# Beliefs and Relief: The Impact of Political Uncertainty on Small-Business Behavior in Uganda

Craig McIntosh*

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DRAFT

**Abstract**

This paper studies the impact of the Ugandan presidential election of March 2001 on women running small businesses. Using data from the country's largest microfinance lender along with opinion polls, county-level election results, and data from a newspaper survey, we study how promises of patronage and unexpected voting swings cause businesspeople to alter savings, investment, and expenditures. We find that this group of businesswomen believe that patronage exists in Ugandan politics, that not all talk is cheap, and that political events impose real economic shocks on the consumption in the households of entrepreneurs.

Keywords: elections, patronage, uncertainty.
JEL classification: O16, N27, H42

* International Relations/Pacific Studies, U.C. San Diego, 9500 Gilman Drive, La Jolla, CA, 92093-0519. ctmcintosh@ucsd.edu. Thanks to Stephen Haggard and Devra Coren Moehler, to Joanitah Kirunda, Robert Apell, and the staff of FINCA/Uganda, and to Mukalazi Deus and Jennifer Bartlett for excellent research assistance. All remaining errors are my own.

## 1. Introduction

The promotion of democratic elections has been a cornerstone of the policy prescribed to Africa by Western nations over the past decade. While the long-run impact of democratization is likely to be positive (Ndulu & O'Connell, 1999), evidence of the disruptive effects of the elections themselves is growing. Whether triggered by competition for popular support (Mansfield & Snyder, 1995), the instability brought about by the change in leadership itself (Gray & McPherson 2001), or illiberal behavior by victors subsequent to elections (Zakaria 1997), there is ample reason to think that electoral cycles generate considerable uncertainty in the business environment. A growing body of literature uses public opinion within developing countries[1] (Bratton 2004) to understand what citizens perceive are the risks and benefits of the electoral process, but this paper takes a different approach. By studying changes in investment and consumption behavior among a group of women running small, informal businesses through the election period, we are able to infer what they believe and what is uncertain about the political system in which they operate.

The informal business sector is the mainstay non-agricultural economic activity in most African economies, both in terms of income generation and the provision of goods and services (Daniels & Mead, 1998). The way in which political expectations, uncertainty, and patronage alter the behavior of such businesses is likely to have a major influence on the flow of goods to the poor. This paper studies the business and household spending patterns of the women who make up the clientele of FINCA Uganda, the country's largest micro-finance institution, during the presidential election. Through the results of two pre-election opinion polls and the elections themselves, we can utilize spatial variation across counties

[1] An excellent example is the Afrobarometer surveys, which now have two rounds of data available for Uganda.

and temporal variation within businesses to track how different sets of political events manifest themselves in micro-level business response.

The 2001 election between incumbent Yoweri Museveni and the upstart Movement insider Col. Kizza Besigye provides an interesting case study because of the absence of an explicitly ethnic dimension[2] and because it featured an opposition organization built from the ground up in less than a year. In the absence of entrenched ethnic interests an electoral competition opened up which was unusually issue-oriented, with a vote for the opposition sending a message of change. The opposition scored well among the educated, urban, young, and male, and Museveni's core supporters were the older rural women with strong memories of the country's troubled past. This paper attempts to understand expectations among businesswomen in the period around the election; the value of this approach is that, in a political realm where perceptions may be more important than reality, it allows us to use business people's responses to events to infer what they believe to be political realities on the ground.

## 2. Actions and Uncertainty.

Why would we expect to see behavior among micro-enterprises change in response to political events? We suggest an approach to this problem which is derived from event analyses in the finance literature (see, for example, Wilson et al 2000). In a world where agents have access to credit and savings instruments (which FINCA's clients obviously do), we should see intertemporal investment being made on the basis of expectations of future returns & liquidity needs. Thus, under the assumption that political events do not directly

[2] Besigye is from the same ethnic group and region as the incumbent, served as Museveni's personal doctor during the bush war in the 1980's, and is married to Museveni's ex-lover.

effect the access to financial instruments, any changes in behavior which result from political shocks should reveal the extent which the revealed information alters expectations about the future.

Rationally forecasting businesses will already have incorporated all predictable information into their behavior. Thus, regardless of the exact form of political spending prevalent in Uganda (see Magaloni, Estevez, & Diaz-Cayeros for evidence of patronage flowing to closely contested districts in Mexico, and Weldon & Molinar (1994) for evidence of support for core supporters), to the extent that businesswomen can forecast the voting outcomes in their districts, they should already have built responses in the flow of patronage into investment decisions. The key distinction here is that the election is only an *event* in the informational sense if it yields a surprise outcome. Keefer (2003) among others has suggested that less-developed democracies will feature clientelism (providing private goods) more predominantly than pork-barrel spending (providing local public goods). Since we do not observe patron-client relationships, or indeed individual voting, we cannot contribute to this debate using our data. All that is implied by this story is that there is a sufficiently strong general equilibrium effect from the flow of political spending that a link is created between local voting outcomes and the local business climate.

We lay out here a series of loose hypotheses to help organize thoughts:

**H1.** Political events will have no impact on the trajectory investment behavior unless they are both credible and unexpected.

**H2.** Any response to verbal threats or to promises of patronage imply that these statements are both credible and unexpected, meaning that talk is not cheap.

**H3.** Any discontinuous change in outcomes in counties that voted along with expectations implies that the outcome of national elections was uncertain to businesswomen.

**H4.** A significant coefficient on the size of the surprise vote for the winner (Movement) implies a belief in patronage/punishment behavior by government among businesswomen.

**H5.** Shocks to sales in client businesses may filter through to all other behaviors; thus we can only view changes in investment and consumption as *ceteris paribus* if sales remain unchanged.

**H6.** Food consumption is the outcome which households have the strongest incentive to save; consequently changes to food expenditures in response to political events indicates that a shock has an impact which the household is unable to smooth away.

## 3. Data.

There are four distinct sources of data brought together in this paper. The first is data from the client records of FINCA/Uganda, which includes detailed surveys on business characteristics for a subset of clients. From these records, we have the following data: loans are for a 16-week term, to be repaid weekly at an 87% effective annualized rate, and fluctuations in borrowing can be seen as clients' subjective short-term forecasts of the business environment. We see savings in FINCA; these are physically held at Standard Chartered Bank in group accounts (all FINCA lending is done in groups of 30) and these are *not* demand deposits. As these savings are seized by FINCA in the event of failure to repay and are usually only available at the end of the borrowing cycle, they are one of the less liquid forms of saving available to these clients. We surveyed clients as to their daily sales in their businesses over the past month, and the total value of all physical stock (including working capital) they have invested in their business. Finally we asked clients to estimate the total expenditures and the food expenditures per month in their households; the numbers used here are per-capita figures.

Our second source of data is county-level election outcomes, including votes cast for each of the candidates and the total vote. We use the percentage of the vote in each county cast for the incumbent Movement candidacy of Yoweri Museveni and the total percentage cast for the opposition candidates combined (Kizza Besigye, along with Moody Awori, Chapaa Karuhanga, Kibirige Mayanja, and Francis Bwengye). We have accounting data for FINCA clients located in 71 different counties.

Third, we have a newspaper survey which covers the months of November 2000 through July 2001. Uganda has two major newspapers; the New Vision, owned by the Movement government, and the Monitor, owned by the Aga Khan's Nation Media Group. Only events which could be located at a specific place and time were included, because we use time- and county-level fixed effects throughout, precluding the identification of country-wide impacts.

