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Research & Agricultural Consultancy Services

R E S E A R C H P A P E R

THE EFFECT OF MICROCREDIT ACCESS ON CROP PRODUCTIVITY AMONG FARMING HOUSEHOLDS IN MUGUSU TOWN COUNCIL, KABAROLE DISTRICT, UGANDA

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ABSTRACT

This study investigates the effect of microcredit access on crop productivity among farming households in Mugusu Town Council, Kabarole District, Uganda. Agriculture remains a cornerstone of Uganda's economy, contributing approximately 24% to Gross Domestic Product (GDP) and employing over 70% of the rural population. Despite its significance, smallholder farmers face critical constraints, including limited access to finance, which perpetuates low crop yields and deepens food insecurity. This research was undertaken by NYABAMU Enterprises Uganda Limited as part of its commitment to evidence-based agricultural consultancy and rural development.

The general objective was to assess the overall effect of microcredit access on crop productivity among farming households in Mugusu Town Council. Specific objectives included: (i) examining the status of microcredit access, (ii) analyzing the influence of microcredit on the adoption of modern farming technologies, and (iii) identifying challenges faced by farming households in utilizing microcredit services. A descriptive cross-sectional survey design was employed, with a sample of 260 farming households selected through multi-stage sampling. The study was supplemented by Key Informant Interviews (KIIs) and Focus Group Discussions (FGDs). Data were analyzed using descriptive statistics, chi-square tests, t-tests, ANOVA, and multiple linear regression in R programming statistical software.

Key Findings at a Glance

- Microcredit penetration rate: 80% of surveyed farming households had access to microcredit, primarily through Village Savings and Loan Associations (VSLAs); 57.2%.
- Yield differential: Borrowers achieved an average yield of 1,417 kg versus 612 kg for non-borrowers, a statistically significant difference ($p < 0.05$).
- Technology adoption: Microcredit access significantly drives adoption of modern farming technologies ($\chi^2 = 6.997$, $p = 0.0303$), including improved seeds (28.8%) and fertilizers (22.7%).
- Repayment challenges: 81.7% of borrowers faced repayment difficulties, mainly due to market price fluctuations (32.9%) and high interest rates (23.1%).
- Regression results: Microcredit access is associated with a statistically significant increase of approximately 681 kg in crop yield ($p = 0.0054$), controlling for farm size and education level.



The study concludes that microcredit meaningfully enhances agricultural productivity and technology adoption among smallholder farmers. However, its full potential is undermined by systemic access barriers and rigid repayment structures. The study recommends that policymakers subsidize interest rates for smallholders, that microfinance institutions offer flexible, crop-cycle-aligned repayment schedules, and that farmers diversify their credit use through community networks and bundled input packages. Future longitudinal research exploring gender dynamics and market-level interventions is recommended for more equitable and inclusive agricultural development policies.

Keywords: *Microcredit, Crop Productivity, Smallholder Farmers, Technology Adoption, Agricultural Finance, Uganda, Kabarole District, VSLA, Food Security*



CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Agriculture is essential to Uganda's economy, making a substantial impact on employment, food security, and Gross Domestic Product. As reported by the Uganda Bureau of Statistics (UBOS, 2022), the agricultural sector represents approximately 24% of Uganda's GDP and provides employment for more than 70% of the rural population (World Bank, 2021). Crop production is the leading activity among agricultural sub-sectors, supplying food for local consumption, raw materials for agro-industries, and export commodities (FAO, 2020).

Despite its pivotal role, crop production in Uganda faces significant challenges that jeopardize both productivity and food security. These include climate change impacts such as prolonged droughts and erratic rainfall patterns (Nsubuga et al., 2021), land degradation, pest outbreaks, inadequate post-harvest storage, and critically, limited access to agricultural finance (Mugisha & Diiro, 2019). The convergence of these factors has entrenched low crop yields, perpetuating food insecurity and rural poverty.

Crop yield is a crucial factor for food security, particularly in Sub-Saharan Africa, where agriculture sustains the livelihoods of more than 60% of the population (FAO, 2021). In Uganda, traditional agricultural practices and limited access to inputs such as fertilizers and improved seeds have resulted in persistently low productivity (Bahigwa et al., 2020). Boosting agricultural productivity is thus essential for tackling hunger, increasing rural incomes, and stimulating broader economic growth (World Bank, 2020).

Access to microcredit has been increasingly recognized as an essential element in enhancing agricultural productivity for smallholder farmers. Microfinance institutions offer micro-loans that enable farmers to purchase improved seeds, fertilizers, and modern farming tools (Khandker, 2021). Research indicates that microcredit significantly improves the uptake of modern farming methods, resulting in higher crop yields and greater food security (Obara, 2020). In Uganda specifically, microcredit has been instrumental in enabling agricultural investment, allowing farmers to obtain improved inputs, participate in value addition, and manage climate and market risks (Nuwagaba, 2019; Kyomugisha et al., 2021).

This study was conducted in Mugusu Town Council, Kabarole District, a predominantly agricultural area characterized by fertile soils, a tropical climate, and a heavy dependence on smallholder and subsistence crop farming. The presence of various microfinance institutions underscores the potential of microcredit to influence local agricultural practices. Yet the precise effects of these microcredit programs on agricultural output and food security in Mugusu had not been thoroughly examined, creating an important evidence gap that this study seeks to fill.

