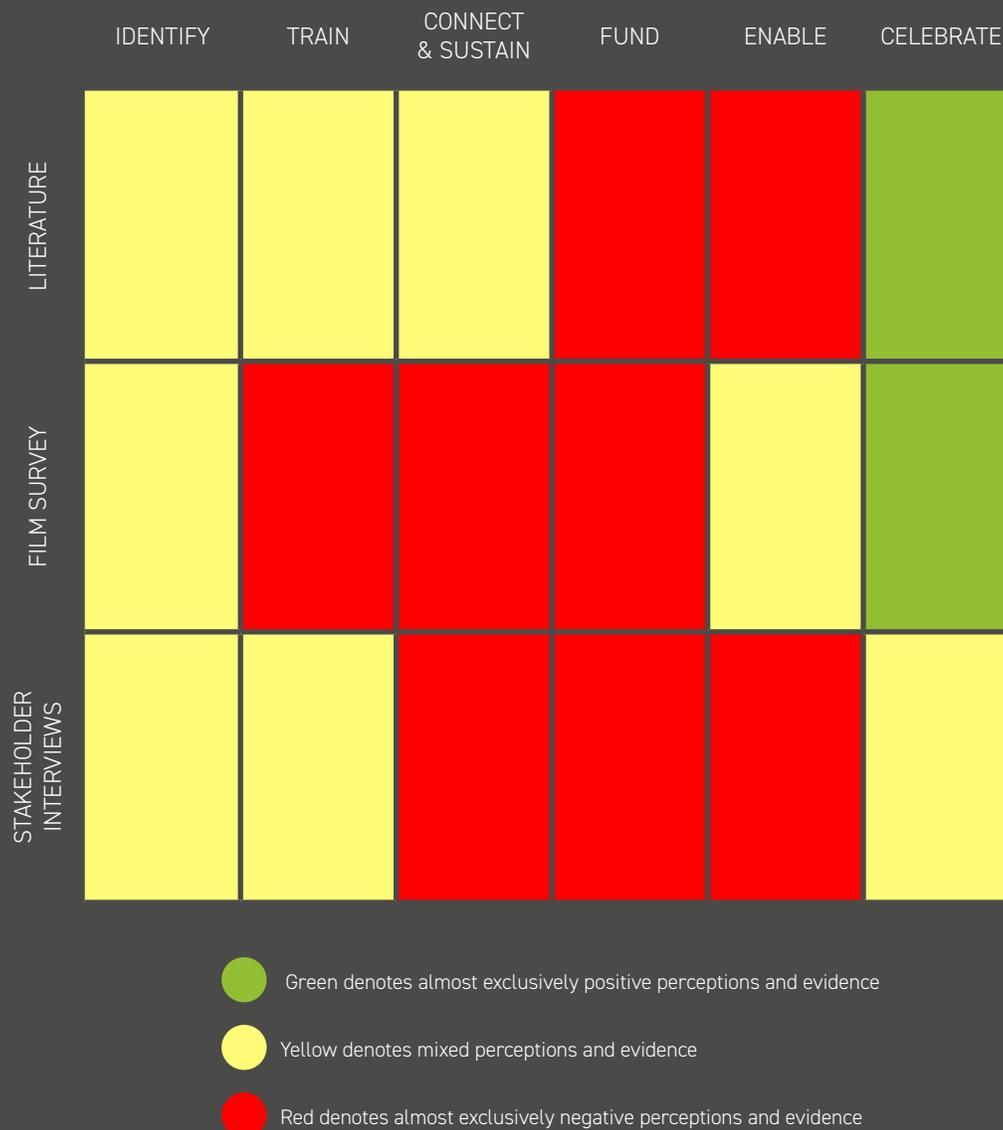
CELEBRATE

The major national TV stations and newspapers (and their limited entrepreneurship coverage) are available in Gulu. Gulu's local radio stations likewise occasionally run business stories or host government officials who talk about the importance of entrepreneurship.

GULU: BINDING CONSTRAINTS

Figure 11 provides a high-level, three-grade scoring of the six domains of Gulu's entrepreneurial ecosystem —derived from the Phase I *literature review*, *SGB firm survey*, and *stakeholder interviews and focus groups* — and a “top 3” summary of the ecosystem's most frequently cited strengths and weaknesses according to the *firm survey*. The *celebrate* domain is generally perceived as the most positive aspect of the ecosystem; the key weaknesses are perceived to be in the *enable*, *fund*, and *connect & sustain* domains..

