

# Challenges Inhibiting the Transformation of Subsistence Farming into Thriving Agri-business in Rural Uganda

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## **Abstract**

*This study investigates the challenges involved in the development of agri-businesses in rural Uganda, from largely subsistence or micro-enterprise production to self-sustaining viable and thriving economic entities. The aim of the study was to find out why there is a difficult transition from subsistence farming to a properly functioning agri-business in rural communities even when funding is available. The research applied a qualitative case study approach. The study found out that despite rural finance services accessibility, several other challenges hindered rural business growth and development. Such identified challenges include high cost of borrowing, lack of entrepreneurship skills, inadequate infrastructure, insufficient markets, adverse climate changes and socio-cultural constraints. It was found that the simple availability of micro-finance is not enough to ensure that rural agribusinesses prosper. Even when small businesses access such finance, other critical factors such as technology as well as physical infrastructure provision could still hinder the success of such business. Equally important is the socio-cultural environment of the business which could also hamper success even when finance is accessible.*

**Keywords:** Agri-businesses, Rural Areas, Micro-finance Institutions, Micro-enterprise, Uganda

## **Introduction**

This is an explanatory study aiming primarily at describing the challenges faced in transforming rural communities in Uganda from subsistence firms of economic production to business – oriented activities. This shift from non-income-generating activities to income-generating activities is understood in this study as business development. Such agri-businesses in rural areas of Uganda are often of small-size, mainly family-based, informal structures or community-based groups. It is business that has very low start-up capital requirements, is flexible and mostly low-education-based, given that most of the rural dwellers have low levels of formal education. Such forms of businesses are highly labour intensive and their success or failure largely depends on promoters.

Agri-businesses in rural areas of Uganda have a direct impact on various dimensions of development: political, organizational, social, cultural, and economic. This study focuses on the economic dimension and therefore involves acceleration of economic growth, reduction of inequality and eradication of (Cho & Honorati, 2014; Latawiec et al., 2014). Since most Ugandans live in rural areas, there is need for agri-businesses in these spaces to augment efforts towards social and economic progress. The contribution of agri-businesses in rural areas of Uganda can be enhanced through the development of Small, Micro and Medium Enterprises that in turn, through their commercialized production, contribute to gross domestic production (GDP) and employment.

Most rural communities in Uganda are, however, still subsistence-based (Makita et al., 2010). This study seeks to investigate the challenges that hinder the transformation of these rural agricultural activities into sustainable agri-businesses. The research focuses on the Rural Financial Services Programme (RFSP) and in particular, the operations of Foundation for International Community (FINCA) Uganda, as a case study. FINCA is a Micro Financial Institutions (MFIs) that provide financing to rural businesses in Uganda and is one of the benefactors of RFSP.

## **Background**

Large parts of rural Uganda are characterized by endemic poverty, even though enormous progress has been made in reducing poverty. This is mainly attributed to low productivity and a poor resource base, as reflected in low or no income earned amongst rural community households (Benson & Mugarura, 2013). The Poverty Eradication Action plan (PEAP) acknowledges that to effectively transform the country into a modern economy, people in all sectors need to participate in economic growth by engaging in income-generating activities. This is reflected in Uganda's policy and planning documents, especially the Poverty Reduction Strategy Papers.

For a long time, lack of access to finance has been identified as one of the key constraints to the development of businesses based in the rural areas of Uganda (Katz et al., 2014).

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Responding to this, the state has over the period engaged in different initiatives to provide subsidized and accessible finance to rural communities to encourage the development of small businesses. The state has also provided an enabling environment by establishing a new regulatory and supervisory structure for microfinance in order to increase poor people's access to financial services. The state's goal is to reduce poverty. One of the ways of doing this effectively is to aid sustainability of rural businesses. The state, through the Ministry of Finance, further provides support through capacity-building for micro-financing (Neelsen & Peters, 2011).

Other activities that the Ministry of Finance has initiated to promote agri-businesses in rural areas of Uganda include the creation of a national rural financial infrastructure to deliver micro finances to every parish and sub-county in the country. This is aimed at integrating the rural areas into the financial system. The strategy focuses on mobilizing savings and use of the same deposits to provide affordable low interest loans to individuals and groups in rural communities for business development. This works through Savings and Credit Organizations (SACCOS).

