



The Relationship Between MSMEs and Poverty Eradication in Makindye Division Kampala, Uganda

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Abstract

The UN Sustainable Development Goals (SDGs) list "poverty" and "entrepreneurship" as two of its seventeen many components. This paper delves into the relationship between MSMEs and poverty eradication, looking at a case study of Makindye Division. The objective of this research was to enlighten the patterns of poverty in Makindye Division, the characteristics of MSMEs in the region, research limitations, and possible steps to eradicate poverty in Uganda by 2030. In addition, the paper uses data and literature from Uganda Bureau of Statistics (UBOS) and the Ministry of Trade Industry and Cooperatives. The finding of the study revealed that majority of the MSMEs are operated by youths between 18-30years and were mostly women. It was also revealed that majority of the business owners have a low level of education as well as half the MSME were registered as sole proprietorships. The findings also revealed that the onset of Covid-19 affected the performance of most of the MSME and many had to either close or cut down the number of employees. Finally, the paper recommended that there should be support of market certainty for MSMEs products, particularly for MSEs to sustain the production cycle through digitalization; business owners be equipped to have the right mindset towards business; there should be formation of business incubator programs to help upcoming businesses to start right and avoid mistakes made by the already existing MSMEs; and have promotion mechanism for inter-institutional collaboration among MSMEs.

Acronyms

SDGs..... The Sustainable Development Goals

MSMEs..... Micro, Small, and Medium Enterprises

MSEs..... Medium Sized Enterprises

SMEs..... Small Sized Enterprises

GDP..... Gross Domestic Product

IMF..... International Monetary Fund

SED.....Small Business Development

UBOS.....Uganda Bureau of Statistics

PDM..... Parish Development Model

ACF.....Agricultural Credit Facility

UGGDS..... Uganda Green Growth Development Strategy

NFIS..... National Financial Inclusion Strategy

Introduction

Availability of work is a critical part of the solution to poverty. People are able to provide for themselves (e.g., food) and earn the money they need to purchase products and services through work. Wealth is also created via labour, which enables governments to provide services like as health care, clean water, and education to the poor through taxation (International Monetary Fund, 2000). However, it is not easy to get sustainable employment. Economic, social, and political activities all work together to create it. "Working out of poverty" is a good starting point, but it does not give specific advice on how to get out of poverty.

Many impoverished people's idea of employment is running their own micro or small business or working for someone else who does. As solo proprietors, managers, and employees, the poor are frequently joined in their work by members of their families as well as temporary and permanent employees. In many situations, impoverished individuals choose this type of job because they have few other options. Either suitable paid employment is unavailable or the work they undertake on the family farm is insufficient to meet their family's requirements. By working for themselves, they want to get out of poverty. The goal of small business development (SED) is to create an atmosphere where owners and employees may operate more effectively, safely, and efficiently. They can lessen their plight as a result of this. This is the difficulty of reducing poverty through the creation of small businesses.

MSMEs help bring people out of poverty by creating jobs. 783 million people, or 11 percent of the world's population, were in severe poverty in 2013, according to a new worldwide estimate. 5 The vast majority of the poor in emerging nations are either unemployed or underpaid (Sobir, 2020). It has been shown that private sector job development has been a key factor in reducing poverty. During the past 30 years, the private enterprise has helped to reduce the percentage of people living in poverty from 52% to 22% in the developing world. 6 Small and medium-sized businesses (MSMEs) play an important role in the private sector's effort to create jobs. MSMEs accounted for 90 percent of all new jobs in developing economies, creating four out of every five new posts in the formal sector (Sobir, 2020).

According to TNS, et al., (2015), as many as 10 different industrial sectors make up at least five percent of Uganda's MSMEs, making the country one of the most diversified in the world. More

than a third of micro and small enterprises (MSMEs) are employed in agriculture, followed by education and health care 13%), and recreation & personal (10%).

The bulk of MSMEs in Uganda (69 percent) are under 10 years old, making them relatively new businesses. Nearly nine out of 10 Ugandan MSME owners began their businesses with their own money, and three-quarters of them are sole proprietorships. There are less than a third (31 percent) of micro-enterprises that employ a manager to oversee day-to-day operations. Over half of the owners have a secondary or higher degree (TNS, et al., 2015).

