



**BASIC ACTION RESEARCH
FRAMEWORK FOR A RESONANCE
TEST INQUIRY OF LOCAL GREEN
ENTERPRISES IN MBARARA
CITY UNDER THE RIVER RWIZI
CATCHMENT**

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ACODE Policy Briefing Paper Series No.64, 2022

Funded by the European Union



Published by ACODE

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Citation

Kaggwa, R., Werikhe, A., and Ntambirweki, B. (2022). *Basic Action Research Framework for a Resonance Test Inquiry of Local Green Enterprises in Mbarara City under the River Rwizi Catchment*, Kampala, ACODE Policy Briefing Paper No.64.

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1. INTRODUCTION

1.1 Background

Uganda's economic landscape is dominated by Micro, Small and Medium Enterprises (MSMEs) which are distributed in different spheres of economic activities including services (professional and non-professional), manufacturing, metal fabrication, wood works, construction, environment conservation and management, and agribusiness among others¹. There are both formal and informal MSMEs though most micro and small enterprises are informal and are found in urban areas such as cities, municipalities, and townships.

MSMEs are emerging as Uganda's engine of growth and socioeconomic transformation as the country pursues sustainable industrialisation for inclusive growth. They play a central and strategic role in facilitating production and supply chains, value addition, innovations and development of technology. MSMEs are making major contributions to; employment creation especially for the youths and women consequently promoting inclusiveness, providing inputs to medium and large scale enterprises, generating local revenue and producing goods and services more especially for the consumption of low income earners².

1.2 Greening MSMEs

Given their big numbers and pivotal role in socioeconomic transformation of the informal sector and the country in general, MSMEs present a significant entry point for greening MSMEs to harness the corresponding dividends of green jobs, accelerated economic growth, inclusive societies, and overall contribution to the national green economy transition. For Uganda, greening MSMEs contributes to unlocking their immense potential to support national efforts in socioeconomic transformation. It enhances their competitiveness and improves market access, while also reducing carbon emissions. As globally demonstrated, greening MSMEs promotes the adoption of low-carbon and energy efficient technologies and contributes to mitigation and building resilience to natural disasters and climate-related risks and facilitates engagement in the Global Value Chains (GVCs).

Further, green MSMEs/LGEs are leading the way to circular economies promoting innovation in new products, material use efficiency and undertaking services and processes that promote environmental sustainability, contribute to poverty reduction, generate employment

1 UBOS. 2020, National Statistical Abstract; MTIC 2019, National Policy on Small and Medium Scale Industries, Stanbic Bank 2020

2 NPA, National Development Plan 2020/21-2025/26)

opportunities and foster socially inclusive growth³.

1.3 Challenges

Their potential and immense contributions notwithstanding, MSMEs are facing major challenges that constrain their expansion and effective contribution to economic growth and improved livelihoods. These challenges can be categorized in two broad areas; external and internal. External challenges emanate from the external environment such as weak policy, institutional and regulatory frameworks manifested through unsustainable financing, inaccessible markets and inadequate business support services by mandated institutions. While the internal challenges are largely linked to their informality and entail; low knowledge and skills base, poor record keeping, and limited exposure to green technologies and practices all of which constrain their access to prevailing support services availed by state and non-state actors. Unfortunately, these challenges have persisted despite the various determined initiatives taken by the state and non-state actors to resolve them.

Consequently, the majority of MSMEs suffer from sustainability challenges indicated by Uganda being touted as one of the most enterprising countries in the world, yet with the highest mortality rate of MSMEs surviving between 1 – 10 years. The sustainability challenge facing MSMEs and the need to unlock their potential, makes the case for their greening a matter of top priority and urgent attention. Empirical evidence from countries such as South Korea confirms that greening is one of the most powerful tool that can be deployed to unlock the potential of MSMEs. Additionally, given that MSMEs account for about 70 percent of Uganda’s manufacturing sector (NDPIII 2020/21-2024/25), targeting and greening them will inevitably have a multiplier effect on the entire national sustainable industrialization agenda. However, harnessing the dividends of greening MSMEs is partly reliant on ascertaining prevailing barriers and challenges to greening, expansion and further innovation, identifying current responsive actions by MSMEs, collating persistent challenges despite the existing interventions and prescribing evidence-based policy recommendation. A resonance evidence test inquiry provides one of the avenues for collecting this information.