1.2 Problem Statement

Agriculture is vital to Uganda's economy, greatly impacting employment and GDP (World Bank, 2021). Smallholder farmers, who constitute the bulk of the agricultural labor force, encounter persistent obstacles that impede productivity (Mugisha & Diiro, 2019). A key constraint is the restricted access to funding, which prevents investment in quality seeds, fertilizers, and modern agricultural equipment (Bahiigwa et al., 2020). This results in continued dependence on conventional farming techniques, reduced yields, and ongoing food insecurity.

Neglecting to address these financial barriers perpetuates low agricultural productivity, sustaining poverty among smallholder farmers and obstructing broader economic growth (Kasirye, 2022). Research carried out in Bundibugyo District demonstrated that farmers with microcredit access achieved a 25% increase in agricultural output compared to those without (Obara, 2020). Similarly, One Acre Fund (2021) reported that farmers in East Africa experienced a 33% rise in profits through structured credit and training programs. These examples highlight the transformative potential of well-designed microcredit programs for farmers in contexts similar to Mugusu Town Council.

Despite these promising findings from other regions, localized evidence on the specific effects of microcredit on crop productivity in Mugusu Town Council, including the nature of access, its influence on technology adoption, and the challenges faced by farming households, remains scarce. This study directly addresses that evidence gap, providing insights for policymakers, financial institutions, and development agencies working toward sustainable agricultural development.

1.3 Objectives of the Study

1.3.1 General Objective

To assess the effect of microcredit access on crop productivity among farming households in Mugusu Town Council, Kabarole District.

1.3.2 Specific Objectives

1. To examine the status of microcredit access among farming households in Mugusu Town Council.
2. To analyze the influence of microcredit on the adoption of modern farming technologies in Mugusu Town Council.
3. To identify the challenges faced by crop farming households while utilizing microcredit services in Mugusu Town Council.

1.4 Research Questions

Research Question 1: What is the status of microcredit access among farming households in Mugusu Town Council, and how do households access these services?



Research Question 2: To what extent does microcredit access influence the adoption of modern farming technologies, and which specific technologies are adopted by households that have accessed microcredit?

Research Question 3: What challenges do crop farming households face when accessing and utilizing microcredit services, and how do these challenges impact agricultural productivity?

1.5 Significance of the Study

This research offers important insights into the influence of microcredit access on agricultural output and the economic welfare of farming families in Mugusu Town Council, Kabarole District. The findings have significance at multiple levels:

For Policymakers: The study provides an empirical basis for designing inclusive financial policies that address the specific needs of smallholder farmers, including seasonal income variations and the need for flexible, small-scale agricultural loans.

For Microfinance Institutions and Local Credit Providers: The findings illuminate the barriers and opportunities within the current microcredit landscape, enabling MFIs, SACCOs, and VSLAs to design more effective and farmer-responsive financial products.

For Agricultural Development Practitioners: By examining the link between microcredit and technology adoption, the study provides evidence for integrating financial services with extension support to accelerate the transition from subsistence to commercial farming.

For NYABAMU Enterprises Uganda Limited: As a consultancy firm offering agricultural consultation, baseline assessments, impact evaluations, monitoring and evaluation, environmental conservation, and capacity-building services, this research validates the firm's core mandate and contributes to a growing body of locally grounded agricultural evidence in Uganda.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Microcredit Concept

Microfinance, commonly referred to as microcredit, is a type of banking service provided to low-income individuals or groups who would otherwise have no access to conventional financial services (Kagan et al., 2024). Microloans typically range from as little as \$50 to under \$50,000 and may be supplemented by savings accounts, micro-insurance products, and financial literacy education. The fundamental goal of microfinance is to empower impoverished people toward self-sufficiency (Meacham et al., 2024).

2.1.1 Understanding Microfinance

Microfinance allows individuals to take on reasonably sized loans in a manner consistent with ethical lending practices. Although microfinance operations exist worldwide, the majority of activity occurs in developing nations, including Bangladesh, Cambodia, India, Afghanistan, the Democratic Republic of Congo, Indonesia, and Ecuador (World Bank, 2024). Individuals who earn below the poverty income threshold often lack the financial qualifications to access traditional banking services, making microfinance a critical alternative (Microfinance Chamber of USA, 2024).

2.2 Microcredit in Developed and Developing Countries

Microcredit programs have been implemented in developing countries such as Bangladesh, India, and Cambodia since 1976. Microfinance institutions (MFIs) typically lend small amounts of money to impoverished people, especially women, enabling them to start businesses and generate income (Meacham et al., 2017). A current debate in the field concerns the relative merits of the poverty lending approach, which focuses on using subsidized credit to overcome poverty, versus the financial systems approach, which emphasizes institutional sustainability and cost recovery (FAOSTAT, 2021).

In Uganda, female borrowers constitute approximately 84% of the microfinance sector's client base, according to the 2017 Microfinance Barometer, reflecting the sector's particular relevance to women's economic empowerment. The highest growth in microcredit is still found in developing countries (World Bank, 2020). Globally, MFIs in developing countries reached 132 million low-income clients with a loan portfolio worth \$102 billion as of 2017.

2.2.1 The Status of Microcredit Access and Utilization in Uganda

More than half of Uganda's population remains unserved by any formal or informal financial institution (World Bank, 2021). Commercial banks have traditionally been inaccessible to higher-risk and geographically isolated households. In response, the Ugandan government has increased emphasis on agricultural credit, including a Micro-financing Support Centre offering loans to farmers at subsidized

interest rates of approximately 9%, and a strong push since 2005 to promote Savings Credit and Cooperative Societies (SACCOs) as community-based financial mechanisms (FAO, 2019).