The final source of data is a pair of opinion polls released by the New Vision on February 3rd and February 28th 2001. These polls report outcomes only at the district level, and results exist for only 19 of Uganda's 56 districts. FINCA groups exist in 22 districts, of which only 11 overlap with those covered by the opinion polls. From these we have constructed a county-level prediction of voting based on that in found in the district as a whole, or that in the closest district for which data exist. While this measure is very imperfect, it also represents the best information available to voters in the run-up to the election as to likely voting outcomes; no other polls existed, and it is not unreasonable to think that voters were using polls to form expectations in a similar manner.

The FINCA data is a panel in which each individual features only ever four months (or more) as they 'recapitalize' their loans. For this reason, it is difficult to interpret discontinuous changes between time periods because they consist of different individuals.

The temporal sorting process is non-random, a fact which is easily verified by picking 'placebo' discontinuity dates, of which nearly 50% are significant. In order to minimize differences between cohorts, we difference outcomes. We use only individuals for whom at least two adjacent observations exist, using the two observations more distant from the election to calculate a trend, and the dependant variable is the deviation from this predicted outcome. Thus letting $\overline{Y}_{cit}$ be a prediction formed from $\{Y_{cit-2}, Y_{cit-1}, Y_{cit+1}, Y_{cit+2}\}$ for the outcome of individual *i* in county *c* and time *t*, we use the differenced outcome $\ddot{Y}_{cit} = Y_{cit} - \overline{Y}_{cit}$ to estimate how FINCA outcomes change over time across individuals.

The quality of the FINCA data varies. The savings and borrowing numbers, because they pass through the accounting system and are double-booked, are very reliable and are present for virtually all clients. The other individual-level statistics were collected in surveys administered by FINCA's credit officers at the time of receiving a new loan, and a great deal of information is missing. Group-level data was collected in a separate survey, and again suffers from missing observations. The use of the differencing process limits our number of observations to individuals for whom we have three separate realizations of outcomes, and corresponding control data as well. The numbers of observations in regressions using the accounting data and only county-level controls is over 40,000. Using the survey-collected outcomes, however, the number falls to about 5,000. When we run regressions where a battery of individual-level controls must also be present, the number of observations falls below 2,000 in some cases.

While this is sufficient data to obtain reasonably precise estimates, we are of course concerned with the selection bias. An analysis of the observations for which we are missing outcomes shows that the process is non-random; we are more likely to have data from rural, older, ethnically homogeneous groups. Potentially more worrying, the groups for which we

have data are significantly more likely to vote for the Movement, and to experience violent events. Throughout the analysis we use fixed-effects to remove group mean outcomes - all identification comes from deviations from county-level averages, and so this problem is not fatal. However, we must be aware that the group in which we estimate these effects (other than for savings and loans) is neither the population nor necessarily a random sample of the clients of FINCA.

## 4. Analysis of Correlations.

We now use these various data sources to explore several basic questions about the timing and location of the events during the election period, and how business & household behavior changed in response.

### 4.1 How did aggregate business behavior change during the election?

Figure 1 shows graphs of changes in the outcomes which we measure around the time of the election. To calculate these graphs, we regress

$$\ddot{Y}_{cit} = \alpha_c + \delta_1 t + \delta_2 t^2 + \delta_3 t^3 + \sum_{r=1}^{4} \delta_r \text{ round}_t + \sum_w \beta_w week_t + \varepsilon_{cit}$$

Where $\text{round}_t$ is a set of four dummies for each of the four-month rounds in which the borrowers take out loans to drop out cohort-specific effects, and $week_t$ is a set of week dummies for $w$ weeks around the election. Each week coefficient is therefore identified relative to the (roughly) half of the data which is not within those $w$ weeks. The vertical bar in these graphs represents the day of the election, and moving out on the X axis gives us variations in outcomes around that time. We control for a time trend, the squared and cubed value of the time trend, and we report the point estimates and standard errors for $\beta_w$.

These graphs raise some interesting questions. First, we see savings and loan volumes both decreasing shortly before the election, but they do not bottom out until more than a month *after* the election, at which point they return quickly to normal. The decreased use of formalized savings suggests that households are trying to hold more cash in hand; however we do not see households running up precautionary debts in order to boost liquidity. Sales remain roughly unchanged through the election period, with the exception of a slight increase in activity 3-5 weeks after the election. Most intriguing, perhaps, is the dramatic draw-down of business stocks in the weeks prior to the election, and the almost immediate return to normal once the election has occurred. Indeed, the day of the election almost perfectly picks up the turning point in business stocks. Total household expenditures, as well as food expenditures, show a similar pattern to stocks in the weeks before the election, but then take a somewhat puzzling plunge roughly a month after the election.

**4.2 What is the nature and timing of the events from the newspaper survey?**

Table 1 shows the frequency of each event, Table 2 the months in which the events occurred, and Table 3 the number of events which occurred in each county. Movement officials are roughly three times as likely to threaten the opposition as vice versa, and physical attacks by the Movement and on opposition officials are similarly more prevalent than those by the opposition and on the Movement. Promises of patronage, however, are roughly symmetric from each side. Security was increased (usually implying the use of the NRM military to keep the peace) 14 times, and election results were contested in 27 counties. The most prevalent political event from our survey is 'Government threats to opposing officials', a category which runs the gamut from "Awori posters and campaign materials missing from 5 districts" to "Security men storm Besigye's office in Fort Portal Town". Nearly 80% of the time no events occur in a given month and county.

In Table 2 we see an acceleration of political instability leading up to the election in March 2001, with only scattered incidents thereafter. 33% of the election-related events occur in the same month as the election, and 90% in the months of Jan-March, 2001. Table 3 shows the concentration of events in urban areas; over 12% of the events occur in Kampala City Council, the tiny county which contains the Parliament, many ministries, the residence of the president, and the vast Owino market. The whole city of Kampala accounts for almost 27% of the events, and the towns of Mbarara, Jinja, Arua, and Masaka account for another 15%. The two more rural areas which account for a reasonable proportion of the activity are Luwero, scene of the fiercest fighting of Uganda's civil war and Rukungiri, the home area of both Besigye and Museveni.

**4.3 How do violence & civil unrest relate to voting outcomes?**

Figure 2 illustrates a different take on the data by plotting the results of several variables from the newspaper survey against county-level voting outcomes. Several interesting regularities emerge from these correlations. In Figures 2.a.1. and 2.a.2, we see how the incidence of patronage promises varies with the eventual vote in each county. The Opposition promises patronage to safe seats, while the Movement makes promises across a somewhat broader range. Political promises to 'safe' seats imply that political parties are uncertain about county-level voting outcomes; or (because Uganda's election is decided by an absolute majority, not an electoral college) that they perceive higher marginal returns in safe seats. The opposition may thus simply be mis-targeting its patronage promises, or it may be that they gain more absolute votes by targeting promises to opposition strongholds.

Figures 2.b.1-4 illustrate the particularly tense nature of contested counties. 2.b.1 shows the number of violent acts per county, which is as we might expect concentrated in contested counties, but more surprisingly carries over into Movement strongholds. Not a

single act of violence is recorded in counties where the opposition vote tops 70%. Similarly, security was increased (usually entailing the use of soldiers to bolster extant police forces), and government officials threatened, almost exclusively in contested counties. Attacks on opposition officials cluster around a 50-50 vote, and again we see the surprising pattern that such attacks take place almost exclusively in Movement-majority districts.