It is against this background, that the Advocates Coalition for Environment and Development (ACODE) in partnership with the Green Economy Coalition (GEC), commissioned a Resonance Evidence Test Inquiry of Local Green Enterprises (LGEs) in Uganda with a special focus on the River Rwizi Catchment part of Mbarara city.

3 A contextual financial analysis of green MSMEs in Uganda. Available at <https://www.acode-u.org/uploadedFiles/PRS105.pdf>

1.4 Objectives of the assignment

The resonance test evidence inquiry sought to develop an action research framework through which the challenges and issues faced by green MSMEs (LGEs), their responsive actions and the results of those actions were explored. It is expected that the action research framework will generate evidence and offer critical insights into the underlying causes that have given rise to these issues and inform policy recommendations that will help to unlock the potential of LGEs.

Specifically, the assignment sought to develop a basic action research framework for a resonance test inquiry of groups/sets of local green enterprises that will help to:

- i. Identify issues and challenges faced and establish the actions taken to meet them;
- ii. Record reasons for the choice of those particular actions;
- iii. Establish what happens as a result of the actions in a way in which these results change their actions
- iv. Inform policy recommendations to expedite unlocking the potential of green MSMEs/LGEs.

2. METHODOLOGY

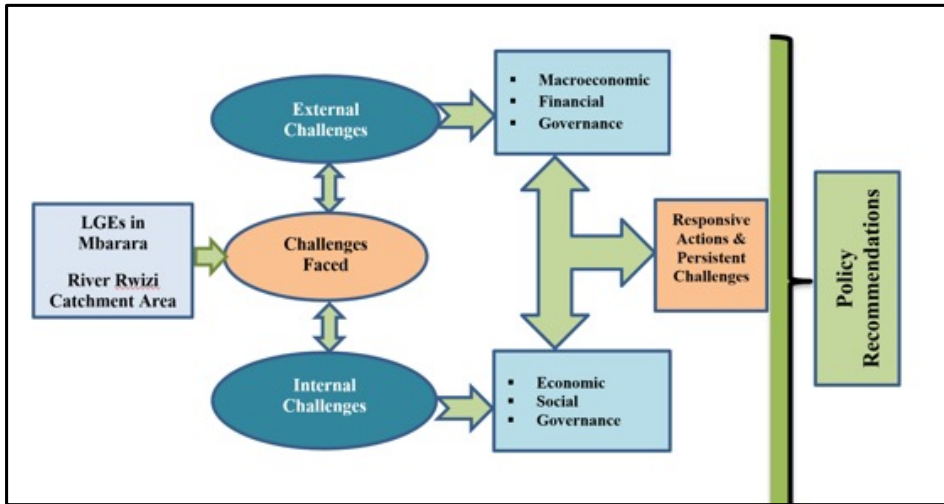
This section presents the approach adopted to undertake the resonance test evidence inquiry, the steps thereof, sample size and sampling techniques used, and the data collection tools deployed during the research. The section further illustrates an Action Research Framework that can be replicated and deployed in related research studies targeting MSMEs in other regions of the country.

2.1 The Action Research Framework

The resonance test evidence inquiry focused on developing an action research framework to enable a clear understanding of the key issues affecting LGEs, the responsive actions taken and the results of those actions, and proposed policy recommendations. LGEs were grouped around different areas of green initiatives. A questionnaire was then administered to the selected LGEs revolving around key issues affecting LGEs, the actions taken in response to these issues, the results of those actions and proposed recommendations. Key issues affecting the performance of LGEs were grouped into thematic areas based on the Contextual Financial Analysis Study and green literature review.

The resonance of the key issues, messages, initiatives and tone that kept on being echoed and reverberated from the various LGEs were recorded and this formed the evidence base that informed the proposed interventions and policy recommendations.

