JOURNAL OF ECONOMICS AND BEHAVIORAL STUDIES

Vol. 17 No. 2 ISSN 2220-6140

Editorial

Journal of Economics and Behavioral Studies (JEBS) provides distinct avenue for quality research in the everchanging fields of economics & behavioral studies and related disciplines. Research work submitted for publication consideration should not merely limited to conceptualization of economics and behavioral developments but comprise interdisciplinary and multi-facet approaches to economics and behavioral theories and practices as well as general transformations in the fields. Scope of the JEBS includes: subjects of managerial economics, financial economics, development economics, finance, economics, financial psychology, strategic management, organizational behavior, human behavior, marketing, human resource management and behavioral finance. Author(s) should declare that work submitted to the journal is original, not under consideration for publication by another journal and that all listed authors approve its submission to JEBS. Author (s) can submit: Research Paper, Conceptual Paper, Case Studies and Book Review. Journal received research submissions related to all aspects of major themes and tracks. All submitted papers were first assessed by the editorial team for relevance and originality of the work and blindly peer-reviewed by the external reviewers depending on the subject matter of the paper. After the rigorous peer-review process, the submitted papers were selected based on originality, significance and clarity of the purpose. The current issue of JEBS comprises papers of scholars from Uganda and South Africa. Trade Facilitation and Innovativeness: Cottage Industry Development, Customer Satisfaction and Customer Loyalty in the Banking Sector, Land Registration Frameworks Influence Land Tenure Security, Rural and Township Economies in Local Economic Development, International Migration & Sustainable Economic Development and Monetary Policy Tools and Lending Rates were some of the major practices and concepts examined in these studies. The current issue will therefore be a unique offer where scholars will be able to appreciate the latest results in their field of expertise and acquire additional knowledge in other relevant fields.

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PAPERS

Journal of Economics and Behavioral Studies (JEBS)
Vol. 17, No. 2, June 2025 (ISSN 2220-6140)

Trade Facilitation and Innovativeness: Cottage Industry Development in Uganda

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Abstract: This study investigates the combined effects of trade facilitation and innovativeness on the development of cottage industries in Kampala City, Uganda. The research was motivated by the increasing relevance of cottage industries as engines of inclusive growth and the need to enhance their competitiveness and sustainability in developing economies. Anchored in the Resource-Based View (RBV) and New Institutional Economics (NIE) theories, the study conceptualizes trade facilitation and innovation as strategic and institutional enablers of firm performance. A cross-sectional mixed-methods design was employed, utilizing both quantitative and qualitative data collected from 250 cottage industry operators using stratified random and purposive sampling techniques. Results from Pearson correlation and regression analyses revealed significant and positive relationships between both trade facilitation ($\beta = .41$, $p < .01$) and innovativeness ($\beta = .361$, $p < .01$) with cottage industry development, jointly explaining 51.4% of the variation. Thematic analysis of qualitative data reinforced these findings, with participants highlighting how improved logistics, streamlined trade processes, and innovation in product development drive expansion, market access, and competitiveness. The study underscores the need for integrated policies that promote innovation ecosystems and remove institutional barriers to trade. Recommendations include investment in infrastructure, digital trade platforms, training in innovation practices, and stronger linkages between industry and support institutions to realize sustainable cottage industry growth.

Keywords: *Trade facilitation, innovativeness, cottage industry development, Uganda*

1. Background

Ugandan cottage industries serve as a vital instrument for inclusive economic growth because they help micro and small-scale entrepreneurs operating in informal settings. The enterprises offer employment opportunities and generate income while driving grassroots industrialization, which supports both Vision 2040 and National Development Plan III (NPA, 2020; UBOS, 2021). Small-scale industries throughout the world function as key drivers for accelerating innovation and production diversification while leading community development initiatives, according to the World Bank (2020). Uganda's cottage industry sector faces ongoing obstacles that restrict its ability to expand while maintaining market connections and sustaining operations for the long term (Mutambi, 2016; MTIC, 2020). The sector faces trade facilitation constraints because of inadequate logistics infrastructure and inefficient customs systems, and bureaucratic bottlenecks that block access to regional and international markets (UNCTAD, 2021; Hoekman & Shepherd, 2013). The restricted use of digitization, together with insufficient value addition and research and development practices, creates barriers to productivity and competitiveness, which threaten the long-term viability of these businesses (OECD, 2005; Zhou et al., 2017). Low-income economies benefit from trade facilitation initiatives because these programs improve business performance while integrating them into value chains through efficient customs procedures and infrastructure investment, and regulatory environment improvements (Arvis et al., 2010; WTO, 2015a).