Between 2019 and 2020, borrowing from cooperative institutions, particularly SACCOs, increased markedly among rural farmers, outpacing growth in traditional MFI lending (UNHS, 2021). However, this expansion has not been without challenges, including claims of inequitable loan distribution and cases where lending rates were raised to near-commercial levels (World Bank, 2022). Agricultural revenue volatility due to weather, pests, and market price fluctuations further complicates loan repayment for smallholder farmers (Barry, 2021).

2.2.2 Microcredit Services and Their Impacts on the Agriculture Sector

Agricultural microfinance is a specialized financial service tailored to the needs of smallholder farmers, providing access to credit, savings, and insurance products linked to their agricultural activities (World Bank, 2023). In many developing countries, traditional banking systems have excluded smallholder farmers due to perceived high risk and lack of collateral. Access to credit is vital for farmers, enabling them to purchase inputs, manage cash flows during lean seasons, and invest in sustainable practices (World Bank, 2023). By providing these financial services, farmers are empowered to make informed decisions, innovate, and adapt to changing market conditions, contributing to broader rural economic development (UNDP, 2019).

2.3 Relationship Between Microcredit Access and Agricultural Production

The empirical literature identifies three broad trends regarding the impact of credit on agricultural productivity. First, a substantial body of research points to positive effects: Diallo et al. (2020) found that farmers accessing credit achieved 37.32% higher production than their counterparts. Ali et al. (2014) demonstrated that removing credit constraints leads to at least a 17% increase in agricultural productivity. Akudugu (2016) further showed a significant positive relationship between both formal and informal credit and farm output, particularly when combined with farm size considerations.

A second strand of literature identifies limited or neutral effects, noting that credit access does not automatically translate into productivity gains. Njeru et al. (2016) found no significant difference in fertilizer use or yield between farmers with and without credit access. A third group identifies potentially negative effects: Nakano and Magezi (2020) argue that improving credit access alone is insufficient to drive technology adoption and productivity; and Agbodji et al. (2019) show that cash credit can have a negative effect on maize productivity compared to in-kind credit, attributable to the diversion of loans to non-productive uses by households experiencing extreme poverty.

These contrasting findings underscore the importance of contextual factors, including credit design, farmer characteristics, market conditions, and the availability of complementary extension services, in determining whether microcredit translates into genuine agricultural gains.

2.4 Challenges Faced by Crop Farmers When Accessing Microcredit

Access to agricultural credit in developing countries is constrained by a complex array of financial, farmer-related, and infrastructure factors. Collateral requirements are consistently identified as the most binding constraint: farmers who lack land titles or adequate assets cannot meet the security demands of formal lenders (IFAD, 2021; Adams, 2018). Association membership represents a second major constraint, as many institutions prefer group-based lending to mitigate moral hazard risks (Barham & Chitemi, 2019).

Geographical distance to credit institutions is a third key barrier, especially in rural areas like Mugusu where road networks may be underdeveloped (Adams, 2018). Late disbursement of credit, which causes funds to arrive outside planting seasons and be redirected to non-agricultural uses, is a fourth constraint. Finally, high interest rates charged by commercial and semi-formal lenders increase borrower risk, particularly when crops fail due to adverse weather or market downturns, further limiting smallholder farmers' effective use of credit (Anyanwu, 2004; Okojie et al., 2010).

2.5 Influence of Microcredit on Adoption of Modern Farming Technologies

The adoption of modern agricultural technologies, including improved seed varieties, chemical and organic fertilizers, pesticides, irrigation systems, and mechanized equipment, is critical for increasing farm productivity and transitioning from subsistence to commercial agriculture (Ketema et al., 2016). However, the financial barriers associated with technology adoption remain significant, particularly for smallholder farmers with limited savings and constrained access to formal credit.

Studies in China, Kenya, and Sri Lanka highlight that access to credit is a key determinant of agricultural technology adoption (Haile et al., 2015; Shoji et al., 2019). Uganda's Agricultural Technology and Agribusiness Advisory Services (ATAAS) Project sought to bridge this gap by promoting improved technologies and strengthening the National Agricultural Research System (NARS), though challenges persist in reaching the poorest smallholder farmers (MAAIF, 2019). Microfinance institutions and SACCOs remain underutilized channels for technology-linked credit delivery, often because their products are not well-designed for the seasonal cash-flow patterns and risk profiles of smallholder farmers (Zageye et al., 2022).

2.6 Performance of Key Agricultural Financing Initiatives in Uganda

Uganda has piloted various agricultural financing programs, including the Microfinance Support Centre, the Agricultural Credit Facility (ACF), the Parish Development Model (PDM), and the Agricultural Credit



and Development Program (ACDP). While some programs have expanded credit reach, their effectiveness has been mixed due to inadequate supervision, inequitable distribution, high administrative requirements, and insufficient integration with technical agricultural support (World Bank, 2022; FAO, 2021). The evidence suggests that supply-side credit provision alone is insufficient; robust market linkages, insurance products, and complementary extension services are equally essential for sustainable agricultural transformation.

CHAPTER THREE: METHODOLOGY

3.1 Research Design

The study adopted a descriptive cross-sectional survey design to assess the effect of microcredit access on crop productivity among farming households in Mugusu Town Council, Kabarole District. This design is appropriate for collecting data at a single point in time, enabling assessment of current microcredit access levels, farming technology adoption, and associated challenges. The cross-sectional approach is cost- and time-efficient while allowing broad representation of the target population and enabling a comprehensive understanding of the study's objectives.