FIGURE 11: GULU ECOSYSTEM SCORECARD AND PRIMARY STRENGTHS AND WEAKNESSES

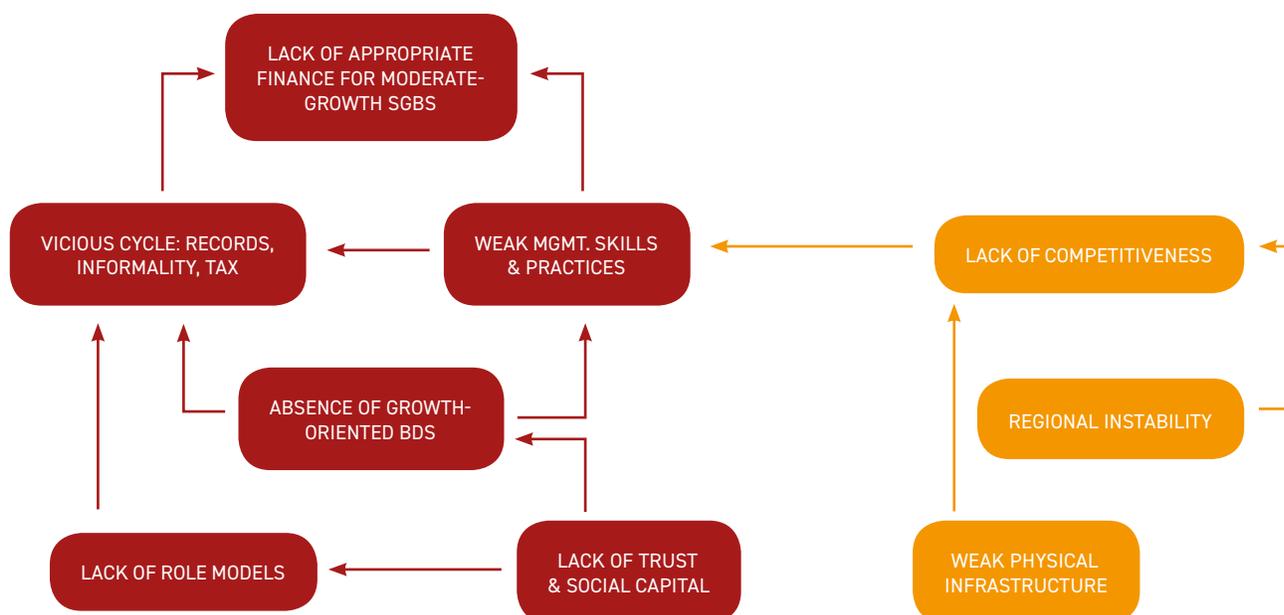


TOP 2 ECOSYSTEM STRENGTHS	TOP 3 ECOSYSTEM WEAKNESSES
<p>Large domestic demand for products/ services. Gulu's local market and the potentially vibrant South Sudan market offer opportunities.</p> <p>Ease of starting a business. Processes for registration, licensing, and patents appear relatively straightforward.</p>	<p>Tax rates and tax administration. Most SGBs identified tax administration as a key constraint given perceived heavy-handed methods of tax collection and relatively high tax burdens on SGBs that choose to comply.</p> <p>Electricity. The electricity supply in Gulu is unstable, a key challenge to businesses, especially in the agro-processing sector.</p> <p>Transportation. The road network in Gulu and most of Northern Uganda is still behind the rest of the country.</p>

Drawing on a more intricate analysis of the ecosystem's strengths and weaknesses, the Phase I Team identified nine complex and interrelated binding constraints in Gulu's entrepreneurial ecosystem (see Figure 12 below). Lifting any one of these constraints is likely to unlock some progress in driving the entry and growth of SGBs in Gulu. However, these constraints are highly interrelated and mutually reinforcing, implying that a concerted effort to holistically tackle all these constraints could propel more progress than focusing on individual constraints.

Crucially, this section also illustrates that a number of macro-level constraints (shaded in yellow in the figure below) that cannot be directly addressed by most ecosystem actors in the short- to medium-term are binding to SGB growth in Gulu, notably regional instability, weak infrastructure, and overall competitiveness.

FIGURE 12: GULU'S NINE INTERRELATED BINDING CONSTRAINTS



1. LACK OF APPROPRIATE FINANCE FOR SGBS

Access to finance is recognized as a major constraint on SGB productivity and growth throughout Uganda by the Phase I analysis as well as numerous studies³⁰. Gulu-based SGBs rated nearly all aspects of access to finance as “very weak” or “weak” in the UEEI *firm survey*. In Gulu, SGBs are extremely dependent on reinvestments from business earnings. The median amount of debt financing sought by the surveyed SGBs was below USD 20,000. The median amount of equity funding sought was in the range USD 20,000 - USD 100,000.

Gulu’s SGBs struggle to access loans from commercial banks because of high interest rates, short loan tenors, high collateral requirements, inflexible loan conditions, and complicated application procedures³¹. These conditions, especially collateral requirements, are often even tougher in Gulu than elsewhere in Uganda given the higher perceived level of risk of SMEs in northern Uganda. According to various stakeholders interviewed, including banks themselves, Uganda’s commercial banks (as in many countries in the region) are highly risk-averse and reluctant to invest extensively into risky SMEs. Banks complain of high default rates, even with conservative selection criteria. Further, Ugandan banks have little incentive to diversify away from high-interest earning government bonds.

Microfinance institutions throughout Uganda have not upscaled to serve SGBs’ larger financing needs. Additionally, Gulu-based entrepreneurs explained that in most cases they need to deal with bank branches in Kampala to apply for business loans as the banks’ Gulu branches do not have the capacity or mandate to process these.

In Gulu’s economy, where agriculture and related sectors hold the greatest promise, agricultural supply chain finance and financial products and services tailored to the cash flow implications of agricultural seasons are particularly important. The offering of tailored financial products in areas such as asset financing, factoring, and leasing is nascent in Uganda as a whole, and especially in northern Uganda where the banks still have limited on-the-ground capacity and are even more risk-averse.