Several development agencies and the donor community including the European Union (EU), the Danish International Development Agency (DANIDA), Department for International Development (DFID), United Nations Development Programme (UNDP), Germany Technical Cooperation (GTZ), and the International Fund for Agricultural Development (IFAD) have also partnered with the state to offer subsidized and accessible financing to among others, institutions that promote agri-businesses in rural areas of Uganda.

The study focuses on The the Rural Finance Services Programme (RFSP), one of the programs IFAD funds through the state to promote small business development in the country. The programme supports small-holders and the poorest rural populations with special emphasis on women, to move from subsistence production towards participation in the market economy. Participants include active MFIs, MFI Apex organizations, training institutions and commercial banks that serve the rural poor.

The study focuses on ten agri-businesses in the rural district of Mbarara. They are funded by FINCA (Uganda), a deposit taking MFI that benefited from the state's rural financial services Programme (RFSP). The RFSP, under the Ministry of Finance, supported the micro finance outreach plan, aimed at integrating rural areas into the financial system. Previously, RFSP also supported MFIs through capacity-building and training for the promotion of a business culture. Such rural businesses often operate in the informal sector and are regarded as survivalist enterprises.

Mbarara is located in southwestern Uganda, about 266 km from Kampala City. It has a tropical climate, with a bi-modal average rainfall pattern of 1200 mm per annum. Rainfall occurs from August to December and from February to May. Agriculture is the main economic activity in Uganda. It provides employment for 72% of the total labor force. However, in spite of different state and NGO initiatives to foster increased business activities in Uganda, agriculture in Mbarara, just as in most parts of Uganda, is predominantly

practiced for subsistence. That is, people mostly engage in production of crops, rearing of livestock and related activities for home consumption.

According to the Uganda Bureau of Statistics, the population in 2002 was 361,477; its population density was 202; it had a mean household size of 4.7 persons. The sex ratio was about 95 males to 100 females. About 61% of the households have access to safe water, while slightly less than a quarter (14.3%) of the households has access to electricity, and 2.2% has no access to a toilet facility. Almost all households (95.4%) use firewood and charcoal for lighting. About 25.4% of the total households use “word of mouth” as their main source of information while roughly 68.3% of the households practice subsistence farming.

## **Statement of the Problem**

The state has continuously provided financial assistance to rural communities to promote business development. Despite these efforts to make businesses in rural areas of Uganda thrive, large parts of rural Uganda are still trapped in subsistence production with little or no income-generating activities. A number of studies recognize that small businesses are the engine of growth for developing countries like Uganda ((Makita et al., 2010; Ortiz et al., 2013; van der Vleuten, Stam, & van der Plas, 2013). This study seeks to find out what hinders the transition from largely subsistence production to business-oriented economic activities in Ugandan rural areas, especially where funding is accessible.

The objective of the study is to identify challenges, amidst different rural financing initiatives, that hinder transformation of rural businesses from subsistence production to market-based production. The study analyzes views of local beneficiaries of rural financing through FINCA (Uganda) as one of the MFIs that benefited from IFAD-funded rural financial services programme. This naturally led to the following research questions:

- What challenges do rural recipients of these funds face, that hinder the growth of their businesses?
- What challenges do the benefactors face that might hinder the success of the targeted agri-businesses in rural areas of Uganda?
- What would be an appropriate policy framework to promote the transformation from subsistence production to market based production in rural Uganda?

## **Methodology**

The data collection techniques used included semi-structured interviews amongst two categories of respondents. One category included the funders and benefactors of programmes targeting rural development. Three semi-structured interviews were held with the IFAD, RFSP and FINCA MFI officials. The second category comprised ten rural

business operators of Kanyina Village lending group, financed by FINCA- Mbarara region. Ten semi structured interviews were held at their respective business premises that allowed for observation as a supplementary technique for collecting data. Documentary analysis was also applied by using reports, reviews, workshop proceedings and planning documents from IFAD, RFSP and FINCA offices.