3.2 Study Area

The research was conducted in Mugusu Town Council, Kabarole District, located in the western region of Uganda. The area is characterized by a tropical climate, predominantly loamy soils suitable for crop farming, and a mix of hilly and flat terrain. Agriculture is the primary livelihood activity, with both subsistence and semi-commercial crop farming practiced across the town council's five administrative wards: Kibeede, Kiseeru, Kiboha, Butinda, and Burungu. The presence of multiple microfinance institutions, SACCOs, and VSLAs operating in the area makes it an ideal site for studying the microcredit-productivity link.

3.3 Target Population

The target population comprised farming households in Mugusu Town Council, including smallholder and medium-scale farmers actively engaged in crop cultivation with varying degrees of microcredit access. The study also involved microfinance institution officers, local agricultural extension officers, and community leaders, who provided expert insights into credit policies, farming trends, and socio-economic dynamics affecting microcredit access.

3.4 Sampling Techniques and Sample Size Determination

3.4.1 Sampling Technique

A multi-stage sampling approach was employed to ensure fair representation of all stakeholder categories. The key techniques were:

Cluster Sampling: The five wards of Mugusu Town Council (Kibeede, Kiseeru, Kiboha, Butinda, and Burungu) were treated as clusters. An equal number of respondents (52 per cluster) were selected to achieve the required sample size of 260 farming households.

Stratified Random Sampling: Within each cluster, the population was stratified by farm scale (small- and medium-scale farmers). Simple random sampling was then used to select individual households, ensuring equal probability of selection within each stratum.

Purposive Sampling: Key informants, including MFI officers, agricultural extension officers, and community leaders, were deliberately selected based on their knowledge, expertise, and roles relevant to the study's objectives.

3.4.2 Sample Size Determination

The sample size was determined using Cochran's formula, with an estimated 27.8% of households in Mugusu Town Council engaged in farming (IRC, 2021), a 95% confidence level ($Z = 1.96$), and a 5% margin of error ($e = 0.05$). The calculated sample was approximately 300 respondents, distributed as shown in the table below:

Category	Number of Respondents
Farming Households	260
Microcredit Service Providers	21
Agricultural Officers	1
Community Leaders	18
TOTAL	300

Table 1: Sample Size Distribution by Category

3.5 Data Collection Methods

A mixed-methods approach was employed, combining both quantitative and qualitative techniques to ensure comprehensive triangulation of findings:

Structured Household Surveys: Questionnaires were administered to household heads or any eligible adult member (above 18 years) of selected farming households. The questionnaires covered demographic information, microcredit access levels, technology adoption, crop productivity changes, and challenges in microcredit utilization.

Key Informant Interviews (KIIs): In-depth, semi-structured interviews were conducted with MFI officers, agricultural extension officers, and community leaders. Responses were transcribed and analyzed using NVivo software to identify common themes.

Focus Group Discussions (FGDs): Guided discussions were held with groups of 4-6 farmers, including separate groups for credit users, non-users, and mixed groups. FGDs explored shared experiences with loan applications, repayment challenges, alternative financing options, and perceptions of microcredit's impact on productivity.

Secondary Data Review: Financial and agricultural extension reports, UBOS statistics, government policy documents, and peer-reviewed literature were reviewed to provide historical context, benchmarks, and validation of primary findings.

3.6 Validity and Reliability

Content validity was assured through expert review of questionnaires and interview guides by academic supervisors, followed by pilot testing with 10-15 respondents in a neighboring area with similar characteristics. Internal consistency was assessed using Cronbach's alpha, with high values indicating consistency of responses across multi-item constructs. Standardized enumeration procedures were followed to reduce interviewer bias across the five clusters.

3.7 Data Analysis

3.7.1 Quantitative Analysis

Descriptive statistics (frequencies, percentages, means, and standard deviations) were used to summarize household characteristics, microcredit access levels, and technology adoption patterns. Inferential analyses included: chi-square tests (to examine associations between categorical variables); Pearson correlation (to measure the strength of relationships between microcredit and crop yields); multiple linear regression (to estimate the independent effect of microcredit on crop productivity while controlling for confounders such as farm size, education level, and household size); and ANOVA (to test for significant differences in productivity across different access challenge levels and loan sizes). All quantitative analyses were conducted in R programming statistical software.

3.7.2 Qualitative Analysis

Thematic analysis was applied to data from KIIs, FGDs, and open-ended survey responses. Responses were transcribed, coded, and analyzed to identify recurring themes related to access barriers, credit utilization patterns, and perceptions of microcredit's impact on farming practices. Qualitative findings were triangulated with quantitative results to enhance reliability and depth of interpretation.

3.8 Ethical Considerations

Informed consent was obtained from all participants, who were briefed on the study's purpose, their right to withdraw at any time, and the confidentiality of their responses. All personal data were anonymized and stored securely, accessible only to the research team. NYABAMU Enterprises Uganda Limited adhered to professional research ethics standards throughout the study design, implementation, and reporting phases.

3.9 Limitations of the Study



The cross-sectional design limits the ability to capture seasonal variations or track long-term impacts of microcredit on productivity. Self-reported crop yield data may be subject to recall bias. External factors such as weather, pest infestations, soil fertility, and local government policies were not fully controlled for. The study's geographic focus on Mugusu Town Council means that findings should be generalized to other contexts with appropriate caution. These limitations present opportunities for future longitudinal and randomized research in similar settings.