At the firm level, SGBs often lack strong management skills and teams, and informal management practices such as the diversion of loan funds for personal use are prevalent. Many SGBs fail to meet banks’ criteria because they lack proper financial records or proper collateral that can be used to secure loans. On top of this, a weak Credit Reference Bureau renders it difficult (and costly) to assess SGBs’ creditworthiness.

2. WEAK MANAGEMENT SKILLS AND PRACTICES

According to various stakeholders, weak management skills are a key constraint holding Gulu’s SGBs back. “Availability of university entrepreneurship programs” was scored as “very weak” by SGBs surveyed in Gulu during the UEEI *firm survey*. This was true also for “Access to quality entrepreneurial and management skills training,” “Access to funding for training,” “Access to quality technical skills training,” and “Availability of mid- or top-level managers.”

The underlying reasons for the shortage of strong management skills among Gulu’s SGBs are three-fold:

- University management courses are excessively theoretical and lack reference to real/practical, locally relevant business cases. Though entrepreneurship has also been incorporated into the national Secondary School Curriculum, it also largely remains theoretical.

30 See e.g. MFPED, 2014a; World Bank, 2006, 2013a, 2017; Hausmann et al., 2014.

31 See e.g. Graca Machel Trust & Women in Finance Network, 2017; Argidius Foundation, 2016; GIIN & Open Capital Advisors, 2015; Tagoe et al., 2005.

- Gulu's SGBs have virtually no access to tailored management training through accelerators, incubators, and other BDS channels. One notable exception is a donor-funded market systems development program focused on Northern Uganda, but it is set up as a 5-year time-bound project. Private BDS, including professional services such as accountancy and legal advice, is limited both in quantity and quality. This is discussed in more depth under the next constraint.
- A culture of informality perpetuates management practices that hinder scalability. The trusted word of business partners trumps formal records; family members are prioritized over skilled employees; personal and business finances mix. Given the prevalence of informal family businesses, many young entrepreneurs look to their parents for guidance rather than successful entrepreneurs who have achieved business growth in the formal system.

3. VICIOUS CYCLE: RECORDS, INFORMALITY, TAX

One of the overwhelming findings from *key stakeholder interviews* and *focus group discussions* was that Gulu's SGBs often have weak, absent, or dubious financial records. This makes the assessment of SGBs by banks and investors more difficult, raises the cost of BDS provision, lowers the efficiency of internal business management, and hampers SGBs' access to government and corporate procurement processes.

It was repeatedly explained by various ecosystem stakeholders that the prospect of a heavy tax burden is a key driver of the lack of records among SGBs in Gulu (and throughout the country). *Firm survey* respondents cited "tax and tax administration" as "very weak" aspects of the entrepreneurial ecosystem. Thus, evading the tax burden becomes a strong reason hindering the maintenance and sharing of strong records. These issues are intimately connected to the issue of informality. For instance, ecosystem stakeholders repeatedly pointed to the tax apparatus (and heavy tax burden) as a key driver of informality among Gulu's SGBs; and tax-compliant SGBs face a serious disadvantage in terms of price competitiveness and margin versus informal, non-tax paying firms. Informal competition was cited as a key constraint in the UEEI firm survey, and 95% of firms in the 2013 World Bank Enterprise Surveys reported that they compete against informal or unregistered businesses³².

Other reasons why Gulu's SGBs do not become fully formal or tax compliant reinforce this vicious cycle: many SGBs still rightly believe they can simply get away with avoiding taxation, which points to weaknesses in tax enforcement; SGBs struggle to both access the knowledge and support to become fully tax compliant and also benefit from provisions that reduce the tax burden, such as deductions; and there is a perception among SGBs that money paid to the government is more likely to be mishandled by corrupt officials than be spent on public goods that help SGBs succeed. Finally, various stakeholder reported a deep mistrust of government among the business community.

Numerous Phase I respondents, including entrepreneurs, explained that many entrepreneurs prefer "staying small," operating informally or semi-formally and essentially growing sideways rather than upwards: when their first venture reaches a certain size where informality and/or tax compliance becomes a binding constraint on its growth, the entrepreneur starts a second venture, and so on. Thus, none of the entrepreneur's ventures grow into medium or large companies.

32 World Bank, 2013a

4. ABSENCE OF BUSINESS DEVELOPMENT SERVICES FOR GROWTH-ORIENTED FIRMS

Business Development Services for SGBs are virtually absent in Gulu, with the exception of the 5-year NU-TEC program which works with selected partner firms in agricultural value chains, and Enterprise Uganda, which provides project-based support to a small number of firms. Stakeholders and entrepreneurs noted that firms often need to hire lawyers, accountants, and tax advisors from Kampala as competent professionals of this kind are rarely available in Gulu.

The absence of BDS for growth-oriented businesses is intimately linked with Gulu's legacy of war and humanitarian support. Following the return of stability in the late 2000s after the Lord's Resistance Army (LRA) was pushed out of northern Uganda, Gulu experienced one of the highest concentrations of international non-profit organizations in the world. While humanitarian assistance was and remains critically necessary, this heavy humanitarian presence has also had a number of unintended consequences on local market dynamics.