Additionally, it's a close-knit community, with 81.1 percent of MSMEs' major clientele being individuals rather than corporations, and 66% of MSMEs being located in the same general vicinity as their clients. One member of the regular five-person crew is a family member. More than half of MSMEs (63 percent) report that word-of-mouth is their primary method of obtaining suppliers and that friends and family are more likely than official lenders to have contributed start-up capital for their businesses. 73.9 percent of MSMEs learn about new business prospects through talking to consumers, yet only 15 percent of MSMEs are members of business groups, maybe because they are too small (TNS, et al., 2015).

Purpose

The UN Sustainable Development Goals (SDGs) list "poverty" and "entrepreneurship" as two of its seventeen many components. There are several ways to alleviate poverty, and one of them is business. Entrepreneurs make investments and hire employees who contribute to the company's growth, as highlighted in the aforementioned study on entrepreneurship. The creation of new jobs and the development of new skills and experience for a significant number of young people entering the labor force are all made possible by thriving businesses. The drive of this study was to analyze the level of poverty in Makindye Division, the characteristics of MSMEs, and find ways to reduce unemployment as one of the measures to reduce poverty amongst the youth, women, and men in the region. In Uganda, the Agricultural Sector is the most important and dominant sector; it employs approximately 72% of the population and contributes about 32% to the GDP. The agribusiness era is characterized by a shift from family farms to strategically placed commercial and processing units linked to modern retailers and exporters (Uganda Investment Authority, 2021).

The purpose of this paper is to determine and offer detailed findings and suggestions on how possible the SDG1 is. No Poverty can be realized through the implementation of various projects, not only in Makindye Division but also in Uganda at large. This research, therefore, focused on examining the status of Micro, Small, and Medium Enterprises dealing in value addition, their potential to grow, develop when provided with knowledge, better skills, and technology, their ability to employ more youths, men, and women in Makindye division, not only as a way of reducing poverty but cubbing on other vices that arise as a result of unemployment.

Background Literature

Poverty is defined as the lack of basic necessities such as food and shelter, as well as those who have limited or no access to these necessities (i.e. health, education). Non-material circumstances, such as a lack of rights, instability, helplessness, and indignity, are increasingly being included in the definition of poverty. As a whole, poverty is better understood when it is seen in this context (Nursini, 2020). Additionally, it makes it more difficult to assess the performance of programs aimed at reducing poverty. Defining poverty is a challenging task, and policymakers often err on the side of describing rather than defining it.

Micro, Small and medium-sized enterprises (MSMEs) have long been acknowledged as engines of growth for a country's economy. Macroeconomic goals can be met through their creation of jobs at low investment costs, the development of entrepreneurial skills and indigenous technologies, the prevention of rural–urban migration, the efficient use of local resources, and a reduction in poverty. Since the 1940s, successive Ugandan administrations have created policies to support the growth of the MSME sector, having recognized the importance and catalytic role it plays in economic development.

It is estimated that micro-enterprises employ more people and produce more goods and services than small and medium-sized businesses do in the vast majority of developing nations, including Uganda. Micro-enterprises accounted for nearly all of Uganda's MSME units in 2020, according to the country's Uganda Bureau of Statistics (UBOS). Micro-enterprises employ 89.04 percent of the total MSME workforce and produce 37.7% of the total MSME production. Because this business does not require a lot of money or experience, it is available to everybody. Micro-business entrepreneurs in Uganda tend to be poorer than their counterparts in other countries. As a result, the poor are more likely to work in small and medium-sized businesses, rather than own them. As a result, the poor's participation in business, whether as owners or employees, is critical to the growth of the economy on a national and worldwide scale.

The achievement of future SDGs may be helped in this way as well. MSMEs empowerment initiatives in Uganda have become one of the most important ways to alleviate poverty in Uganda. These initiatives are designed to increase production capacity and human capital capabilities by providing training, capital help, and technological assistance. Over time, these initiatives are aimed at changing the status of small, medium, and big businesses from micro to medium and even larger enterprises. With these developments, new jobs with high productivity are created, as well as jobs in MSME industries, which directly touch the poor. These have the potential to enhance societal well-being on a broad scale.