These patterns are reinforced by Figures 2.c.1-4; Movement strongholds and contested counties are the source of all of the threats *both* to opposition and Movement officials (the outlier in 2.c.1 is Kampala City Council, which saw more than its share of political turbulence), as well as being the location where the election results themselves are most likely to be contested. Threats against citizens, on the other hand, do not portray this pattern, being situated almost exclusively in contested counties. The pattern of contestation of election results in 2.c.4 is open to several interpretations; possibly it was only in Movement districts that officials saw fit to challenge the tally; more likely the heavy tilt towards the Movement in this figure is a direct product of rigging, which is widely believed to have been conducted in the Movement's favor. [3]

## 5. Regression Analysis.

To test our hypotheses, then, we use the dependant variables described above to investigate the following questions:

### 5.1 How does the election period differ for counties according to polling vs. voting?

We run the following:

$$\ddot{Y}_{cit} = \alpha_c + \delta_m + \sum_{g=1}^{6} \beta_g B_{ct} + \varepsilon_{cit}$$

[3] Indeed, Rukungiri (Besigye's home district) saw over 80% of the vote go to Museveni, and over 95% in Kinkizi City. This county had previously been dubbed 'vote rigging county' (Monitor, Sept 2000) and is thought to have seen rigging on a large scale in the 2001 election.

where $\delta_m$ is a set of month dummies, $\alpha_c$ a county-level fixed effect, and $B_{ct}$ a set of variables equal to -1 within a month before the election in group *g*, 1 within a month after, and zero otherwise. The coefficients $\beta_g$ thus measure the average swing in outcomes from pre- to post-election, comparing these changes to the time-detrended within-county variation. The following taxonomy of county-level outcomes is exhaustive:

Group 1: Polls predict Movement victory by more than 60%, Movement wins county.
Group 2: Polls predict a Movement victory by more than 60%, opposition wins county.
Group 3: Polls predict an opposition victory by more than 60%, Movement wins county.
Group 4: Polls predict an opposition victory by more than 60%, opposition wins county.
Group 5: Polls are between 40%-60%, Movement wins county.
Group 6: Polls are between 40%-60%, opposition wins county.

Groups 1 & 3, then, are safe seats in which no county-level surprise occurs, groups 2 & 4 show the largest county-level surprise, and groups 5 & 6 are contested counties. Table 4 gives the coefficients $\beta_g$ for the six groups in *g*, and for the six different business-level outcomes from FINCA clients.

First, we note that the lack of impacts on sales in Table 4 means that other business variables can be viewed as household liquidity and consumption decisions, as the demand side of client businesses is *ceteris paribus*. Thus any discontinuous change in outcomes in counties that voted along with expectations implies that the outcome of national elections was uncertain to businesswomen; otherwise there is no 'event'. In the end, safe opposition counties that go with the opposition display the strongest response. Here, local-level outcomes did not differ from expectations, and yet there is a strong business response. In these counties the primary information is the outcome of the presidential election itself, showing that uncertainty over the outcome of the national election was real. The fact that stronghold opposition districts show a strong response implies that they feel or anticipate a bigger change in fortune than the contested districts.

The fall in expenditures in opposition strongholds is consistent with the overall depressive effect of the Movement victory; more surprising is the similar fall seen in Movement strongholds and contested counties which go to the Movement. A candidate explanation for this is a flow of pre-election largesse which drove up consumption prior to the election and dried up once the votes were in. None of these effects change food consumption, implying that this kind of information shock can be fully smoothed.

One problem with this analysis is that all opposition candidates are lumped together into one, whereas in fact they ran as individuals. Thus what appear to be 'safe' seats by the aggregate opposition vote may not in fact be so. Besigye's 27.7% of the vote, however, represented over 90% of the total vote for the opposition, and so this is likely to be a reasonable proxy.

**5.2 What is the response to political shocks?**

Here we estimate

$$\ddot{Y}_{cit} = \alpha_c + \delta_m + \sum_{s=1}^{7} \beta_s S_{ct} + \varepsilon_{cit}$$

where $S_{ct}$ is a set of seven dummies equal to one in the month after new political events are revealed to have occurred in a county. Given the fixed effects, these dummies measure how outcomes in the month after each kind of shock differ from the predicted county-level detrended outcomes. Table 5 reports on $\beta_s$, and the political shocks are the following:

1. *Acts of violence* (any attacks, beatings, shootings, etc. which are politically motivated).
2. *Threats against the opposition*, which includes the following categories from the newspaper survey: Government threats to opposition candidates, Government Arrests opposing supporters, Government threats to opposing officials, Government supporters threaten opposition, and Physical attack on opposition officials/supporters.
3. *Threats against the Movement*, includes Opponent supporters threaten government officials, Citizens threaten government, and Physical attack on government official/supporters.

4. *Threats against citizens*, includes Opponent supporters threaten citizens, Government/police attack/arrest citizens, Citizens struggle with citizens, and Increased security (included because it was an implied threat, and a response to violence).
5. *Election results contested.*
6. *Promise of patronage* made to a county by a politician of any party.
7. The size of the *surprise vote for the movement*; this variable takes a value of zero before the election and one month after; for the month following the election it is (actual county-level percent vote for movement - predicted vote).

Given the strong effects of some of these shocks on sales, it is entirely possible that all other effects seen are simply the result of non-separable household enterprises responding to demand-side shocks. However, given the symmetry shown by the effects of threats to the Movement and threats to the opposition, the implication is that such threats are viewed similarly by the business community. An exception is that threats to Movement trigger more food stockpiling. Threats against citizens have weaker effects but trigger the strongest food stockpiling effect.

Acts of violence trigger an increased demand for liquidity and stockpiling in household consumption. What seems counterintuitive is that violence causes these street-level businesswomen to *increase* investment in inventories as well. Given the strong jump in own consumption and the weak increase in sales, it may be that this is simply a business response to demand-side changes induced by the violence. Inventories are clearly forward-looking as they move in the same direction as the movement in sales; if they were myopic we would see them being drawn down and hence would move in the opposite direction as sales.

The size of the surprise vote for the movement, another form of informational shock, triggers the effects that we would expect given the evidence in 5.1; a boom in the use of formal savings and borrowing when the vote moves in favor of the movement. In principle this coefficient tests for the presence of the belief among Ugandan businesswomen that county-level voting will alter future economic outcomes (H4). However, the possibility of reverse causality here is clear; it may be that it is precisely the feeling of wellbeing evidenced

by the increase in formal-sector activity which makes the vote swing to the side of the establishment.

Promises of patronage do in fact have a weak effect on increasing loans.[4] While these promises have no other effects, this is some evidence that not all talk is cheap (see Ferrel & Rabin, 1996), as for there to be any effect at all these promises must be both credible and unexpected. The fact that contestation of election results has no impact whatsoever implies that businesswomen had no faith that political realities would change. An interesting expectations story can be told; given the Movement victory and the predominance of charges of rigging against the Movement, FINCA clients might reasonably have expected that the actual vote in each county could be inferred by the victors, making the recounted totals redundant to future plans for pork.

### 5.3 How do individuals differ in their response to political violence?

This analysis estimates

$$\ddot{Y}_{cit} = \alpha_c + \delta_m + \gamma_0 V_{ct} + \gamma X_{cit} + \beta(V_{ct} * X_{cit}) + \varepsilon_{cit}$$

where $V_{ct}$ is a dummy indicating an act of political violence in county $c$ within the past month, $X_{cit}$ vector of individual-level characteristics, and $\beta$ measures the interaction. From this analysis we see how the impact of this shock differs across individual characteristics, as compared to differences from the county-level prediction of outcomes where there was no shock.