First, a local economy built around servicing and benefiting from these humanitarian organizations has subsequently collapsed following the gradual departure of almost all the humanitarian actors who came in the immediate post-conflict era. In an economy driven by the presence of humanitarian organizations, private sector talent, energy, and finances went into servicing and benefiting from these organizations to the neglect of more long-term opportunities in agricultural value-addition.

Second, the focus of humanitarian actors in Gulu has for a decade been on protection, trauma and basic livelihoods, to the neglect of job creation through business growth. Particularly, support focused on the creation of microenterprises for self-employment often does not consider the market feasibility of the business models generated (and the vocational skills and machinery provided). Thus, there has not been a strong effort to support growth-oriented businesses that are scalable because they take respond to broader market opportunities.

Third, the availability of free support through humanitarian actors has crowded out the private provision of business support services. As a result, where BDS is offered to SGBs, focus groups and interviews revealed that NGOs often bring in business consultants from other parts of the country or abroad who struggle to establish the trust needed for entrepreneurs to share confidential financial information about the firms. Without this trust, BDS cannot be effective in most cases.

Stakeholders in the ecosystem agree that Gulu's SGBs require heavy-touch, patient (i.e. longer-term), pre- and post-investment BDS. The result of a virtually absent BDS support system is that many SGBs do not qualify for investment or bank loans, and more broadly lack the management skills and know-how to successfully grow their business.

5. LACK OF ROLE MODELS

A paucity of media stories featuring strong entrepreneurial role models — founders who have succeeded without cheating or having political connections/a wealthy family (or so perceived), and who have done so in the formal sector — has serious negative effects on entrepreneurs' growth ambitions and was cited by numerous stakeholders as a key constraint in Uganda. Furthermore, Gulu stakeholders explained that in Gulu's relatively small economy with a history of two decades of war that only ended 12 years ago, there is an exacerbated dearth of entrepreneurial role models to inspire new aspiring entrepreneurs.

Stakeholders highlighted the fact that a lack of role models has also had a negative effect on the confidence of female entrepreneurs specifically. The Phase I Team heard reports of the media tending to focus on "get rich quick" entrepreneurial success stories, glossing over the complexities of starting and growing a business in Uganda.

6. LACK OF COMPETITIVENESS IN THE AGRIBUSINESS SECTOR

Gulu's economy will rise and fall with its agribusiness sector, as this is where its biggest potential comparative advantage lies. And Gulu's agribusiness sector currently faces a number of constraining factors.

A lack of social capital is one major reason why side-selling³³ by smallholder farmers is pervasive, making the supply of produce to traders and processors highly unpredictable. The poor state of post-harvest handling is another reason why side-selling is widespread. Farmers are forced to sell produce quickly after harvest partly because they need quick cash, but also because they have limited options to safely store and preserve their crop. This means farmers miss out on the premium they could charge for their crop at a later date when supply is lower. Farmer productivity is also constrained by a lack of access to quality seeds, with the major cause being the inability of farmers to distinguish between real and fake seed. Fake seed has penetrated the market extensively due in part to weak regulation in the sector also the fact that the government has weak quality control mechanisms itself and thus ends up handing out large amounts of fake seeds. This has eroded trust in the seed market.

Issues around land further hamper agricultural productivity, particularly ambiguities between state-sanctioned and communal land tenure systems and the courts' inability to efficiently settle land disputes. A lack of tenure security disincentives farmers from making longer-term investments in their land. Farmers also lack access to appropriate machinery to raise their productivity; commercially viable business models for the provision of mechanization services to smallholders in northern Uganda remains elusive. Further, Gulu and neighboring districts face a particularly harsh dry season from November-March and no scalable irrigation solutions have been found so far. Finally, several stakeholders interviewed pointed to a lack of market information as preventing farmers from effectively planning which crops to plant for commercial purposes.

Gulu's agricultural processing sector is currently outcompeted by processors in Lira, Kampala, and abroad. An illustrative example of this is the fact that the most commonly bought maize flour in Gulu is one that is produced by millers in Kawempe on the outskirts of Kampala. Consumers and ecosystem players say that the quality of maize flour produced by Gulu millers is so inferior to that produced in Kampala that even Gulu's cash-constrained consumers are willing to pay the premium. More generally, agro-processors in Gulu lack proper quality assurance due in part to a technical skills shortage and to a lack of quality machinery.

According to Phase I respondents, Gulu is outcompeted by Lira because many agro-processors and businesses in Arua benefit from generous tax breaks, and because Lira's agro-processing sector benefits from the presence of a few large anchor players whose presence has positive spillover effects for Lira-based SGBs.

33 Side-selling refers to a situation where a smallholder producer or cooperative does not comply with a contract and chooses to sell their produce to someone else. This can happen when price offered by local traders exceeds the price agreed upon in a contract or when a farmer feels the need to sell their produce sooner than agreed in order to manage household cashflow.