The rural micro business operators were selected on the basis of different economic activities they were involved in. Given the female to male gender composition of FINCA village lending groups of 75% to 25%, six women and four men were selected for the study. However one male respondent was not available at the time of the interviews and was thus substituted by the closest FINCA female client in the group. Seven females and three male respondents were interviewed.

## **Presentation of Findings and Discussion**

This section analyses and interprets the research findings on challenges that hinder the development of rural agri-businesses. The challenges as experienced by promoters of rural financial services access and rural recipients of business loans are analyzed under themes, arising from the respondents' views. These were represented by participants from the RFSP, FINCA MFI and ten micro-business operators from Kanyina village lending group, who are clients of FINCA Mbarara branch. The key challenges identified included high cost of borrowing, lack of entrepreneurship skills, inadequate infrastructure, insufficient market, adverse climate changes and socio-cultural constraints. These all affect the business environment in which rural agri-businesses operate.

### **High Cost of Borrowing**

High costs of borrowing are reflected in institutional challenges such as flat and high interest rates, weekly loan repayment structure, guaranteeing system where four group members are required to guarantee each borrower, and stringent requirements for substantial loans. The high cost of borrowing confirms observations by the state and other players (Kassie, Shiferaw, & Muricho, 2011; Kepe & Tessaro, 2014). For this reason, it makes sense that the new strategy for RFSP for the years 2008 to 2011 had to go through SACCOS at every sub-county level, partly due to the concern about high interest rates charged by MFIs.

Historically, small businesses in most developing economies face financial constraints when banks either charge high interest rates or due to lack of collateral making bank credits hard to access (Jia, Xiang, & Huang, 2013). Similar challenges were identified in the study where 80% of the micro-business respondents highlighted the fact that interest rate of 3.5% per month, which translates into an annual rate of 42% per annum, is

too high. High interest rates generally hinders borrowers from thriving while it discourages other potential businesses from borrowing. These high rates push the cost of doing business in such rural communities high yet the rate of return on these businesses is low. The high interest rates, in addition, make the borrowers live in fear. It was also evident that high interest rates discourage savings since most of the rural micro-businesses do not break-even. There are no profits to either save or reinvest in the businesses to expand it further.

The weekly loan repayment structure where borrowers pay weekly installments plus compulsory savings was also mentioned as a common challenge to the development of rural agri-businesses. The compulsory savings are a pre-qualifier for future loans, where each borrower saves 10% of the amount they intend to borrow. Some of the micro-enterprises in the study do not generate daily or weekly income and for those that do, it is often insignificant. Sixty percent of the respondents reported that the weekly repayment structure was a hindrance to business growth because this system does not give business operators an opportunity to reinvest back in the business due to weekly collections. For rural based micro-enterprises where the turn-over is low or agricultural-based enterprises where production is seasonal, high weekly repayments hinder small business growth. As a result, some loans were being paid in a longer period than approved by the finance provider.

On the loan structure, three respondents mentioned that charging a flat interest rate on the full amount makes borrowing more expensive. Even when the outstanding loan amount reduces, one still pays interest on the initial full amount borrowed. These respondents would like rural MFIs to revise such repayment policies so that interest is charged on a reducing balance basis as opposed to the compound rate charged on total money borrowed.

The system of guaranteeing other members' loans was also reported during the interviews by two respondents as a hindrance to business growth. On the one hand, it makes some members reluctant to work because they know that should they fail to pay, group member guarantors will pay. On the other hand, it discourages group members from guaranteeing others because they fear that they may have to pay should the guaranteed fail to pay. Such payments eat into the pockets of individual's businesses which is a challenge.

Many observers of rural businesses mention that majority of marginalized people such as the rural poor and women are excluded by commercial banks because of the stringent borrowing requirements such as property and personal insurance (Dlakavu 2006). This is not different from what was observed among the rural micro-business operators in Mbarara. All the ten micro-business operators interviewed pointed out that it was easy and fast to access a loan once one had guarantors and the 10% saving of the total amount one intended to borrow. However, 30% of the respondents raised concerns about the stringent requirements for bigger loans. There is concern about the absence of top-up facilities just in

case someone needed quick cash and still has a running loan and is then forced to first pay up. Under such circumstances, multi-borrowing is encouraged.