Table 6 shows no difference across individual characteristics in the way that loans, savings, expenditures, and sales respond to violence. That individual characteristics

[4] Most localized patronage promises entail the tarmacking of roads, or the provision of water or electricity to remote areas.

have no effects on sales is not surprising, but in the other variables is more so. The differences come in the way that cash flow and food expenditures are managed. Looking at business stocks, class indicators such as education and land ownership show that wealthier sustain shocks better. Owning a home, however, increases the amount pulled out of stocks when violence occurs; this may imply a safe place to which clients can pull out their stock. Surprisingly, groups that pre-existed FINCA has bigger negative effect, contradicting better mutual insurance in groups with better social capital.

Theory tells us that food expenditures should provide our best test of consumption smoothing under shocks. However, we see the educated showing bigger decreases in food expenditures and hence displaying less consumption smoothing. More adults in the household lead to less smoothing; either consumption in these households is less elastic, or they have a better ability to substitute own production for cash expenses. Groups which conduct other informal savings arrangements among members smooth better. Ethnically homogeneous groups smooth less well, consistent with the idea that diversity improves the ability to mutually insure (although this effect could also show that ethnically homogeneous groups are more exposed to political risk, as we would expect from an extension of the argument in Miguel & Gugerty (2004): because homogeneous regions are better at providing local public goods, they are more vulnerable to their loss).

A set of regressions which were run but are not reported here decompose effects across the type of business operated by individual clients, and across the language spoken in FINCA group meetings (e.g., ethnic group). Interestingly, these regressions show no differentiation whatsoever in the response to political shocks across these categories. The former result is very surprising, as it was hypothesized that street-level retailers shouls demonstrate a much more intense response to acts of violence than, say, farmers. The latter

result confirms the non-ethnic nature of the election, but is also surprising. It may be that the county-level fixed effects subsume most of the differential impacts of ethnicity, but business activity varies widely within the same region and so should be fully identified by the setup of the regression.

## 6. Conclusion.

These data provide strong evidence for the fact that women running small enterprises in Uganda believe that their government is clientelistic, or will provide patronage. Their behavior is more consistent with a scenario in which rewards flow to areas which provide strong support (and away from stronghold opposition counties) than with one in which patronage is focused on an intense competition for marginal counties. Disproportionate promises of patronage by the opposition to safe counties suggests the inexperience of a candidacy built from the ground up in several months because of Uganda's 'no-party' system. The entrenched Movement, on the other hand, was more effective at targeting patronage promises towards swing counties. An absence of strong ethnic identification in the data, either in the diversity of borrowing groups or the language spoken in these groups, suggests that the presidential election of 2001 did indeed transcend ethnicity.

Shocks caused by the electoral cycle have strong impacts on business activity. While direct violence leads both FINCA clients and their customers to stockpile in consumption, threats against either party caused a strong depression of sales, leading to adverse effects on small enterprises. Ethnically diverse borrowing groups are better at smoothing consumption in the face of such shocks.

Talk is not cheap in Ugandan politics. Not only do patronage promises have some impact on outcomes (in essence, a muted version of the impact seen when voting outcomes lead entrepreneurs to expect greater pork), but threats have strong general equilibrium

effects, demonstrating that FINCA clients and their patrons find them credible. The fact that contestation of election results causes no local response, on the other hand, implies that businesswomen do not believe that their economic prospects will be materially changed by such challenges.

Through the use of revealed beliefs about the impact of political activity on the economy, we gain insight into the beliefs and uncertainties in the minds of micro-entrepreneurs. Clearly, the outcome of the election was in doubt in the minds of the voters, and the end of the electoral cycle causes a gradual return to normalcy. While the election of 2001 featured an unusual focus on competition over issues, we see evidence that pork and electoral largesse are largely focused on each party's home counties, as we would expect in a more ethnically-driven election. The uncertainties brought about by the campaign have strongeffects at the household level, and induce shocks to consumption of food from which the households are unable to protect themselves. Whatever the long-term benefits of the democratic process, elections themselves impose real costs on citizens.