7. WEAK PHYSICAL INFRASTRUCTURE

Poor physical infrastructure is a binding constraint for nearly all economic activity in and around Gulu. Inferior feeder roads make the purchase and supply of agricultural produce to urban processors and storage facilities difficult. An unstable electricity supply destroys agricultural processing machinery and raw materials. These infrastructure weaknesses have several causes. First, they are one of the legacies of a drawn-out civil war that ravaged the region for 20 years. Second, they are in large part due to a history of state underinvestment in Gulu and surrounding areas. Third, district officials told the Phase I Team that there is an inefficient distribution of management mandates over roads between the national and local government. Fourth, public sector corruption means that funds often do not reach the lower implementation levels (which is also a country-wide observation).

8. LACK OF TRUST AND SOCIAL CAPITAL

In Phase I *focus group discussions* and *stakeholder interviews*, several ecosystem players in Gulu explained that a severe lack of social trust and social capital was hampering productivity and growth in the local economy. This, it was repeatedly explained, is a product of the trauma experienced during the protracted conflict in the region in which family ties were destroyed in large part due to the abduction of children by militants who were then forced to commit atrocities against their own families and communities. Without a basic level of trust, it is nearly impossible to develop healthy business relations, between farmers and off-takers, among colleagues, between entrepreneurs and service providers, and so on. One clear manifestation of these consequences is the very weak state of business associations in Gulu, which was pointed out by nearly all Gulu SGB managers consulted in Phase I. Another manifestation is the often-cited difficulty experienced by agricultural off-takers (traders and processors) to enter into sustainable contract farming agreements with smallholder farmers.

Finally, multiple entrepreneurs and other ecosystem stakeholders described a general fear of political capture among the private sector of Gulu and the broader region. On the one hand, entrepreneurs feel that they would need the support of a political champion — either in the central government or well-connected to it — in order for any scalable business venture to work in Gulu. On the other hand, they fear that any scalable business venture is likely to be captured by the political elite or those connected to it, particularly during that search for a political champion. Multiple rumors of this kind of political capture have bred a deep mistrust between Gulu's private sector and the political elite, with the result that many promising business ideas are abandoned before they are realized.

9. REGIONAL INSTABILITY

South Sudan was Uganda's biggest export destination from 2007 until about 2012 due to a rapid rise in South Sudanese demand following the 2005 Comprehensive Peace Agreement, and Gulu was a production and trading hub, producing much-needed grain and directing a wide range of exports to South Sudan. However, exports to South Sudan began to decline in 2009 due to rising insecurity faced by Ugandan traders, and when civil war broke out in 2013, exports are reported to have fallen by 80-90%.

Gulu's economy is well placed to be a regional food basket and trading and logistics hub, but in this role, it is heavily dependent on regional security dynamics, especially in South Sudan. This point was consistently asserted Gulu ecosystem stakeholders. A number of entrepreneurs, too, reported that they were very successful in the short-run in trading with South Sudan from construction services to the export of grain as well as manufactured goods from Uganda, but made huge losses after the decline of the security situation in South Sudan. As a result of this dependency, any effort to boost entrepreneurship in Gulu may well have limited impact unless the most recently signed peace agreement is upheld, and stability and reconstruction take hold in South Sudan.



An attendee reporting back to the larger group the feedback from their small group discussion in Gulu

GULU: ACTION PATHWAYS

The above Six + Six Model and binding constraints analyses form the foundation of this report's recommendations for bolstering entrepreneurship in Gulu. The Phase I Team believes that ecosystem builders should adopt a flexible approach, adapting priorities as windows of opportunity open or close, and as the ecosystem evolves. To begin, however, they should consider pursuing the action pathways and attendant activities outlined below, which address the most binding constraints and glaring gaps identified in Phase I.

Figure 13 below presents seven action pathways against the nine binding constraints identified in Gulu above, while noting relevant activity domains from the Six + Six Entrepreneurship Ecosystem Model. The figure also highlights five specific activities under the pathways. These are drawn from the more detailed discussion below and represent activities that the Phase I Team expects would have an especially promising effect on the ecosystem.

Though each constraint can, to some extent, be alleviated through interventions that tackle the given constraint directly, the interrelatedness of the constraints – and action pathways – should not be underestimated. A strategy to tackle any individual constraint must in fact tackle multiple constraints. The result should be a holistic approach.

FIGURE 13: BINDING CONSTRAINTS, ACTION PATHWAYS, AND ECOSYSTEM DOMAINS; TOP 5 ACTIVITIES (GULU)



The table below describes the full list of recommended action pathways and attendant activities.