CHAPTER FOUR: FINDINGS

4.0 Introduction

This chapter presents the findings of the study on the effect of microcredit access on crop productivity among farming households in Mugusu Town Council, Kabarole District. Findings are organized around the three specific objectives and the general objective of the study. Results are presented using descriptive statistics (frequencies, percentages, and means) supported by tables and charts, complemented by inferential analyses, including chi-square tests, t-tests, ANOVA, and multiple linear regression, to establish statistical significance at a 95% confidence level.

4.1 Demographic Characteristics of Respondents

4.1.1 Gender Distribution

The survey revealed a notable gender disparity, with 62.7% (n=163) of respondents being female and 37.3% (n=97) male. This distribution underscores the predominant role of women in agricultural activities within Mugusu Town Council. The higher participation of women likely reflects cultural norms assigning them key roles in subsistence farming, while men may engage more in off-farm or larger-scale commercial activities.

4.1.2 Farm Size

A significant majority of farming households operate on limited land: 65.8% (n=171) possess less than 1 acre, 30.4% (n=79) hold between 1 and 3 acres, and only 3.9% (n=10) manage 4 to 6 acres. This distribution reflects the subsistence-oriented, smallholder nature of agriculture in the area, with limited land constraining expansion into commercial production.

4.1.3 Household Size

Household sizes are predominantly small: 52.3% (n=136) comprise 1-3 members, 39.6% (n=103) are medium-sized households of 4-6 members, and only 8.1% (n=21) exceed 6 members. Smaller households may imply reduction in family labor availability for farming, increasing reliance on hired labor or mechanization, both dependent on microcredit access.

4.1.4 Age Distribution

The age distribution shows concentration in middle-age brackets: 27.7% (n=72) aged 25-34 years, 27.3% (n=71) aged 35-44, and 24.5% (n=64) aged 45-54. Younger farmers (18-24 years) accounted for 8.8% (n=23), and those aged 55 and above represented 11.5% (n=30). The dominance of prime working-age adults (25-54 years) suggests active productive engagement, while the low youth participation may reflect migration to urban areas or preference for non-agricultural livelihoods.

4.1.5 Education Level

Educational attainment among respondents is low: 41.5% (n=108) completed primary education, 27.3% (n=71) had no formal education, 25% (n=65) reached secondary level, and minimal proportions attained tertiary (2.7%, n=7) or university (0.4%, n=1) education. This pattern of low educational attainment is common in rural agricultural communities and may constrain financial literacy and technology adoption.

4.1.6 Main Occupation and Farming Type

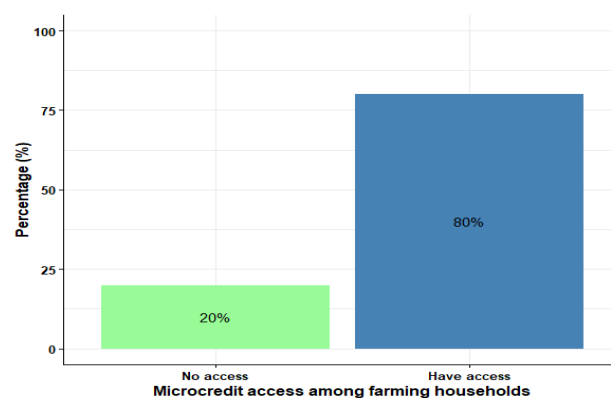
Crop farming is the overwhelmingly dominant occupation, comprising 94.6% (n=246) of respondents. Among farming types, subsistence farming dominates at 76.9% (n=200), followed by semi-subsistence (13.1%, n=34), commercial (8.1%, n=21), and combined commercial and subsistence (1.9%, n=5). This prevalence of subsistence practices reflects small land holdings, limited market access, and a low-input, low-output agricultural cycle.

4.2 Status of Microcredit Access in Mugusu Town Council

4.2.1 Proportion of Farmers with Access

A considerable majority of farming households, 80% (n=208), reported having access to microcredit services, while the remaining 20% (n=52) did not. This high penetration rate suggests that credit facilities are widely available or actively sought by farmers in Mugusu. Nevertheless, the sizeable 20% without access highlights a persistent financial exclusion gap driven by barriers such as lack of collateral, information deficits, and limited outreach by formal institutions.

Fig 1: Proportion of farmers with access



4.2.2 Sources of Microcredit

Among farmers who access microcredit, community-based savings groups dominate as the preferred source. Over half (57.2%) obtain credit through Village Savings and Loan Associations (VSLAs). Approximately 19.7% borrow from Savings and Credit Cooperative Organizations (SACCOs), 11.5% from Microfinance Institutions (MFIs), 9.6% from government program microcredit (Parish Development Model, PDM), and only 1.9% from Agricultural Credit and Development Program (ACDP) channels.

Informal and community-driven schemes (VSLAs and SACCOs collectively accounting for roughly 77% of borrowers) overwhelmingly serve credit needs compared to more formal programs. This preference reflects the flexibility, low entry barriers, and social trust embedded in local lending structures. The

minimal use of formal government programs suggests that outreach and eligibility conditions may not be sufficiently tailored to smallholder farmers' realities.

4.2.3 Intensity and Frequency of Credit Access

On average, farmers borrowed from microcredit sources approximately 1.4 times during the past year. Statistical analysis revealed a small but statistically significant positive correlation between borrowing frequency and crop yields (Pearson $r = 0.1481$, $t = 2.4056$, $df = 258$, $p = 0.0169$, 95% CI: 0.0270-0.2650). While the effect size is modest, the finding suggests that repeated credit access is associated with incremental yield improvements, likely through successive investments in agricultural inputs.