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**Figure 1.**

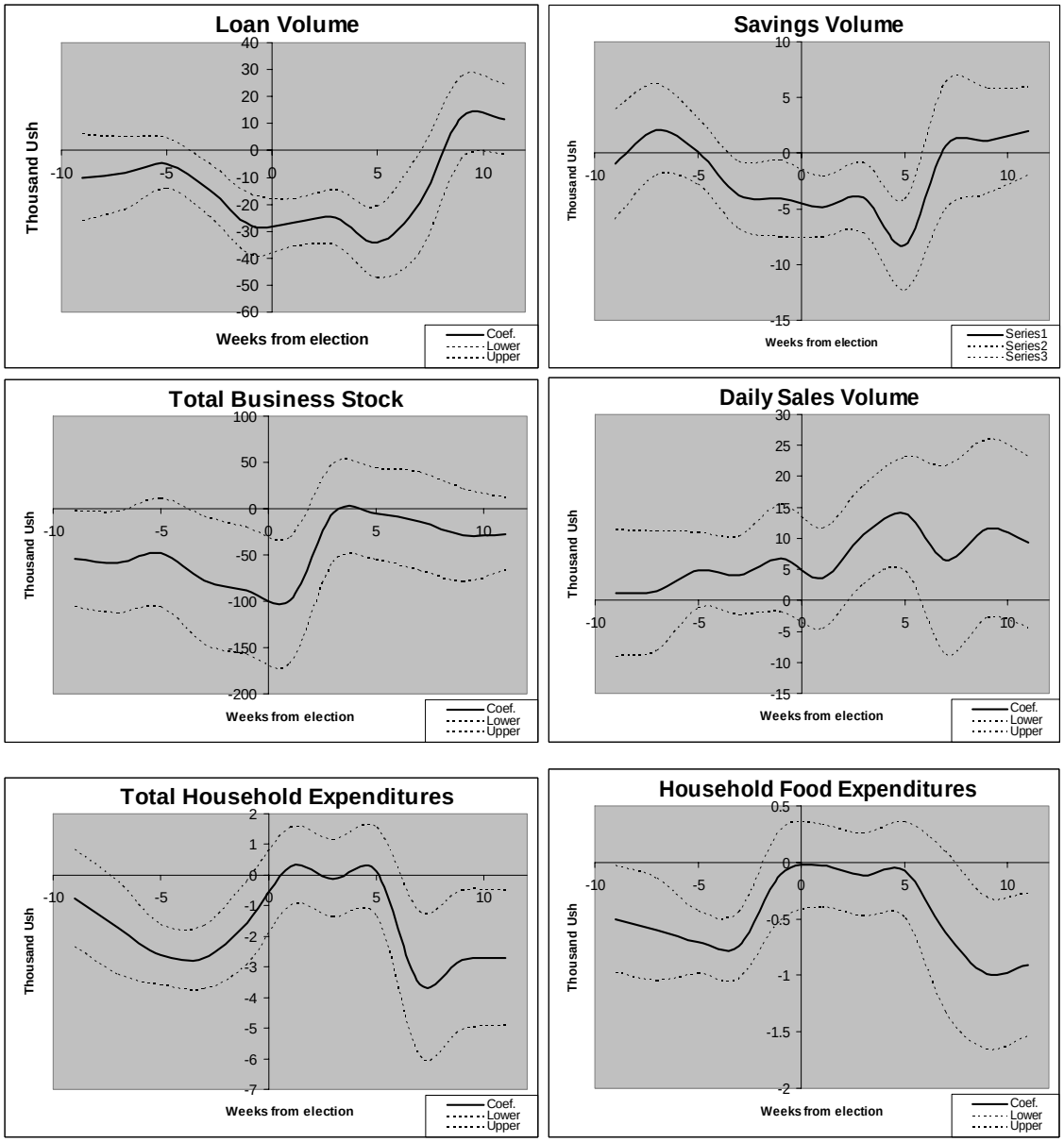
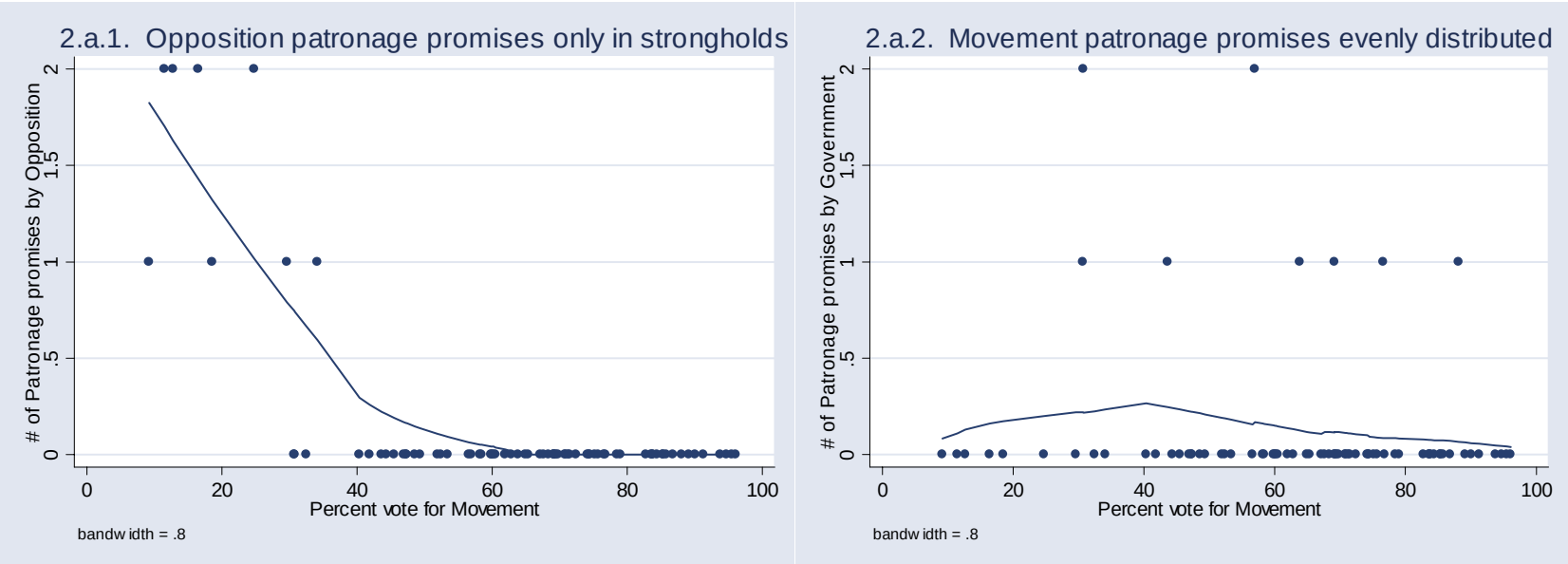
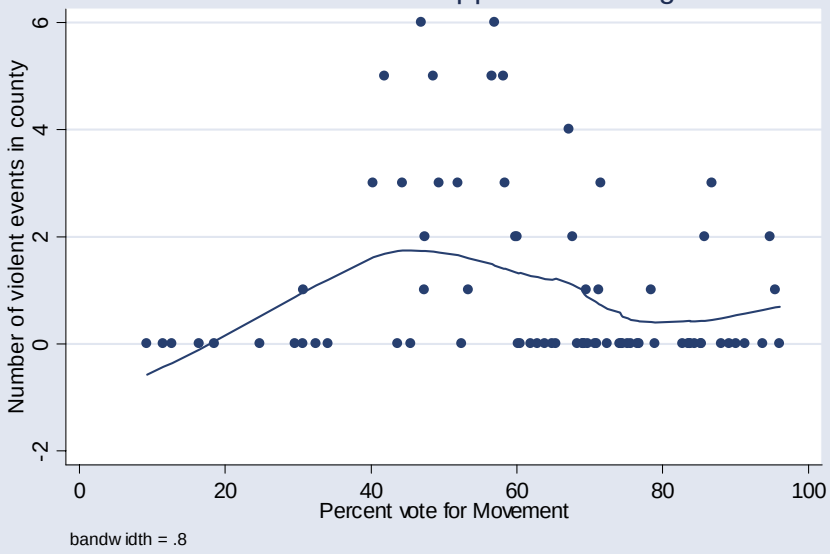

Loan Volume
Thousand Ush
Weeks from election
Coef.
Lower
Upper
Savings Volume
Thousand Ush
Weeks from election
Series1
Series2
Series3
Total Business Stock
Thousand Ush
Weeks from election
Coef.
Lower
Upper
Daily Sales Volume
Thousand Ush
Weeks from election
Coef.
Lower
Upper
Total Household Expenditures
Thousand Ush
Weeks from election
Coef.
Lower
Upper
Household Food Expenditures
Thousand Ush
Weeks from election
Coef.
Lower
Upper

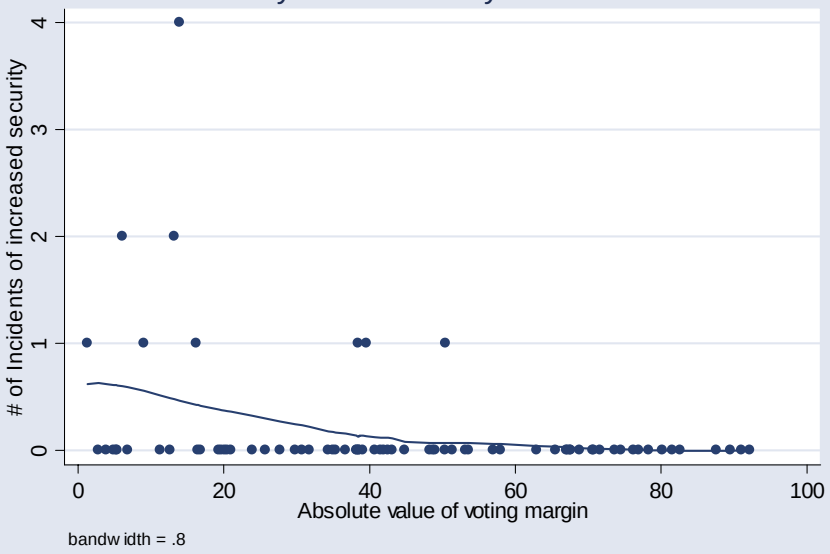
**Figure 2. Scatterplots of county-level voting outcomes versus various political events.**