## **Lack of Entrepreneurship Skills**

Several academics acknowledge that entrepreneurship skills are important for a business to succeed. Generally speaking, many micro-enterprises in Africa lack the necessary knowledge, skills and experience to manage a business beyond the subsistence level when it requires business operation and control skills, marketing, selling, distribution and general business management (Akpan, Essien, & Isihak, 2013). Other scholars concur that above the survival level, there is need to link credit and training for a business, because at that level, record keeping, cash and personnel management are vital (Benson & Mugarura, 2013; Chowa & Elliott, 2011). Lack of record keeping makes it difficult for a business operator to estimate their incomes. Human capacity problems such as low levels of education, lack of technical and business management skills affect the performance and growth of micro-enterprises. It became apparent that personal characteristics and both technical and business skills are needed by the business operator to get a more holistic perspective on how to run a business.

In this study, it was found out that all the respondents did not keep business records. No records were kept on sales, profits / losses, expenses, revenue, or even records of debtors. Half of the rural micro-business operators interviewed reported bad debtors as a challenge to the growth of their businesses but none of them had a record of the exact amount owed. As a result, such vital business information is forgotten in the long run, as these business operators largely depend on their memories to collect debts. Lack of basic record keeping makes business planning and management problematic. This also affects those businesses where production is seasonal such as agriculture-based businesses. Three respondents reported seasonality of agriculture production as a hindrance to business growth. However, none of them had a record of estimates of their turn-over during peak seasons, which would otherwise help them to plan repaying their loan obligations during off peak seasons.

The experiences mentioned are coupled with the inability to exploit business opportunities and assess business risk. There is evidence of lack of innovation to produce highly demanded products or engage in marketable and profitable business. For example, it was observed that many people engaged in similar businesses such as raring chicken. This makes the market saturated. There is general lack of business skills to assess strengths, weaknesses, opportunities and threats of the business environment. One respondent mentioned that he took over two years to start doing business because he had no practical business skills and did not know how to get started. He was uncertain whether he would obtain a profitable outlet for his products.

Although experience is not a must in order for one to succeed in business, general knowledge of the business to be undertaken by the operator is required. Forty percent of the rural micro-business respondents said it was not easy to begin business due to fear and lack of capital. All of them began their businesses with only borrowed funds and no personal equity in these businesses. This means that the businesses are heavily indebted, paying a lot of money in interests. This big magnitude of the debt in the individual businesses affects the performance of the businesses adversely.

The low levels of education can be a major contributing factor to the gap in entrepreneurship skills. Almost all the rural business respondents (90%) acquired primary level education, while only one respondent (10%) studied up to secondary level of education. They all have not received any business skills training. This partly explains how poorly businesses in rural areas are managed. For example, 70% of the respondents take business loans but use the money on non-business expenses.

Low investments and savings is a vicious cycle bedeviling small investments that result in low production, low marketable surplus, low income, and low reinvestment potential hence low business growth. This may partly result from the limited amount of funding available to these businesses thereby potentially limiting the level of technology or size of production. As is apparent, this can be a hindrance to business growth because it results in little produce to sell, and less chances of re-investment which eventually retards the business.

The Foundation for International Community Assistance Micro-Finance Institution (FINCA MFI) gives out loans to individuals from minimum \$20 (US dollars) to a maximum of \$2000 (US dollars). However, all the rural micro-business operators interviewed borrowed between \$75 – \$350 (US dollars). Forty percent of them reported that they feared to do business and feared to borrow money. Others did not have the collateral required to borrow large sums of money above \$350 (US dollars). As such, people keep subsistence production because of the fear and uncertainty of bigger businesses. This could further be attributed to lack of entrepreneurship skills, lack of business planning and management skills, lack of knowledge on business risk assessment, which may all create fear and uncertainty. With 80% of respondents mentioning that interest rates are high, this also discourages people from taking bigger loans. Rural businesses are thus unable to take advantage of economies of scale in production, as enjoyed by larger investments.