Small businesses that practice innovation gain better resilience, together with adaptability to compete effectively in dynamic markets by reducing costs and differentiating their products (Liu & Xie, 2020; Sibanda et al., 2018). Research about Uganda's cottage industries requires further exploration to understand how trade facilitation interacts with innovation within the informal and semi-formal enterprise landscape. Most existing studies investigate manufacturing and export-led sectors, yet there is insufficient empirical research about trade facilitation and innovation impacts on Uganda's cottage industries (Aye, 2022; Olyanga et al., 2022). The development of Uganda's cottage industry sector requires a deeper analysis of the relationships between trade facilitation and innovation to achieve its goals of economic transformation through industrialization,

entrepreneurship, and value addition. This research analyzes the separate effects and combined impact of these two variables on the growth and sustainability, along with the productivity levels of Uganda's cottage industries.

2. Literature Review

Theoretical and Empirical Literature Review

The research draws its foundation from the Resource-Based View (RBV) alongside the New Institutional Economics (NIE) theory. The Resource-Based View theory developed by Barney (1991) demonstrates that firm performance depends on its resources and capabilities, which must be valuable, rare, inimitable, and non-substitutable. The strategic resources of trade facilitation and innovation play a vital role in enhancing both competitive advantage and sustainability for cottage industries. Through innovation, these enterprises develop unique products and services while trade facilitation enables efficient product movement and market access (Wernerfelt, 2020; Peteraf & Barney, 2018; Teece, 2018). New Institutional Economics theory, developed by North (1990), shows that economic performance depends on both formal institutions (regulations, trade policies) and informal institutions (norms, networks). The theory helps explain how institutional arrangements, such as simplified customs procedures and trade policies, affect cottage industry development trajectories. The institutional inefficiencies create obstacles to growth even when small-scale industries demonstrate entrepreneurial potential, according to Williamson (2000) and Acemoglu and Robinson (2019), and Rodrik (2021). The current research indicates that NIE remains crucial for studying institutional barriers and their relationship with entrepreneurial environments in developing nations. The research by Alinaghian et al. (2022) shows that institutional quality affects value chain efficiency, and Aigbokhan et al. (2021) demonstrate that policy stability is essential for micro-enterprise success. The research uses RBV and NIE together to create a complete framework that shows how internal firm capabilities (innovativeness) and external environmental structures (trade facilitation) work together to affect cottage industry growth and sustainability.

Trade Facilitation and Cottage Industry Development

Trade facilitation refers to the set of reforms that aim to simplify and harmonize trade procedures, reduce transaction costs, and improve logistical infrastructure (Grainger, 2007; UNCTAD, 2021). Studies have shown that effective customs procedures, clear regulations, and good infrastructure are crucial for micro and small enterprises to access regional and international markets (Hoekman & Shepherd, 2013; WTO, 2015a). Arvis et al. (2010) observed that enhanced trade logistics enhance supply chain performance, particularly for firms that handle time-sensitive production, such as perishable goods in rural industries. Aye (2022) in Sub-Saharan Africa established that trade facilitation reforms lead to firm growth by lowering costs and expanding market opportunities. The World Bank (2020) also observed that better border efficiency has important implications for enterprise survival, particularly for informal enterprises. The World Bank (2020) also observed that harmonized regional trade policies lead to smoother cross-border transactions, reduce informality, and stimulate market diversification (Beverelli, Neumueller, & Teh, 2015). UNESCAP (2022) noted that small-scale producers in landlocked countries gain substantially in terms of income and market access when they are supported by efficient logistics and digital trade documentation. Farole and Winkler (2014) also pointed out that trade-related infrastructure, including digital systems and ports, is a critical factor in the performance of small-scale producers. Alarcón and Stasavage (2020) established that better transparency in customs and regulatory frameworks leads to higher participation of small firms in cross-border trade and thus enhances local enterprise resilience. However, the focus of much literature is still on formal SMEs, which leaves a gap in understanding how such trade reforms affect the grassroots level of cottage industries (Mutambi, 2016; Olayemi et al., 2023). Furthermore, gendered trade barriers and limited digital inclusion remain barriers to the full potential of women-led cottage industries to benefit from trade facilitation (ITC, 2021).

Innovativeness and Cottage Industry Development

Firms possess the ability to introduce new products along with modern technologies while continuously enhancing their operational processes (OECD, 2005). Small-scale enterprises depend on innovation to compete effectively while achieving operational efficiency and market adaptability (Sibanda et al., 2018; Zhou et al., 2017). Microenterprises use technological innovation to enhance their production and marketing capabilities, which enables them to create new product lines and improve quality while establishing brand recognition

(Amoako et al., 2020). Research shows that firms that innovate achieve superior results in both financial and non-financial aspects. Liu and Xie (2020) show how innovation strengthens both export competitiveness and productivity within China's manufacturing industry. Olyanga et al. (2022) discovered that East African SMEs, including informal businesses, link innovation directly to their export readiness in their research. Setyaningrum et al. (2023) established that institutions enabling innovation adoption lead to the sustainable development of MSMEs over time. Innovation within the informal sector creates opportunities for economic growth that is both inclusive and generates employment opportunities, according to Mugisa et al. (2021). Agyei (2019) proved that small-scale manufacturing enterprises achieve better customer loyalty and revenue growth through innovations in packaging and product design as well as customer service delivery.