The SDGs have made eradicating poverty one of its most significant objectives. It has been signed and agreed to by more than 160 nations, including Uganda, to alleviate poverty by 2030. They appear to require proper measures to assist them in achieving their aim in light of the global economic uncertainty. Nursini (2020) argues that many nations are able to endure in this unpredictable environment due of their successful micro, small and medium-sized businesses. As a result, MSMEs have emerged as a key strategy for economic growth and poverty reduction.

Descriptive research by Nursini (2020) found that MSMEs have enhanced the social and economic well-being of impoverished people in East Asia by increasing their access to capital. The market and the capacity of MSMEs are two major variables assisting MSME employees in growing their earnings and reducing poverty in Nigeria, according to other qualitative research like that conducted by Asikhia (2010). The income of MSEs workers in the Ibadan Metropolis in southern Nigeria, according to Adeyemi and Lanrewaju (2014), rose to 39 percent. On the same note, a value chain approach to local economic development in Uganda is needed to ensure that all value chain players, including women and youth, smallholder farmers and other agri-MSMEs, have access to suitable services to meet their requirements. With the Parish Development Model (PDM), each level of the value chain is systematically and deliberately intervened in to guarantee that once production is ramped up, it continues to be supported by stable pricing and the availability of inexpensive capital and predictable markets (Ministry of Local Government, 2021).

A case study conducted by Andre Foods International and SME Finance Working Group (2021), indicate the efforts of various banking institutions, organizations, and government towards financing of agribusiness MSMEs in Uganda. They emphasized the need to invest more money in the agricultural sector to improve its trends thereby enticing more youths to get involved in the sector, hence quitting the rural-urban migration. It futhured narrated how financial institutions like DFCU bank Uganda, Letshego Microfinance Uganda, The START Facility, UN World Food Program, and Stanbic Bank Uganda among others have come out with different programs and approaches of addressing the inadequate capital challenge. Government introduced programs like Agricultural Credit Facility (ACF) which facilitates the provision of medium and long-term financing to projects that engage in agriculture processing with a focus on commercialization and value addition among others, such efforts have moved the Ugandan MSMEs sector a milestone.

Gap in Knowledge

Obviously, many efforts have been channeled towards poverty eradication in Uganda by the government and various organizations. However, some crucial areas have been overlooked, as shared below.

There is a gap of incubation programs, which would be useful in mentoring entrepreneurs prior to investing all their capital only to end in losses. Incubator programs aim at analyzing the individual entrepreneur, their ambitions, goals, and mindset, coupled with equipping the entrepreneur with the required skills/ acumen to not only start a business but also sustain and develop it. Such programs encourage the entrepreneurs to start business outside of their passion not just because they want to earn, this in the long run builds in them resilience to stick with the business, no matter the circumstances as they look for better ways to develop it. In addition, lack of effective management during their early stages is also a major cause of business failure for small businesses. Owners tend to manage these businesses themselves as a measure of reducing operational costs. Many Ugandans starting up MSMEs have no knowledge on how to run these ideas/businesses and therefore end up failing because of lack management skills, mentorship coupled with lack of substantial capital.

Suggestions about value addition and the need for technology were made but not detailed; further explanations of what or how is it to be done was not shade light upon. One of the major challenges faced by the agribusiness in Makindye Division is the rotting of the purchased/stored goods. This could be mitigated by carrying food value addition, which requires availability of accessible technology to the micro agribusiness owners. This would enable them to reduce losses, increase profits and produce better quality products capable of beating competition both nationally and internationally.

Methodology Used

Time series from 2000 to 2020 are used in this study, which includes both primary and secondary data. They came from the Uganda Bureau of Statistics (UBOS) and the Ministry of trade. Poverty statistics, MSME production, MSME labor and GDP are examples of secondary data. The Headcount Index, the Poverty Gap Index, and the Poverty Severity Index all serve as indices for gauging the severity of poverty. The carried out a brief survey to identify the existing MSMEs dealing in agribusiness in Makindye Division, Kampala district. These approaches enabled the research to know the past, current, and predict the future of poverty alleviation.

The sampling size was 100, medium and small enterprises, the final number of successful interviews was 52, in micro and small enterprises have between 1-15 employees.