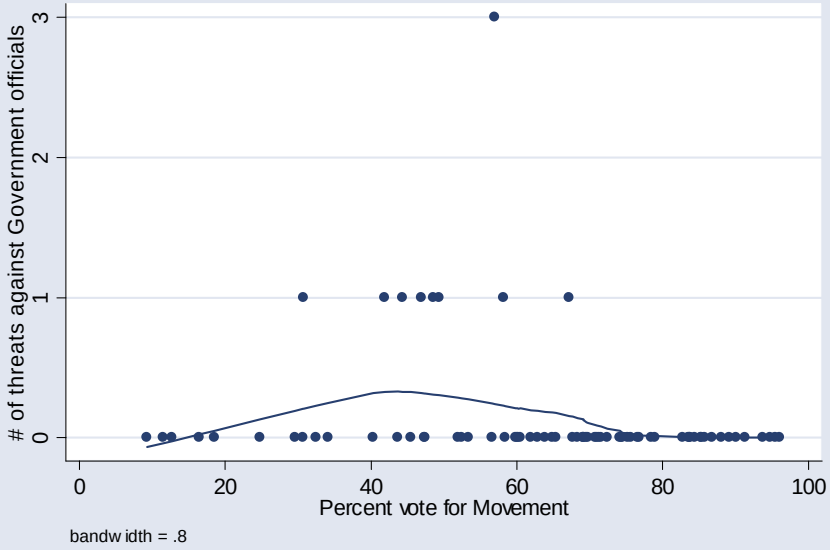
## 2.b.1. No violence in Opposition strongholds



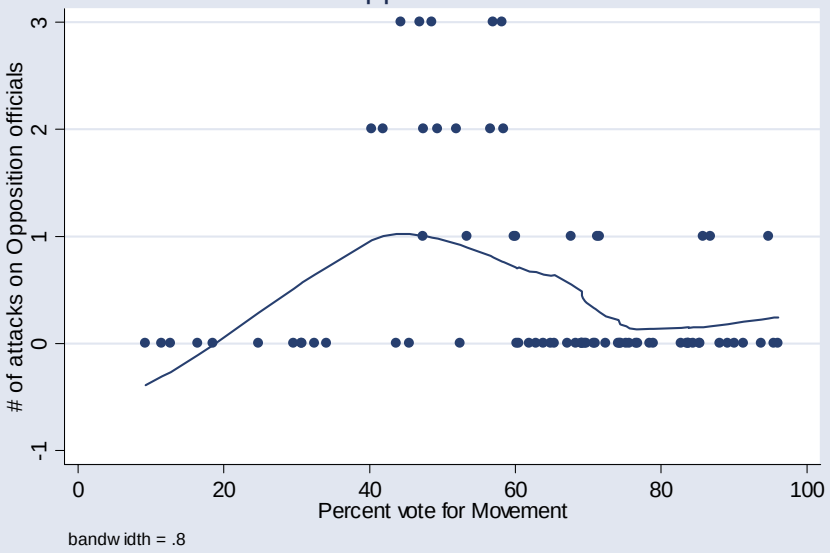

## 2.b.2. Security increased only in contested counties



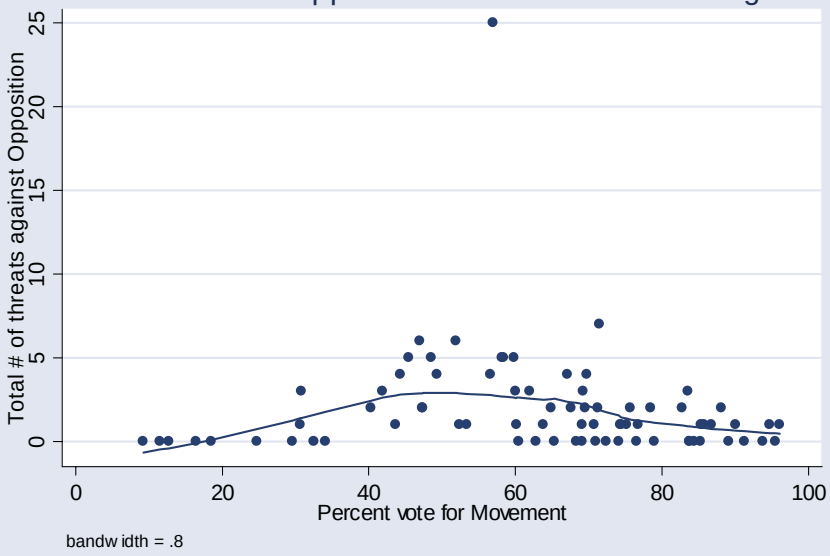

## 2.b.3. Threats to government in contested counties



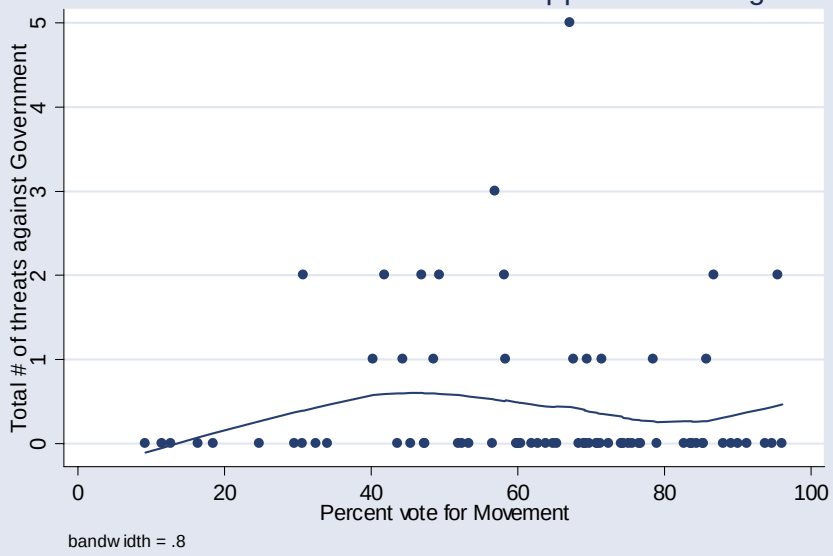

## 2.b.4. Attacks on Opposition in contested counties



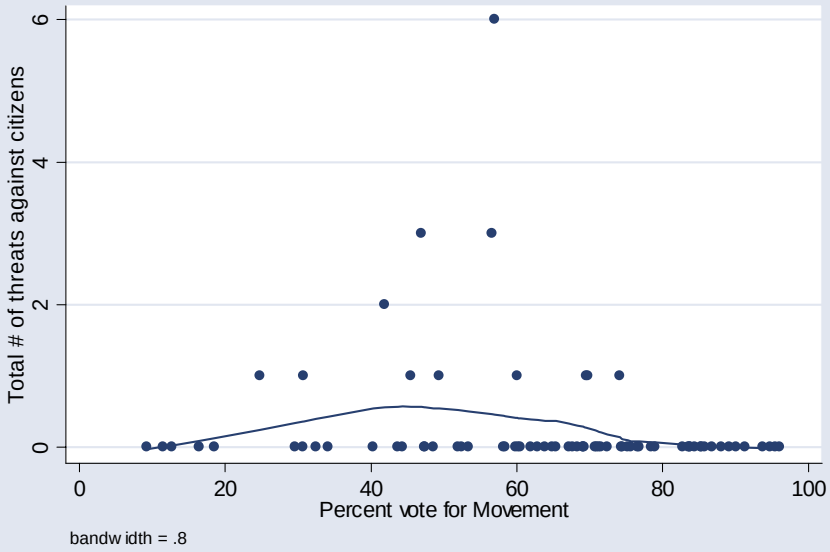
## 2.c.1. Threats to Opposition from Movement Strongholds