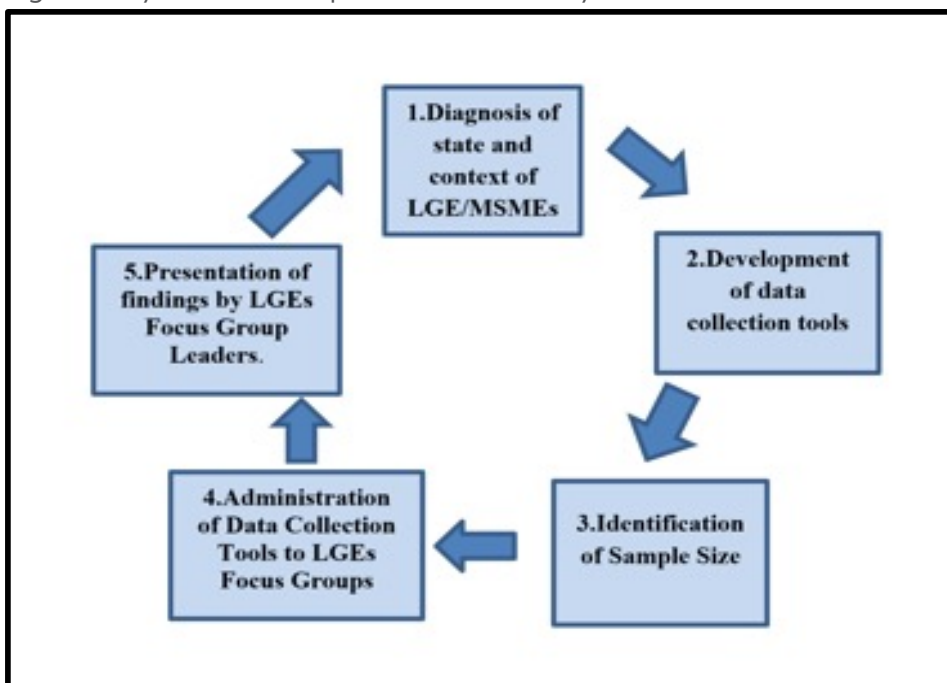
Figure 1: Action Research Framework



Constructed by Authors based on objectives of the study.

The Action Research Framework was informed by a preliminary conceptual framework that guided the sequencing of steps required to collect required data. This framework is illustrated in Figure 2.

Figure 2: Synthesis of Steps Used in the Study



Source: Constructed by Authors

The key steps followed in undertaking the resonance test evidence inquiry are highlighted below:

- i. **Diagnosis of State and Context of MSMEs/LGEs.** The Resonance Inquiry test was nested in the Contextual Analysis of Local Green Enterprises undertaken earlier with an objective of mapping out Local Green Enterprises and the context under which they operate.
- ii. **Development of Data Collection Tools.** The Resonance Inquiry Test followed a mixture of primary and secondary research approaches. It relied on both the literature from the Local Green Enterprises Contextual Analysis and also primary data collected using a Questionnaire that was administered through focus group discussions of LGEs.
- iii. **Define a representative sample of targeted LGEs in Mbarara City.** The targeted LGEs were mainly those around River Rwizi in Mbarara city. The selection of River Rwizi was based on the fact that it is a key ecosystem which supports many economic activities and livelihoods

throughout its catchment area but it is highly degraded and greatly endangered.