ACTION PATHWAY #1	Catalyze growth-oriented Business Development Services in Gulu
<p>ACTIVITY 1A</p>	<p>Set up an integrated incubator and SGB service provider</p> <p>There is a severe dearth of players supporting SGBs in Gulu. One of the reasons for this is that both the existing population of SGBs and the market opportunities for new SGBs are very limited in Gulu. This means that there is a lack of critical mass and economies of scale for ecosystem players to leverage in the local economy. The first step in kickstarting Gulu's ecosystem is therefore to combine multiple functions under the same structure to maximize any economies of scale that can be generated.</p> <p>The capabilities and mandate of this service provider could include some or all of the other activities listed under this action pathway. In addition to these activities, the structure could act as an ecosystem convener, disseminating pertinent information to new and existing ecosystem stakeholders. From our assessment, Gulu University is a strong potential candidate to provide a centre of gravity for Gulu's entrepreneurial ecosystem as the convener of the ecosystem.</p>
<p>ACTIVITY 1B</p>	<p>Market opportunity discovery</p> <p>A first step in catalyzing Gulu's ecosystem is to generate new and enhance existing growth-oriented business ideas and proposals, based on knowledge of market opportunities in agribusiness and other high-potential sectors in Gulu (i.e. tourism & hospitality, logistics, education & health services, and commercial solutions for refugee and host communities). This could be achieved by:</p> <ul style="list-style-type: none"> ■ conducting market research on crop markets, agricultural value chains, broader agribusiness support functions (e.g. transport, agronomic advice) as well as other high-potential sectors; ■ holding a seminar series showcasing market opportunities and examples of specific businesses from the above market research to existing and aspiring entrepreneurs, including via an online seminar.
<p>ACTIVITY 1C</p>	<p>Business plan competitions</p> <p>There are currently no business plan competitions focusing specifically on Gulu or the broader northern Ugandan region. The principal purpose of launching a regular local business plan competition would be to inspire new business ideas in the local economy and reward creativity with a small cash prize and program of basic incubation support.</p> <p>Such a competition should avoid a focus on tech startups, instead encouraging business plans for Gulu's high-potential sectors including agribusinesses, tourism and hospitality, logistics, education and health services, and commercial solutions for refugee and host communities. These competitions could also target specific sector categories with additional funding from specific funders under their CSR / value chain development budgets, such as lead firms in agricultural value chains.</p>
<p>ACTIVITY 1D</p>	<p>Integrated incubation, business & agronomic advisory services</p> <p>One crucial gap an integrated service provider would need to fill is the absence of BDS for growth-oriented firm in Gulu, from the idea-stage onwards. The service provider could provide the following types of support:</p> <ul style="list-style-type: none"> ■ seed funding and incubation for competition winners, and potentially other, paying, client startups ■ basic in-house support on legal, fiscal and accounting issues, and linkages to consultants in these areas ■ tailored business advisory and mentorship for incubator graduates and other paying client SGBs ■ tailored in-house agronomic advice (free for incubatees, available at a fee for other client SGBs) and linkages to agronomists

ACTION PATHWAY #1	Catalyze growth-oriented Business Development Services in Gulu
ACTIVITY 1E	<p>Train local business advisory consultants</p> <p>As discussed in the previous section, there is a shortage of local experts who can provide Gulu's SGBs with quality management, legal, tax, accountancy, and technical advisory services. Courses targeted at building the capacity of local consultants could be closely linked with Activity 1D or provided separately.</p>
ACTION PATHWAY #2	Catalyze more appropriate finance for Gulu's SGBs (USD 20,000 - USD 100,000)
ACTIVITY 2A	<p>Incentivize and enable commercial banks and microfinance institutions to scale up appropriate financial instruments for moderate-growth SGBs</p> <p>Several facilities are available to commercial banks to de-risk or subsidize SME lending. Several activities could incentivize and enable banks and MFIs to scale up appropriate financial products for SGBs, in part by leveraging these facilities more effectively, including:</p> <ul style="list-style-type: none"> ■ technical assistance to banks on product design, training loan officers, optimizing incentives for loan officers with a focus on products such as asset financing, leasing, factoring, contract finance, convertible debt, etc.; ■ presenting banks with a clear business case for using existing subsidy instruments more actively for customer acquisition; ■ urging Bank of Uganda to pressure commercial banks to use the facilities; ■ raise SGBs' awareness of loan subsidy facilities through media and business associations; ■ a seed fund for new appropriate finance vehicles for moderate-growth SGBs.
ACTION PATHWAY #3	Catalyze more practical entrepreneurship and management training
ACTIVITY 3A	<p>Introduce entrepreneurship & management short-courses</p> <p>A cost-effective way of providing key basic skills to entrepreneurs is through short courses/bootcamps ranging from a few days to a few weeks in length. Outside of micro-entrepreneurship programming, these types of courses are largely absent in Gulu. The NGOs focused on micro-entrepreneurs as well as Gulu University are possible platforms for new courses in Gulu.</p>
ACTION PATHWAY #4	Increase SGBs' ability and incentives to become tax compliant and maintain strong records
ACTIVITY 5A	<p>Tax compliance training for SGBs</p> <p>Given the lack of capacity on the side of SMEs to effectively manage their tax compliance without paying excessive taxes, unaware of many tax law provisions such as deductions that could help them reduce their tax burden. Good tax advice is hard to come by. Several stakeholders could support URA in strengthening the level of support available to SMEs. This requires highly localized outreach activities that could be coordinated with Gulu's business associations, the District Commercial Office, Gulu University and/or other local stakeholders.</p>

ACTION PATHWAY #5	Build trust and social capital in Gulu's business community
ACTIVITY 6A	<p>Strengthen business associations in Gulu</p> <p>An activity with potential to tackle Gulu's social capital problem is the strengthening of business associations. Obvious first steps in this regard include supporting local actors in establishing Gulu chapters of certain national associations. The District Commercial Officer has this role within his mandate, but his office is underfunded. Technical support to his office may be used to leverage additional central government funding to boost the DCO's capabilities in convening the local business community.</p>
ACTION PATHWAY #6	Improve sharing of entrepreneurial role models
ACTIVITY 7A	<p>Strengthen business associations in Gulu</p> <p>A key activity towards developing entrepreneurial mindsets and inspiration is documenting SGB success stories, from successful entrepreneurs, particularly female entrepreneurs, and in Gulu's case, entrepreneurs who have been successful in local high-potential sectors such as agribusiness. Stories could emanate from Gulu, Uganda broadly, and similar economies. These stories could be disseminated through radio and TV, social media, business associations, churches, and other channels.</p>

