“Enhancing Youth Employment and Small Firms Growth”

Conference Hall at Silver Springs, Bugolobi – Kampala, 18 July 2017

Summary of presentations

Title: Credit Contract Structure and Firm Growth: Evidence from a Randomized Control Trial in Uganda

By Miri Stryjan (Assistant Professor, Ben-Gurion University of the Negev)

We examine how the structure of credit contracts affect the growth of small- and medium- sized enterprises (SMEs) in Uganda. Successfully expanding a business requires learning how to use new inputs effectively, taking entrepreneurial risk, and may involve substantial investment costs. This implies that revenues not only are uncertain but that it takes time to build up a revenue stream as returns are back loaded. Meanwhile, most credit contracts available to micro-entrepreneurs stipulate constant repayments and loan sizes are capped. Together with BRAC Uganda, we carried out a randomized control trial among 2,400 SMEs borrowing from BRACs Small Enterprise Program. The SMEs were offered different, modified versions of BRACs standard loan, to enable us to distinguish between some of the key constraints to efficient credit use, namely (i) back loaded returns; (ii) uncertain returns; and (iii) indivisible fixed costs. All 2,400 SMEs were followed by the research team throughout their one-year loan cycle and data was collected on their business operations. We will present the first findings from this study, with an emphasis on outcomes related to labor.