Business Size	Successfully interviewed
Micro	40
Small	12
Total	52

They carried out a brief survey to identify the existing MSMEs dealing in agribusiness in Makindye Division, Kampala district. They used primary and secondary data both qualitative and quantitative. These approaches enabled us to know the past, current, and predict the future of poverty alleviation.

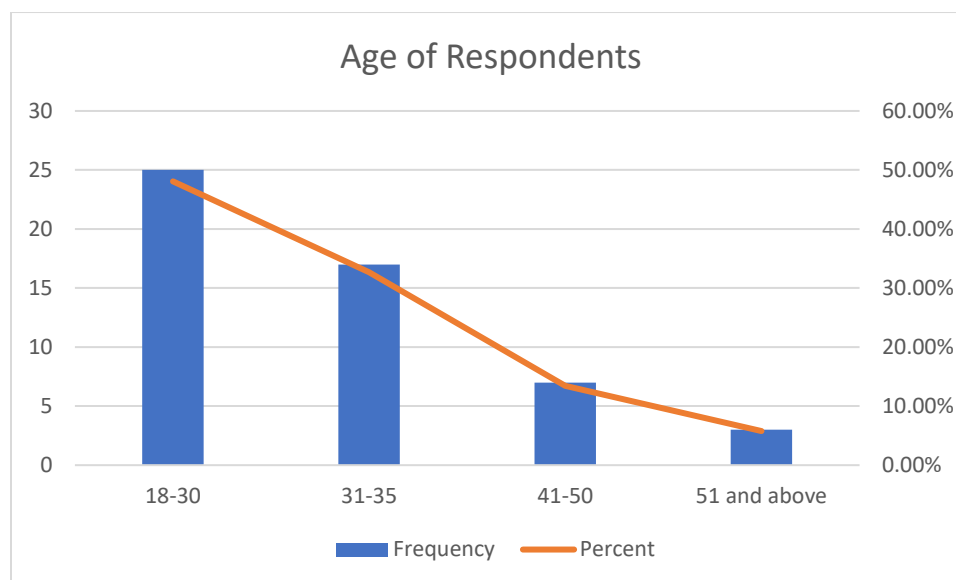
Originality/Value of the Paper

This paper is original research that has been conducted by the researchers by fulfilling all the ethical requirements. The paper contributes to the corpus of information already available on the subject is the study's main goal. Small business management and performance challenges are also addressed in the report. Entrepreneurs will benefit from this study's insights into the unique problems faced by small and medium-sized businesses, and it is anticipated that it will also provide ideas for how to address those issues. Other researchers and libraries will benefit from the findings as well. It is hoped that the findings of this study would aid in the development of management and entrepreneurial skills among Uganda's MSMEs, which will in turn serve to lower the country's poverty rate.

Findings/Discussion

An analysis was done of the data collected and results presented and evaluated. The findings of the study showed that.

Figure 1: Showing Age of Respondents



The study found out that the majority of the MSMEs are operated by youths between 18-30years with a percentage of 48.07%, followed by those in the age bracket 31-35 with 32.69% and others as illustrated in the graph above. This shows the potential that these MSMEs have to grow given the energetic and visionary human resources they have. If the right knowledge and resources are channeled into these businesses they have the capacity to not only develop but also create more jobs for other youths in Makindye Division thereby reducing unemployment and poverty in the region.

Figure 2: Showing the Gender of the Respondents

It was discovered that the majority of the MSMEs in Makindye division are operated by women as demonstrated in the graph below, hence reducing the gap of gender inequality. "Uganda's economic recovery will be faster, stronger, and more sustainable if it brings more women into the center of profitable economic activity", according to the 18th edition of the Uganda Economic Update (The World Bank, 2021). The research strongly suggests that if these women get more empowered with the business skills required to grow their businesses, gender inequality will be reduced by 2030.