- iv. **Sample size.** Given the time, the budget and need for precision or reliability, LGEs were categorised around seven (7) green thematic areas out of which eleven (11) LGEs were selected for further review and analysis.
- v. **Non-random sampling techniques were used.** The selection of LGEs was based on proximity to R. Rwizi, undertaking activities (green interventions and activities) that help to protect the river directly or indirectly and earlier participation or engagements on green growth initiatives organised by ACODE and other stakeholders. Specific LGEs initiatives in Mbarara city were identified and were categorised as indicated in the Table.1.
- vi. **Administration of Questionnaire to Focus Group Discussions (FGDs).** The sampled LGEs were divided into focus group discussions based on their areas of operation such as environmental conservation, tourism, agribusiness, recycling and circularity among others. The questionnaire probed for key issues in macroeconomics, financial, governance- policy, legal and institutional; coping mechanisms; persistent challenges and proposed areas of government interventions.
- vii. **Presentation of Findings/Plenary sessions** – The administration of questionnaires was followed by presentations by leaders of each Focus Group. This was accompanied by plenary discussions for further clarity and improvement of findings. The Results of the Focus Group Discussions and Plenary Sessions have been analysed and organized further into a succinct form elaborated in Table 1.

Table 1. Categorisation of LGEs and their Activities

S/N	Categorisation of LGEs	Name of LGE	Activities
1.	Green Enterprises in Manufacturing		
2.	Green Enterprises in Environmental Conservation and Protection	Abahumuza Development Group	<ul style="list-style-type: none"> • Environmental Protection and Conservation • Food security and Livelihoods support • Humanitarian Support activities
		Mbarara Environment Protection and Development Initiative	<ul style="list-style-type: none"> • Afforestation by planting fruit trees of different species • Provide seedlings of different species at subsidized prices • Raise nursery beds of different species
		Dubai Garden Centre Uganda LTD	<ul style="list-style-type: none"> • Establishing green spaces along river Rwizi Catchment area • Gardening, landscaping works, plants, pots, accessories and flowers to homes, hotels and institutions
		Ba AJs foundation bees enterprise	<ul style="list-style-type: none"> • Package and brand honey from the bee hives • Make candle works from honey cobs
		Ankole Diocese- Bamboo Trees growing	<ul style="list-style-type: none"> • Growing of different species of bamboo tree from parish to parish. • Sensitize the community on how to grow trees
3.	Green Enterprises in Media (IEC)		
4.	Green Enterprises in Agriculture and Tourism	Kicwamba Fish Farmers	<ul style="list-style-type: none"> • Fish breeding
5.	Enterprises in Green Energy		
6.	Enterprises in Waste Recycling (Waste to Wealth)	Waste Watch Initiative (U) LTD	<ul style="list-style-type: none"> • Plastic waste recycling

S/N	Categorisation of LGEs	Name of LGE	Activities
		Kima investments	<ul style="list-style-type: none"> • They make tiles for roofing from plastics • Rubbish transportation
		Koyinawo Waste Management Services LTD	<ul style="list-style-type: none"> • Transportation of waste products to dumping site • Provide medical water management
		Bamusalim Services LTD	<ul style="list-style-type: none"> • Provide Interlocking stabilized soil blocks (ISSB) from Murrum mixed WITH cement and sand • Pavers from recycling of plastics e.g. plastic bags and bottles
7.	Associations that promote green practices and business models	National Slum dwellers association of Uganda	<ul style="list-style-type: none"> • Reduce poverty through training vulnerable groups in skills like saloon and welding • Achieve gender equality and empowering of women and girls by ensuring availability and sustainable management of water and sanitation for all

2.1.1 Questionnaire

To test the resonance of key issues affecting LGEs, the actions taken, why those actions and their results, a questionnaire was developed and administered. The questionnaire was based on a wide literature review and earlier studies on LGEs, especially the latest Contextual Financial Analysis of LGEs done by ACODE in partnership with the Green Economy Coalition. Key issues affecting the performance of LGEs were grouped into thematic areas based on the Contextual Financial Analysis Study and the green literature review undertaken. The issues were categorized under the following thematic areas:

- i. The macroeconomic landscape;
- ii. The financial landscape;
- iii. Science, technology and innovations;
- iv. Business Development Services (BDS),
- v. Climate change mitigation, adaptation and resilience building; and,
- vi. Resource use efficiency.

2.1.2 Introduction

- i. What is the name of your green MSME/LGE?
- ii. What does it (green MSME/LGE) do? i.e. area of speciality?
- iii. Why did you choose that area of speciality?