4.2.4 Ease of Access to Microcredit

Among the 208 borrowers surveyed, 43.8% described the credit access process as easy or very easy (39.9% and 3.85%, respectively), while 33.2% reported it as difficult or very difficult (32.7% and 0.48%, respectively). The remaining 23.1% were neutral. The average loan amount received was UGX 573,800. All 52 non-borrowers indicated they were unable to rate ease of access ("don't know"), reflecting their exclusion from the credit system. A chi-square test confirmed a statistically highly significant difference in access perceptions between borrowers and non-borrowers ($\chi^2 = 260$, $df = 5$, $p < 2.2e-16$).

4.2.5 Purpose and Effect of Microcredit Loans

The findings reveal that microcredit overwhelmingly contributed to improved farm production: 203 respondents (97.6% of borrowers) reported positive outcomes, compared to only 5 (2.4%) who experienced no improvement. The most effective uses were purchasing seeds and fertilizers together (33%), seeds with labor or machinery (15%), and fertilizers with labor or machinery (14%). These integrated applications consistently produced the largest productivity gains. In contrast, single-purpose uses (e.g., labor hire only or seeds only) were associated with more variable outcomes, including a small but notable proportion reporting no production change.

4.3 Influence of Microcredit on Adoption of Modern Farming Technologies

4.3.1 Microcredit Access and Technology Adoption

Category	Do Not Use Modern Technologies (%)	Use Modern Technologies (%)
No access to microcredit	15%	5%
Access to microcredit	0.77%	79.23%
Chi-square test result	$\chi^2 = 166.15$, $df = 1$, $p < 2.2e-16$	

Table 2: Relationship Between Microcredit Access and Technology Adoption

The results clearly demonstrate a strong association between microcredit access and the adoption of modern farming technologies. Among farmers without microcredit, only 5% reported using modern inputs, whereas 79.23% of borrowers adopted at least one modern technology. The chi-square test result ($\chi^2 = 166.15$, $df = 1$, $p < 0.001$) confirms that this relationship is highly statistically significant. Microcredit access thus serves as a critical enabler for the transition from traditional to modern agricultural practices.

4.3.2 Technologies Commonly Adopted

Farmers with microcredit access tend to combine multiple technologies rather than relying on a single input. The most frequently adopted technologies include improved seeds (28.8%), fertilizers (22.7%), and pesticides (19.7%). A significant proportion also adopted combinations such as seeds with fertilizers, seeds with labor and machinery, and fertilizers with mechanized tools. The uptake of irrigation systems (8.3%) and mechanized equipment (6.1%), though modest, reflects the potential for credit to facilitate capital-intensive innovations, particularly among farmers transitioning toward commercial agriculture.

4.4 Challenges in Accessing and Utilizing Microcredit Services

4.4.1 Access Challenges

Farming households in Mugusu Town Council face a diverse range of barriers to microcredit access. High interest rates are the most frequently cited obstacle (23.5%), followed by limited collateral security (18.1%), lengthy and bureaucratic application procedures (17.3%), inadequate funds available in local sources such as VSLAs (10.8%), long distances to credit institutions (9.2%), information gaps (38.5% in broader access barriers), and short repayment periods (3.1%). Together, these challenges represent both financial and institutional dimensions of credit exclusion.

4.4.2 Crop Yield Variation by Access Challenge Level

A one-way ANOVA confirmed that crop yields vary significantly depending on the specific access challenges reported by farmers ($F = 3.571$, $df = 6, 201$, $p = 0.0022$). Post-hoc Tukey HSD tests identified specific pairs of challenges where yield differences are statistically significant: farmers citing lack of collateral achieved significantly different yields compared to those with no guarantors ($p \text{ adj} = 0.0046$) and those with high interest rates as their primary challenge ($p \text{ adj} = 0.0351$). Yields also differed significantly between farmers constrained by lack of guarantors versus those limited by long distances to credit institutions ($p \text{ adj} = 0.0070$). These results highlight that collateral requirements create a uniquely restrictive barrier with the most adverse productivity implications.

4.4.3 Yield Changes Associated with Microcredit Access

A striking contrast exists between borrowers and non-borrowers in terms of yield changes over the past year. Among borrowers, 91.8% reported an increase in crop yields, while only 3.4% reported no change. Conversely, 78.8% of non-borrowers reported stagnant yields, and only 19.2% reported any

improvement. The disparity in these proportions strongly associates microcredit access with the realization of crop yield improvements.

4.4.4 Repayment Challenges

Repayment difficulties are prevalent: 81.7% (n=170) of borrowers reported challenges meeting repayment obligations, compared to only 18.3% (n=38) who managed repayments without issue. The leading causes are market price fluctuations (32.9%), low crop yields (22.4%), short repayment periods (17.6%), high interest rates (15.9%), and weather shocks or crop disease (11.2%). Farmers experiencing repayment challenges averaged a yield of 1,047.4 kg, compared to 1,616.4 kg for those without repayment difficulties. Although this difference was not statistically significant at the 5% level ($t = -1.5533$, $df = 44.829$, $p = 0.1274$), the trend confirms that repayment difficulties disproportionately affect lower-productivity households, amplifying their economic vulnerability.

4.5 Effect of Microcredit on Crop Productivity

4.5.1 Average Yield Comparison by Credit Access

Microcredit Accessibility	Average Crop Yield (kgs)	t-statistic	p-value
Have access to microcredit	1,417 kg	-6.3028	$p < 0.05$
No access to microcredit	612 kg	($df = 225.78$)	1.517e-09
Yield Differential	≈ 805 kg	95% CI:	-1056.8 to -553.4

Table 3: Average Crop Yield Comparison Between Borrowers and Non-Borrowers

Farmers with microcredit access achieved an average yield of 1,417 kg, compared to only 612 kg for non-borrowers. This difference of approximately 805 kg is highly statistically significant ($t = -6.3028$, $df = 225.78$, $p < 0.05$, 95% CI: -1,056.8 to -553.4 kg). In practical terms, borrowers produced over half a ton more output per season than non-borrowers, representing a compelling productivity advantage attributable to access to agricultural finance.