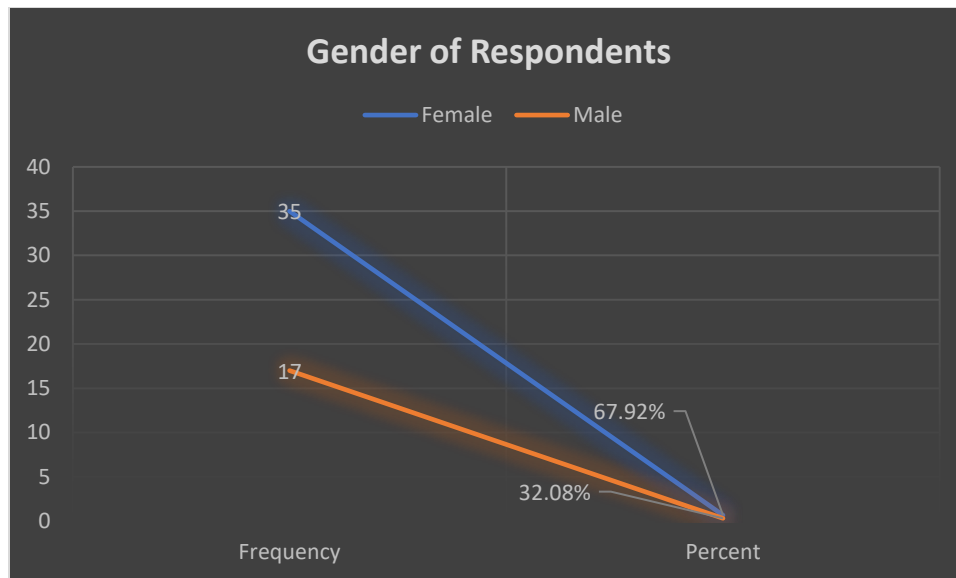
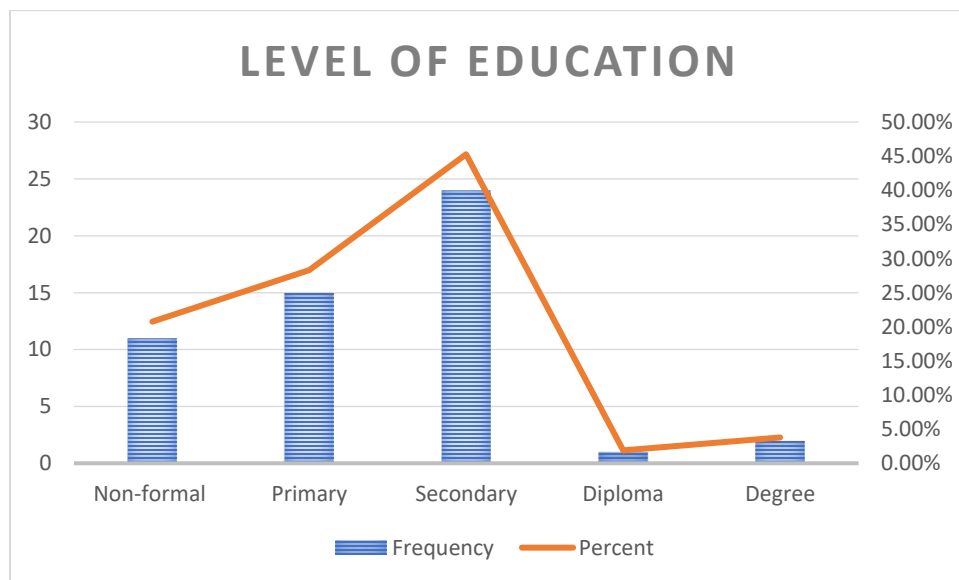