## 2.c.2. Threats to Movement not in Opposition strongholds




## 2.c.3. Threats to citizens from contested counties




## 2.c.4. Elections not contested in Opposition strongholds

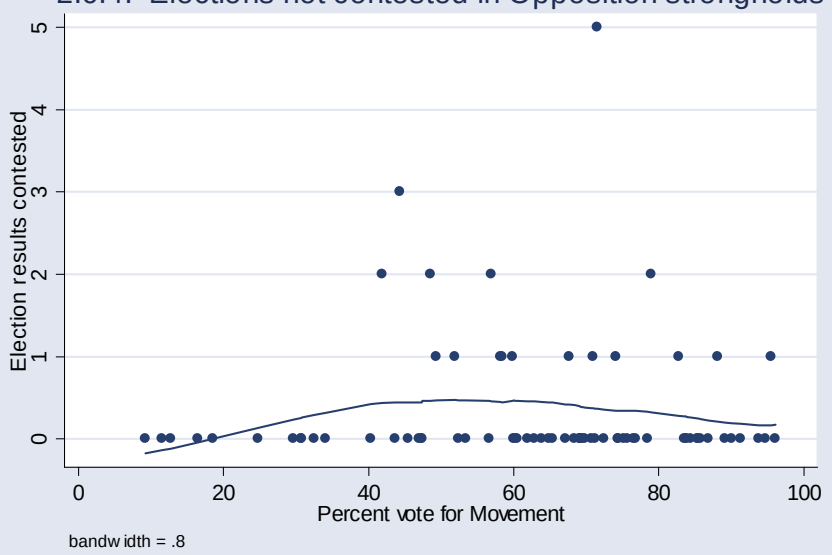


**Table 1. Frequency of Political Events, by Event (Unit: county/month).**

| | Event: | Frequency | Percent |
|---|---|---|---|
| 0 | No Event | 963 | 78.48 |
| 1 | Government Threats to Opposition Candidates | 16 | 1.3 |
| 2 | Opponent Supporters Threatens Citizens | 2 | 0.16 |
| 3 | Opponent Supporters Threaten Government Officials | 11 | 0.9 |
| 4 | Government Arrests Opposing Supporters | 27 | 2.2 |
| 5 | Government Threats to Opposing Officials | 53 | 4.32 |
| 6 | Government / Police Attack / Arrest Citizens | 2 | 0.16 |
| 7 | Peaceful Demonstrations | 4 | 0.33 |
| 8 | Citizens Struggle with Citizens | 4 | 0.33 |
| 9 | Promises of Patronage by Government | 10 | 0.81 |
| 10 | Promises of Patronage by Opposition | 12 | 0.98 |
| 11 | Government Supporters Threaten Opposition | 4 | 0.33 |
| 12 | Large-scale defections to Movement | 2 | 0.16 |
| 13 | Citizens Threaten Government | 5 | 0.41 |
| 14 | Physical Attack on Government Official/supporters | 15 | 1.22 |
| 15 | Physicial Attack on Opposition Official/supporters | 39 | 3.18 |
| 16 | Physical Attack by Government Official/supporters | 8 | 0.65 |
| 17 | Physical Attack by Opposition Official/supporters | 1 | 0.08 |
| 18 | Increased security | 14 | 1.14 |
| 19 | Election results contested | 27 | 2.2 |
| 20 | Government arrests/threatens Government Official/supporters | 8 | 0.65 |

**Table 2. Frequency by Month**

| month | Frequency | Percent |
|---|---|---|
| Nov. 2000 | 2 | 0.57 |
| Dec. 2000 | 22 | 6.25 |
| Jan. 2001 | 103 | 29.26 |
| Feb. 2001 | 95 | 26.99 |
| Mar. 2001 | 116 | 32.95 |
| Apr. 2001 | 9 | 2.56 |
| May. 2001 | 4 | 1.14 |
| Jul. 2001 | 1 | 0.28 |
| Total | 352 | 100 |

**Table 3. Number of events by county:**

| District | County | # Events | FINCA Operates? | District | County | # Events | FINCA Operates? |
|---|---|---|---|---|---|---|---|
| APAC | KOLE | 2 | yes | LIRA | DOKOLO | 0 | yes |
| APAC | KWANIA | 1 | yes | LIRA | ERUTE NORTH | 1 | yes |
| APAC | MARUZI | 1 | yes | LIRA | ERUTE SOUTH | 2 | yes |
| APAC | OYAM | 1 | yes | LIRA | LIRA MUNICIPALITY | 3 | yes |
| ARUA | ARUA MUNICIPALITY | 8 | yes | LIRA | MOROTO | 2 | yes |
| ARUA | AYIVU | 2 | yes | LUWERO | BAMUNANIKA | 2 | yes |
| ARUA | TEREGO | 2 | yes | LUWERO | KATIKAMU NORTH | 4 | yes |
| ARUA | VURRA | 2 | yes | LUWERO | KATIKAMU SOUTH | 9 | yes |
| BUGIRI | BUKOLI | 4 | yes | LUWERO | NAKASEKE | 1 | yes |
| BUGIRI | BUKOLI SOUTH | 3 | yes | MASAKA | BUKOMANSIMBI | 3 | yes |
| BUSIA | BUSIA | 5 | yes | MASAKA | BUKOTO | 7 | yes |
| GULU | ASWA | 3 | no | MASAKA | KALUNGU | 5 | yes |
| GULU | GULU MUNICIPAL COUNCIL | 2 | no | MASAKA | MASAKA MUNI | 6 | yes |
| HOIMA | BUGAHYA | 4 | yes | MASINDI | BULIISA | 0 | yes |
| IGANGA | BUGWERI | 1 | yes | MASINDI | BURULI | 3 | yes |
| IGANGA | BUNYA EAST | 1 | yes | MASINDI | KIBANDA | 0 | yes |
| IGANGA | BUNYA SOUTH | 1 | yes | MAYUGE | BUNYARUTA | 1 | no |
| IGANGA | BUNYA WEST | 1 | yes | MBALE | MBALE | 6 | no |
| IGANGA | BUSIKI | 1 | yes | MBALE | MBALE MUNI | 2 | no |
| IGANGA | KIGULU NORTH | 3 | yes | MBARARA | NYABUSHOZI | 13 | yes |
| IGANGA | KIGULU SOUTH | 3 | yes | MOROTO | MOROTO MUNICIPALITY | 1 | no |
| IGANGA | LUUKA | 1 | yes | MPIGI | BUTAMBALA | 0 | yes |
| JINJA | BUTEMBE | 2 | yes | MPIGI | ENTEBBE | 6 | yes |
| JINJA | JINJA MUNIC EAST | 12 | yes | MPIGI | MAWAKOTA NORTH | 2 | yes |
| JINJA | JINJA MUNIC WEST | 9 | yes | MPIGI | MAWAKOTA SOUTH | 1 | yes |
| JINJA | KAGOMA | 1 | yes | MUBENDE | BUSUJJU | 1 | yes |
| KABALE | KABALE | 2 | no | MUBENDE | MITYANA SOUTH | 1 | yes |
| KABAROLE | FORT PORTAL | 2 | no | MUKONO | BUIKWE NORTH | 0 | yes |
| KAMPALA | KAMPALA CC | 40 | yes | MUKONO | BUIKWE SOUTH | 1 | yes |
| KAMPALA | KLA KAWEMPE NORTH | 9 | yes | MUKONO | BUIKWE WEST | 0 | yes |
| KAMPALA | KLA KAWEMPE SOUTH | 9 | yes | MUKONO | MUKONO NORTH | 9 | yes |
| KAMPALA | KLA MAKINDYE EAST | 9 | yes | MUKONO | MUKONO SOUTH | 4 | yes |
| KAMPALA | KLA MAKINDYE WEST | 8 | yes | MUKONO | NAKIFUMA | 0 | yes |
| KAMPALA | KLA RUBAGA NORTH | 2 | yes | NAKASONGOLA | NAKASONGOLA | 3 | yes |
| KAMPALA | KLA RUBAGA SOUTH | 3 | yes | RAKAI | KABULA | 0 | yes |
| KAMPALA | NAKAWA | 8 | yes | RAKAI | KOOKI | 0 | yes |
| KAMULI | BUDIOPE | 0 | yes | RAKAI | KYOTERA | 1 | yes |
| KAMULI | BUGABULA NORTH | 3 | yes | RUKUNGIRI | KINKINZI CTY EAST | 6 | no |
| KAMULI | BUGABULA SOUTH | 2 | yes | RUKUNGIRI | KINKINZI CTY WEST | 3 | no |
| KAMULI | BULAMOGI | 2 | yes | RUKUNGIRI | RUKUNGIRI TOWN | 7 | no |
| KAMULI | BUZAYA | 0 | yes | SOROTI | SOROTI MUNICIPALITY | 2 | no |
| KAMWENGE | KIBALE COUNTY | 5 | no | SSEMBABULE | MAWOGOLA COUNTY | 2 | no |
| KAYUNGA | NTENJERU NORTH | 4 | yes | TORORO | TORORO | 8 | no |
| KIBAALE | BUYAGA COUNTY | 1 | no | WAKISO | BUSIRO EAST | 1 | yes |
| KIBOGA | KIBOGA EAST | 0 | yes | WAKISO | BUSIRO SOUTH | 1 | yes |
| KIBOGA | KIBOGA WEST | 0 | yes | WAKISO | KYADONDO | 2 | yes |
| KUMI | KUMI TOWN | 4 | no | | | | |