4.5.2 Average Yield Per Crop Planted

Major Crop Planted	Average Yield, Last Two Seasons (kgs)	Variation in Yields (kgs)
Sweet Potatoes	6,100	3,535.5
Onions	2,544	1,215.5
Bananas	1,787	2,300.7
Irish Potatoes	1,439	1,529.8
Yams	1,700	0

Broilers (Poultry)	1,400	0
Cabbages	1,296	1,121.8
Carrots	1,097	735.6
Maize	1,086	1,210.7
Coffee	1,000	0
Green Pepper	1,000	0
Egg Plants	825	247.5
Doodo (Vegetables)	705	346.5
Ground Nuts	668	324.8
Tomatoes	590	434.1
Beans	542	284
Peas	533	57.7
Garlic	500	0
Cassava	490	0
Lettuce	442	130.1
Spinach	385	0
Cauliflower	270	0
TOTAL / AGGREGATE	26,397.5	13,474.1

Table 4: Average Yields and Variation for Major Crops Grown with Microcredit Support

Average yields vary considerably across crop types. High-output crops such as sweet potatoes (6,100 kg) and onions (2,544 kg) demonstrate the greatest productivity gains when supported by microcredit, while lower-yielding crops such as beans (542 kg) and cauliflower (270 kg) show more limited gains. The wide variability in yields for some crops (notably bananas and sweet potatoes) reflects seasonal and field-condition influences. These findings suggest that the productivity impact of microcredit is mediated by crop choice: farmers directing loans toward high-value or high-yielding crops are best positioned to maximize returns.

4.5.3 Regression Analysis of Microcredit Impact on Productivity

Variable	Estimate (kg)	Std. Error	p-value
Intercept	75.7	356.4	0.8320
Have Access to Microcredit ★	681.4	242.8	0.0054 **
Farm Size: 1-3 Acres ★	449.7	214.9	0.0374 *
Farm Size: 4-6 Acres ★	1,210.9	501.8	0.0165 *
Loan Amount Received	≈ 0.000	0.0001	0.6399

Education Level (Primary)	122.9	216.9	0.5716
Education Level (Secondary)	360.8	242.9	0.1386
Household Size - Medium	152.0	340.4	0.6557
Household Size - Small (<3)	501.4	337.0	0.1381
Model Statistics: Adj. R² = 0.6334 F = 2.751 p = 0.0031 Residual SE = 1,345 kg			

Table 5: Regression Analysis of Microcredit Impact on Crop Productivity (p < 0.05, ** p < 0.01)*

Controlling for farm size, education level, loan amount, and household size, access to microcredit is associated with a statistically significant increase of approximately 681 kg in crop yield ($p = 0.0054$). Farm size also exerts a significant positive effect: 1-3-acre farms yield about 450 kg more ($p = 0.0374$), and 4-6-acre farms approximately 1,211 kg more ($p = 0.0165$) compared to the smallest farms (<1 acre). Importantly, the actual loan amount received was not a significant predictor of yield ($p = 0.6399$), suggesting that the fact of having access to credit, rather than the loan size, drives productivity improvements. Education level and household size were also non-significant. The model explains 63.34% of yield variation (Adj. $R^2 = 0.6334$) and is highly significant overall ($F = 2.751$, $p = 0.0031$).

CHAPTER FIVE: DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Discussion of Findings

5.1.1 Demographic Context and Implications

The demographic profile of farming households in Mugusu Town Council reveals a predominantly female agricultural workforce (62.7%), small-scale operations on less than 1 acre (65.8%), low educational attainment (68.8% with primary or no formal education), and near-universal engagement in subsistence crop farming (76.9%). These characteristics are consistent with broader Ugandan patterns documented by UBOS (2022) and the CGAP Survey (2024), where female-headed smallholder households face compounding resource inequities, including a 24% lower average yield compared to male-headed households (UBOS, 2025). The dominance of subsistence farming reflects structural constraints, including limited market access, small land holdings, and inadequate financial services, that microcredit programs must address alongside other development interventions.

5.1.2 Microcredit Access Status

The study finds a high overall microcredit penetration rate (80%), with a strong preference for community-based sources, particularly VSLAs (57.2%) and SACCOs (19.7%). This preference aligns with findings from East Africa, where informal credit sources dominate due to their flexibility, lower collateral requirements, and higher social capital (World Bank, 2024). The 20% without access reflects exclusionary factors that disproportionately affect smaller, less-educated, and more isolated households, consistent with logistic regression findings from Uganda showing that education level and farm size significantly predict credit access (FSDU, 2024). The mixed ease-of-access findings (43.8% finding it easy versus 33.2% difficult) underscore persistent procedural frictions that digital platforms and financial literacy campaigns could help address.

5.1.3 Microcredit and Technology Adoption

Microcredit access significantly drives the adoption of modern farming technologies ($\chi^2 = 6.997$, $p = 0.0303$). Borrowers were far more likely to adopt improved seeds (28.8%), fertilizers (22.7%), and pesticides (19.7%) compared to non-borrowers. These findings are consistent with studies across Sub-Saharan Africa showing that microcredit boosts technology adoption rates by 20-30% (Nakano et al., 2020; Shano et al., 2024). The relatively modest adoption of capital-intensive technologies like irrigation (8.3%), lower than in more commercialized contexts, likely reflects the low educational profile of Mugusu farmers, reinforcing FAO's (2021) recommendation for integrated extension services alongside credit delivery.