Figure 3: Indicates the Respondents' Level of Education



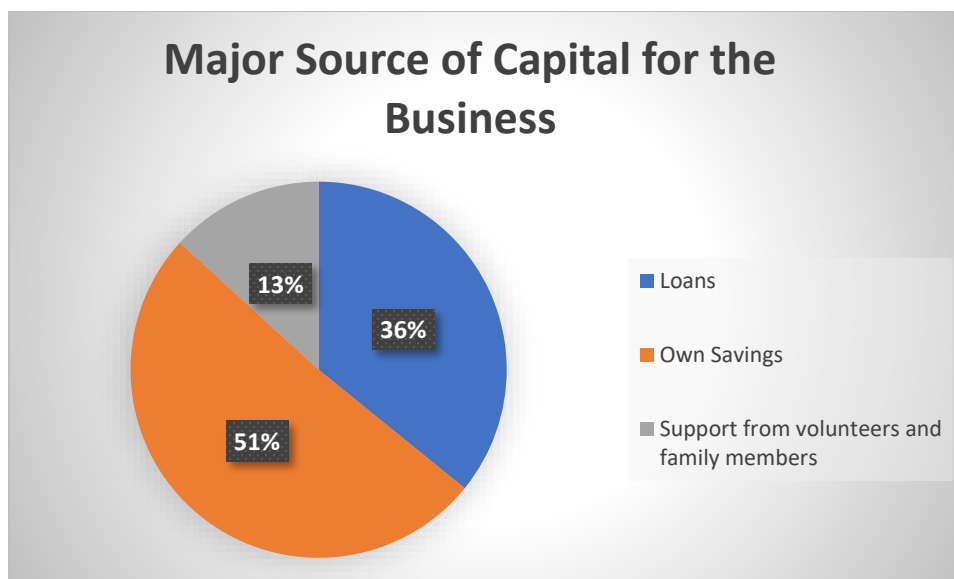
It was disclosed that the majority of the business owners have a low level of education as showcased in the graph above, which limits the growth and development of the businesses as many can hardly do book & record keeping to track business progress. There are limited opportunities for higher education and business skills.

The majority of the businesses operate on a day-to-day basis without further goals or business direction. The study, therefore, deduces that if business management, value addition practical skilling workshops, and capacity building workshops are conducted on the local level in the communities, business owners will get the required business acumen to sustain, grow and

develop their business thereby increasing income, employment opportunities and reducing poverty.

All the respondents affirmed the need for knowledge in business management, bookkeeping, record keeping, consumer behavior, technology and value addition, cost-effective production, hygiene, time management, competition, teamwork, financial literacy among other skills.

Figure 4: Showing the Major Sources of Capital for the MSMEs



It was revealed that own savings are the major source of capital for these MSMEs, they are marginal, which limits its growth and expansion, as the savings are not enough for business growth.

The Loans being the second source of capital, come with challenges such as a limited amount to borrow due to a lack of the required collateral such as land, a house, a car among others, the high-interest rates imposed by banks, and credit institutions. The government has intervened by setting up strategies and bodies, for example, Uganda Green Growth Development Strategy (UGGDS) and National Financial Inclusion Strategy (NFIS) to reduce financial exclusion and access barriers to financial services, but it has not been so successful due to lack of awareness and the difficult process of accessing such services. These financial challenges have kept many businesses at a small-scale level without hope of expansion or improving methods of production not to mention value addition.

Primary Business Activities

It was discovered that the majority of the MSMEs use agricultural produce as their raw material as 30.75% sell raw agricultural produce, 52.83% deal in value-added agribusiness like restaurants, hotels, making snacks, and selling processed food, while 16.42% of businesses

provide services. The agricultural sector is the main employer in Makindye division. Despite its prominence, it is faced with several challenges ranging from; the use of poor and local methods of production, poor transportation of produce, poor storage facilities, and limited access to financing for agriculture based MSMEs, in addition to increased taxes and market price fluctuations, which often results into losses.

The Legal Status of the Business

Nearly two out of four MSME owners had registered their businesses as sole proprietorships. The rest were not yet registered for reasons such as lack of knowledge about the need for legal existence for a business, the fear of the long registration process, and lack of willingness to pay to pay direct taxes.

Management of Business Operations

Business owners often play a hands-on role in the management of the MSMEs daily in terms of operations management, while a few business owners hire labor to spearhead the operations of the business.

Rate of Membership in Associations

Relatively few MSMEs are part of formal networking schemes amongst themselves in the region, they operate on a basis of every man for himself, and they do not consult with each other. There is a general lack of successful businesses to benchmark or even to approach for advice. There is a need to promote a mechanism for inter-institutional collaboration in MSME development by inspiring partnerships and mentorship programs.

Market Trends

Price fluctuations were another concern that business owners need to learn to cope with since in most cases they end up making major losses leading to a reduction in income, capital, and failure of paying back loans on time. This often keeps these businesses in debt, unable to grow, and operating in a survival mode.