**Table 4. Swings from the month before to the month after the election, conditional on polls and actual electoral outcomes:**

| **Poll prediction, outcome:** | **Loans** | | **Saving** | | **Stock** | | **Expenditures** | | **Food Exp.** | | **Sales** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat |
| Movement, Movement wins | 8.36 | 1.14 | -0.61 | -0.18 | -246.27 | -1.88 | **-3.21** | **-3.12** | -0.47 | -1.38 | 0.96 | 0.15 |
| Movement, Movement loses | -15.06 | -1.92 | -4.85 | -1.37 | -3.82 | -0.02 | -0.33 | -0.16 | 0.18 | 0.28 | -0.28 | -0.02 |
| Opposition, Opposition wins | **-210.75** | **-11.64** | **-28.10** | **-3.43** | -321.47 | -1.07 | **-7.11** | **-4.27** | -0.12 | -0.24 | 5.83 | 0.56 |
| Opposition, Opposition loses | 0.29 | 0.04 | 4.02 | 1.16 | -22.14 | -0.2 | -0.88 | -1.03 | 0.07 | 0.28 | 1.24 | 0.23 |
| Contested, goes to Movement | 2.94 | 0.38 | 2.38 | 0.68 | -214.18 | -1.42 | **-2.36** | **-1.97** | -0.40 | -1.06 | 5.52 | 0.73 |
| Contested, goes to Opposition | -13.18 | -0.74 | 2.68 | 0.33 | 95.05 | 0.26 | (dropped) | | 0.49 | 0.51 | 1.37 | 0.07 |
| # obs | 40521 | | 40514 | | 4654 | | 5253 | | 4983 | | 5461 | |

**Table 5. Event Study of the impact of information revelation on business behavior:**

| **Event:** | **Loans** | | **Saving** | | **Stock** | | **Expenditures** | | **Food Exp.** | | **Sales** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat |
| Act of Violence | **-26.51** | **-3.14** | -5.72 | -1.46 | **309.26** | **2.94** | **3.80** | **4.66** | **0.63** | **2.4** | 7.89 | 1.55 |
| Threat against Opposition | 2.85 | 0.4 | -0.53 | -0.16 | **-439.42** | **-4.63** | **-2.44** | **-3.22** | -0.15 | -0.64 | **-11.18** | **-2.36** |
| Threat against Movement | **24.69** | **1.99** | 9.71 | 1.69 | **-349.24** | **-2.15** | **-6.35** | **-5.61** | **0.66** | **1.85** | **-16.99** | **-2.37** |
| Threat against citizens | 26.38 | 1.83 | -3.44 | -0.51 | 337.35 | 0.87 | 2.91 | 0.91 | **2.61** | **2.67** | 35.05 | 1.74 |
| Election results contested | 5.54 | 0.47 | 1.65 | 0.3 | -212.80 | -0.85 | 0.03 | 0.02 | -0.12 | -0.19 | 5.29 | 0.41 |
| Patronage Promise | **29.75** | **2.01** | -6.98 | -1.02 | -281.82 | -0.24 | -2.35 | -0.24 | -1.97 | -0.66 | -6.85 | -0.11 |
| Surprise vote for Movement | **0.58** | **3.51** | **0.23** | **2.96** | 0.49 | 0.25 | 0.00 | 0 | 0.00 | 0.04 | 0.04 | 0.48 |
| # obs | 40524 | | 40517 | | 4654 | | 5253 | | 4983 | | 5461 | |

**Table 6. Decomposition of the impact of violence across individual & group characteristics:**

| Characteristic, interaction: | Loans | | Saving | | Stock | | Expenditures | | Food Exp. | | Sales | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat | Coeff. | T-stat |
| # children in HH | -6.26 | -1.28 | -0.77 | -0.28 | -21.18 | -0.3 | -0.27 | -0.53 | 0.27 | 1.6 | 4.18 | 1.58 |
| # adults in HH | 10.40 | 1.52 | 4.33 | 1.14 | 39.84 | 0.31 | -1.03 | -1.56 | **-0.75** | **-3.41** | -0.09 | -0.02 |
| Client education | -9.84 | -0.76 | -1.43 | -0.2 | **449.56** | **2.03** | 0.95 | 0.78 | **-1.22** | **-2.91** | -0.88 | -0.13 |
| HH owns home | -18.68 | -0.76 | -17.26 | -1.27 | **-974.04** | **-2.25** | 1.73 | 0.58 | -0.42 | -0.4 | 5.45 | 0.34 |
| HH owns land | 21.88 | 0.99 | 17.83 | 1.44 | **1070.73** | **2.41** | -0.69 | -0.23 | 0.84 | 0.79 | 16.37 | 1.01 |
| Client DOB | 0.00 | -0.72 | 0.00 | -0.15 | 0.08 | 1.6 | 0.00 | -0.77 | 0.00 | 0.11 | 0.00 | -0.54 |
| Ethnic Heterogeneity of group | 0.93 | 0.07 | 5.97 | 0.79 | -388.11 | -1.1 | -1.64 | -0.71 | **0.76** | **2.01** | -8.12 | -0.67 |
| Group Pre-existed FINCA | 9.24 | 0.33 | -7.70 | -0.5 | **-1690.20** | **-2.97** | -3.61 | -0.8 | -0.09 | -0.05 | -9.93 | -0.41 |
| Group conducst ROSCA | 7.08 | 0.29 | 2.37 | 0.17 | -988.02 | -0.78 | 1.86 | 0.58 | **3.19** | **3.09** | 6.37 | 0.37 |
| # obs | 17052 | | 17052 | | 1583 | | 1993 | | 1935 | | 2060 | |