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ANNEX 1 - KAMPALA 6+6 ENTREPRENEURIAL ECOSYSTEM MAP

IDENTIFY	TRAIN	CONNECT & SUSTAIN	FUND	ENABLE	CELEBRATE
Identify represents all the activities that have as an objective the identification of new entrepreneurs or new business ideas. It includes but it's not limited to business plan competitions, pitch events, innovations labs etc.	Both academic education and applied interventions that share the broad objective of providing individuals with the entrepreneurial mindsets and skills to support their entrepreneurial activities. We are only including standardized training here, as opposed to training tailored to the individual entrepreneur, which is discussed under SUSTAIN.	CONNECT refers to networks that allow flow of info among entrepreneurs as well as between entrepreneurs and other actors (e.g. govt, mentors, BDS providers, funders, etc.). Both physical and digital spaces/channels facilitate these connections. SUSTAIN refers to support services that help entrepreneurs grow their business incl. tailored training, mentorship and BDS, delivered in any way (e.g. standalone, incubator, accelerator etc.).	Various types of financing (debt, equity, grant) aimed at starting a business or growing a small business.	The legal, fiscal and regulatory environment that influences the ability of an entrepreneur to operate and succeed.	Activities related to increasing the visibility of entrepreneurs' successes and reinforcing the positive role they play in society.
NGOs					
Private non-profit and mission-driven organisations including development NGOs, social enterprises, business associations and other membership organisations.					
<ul style="list-style-type: none"> Innovation Village Kampala Angel Investors' Network (KAIN) Outbox Hub Innovations Against Poverty (SNV) Seedstars Social Innovation Academy Financial Sector Deepening Uganda (FSDU) Hive Colab StartHub Africa 	<ul style="list-style-type: none"> Enterprise Uganda Uganda Women Entrepreneurs Association Limited (UWEAL) Educate! 	<ul style="list-style-type: none"> Innovation Village Outbox Hub Hive Colab The American Chamber of Commerce Uganda (AmCham) Women in Technology Uganda (Witu) Uganda Small Scale Industries Association (USSIA) Uganda Women Entrepreneurs Association Limited (UWEAL) Uganda National Chamber of Commerce and Industry (UNCCI) PUM Netherlands Growth Africa StartHub Uganda Private Sector Foundation Uganda (PSFU) Viktoria Ventures Agricultural Business Initiative Renewable Energy Business Incubator (REBi) Uganda Manufacturers Association (UMA) KACITA Uganda The Grain Council of Uganda International Trade Centre (ITC) Enterprise Uganda 	<ul style="list-style-type: none"> aBi Trust Innovations Against Poverty (IAP) Accion Acumen Fund Arc Finance Triple I AgDevCo Uganda Angels Initiatives EWB Ventures Global Innovation Fund 	<ul style="list-style-type: none"> Financial Sector Deepening Uganda (FSDU) Trade and Markets East Africa (Trademark East Africa-TMEA) Uganda Agribusiness Alliance Private Sector Foundation Uganda (PSFU) Uganda Bankers Association Uganda Women Entrepreneurs Association Limited (UWEAL) Uganda Manufacturers Association (UMA) Uganda National Chamber of Commerce and Industry (UNCCI) East African Venture Capital Association (EAVCA) Uganda Grain Council KACITA 	<ul style="list-style-type: none"> Global Enterpreneurship Week (GEW) Young Achievers Award Uganda Manufacturers Association (UMA) SeedStars World Competition