2.1.3 Financial landscape

- i. How did you raise capital to start this business venture? (personal savings, borrowing from Banks, SACCOS, money lenders or friends and relatives)
- ii. Why did you choose that source of raising financial resources?
- iii. How does that choice of the sourcing financial resources affect your business opportunities?
- iv. What challenges do you face in accessing financial resources?
- v. Propose initiatives/strategies to enhance better access to financial resources by your LGE?

2.1.4 Macroeconomic landscape

- i. What taxes, fees and charges does your business enterprise pay?
- ii. Why do you pay these taxes, fees and charges?
- iii. How do these taxes, fees and charges affect your business operations?
- iv. How many people are employed by your business facility?
- v. Do you get any support from government? If so which support is that?
- vi. What additional support do you need from government and development partners?

2.1.5 Science, Technology and Innovation (STI)

- i. What techniques of production are mainly used in your business venture (machines (capital intensive), labour intensive, intermediate technology)?
- ii. What are the current impediments to accessing technologies?
- iii. Are there any digital applications being used by your LGEs and which are these?

- iv. What interventions/actions do you propose to enhance access to appropriate productivity enhancing technologies?

2.1.6 Climate change Issues

- i. How does climate change impact your business prospects?
- ii. What actions have you taken (your business entity) to mitigate, adapt and build resilience to the impacts of climate change?
- iii. What effects have these actions had to your enterprise?

2.1.7 Resource use efficiency

a). Energy

- i. What form of energy does your enterprise use?
- ii. How much do you spend on energy?
- iii. Why do you use this source of energy?
- iv. How does the use of this energy source affect the performance of your business enterprise?
- v. What interventions/actions do you propose to enhance access to affordable energy by your enterprise or reduce the energy costs?

b). Waste Management Initiatives

- i. What waste does your LGE generate?
- ii. How do you dispose these wastes?
- iii. What challenges does your LGE face in managing its waste?
- iv. Are there any opportunities of using the wastes generated as an input in the production process?

c). Business Development Services (BDS)

- i. Do you have access to knowledge and skills in green business practices and innovative solutions to enhance the performance of your LGE?
- ii. What skills and knowledge do you need to grow your LGE?

2.2 Resonance Test

The resonance test was based on the identification of the key issues, messages and tone that kept on being echoed and reverberated from the various LGEs. These were recorded and scored and based on the score the order of priority importance and need for urgent attention were identified. This formed the evidence base that informed the policy recommendations

and proposed interventions. The recommendations are interventions and actions that if well implemented can unlock the potential of LGEs.

Resonance was assessed or tested on four (4) areas:

- i. The key issues affecting the LGEs
- ii. The actions taken to meet these issues
- iii. The results of the actions taken
- iv. The proposed recommendations

Resonance was also be tested on whether the responses obtained reverberate with the available literature.

Table 2. Analysis Of Local Green Enterprises In Mbarara City: A Resonance Of Key Issues, Actions Taken, Results Of The Actions Taken And The Proposed Recommendations

SN	Key Issues affecting LGEs	Actions Taken by LGEs	Why these Actions	Results of Actions	Recommendations
1.0	Macroeconomic				
i	High/unfavourable taxes (including national and local taxes): VAT, (incomes tax and PAYE), import taxes, local service fees, charges, operational licenses, waste and parking fees	Tax evasion and avoidance, Lobbying government (policy and decision makers) for reduced taxes	Costs not affordable Paying taxes is a legal requirement	Persistence of informality of LGEs Low returns on investments as taxes encroach on business income/profits Stunted growth and high mortality of LGEs	Lobby for fiscal incentives (tax waivers and subsidies) from government
ii	Limited access to registration, certification and standardisation services (e.g. inaccessibility to UNBS license, URBS) due to high costs and difficult conditions for LGEs	Operation without registration, certification, branding and adherence to national standards	High cost of registration and certification, hard conditionalities for registration, constraints in adherence/ compliance to required standards	Persistence of informality, illegalities, unregistered LGEs in operation, Production of sub-standard products, inaccessibility to high end markets both nationally and internationally	Assist LGEs (compliance assistance) to comply with requirements for registration, certification and standardisation, advocacy and lobbying for consideration, LGEs leadership engagements with UNBS and URBS