The Durability of Raw Materials/Commodities

Since the majority of the MSMEs use agricultural products for production, they are faced with the challenge of raw materials & commodities getting spoiled/rotten, due to a lack of technology to sustain them for longer periods in the market or do value addition by processing them into better quality products. There is, therefore, a need to empower these business operators with value addition skills and provide them with seed capital to purchase the required machines to not only reduce the loss margin but also position them for competition as they bring better quality products on the market. Examples include processing the milk into yogurt, processing banana, sweet potatoes, and Irish potatoes into crisps among other value addition strategies. As these MSMEs

are supported to grow, they will have the demand and capacity to employ more women and youths in Makindye division thereby reducing poverty and crime in the region.

Effects of the Covid-19 Control Measures on Businesses

Several MSMEs were forced to either cut off workers or close due to the prevalence of Covid-19, which required the government to implement lockdowns and other measures to curb the spread of Covid-19. Uganda experienced some of the strictest lockdown measures in the world as observed by (Hartwig and Lakemann, 2020), with many businesses being forced to close or operate under strict social distancing rules, regular curfews, and challenges in accessing markets due to higher transportation and input costs. Small businesses experienced a larger decline in business activity compared to medium and large firms (Corti and Nathan, 2020).

Research Limitations/Implications

- i. Some people were not willing to freely share information about their business; they had the “what is in there for us” attitude.
- ii. Some people felt insecure to share general information about their business.
- iii. Some of them have negative attitudes towards interviewers. Some were verbally violent to the interviewers.
- iv. Some business owners were too busy to allocate the time required to answer the questionnaires.
- v. Some business owners deemed it irrelevant to share information about their business because they thought we had no tangible solution to offer.
- vi. The fear of catching covid-19 caused many especially the elderly to deny information, on grounds that interviewers may be carriers of the virus.
- vii. Lack of enough resources such as transport fees and stationery limited interviewers from reaching out to more MSMEs.
- viii. The lack of clear communication skills by the business owners made it difficult for interviewers from getting the exact information, required for the purposes of this research. Some respondents were giving misleading information.
- ix. Researchers did not finish conducting the research in time because they had multiple responsibilities on their hands. This led to the delayed analysis and compilation of the report.

Recommendations

As a result of the findings, the policy recommendations to alleviate poverty through the use of MSMEs are as follows:

- i. There should be support of market certainty for MSMEs products, particularly for MSEs to sustain the production cycle through digitalization.
- ii. Business owners be equipped to have the right mindset towards business, business management skills, among other skills to enable them to drive their business to growth and development to enable them to forsake the hand to mouth mentality, by providing capacity building pieces of training on business management skills i.e. efficient means of production, value addition and the use of modern tools and equipment, such skills will not only improve the quality of products but also increase its competitiveness on both local and international market.
- iii. There should be formation of business incubator programs to help upcoming businesses to start right and avoid mistakes made by the already existing MSMEs.
- iv. Promote mechanism for inter-institutional collaboration in MSMEs development by inspiring partnerships and mentorship programs. This will also encourage them to form a formal networking scheme in which they can sensitize and uplift one another to success.
- v. Roll out a revolving fund to offer seed capital to MSMEs and organized groups. This will address the issue of lack of capital. It will also encourage cooperativeness among businesses owners in the region.
- vi. Businesses be enlightened and guided on the right steps to legally register their businesses. This in turn will enable such businesses to win grants and loans provided by the government under its programs and strategies, which will foster business growth and development, thereby increasing the business' ability to employ more workers hence a reduction of the jobless population.

Conclusion

In conclusion, poverty reduction has been demonstrated to be a crucial factor in the success of small and medium-sized enterprises (Small and Medium Enterprises & Medium Sized Enterprises). MSMEs can help lower the percentage of the poor, the gap between the average expenditure of the poor and the poverty line and the discrepancy in the average expenditures by the poor. It was also shown that MSEs and SMEs had differing impacts on poverty reduction when indirect effects were estimated. Labor absorption in SMEs reduced the number of poor persons and the disparity between their average expenditures and the poverty line significantly, but it did not bring average expenditures closer to the poverty line. SMEs production increased significantly. Rising Medium Sized Enterprises production has a significant effect on measures of

poverty reduction derived from workers absorbed into the system. Because of this, it may be argued that the expansion of MSME output was controlled by owners, and employees in general have yet to obtain remuneration that could alleviate their economic hardships.

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