IDENTIFY	TRAIN	CONNECT & SUSTAIN	FUND	ENABLE	CELEBRATE
FOUNDATIONS					
Providers of philanthropic or non-profit funds including private family foundations and aid agencies.					
Mara Lauchpad Tony Elumelu Foundation		Challenges Group Fontes Foundation Shell Foundation		Economic Policy Research Centre (EPRC)	Tony Elumelu Foundation Entrepreneurship Programme
ACADEMIA					
All institutions whose main purpose is research and education and/or are accredited by a national government for education.					
Makerere University College of Business & Mgmt Sciences Uganda Industrial Research Institute CURAD MUBS Entrepreneurship and Business Innovation Hub Makerere University Food Technology Incubation Center UMU E4Impact Business Plan Competition Renewable Energy Business Incubator Sinapis Entrepreneurship Academy MITD-Lab	Business Development Centre (Regent University) Makerere University College of Business & Mgmt Sciences Sinapis Entrepreneurship Academy Uganda Management Institute	CURAD Business Development Center (Regent University) MUBS Entrepreneurship and Business Innovation Hub Makerere Food Technology Business Incubation Centre Makerere University College of Business & Mgmt Sciences			CURAD & Swisscontact Agribusiness Innovation Challenge 2018
GOVERNMENT					
All governmental and parastatal organizations.					
Youth Livelihoods Fund (YLF) Venture Capital Fund (YVCP)	Uganda Investment Authority Directorate of MSMEs Uganda Women Entrepreneurship Programme UNFPA Youth Enterprise Model (YEM)	Uganda Investment Authority (UIA)	National Social Security Fund Uganda Development Bank Ministry of ICT Innovation Fund Uganda Women Entrepreneurship Programme Local Finance Initiative Renewable Energy Microfinance Microenterprise Program Youth Leadership for Agriculture Activity The Microfinance Support Centre Ltd	Ministry of Trade, Industry & Cooperatives - Directorate of MSMEs Uganda Investment Authority (UIA) Kampala Capital City Authority (KCCA) Uganda Revenue Authority (URA) Capital Markets Authority (CMA)	Uganda Investment Authority (UIA)-Rising Women Initiative Uganda Communications Commission (UCC)-ACIA Award Uganda Export Promotions Board (UEPB)
CORPORATE					
The rest of the for-profit organizations. This typically includes banks, media houses, and large firms that work with smaller businesses in their value chain.					
Stanbic Bank MTN DFCU Bank Nile Breweries Ltd: Kickstart Mawazo Innovation Hub	DFCU Africa Agribusiness Academy	DFCU Accelerator Open Capital Advisors Mawazo Innovation Hub Bid Network TASLAF Advocates & Consultants Iris Consulting and Training	Standard Chartered Bank Equity Bank Stanbic Bank DFCU Bank Centenary Bank CBA Uganda Trust Finance Bank Barclays Bank EFC Uganda Limited FINCA Uganda Pride MicroFinance		Daily Monitor NTV New Vision: Pakasa MTN Uganda-Women in Business Awards TOP 100 Midsized Companies-Nation Media Group Kickstart-Nile breweries Battle for Cash-DFCU/NTV/PWC Global Investment Conference-Ernst and Young

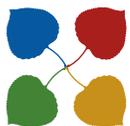
ANNEX 2 - GULU 6+6 ENTREPRENEURIAL ECOSYSTEM MAP

IDENTIFY	TRAIN	CONNECT & SUSTAIN	FUND	ENABLE	CELEBRATE
Identify represents all the activities that have as an objective the identification of new entrepreneurs or new business ideas. It includes but it's not limited to business plan competitions, pitch events, innovations labs etc.	Both academic education and applied interventions that share the broad objective of providing individuals with the entrepreneurial mindsets and skills to support their entrepreneurial activities. We are only including standardized training here, as opposed to training tailored to the individual entrepreneur, which is discussed under SUSTAIN.	CONNECT refers to networks that allow flow of info among entrepreneurs as well as between entrepreneurs and other actors (e.g. govt, mentors, BDS providers, funders, etc.). Both physical and digital spaces/channels facilitate these connections. SUSTAIN refers to support services that help entrepreneurs grow their business incl. tailored training, mentorship and BDS, delivered in any way (e.g. standalone, incubator, accelerator etc.).	Various types of financing (debt, equity, grant) aimed at starting a business or growing a small business.	The legal, fiscal and regulatory environment that influences the ability of an entrepreneur to operate and succeed.	Activities related to increasing the visibility of entrepreneurs' successes and reinforcing the positive role they play in society.
NGOs					
Private non-profit and mission-driven organisations including development NGOs, social enterprises, business associations and other membership organisations.					
Hive Colab	DYNAMIC Technoserve Uganda Hive Colab Bosco Uganda Village Enterprise NUYEP Uganda Women Entrepreneurs Association Limited (UWEAL)	Uganda Grain Council Uganda Agribusiness Alliance UWEAL Uganda Small Scale Industries Association (USSIA) Uganda National Chamber of Commerce and Industry	aBi Trust and Finance	Uganda Grain Council Uganda Agribusiness Alliance UWEAL Uganda Small Scale Industries Association (USSIA) Uganda National Chamber of Commerce and Industry	Global Entrepreneurship Week
FOUNDATIONS					
Providers of philanthropic or non-profit funds including private family foundations and aid agencies.					
ACADEMIA					
All institutions whose main purpose is research and education and/or are accredited by a national government for education.					
Gulu University - RUFORUM	Gulu University-RUFORUM			Gulu University	

IDENTIFY	TRAIN	CONNECT & SUSTAIN	FUND	ENABLE	CELEBRATE
INVESTORS					
Private non-bank investors of debt or equity.					
		Integrated Fund for Gulu	Integrated Fund for Gulu		
GOVERNMENT					
All governmental and parastatal organizations.					
		Gulu District Commercial Office	Venture Capital Fund Youth Livelihoods Fund	Gulu District Local Government Uganda Registration Services Bureau	
CORPORATE					
The rest of the for-profit organizations. This typically includes banks, media houses, and large firms that work with smaller businesses in their value chain.					
DFCU - Battle for Cash AbInBEV - Nile Breweries: Kickstart	DFCU Bank - Battle for Cash		Stanbic Bank DFCU Bank Centenary Bank Post Bank Pride MicroFinance Equity Bank Orient Bank		Gulu Radio Network NTV NBS Radio Mega



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The analysis and opinions in this document reflect the authors perspectives and not necessarily the views of the partners and funders.