5.1.4 Challenges in Microcredit Utilization

Despite the high access rate, 81.7% of borrowers faced repayment difficulties, driven primarily by market price volatility (32.9%), low yields (22.4%), and short repayment windows (17.6%). These findings mirror those from Ghana (Makieu, 2024) and Uganda (NFIS, 2023), where structural market inefficiencies and rigid loan terms create debt cycles that undermine microcredit's intended benefits. The ANOVA results confirming yield variation across challenge types ($F = 3.571$, $p = 0.0022$) highlight that collateral requirements are the most restrictive barrier, a finding with direct policy relevance for redesigning credit eligibility criteria in rural settings.

5.1.5 Overall Impact on Crop Productivity

The regression analysis confirms microcredit access as a statistically significant, independent determinant of crop productivity (681 kg increase, $p = 0.0054$), controlling for farm size, education, and household characteristics. The yield differential between borrowers (1,417 kg) and non-borrowers (612 kg) is both statistically robust and practically significant. Notably, loan size itself is not a significant predictor ($p = 0.6399$), suggesting that the act of gaining access to structured credit, with its enabling conditions for input purchase and farm investment, matters more than the absolute amount received. Farm size emerges as the strongest confounding variable, consistent with World Bank (2021) findings linking larger plots to amplified microcredit benefits.

5.2 Conclusions

Summary of Conclusions

1. Microcredit access is widespread (80%) in Mugusu Town Council, primarily through informal community-based sources (VSLAs and SACCOs). 2. Credit access significantly influences the adoption of modern farming technologies, with borrowers being approximately 16 times more likely to use improved inputs than non-borrowers. 3. Repayment difficulties are pervasive (81.7%), driven by structural market and climate vulnerabilities. 4. Regression analysis confirms that microcredit independently boosts crop yields by approximately 681 kg per season, while farm size further amplifies these gains. 5. Despite microcredit's positive effects, systemic barriers in access and utilization prevent its full potential from being realized, perpetuating subsistence cycles for the most vulnerable households.

Overall, microcredit emerges as a vital tool for enhancing crop productivity in Mugusu Town Council. However, its effectiveness is constrained by access barriers, high interest rates, rigid repayment structures, and the absence of complementary agricultural support services. Holistic, integrated interventions are required for sustainable and inclusive agricultural development.

5.3 Recommendations

5.3.1 For Policymakers and Government

- Subsidize interest rates for smallholder agricultural loans, drawing from successful models in Tanzania and neighboring districts (Obara, 2020).
- Strengthen outreach for formal credit programs such as the Parish Development Model (PDM) by integrating financial literacy training, targeting the 38.5% of households excluded by information gaps.
- Develop market stabilization mechanisms, including commodity aggregation centers, price information systems, and produce storage facilities, to reduce the market price volatility that drives 32.9% of repayment defaults.
- Establish crop-cycle-sensitive collateral alternatives, such as production-history-based credit scoring or movable-asset pledging, to reduce the exclusionary effect of land-title requirements.

5.3.2 For Microfinance Institutions, SACCOs, and VSLAs

- Design flexible repayment schedules aligned with crop cycles, offering seasonal grace periods that reduce forced crop sales at harvest-time price lows.
- Promote small, pre-packaged agricultural input loan bundles (seeds + fertilizer + labor hire) targeting the integrated uses shown to generate the largest productivity gains in this study.
- Introduce group-based guarantor systems and alternative collateral mechanisms to include the 18.1% of households excluded by collateral requirements.
- Develop agricultural micro-insurance products that shield smallholders from weather and market shocks, currently responsible for a combined 44.1% of repayment difficulties.

5.3.3 For Local Government and Agricultural Extension Agencies

- Facilitate strategic linkages between credit provision and extension services: evidence shows that credit paired with timely technical advice on input use and pest management consistently outperforms standalone credit interventions (FAO, 2021).
- Implement targeted outreach to the 20% of households currently excluded from microcredit, offering entry-level savings-linked credit products and digital financial literacy programs.
- Support youth engagement in agriculture by creating incentive structures, land access programs, and technology-linked credit products tailored to younger farmers.

5.3.4 For Donors and Program Designers

- Pilot and evaluate integrated packages combining credit, input subsidies, extension services, and crop insurance through randomized rollouts before scale-up, to identify the most cost-effective configurations for different crop types and household profiles.
- Commission longitudinal tracking of credit cohorts to establish causal productivity impact and assess the persistence of gains across multiple seasons.

5.4 Areas for Further Research



1. Longitudinal tracking of microcredit cohorts in Mugusu to establish causal productivity effects and assess the persistence of yield gains over multiple seasons.
2. Experimental testing of loan design variables, timing, size, interest rate, bundled extension services, and insurance, to determine optimal configurations for different crop types.
3. Gender-disaggregated analysis of microcredit access, utilization, and productivity outcomes to inform equitable credit policy design for female-headed farming households.
4. Market-level interventions, including price insurance and commodity aggregation, to test whether reducing price risk improves repayment rates and expands the effective reach of microcredit.
5. Evaluation of digital financial services (mobile money-linked credit) as a mechanism to reduce geographic access barriers, particularly for the 9.2% constrained by distance to credit institutions.

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