SN	Key Issues affecting LGEs	Actions Taken by LGEs	Why these Actions	Results of Actions	Recommendations
iii	<p>Unfavourable policy and legislative frameworks e.g. favouring foreign investors and large-scale enterprises and less/unfavourable to local investors especially LGEs making them less/uncompetitive, limited accessibility of LGEs to legal services.</p> <p>Policy inconsistency e.g. Government commits to support LGEs however, are not prioritized in national programs/budgets which constrains their operations</p> <p>Lack of an innovations policy which constrains innovations by LGEs</p>	<p>Continued operation within an unfavourable policy and legal environment.</p> <p>Engagement of government through MSMEs umbrella organisations in case the LGEs are members, working with supportive CSOs e.g. ACODE to advocate and lobby for favourable and consistent policies.</p> <p>LGEs continue to operate without clear policy guidance on innovations</p>	High costs of legal services	Limited success, persistence of inequality, Persistence of Illegalities and informalities	<p>Persistent advocacy and lobbying government for equally favourable policies to LGEs</p> <p>Harmonise policy frameworks to ensure equal opportunities to all including local enterprises (LGEs)</p> <p>Continued engagement with government to improve the policy landscape.</p> <p>Develop an innovations policy and support to innovative LGEs</p>
iv	Limited accessibility of LGEs to land and permanent premises, operate without permanent addresses	Operation in marginal eco-sensitive areas e.g. in valleys, dumpsites, wetlands and river banks	High costs of planned well-established areas	Poor image of LGEs because of operations in marginal ecologically sensitive areas	Support LGEs to get permanent residence in the industrial parks being developed in the country

SN	Key Issues affecting LGEs	Actions Taken by LGEs	Why these Actions	Results of Actions	Recommendations
v	Climate change and extreme weather events have adverse effects on activities of LGEs such as those in Bee Keeping	Adaptation activities aimed at building resilience to climate change		Actions by LGEs have had limited impacts on building resilience	Support LGEs to build resilience against climate change
2	Financial Issues				
i	Excessive competition for grants, yet most LGEs are not well positioned to compete for the few available grants	Investment in developing competitive proposals by the few capable LGEs Most LGEs continue operating on a low capital base because they cannot access competitive grants			Build capacity of LGEs in developing competitive funding proposals. Where possible LGEs through their associations should be helped to develop competitive proposals
ii	Innovative LGEs businesses are not easily financed because they and their innovations are not known by traditional financial institutions e.g. Commercial Banks and Microfinance institutions	Continued operations on their meagre resources and borrowing from loan sharks at very high interest rates	Financial institutions have limited knowledge and appreciation of LGEs and their innovations	Stagnation of innovation and creativity	Involve financial institutions in LGE meetings and discussions to appreciate their challenges faced and potential as business partners

SN	Key Issues affecting LGEs	Actions Taken by LGEs	Why these Actions	Results of Actions	Recommendations
iii	Lack of proper business plans which affects the systematic and coordinated implementation of activities	Implement activities without proper planning	Unaffordable costs and low technical capacity of LGEs in developing business plans	High mortality of LGEs, limited access to financial resources and other partnerships because they do not appear organised and serious	NPA in partnership with non-state actors needs to support LGEs to develop business plans
iv	Limited access to financial resources due to; high interest rates, lack of collateral, financial illiteracy, difficult conditions for accessing finances e.g. undertaking feasibility studies, income tax certificates, There is also a gender gap in entrepreneurship with women and the youths facing big hurdles in accessing high quality demand driven financial services	Use of personal savings, borrowing from friends and relatives and loan shacks (financial predators) at killing interest rates Formation of more credible groups or associations of LGEs, Lobbying government and development partners	It is the only option available for LGEs to access financial resources To improve the credibility and bargaining power of LGEs	Constrained access to financial resources which cannot unlock the potential of LGEs	Form LGEs associations as these tend to be more trusted by government, development partners and financial institutions Move away from the traditional land based collateral to collateral-free financing Form dedicated green funds for LGEs Create customised financial windows for the Women and the Youths to access loans and grant