### **Inadequate Infrastructure**

Physical infrastructure can be seen as social overhead capital. Physical economic infrastructure includes public utilities such as electricity, telecommunication, piped water supply and public works like roads and railways. Infrastructure plays an important role in the economic development and human well-being. In most developing countries, states have tried to invest in infrastructure, but most rural areas still lack the quantity and quality of the infrastructure needed to assist the modernization and diversification



of production (Hashemi & Hedjazi, 2011). Many authors acknowledge that lack of basic infrastructure impacts negatively on the ability of rural people to successfully run businesses (Cook, 2011; Hazelton, Windhorst, & Amezaga, 2013; Rijkers, Söderbom, & Loening, 2010). Although more than 85% of Uganda's population lives in rural areas, they have little access to infrastructure services such as roads to transport their produce and technologies that could help them increase production. The Ugandan Minister of Finance budget speech of 2007/8 also mentioned that the high cost of doing business locally is a challenge.

The challenges were confirmed as hindrances to rural agri-businesses development in rural areas of Uganda. Thirty percent of the rural micro-business respondents mentioned that operating costs were high thus hindering business growth and survival. Such costs include high transport costs, lack of clean tap water and high costs of telecommunication. It was noted that the roads in the villages are neither tarmacked nor well maintained and this was made worse by the long distance from the urban centres. The researchers believe that the poor roads, given the long distances from the urban centers, contribute to the low prices offered by urban traders who pick agricultural produce from these villages.

Some businesses also lacked space for expansion both in terms of insufficient trading premises/spaces and lack of enough land for agricultural production. There was also a storage crisis for perishable products such as fish, and fruits as most of the rural micro-business operators interviewed do not have electricity or refrigeration facilities. The tap water one of the business operators used for his business was expensive, as this was charged per 20-litre container of water whereas he uses between ten to twenty such containers of water a day, depending on how much mud fish he has in store. The study found that the poor often consume less infrastructure services but pay higher prices than the rich. This is what some of these rural survivalist enterprises experienced when, for example, getting water from vendors instead of being connected to the water system.

Although all the ten rural micro-business operators had cell phones, they rarely use them for business purposes. They noted that making calls is very expensive. All the three male rural business respondents mentioned that they use their phone for business-related activities especially to follow up debtors and middlemen. All the female respondents said that making calls was expensive, hovering under a quarter USD per call, depending on the phone network. Many people therefore keep phones for emergency communication in cases of deaths and illness and so on.

The literature showed that inadequate information and communication puts small businesses at a disadvantage. It was found out that information is mainly shared by word of mouth when group members meet weekly. But such information was mainly about loan repayments and collections, and loan applications. In the same weekly meetings, new borrowers were taught by FINCA officials how to repay, how much, the purpose of making weekly savings-as a requirement for future borrowings and each group has a cash

book and a control book. The group was taught how to balance these group books and how to bank the collected loan repayments. There was no business information sharing on markets, prices, or demanded products. It was also observed that two households had electricity. However, there was no central database where members can market their products or to get collective bargaining power to avoid price discrimination.

## **Insufficient Markets**

Product marketing is needed for any business to grow, and it is even more important for rural areas where production is demand-driven (Benson & Mugarura, 2013). Insufficient markets are a common challenge that small businesses face. This is often attributed to either lack of product demand or the nature of small enterprise marketing problems. High marketing costs hinder effective marketing in most developing countries. Reports show that in Africa, where less than 50% of the rural population lives close to an all season road, inadequate infrastructure services escalate product marketing costs (Chamberlin & Jayne, 2013; Kijima, Otsuka, & Sserunkuuma, 2011). There is lack of market information systems that is vital to keep the producers and traders on the demands and changes in the general market. Market information systems are vital for disseminating price information, such as would be enhanced by the use of Internet, Short Message Service (SMS), radio and market chalkboards).

A third of the rural micro-business respondents reported that there was no market for their produce. This could be partly because the general business environment in rural areas is poor. Poverty, low levels of education and low levels of income are some of the contributing factors which lead to little or no disposable money to spend for the average household. The other reason for poor markets is lack of business skills, information and technology to produce highly demanded commodities to compete within and outside their local communities. Farmers still use hoes for cultivation, knives for harvesting millet and hands to weed banana plantations. There is a tendency for most people to do similar economic activities in the same area. This makes the market crowded and results in low prices because of over supply.

All the respondents market their produce individually. There is lack of proper networks for marketing and distribution. This limits their bargaining power and increases the rural producer's reliance on middlemen, who pay the producers little compared to the costs of production. This can also be attributed to the lack of institutional arrangements for production promotion and marketing support. Other businesses observed during the research traded in perishable products such as fish and fruits, yet lacked the basic infrastructure to transport and store these products. More often, these micro-business operators sold their produce at a give-away price to avoid waste. As various authors on the subject note, market facilities in developing countries are limited, which makes it difficult to trade in perishable goods (Akpan et al., 2013; Ortiz et al., 2013). Such facilities include electricity and cold storage facilities as well as covered shops.

Agri-businesses in Ugandan rural areas further face domestic price inelasticity because the country is land locked. Again, weather changes such as drought also increase the impact of domestic shocks (Burney & Naylor, 2012; Wang, 2010). Low commodity prices were also identified by the study as a hindrance to rural Small, Micro and Medium Enterprises (SMME) growth. This could be partly because of inadequate infrastructure in the rural areas, which makes traders offer low prices because of the high transport costs to distant markets.

Other businesses were dependent on middlemen because rural SMME operators lack the capacity and skills to market their products at better and profitable prices. It was also noted that some agricultural produce such as the millet grains produced were of low quality, having been affected by bad weather, and as such, could not attract high prices. There was also evidence of market saturation as most of the businesses were involved in similar economic activities such as poultry and banana growing.

### **Adverse Climate Changes**

Different sources in the literature highlight the fact that climate has an impact on development (Seo, 2014; Webber, Gaiser, & Ewert, 2014). It is now a well-known fact that the effects of climate change have more adverse effects on poor regions in the developing countries, and on the quality and quantity of water supply and soil fertility. For countries located in the tropical zone, extreme heat and humidity leads to fast deterioration of soil quality and other natural resources. Climate changes also affect production of certain crops and the health of certain animals.

About 60% of the micro-business respondents are directly or indirectly involved in agricultural activities. As such, climate changes which affect agriculture, impact on these businesses. Bad weather such as the prolonged drought in 2007 affected farmers in the area and many were still lamenting their losses at the time of the fieldwork for this study. The usually expected rains of August – September had reduced and most millet growers in the area of study were affected as evidenced by the poor quality of the millet that was being harvested at the time of the study. Wind was also mentioned as a common threat to the banana plantations.

The climate changes also have an effect on the lives of the business operators and their families' health. For example, malaria is most rampant during rainy seasons when mosquitoes breed in large numbers. This directly or indirectly affects man power in the businesses as reflected in the 60% of the rural business respondents who mentioned non-business expenses such as medical costs. These costs lead to business funds being diverted to other activities.

External shocks such as the political climate to a certain extent also affect rural agribusinesses development. One respondent reported that her business was affected as a result of the post-election violence in Kenya, following the December, 2007 elections. This violence caused a fuel crisis in Uganda as the country depends on Kenya for its fuel imports. This fuel crisis affected Uganda in general as there was limited movement of goods from rural areas to urban centers. Hence peace, security and a favorable political climate are a contributory factor for a favorable business environment. As noted in the Uganda Poverty Reduction strategy paper (2005:14), the Northern part of Uganda remains the poorest region in the country largely due to the prolonged insecurity in the Northern region.

### **Socio-Cultural Constraints**

Socio-cultural constraints observed include, women over-burdened by domestic chores, theft, poverty and behavioural barriers. Studies elsewhere in the world found out that many women qualify to take rural micro-credit facilities, but not all of them actually exercise this option (De Vita, Mari, & Poggese, 2014). This could be partly attributed to lack of time, experience and skills. Others feared the consequences should they fail to repay the loans. As such, they had failed to take the first step to overcome their personal situations. Social norms have an influence on household strategies and the roles men and women perform in a family. For example, there are regions where norms dictate that women grow food crops while men grow cash crops (De Vita et al., 2014; Morvant-Roux, Guérin, Roesch, & Moissoner, 2014). At the micro level, the cultural norms in many African countries make it difficult to start and operate businesses due to their traditional reproductive roles.