3. RECOMMENDATIONS

- i. As the major beneficiaries, LGEs have the necessary incentive to identify solutions to unlocking the key constraints that they face and should therefore take the lead. Actions within the space of the current capabilities of LGEs need to be explored and build momentum based on their actions.
- ii. Partnerships should be created with other stakeholders because some of the required actions to unlock the potential of LGEs belong to their space. The partners need to support LGEs to get the necessary information, capacity and access to finance among others. Partners such as ACODE and the GEC need to identify and harness the good will of the willing stakeholders to support unlocking the constraints facing LGEs as well as generating evidence for policy action. However, some of the partners may need incentives to be created for them to effectively support LGEs.
- iii. Develop a clear policy that supports all kinds of innovations. The mandated Agencies ought to assess whether there is need for a fully-fledged policy on innovations or the current review of the National MSME Policy 2015 – 2020 can be expounded to include policy statements on how innovations should be governed in Uganda.
- iv. Make LGEs resilient, sustainable and part of implementing the Uganda Green Growth Development Strategy.
- v. Let Emyooga funding and support to SACCOs provide seed capital to LGEs including special interest enterprise groups. LGEs need to be positioned to access these funding support windows.
- vi. Implement the financial inclusion pillar of the Parish Development Model (PDM) that has been rolled out by government to enable local rural based LGEs to access finance.
- vii. LGEs need to be supported to tap into green financing windows such as the Uganda Green Enterprise Finance Accelerator (UGEFA) funded by the European Union (EU) and implemented by Adelphi and Finding XY. Such support includes providing concessional finance targeting MSMEs in the green growth agenda. Such opportunities will improve access to finance by green enterprises through direct acceleration support and facilitating tailored loans.
- viii. However, accessing this support requires that MSMEs be registered as a private company or a registered partnership. In addition, the MSME has to be engaged in a green sector such as clean energy,

sustainable transport, green manufacturing, sustainable tourism or waste management. The MSME must have been in operation for over two years. These access criteria are hard to be met by LGEs. This therefore calls for compliance assistance to LGEs to be in position to tap into these financing opportunities.

- ix. LGEs require business support in various forms including a certification scheme for green social enterprises in development- designed to enhance market access, support equity, inclusiveness and environmentally friendly business.
- x. Put in place specific eco-funding or eco-condition grants and loans provided for the starting of new enterprises that take into account climate mitigation and resilience, energy efficiency, water efficiency and innovative sustainable waste management initiatives.
- xi. Leverage innovative climate financing to serve LGEs such as creating carbon markets, debt for nature swaps especially in view of Uganda's growing public debt; try out green and sustainability bonds to suit the conditions of LGEs; explore the available biodiversity funding opportunities.
- xii. Promote common multi-stakeholder meetings/engagements e.g. financiers, regulators, insurance, green MSMEs/LGEs proprietors for each party to understand and appreciate what they do, where they are in terms of state of their business, the key issues and challenges they face and to devise common amicable solutions.
- xiii. Promote the formation of LGE associations as good platforms for networking, information sharing and learning from each other and solving common problems. For instance, ICT based LGEs can facilitate other LGEs to access simple digital productivity enhancing technologies.

ABOUT ACODE

The Advocates Coalition for Development and Environment (ACODE) is an independent public policy research and advocacy think tank based in Uganda. ACODE's work focuses on four programme areas: Economic Governance; Environment and Natural Resources Governance; Democracy, Peace and Security; Science, Technology and Innovation. For the last eight consecutive years, ACODE has been ranked as the best think tank in Uganda and one of the top 100 think tanks in Sub-Saharan Africa and globally in the Global Think Tanks Index Report published by the University of Pennsylvania's Think Tanks and Civil Societies Program (TTCSP).

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