Data collected revealed that the situation is not much different in Uganda. One female respondent said that she was over worked. She did almost all the work single-handedly. While she was in the garden or attending to other household activities, the small retail shop she operated stayed closed. The researchers were able to observe first-hand how women juggle activities: they run household chores; cook for the family; fetch water; collect firewood; clean the house and compound; garden; and run an income-generating activity. This left little time to concentrate on and grow a business. On a positive note, women interviewed for this research were not discriminated against in doing business and accessing finance. Whether in Mbarara and Bushenyi districts or the neighboring districts of Ibanda, Ntungamo and Kabale which are all financed under the FINCA Mbarara regional branch, all respondents concurred that there was no discrimination.

Another socio-economic related challenge identified was that of theft. Thirty percent of the micro-business operators interviewed reported that theft was common in their villages and a challenge to business sustainability. This ranges from thieves who break into homes and steal money, to untrustworthy employees who steal sales proceeds from businesses where they work. This may be as a result of moral decay within these

communities as well as rampant poverty. This may be aggravated by the low levels of education amongst the SMME operators as some of them do not have measures in place to detect financial mismanagement. They lacked book keeping skills and do no proper stock-taking. Such loopholes are exploited by untrustworthy employees.

One of the constraints the private sector in Uganda face is the difficulty that business operators have in enforcing contracts. During the research, this challenge was identified as a threat to rural SMME development. The issue of bad debtors was raised by 70% of the micro-business operator respondents in different businesses: food grain; poultry products; retail shop and restaurant businesses. This was reported by both male and female respondents. One of the respondents, mentioned that it was expensive to take these debtors to the local courts who might not help after all. The other six respondents just did not have hope in taking the legal route for debt recovery because they thought it just does not work.

Several reasons could be given for this common practice in the area. Rampant poverty, for one, may be a contributing factor. For example, the researchers observed an old man probably in his late eighties taking salt on credit from one of the respondents who is a neighbor. This old man may have the will to pay but apparently had no means or any source of income. In addition, laws and regulations may not be explicit and accessible by all residents. Legal barriers result from a limited formal structure. In addition it is expensive for micro-businesses to make use of legal services while conducting business.

## **Conclusion**

The research found out that there are several factors that are required to transform subsistence agriculture to sustainable commercial ventures. To fulfil the key mandate of lessening poverty, creating employment, and bridging the in-equality gap, income generating farming in rural areas need much more support than mere access to finance as crucial as funding may be. As highlighted by the study, even the access to finance should be affordable, given the expected rate of return, if such funding is to be economically meaningful to the recipients. The study revealed a number of instances where the interest rates charged were often practically higher than those of leading commercial banks in Uganda. Again, Some loan conditions seemed tailored to reward individuals but also to punish groups in the event that beneficiaries failed to pay back the money. If the challenges pointed out by the research are dealt with positively by the different stakeholders and put into action by the government and strategic development partners trying to provide finance to rural dwellers, a positive shift towards sustainable agri-businesses is expected.

The most significant finding from the study is the fact that even where finance is available, this does not necessarily indicate that businesses will be successful. It was eye-opening to find out that there are various dimensions from which one could plausibly argue that the micro-financing was in some ways more expensive and cumbersome than

the traditional finance business people often obtain from large banking or financial institutions. It would seem that both the government as well as other well-intentioned strategic development partners need to go beyond what earlier literature had prescribed in order to arrive at better ways of supporting emerging rural businesses.

Further research is, however, required. There is need to, for instance, benchmark with other economies where rural areas have already achieved success stories of sustainable, commercial, small scale agri-businesses such as in China and Cambodia. It must also be borne in mind that this was a limited qualitative research that looked at a specific case. It would be interesting if in the future, a representative quantitative research is undertaken to confirm or otherwise valid these findings in a much more robust manner. Such an undertaking would provide policy makers and other stakeholders with the evidence required to arrive at a potential framework to grow many more agri-businesses into thriving going concerns capable of alleviating poverty and increasing employment in a meaningful scale in terms of economic development.

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