Khan et al. (2021) discovered that government support through incubators and technical advice enables rural businesses to commercialize their innovative products. The collaborative innovation networks that women entrepreneurs established in Kenya, according to Nambiro and Oloo (2023), resulted in better market penetration along with operational stability. The adoption of innovation by Uganda's cottage industries remains low because they face barriers such as restricted training access and insufficient funding and research institution connections, and insufficient policy incentives (MTIC, 2020; Kibirige & Turyakira, 2020). Weak innovation ecosystems that fail to unite academic institutions with industries and policy-makers present an ongoing obstacle (Wanyama & Musoke, 2023). Research now shows that cottage industries can make greater contributions to Uganda's development goals by improving their innovation potential through training initiatives and collaborative partnerships with institutional support.

3. Methodology

This research applied a cross-sectional survey approach, which combined quantitative and qualitative data collection methods to study trade facilitation effects on innovativeness and cottage industry growth in Uganda. The mixed-methods approach strengthened findings by using triangulation, which confirmed statistical outcomes through qualitative context (Creswell & Plano Clark, 2017). The target population consisted of cottage industry operators who operated within Kampala City's five divisions, especially those who worked in herbal medicine, woodwork, soap making, shoe production, and metal fabrication. Stratified random sampling selected 250 participants to achieve equitable representation of different sub-sectors. The researcher applied purposive sampling to obtain key informants who included cottage industry association leaders and government officials. The research tools consisted of a self-administered questionnaire and an interview guide with semi-structured questions. The questionnaire contained sections about respondent demographics and trade facilitation practices as well as innovation strategies and business development indicators based on established research constructs (Liu & Xie, 2020; Khan et al., 2021). The evaluation of trade facilitation involved assessing policy awareness alongside logistics access and transaction cost barriers, as well as customs efficiency. The assessment of innovativeness depended on digital tool adoption, along with product development and value addition, and research and development participation. Cottage industry development was operationalized through profitability, number of employees, size of investment, and product diversity.

The instruments demonstrated valid measurement because experts reviewed them, followed by a 10-participant pilot test outside the main sample population. All study constructs achieved sufficient reliability through Cronbach's Alpha measurements, which produced coefficients above 0.7 (Tavakol & Dennick, 2011). The researcher used SPSS v26 to perform descriptive statistics and Pearson correlation and regression analyses on quantitative data for investigating study variable relationships. Qualitative data underwent thematic analysis to discover repeated patterns and contextual explanations that supported or contradicted the quantitative results (Braun & Clarke, 2006). The research followed strict ethical procedures, which included participant consent collection alongside guaranteeing confidentiality and obtaining necessary approval from an ethical research board following academic standards (Israel & Hay, 2006).

4. Results

Table 1: Characteristics of the respondents

Items		Frequency	Percent
Gender	Male	133	61.9
	Female	82	38.1
	Total	215	100
Marital status	Married	134	62.3
	Single	76	35.3
	Divorced	5	2.3
	Total	215	100
Age bracket	20 and below	2	0.9
	21-30	46	21.4
	31-40	91	42.3
	41-50	53	24.7
	Above 50	23	10.7
	Total	215	100
Highest level of education	Primary	27	12.6
	Secondary	50	23.3
	College	16	7.4
	Diploma	63	29.3
	Bachelors	52	24.2
	Others	7	3.3
	Total	215	100

Source: Primary data

In terms of gender, the majority of respondents are male, representing 61.9%, suggesting that men are more involved in the cottage industry sector. Policies might need to consider how to make trade processes more inclusive for women, who are a significant minority at 38.1%. Encouraging female participation could drive innovation and diversify the cottage industry.

In relation to marital status, the high percentage of married individuals (62.3%) suggests a high stability and a higher level of commitment to business endeavors. Trade facilitation measures could focus on supporting family-owned cottage industries, which may benefit from initiatives aimed at 35.3%, indicating more flexibility and openness to innovative practices. Facilitating trade for this group could involve providing access to new technologies and training to foster innovation. And finally, the divorced constitute the least number with 2.3% Considering age bracket most of the respondents are aged 31-40 with 43.1%, followed by 41-50 years with24.3%, then 21-30 years with 21.4%, those above 50 years with 10.7% and lastly those below of 20 years and below with 0.9% an implication that older respondents are significantly involved, indicating a blend of experience and stability hence a potential gap in youth engagement.

The educational background of respondents involved in Uganda's cottage industry reveals a diverse skill set, with a notable concentration of individuals holding diplomas (29.3%), bachelor's degrees (24.2%), secondary education (23.3%) and primary education (12.6%) which suggests that the cottage industry has a workforce that is relatively well-educated and capable of implementing sophisticated techniques and innovative practices. The smaller percentages of respondents with college education (7.4%) and other forms of training (3.3%) highlight the potential for further specialized training to enhance skills. This educational diversity supports the development of the cottage industry by combining traditional skills with modern knowledge, fostering innovation, and enabling adaptability in a competitive market.

Table 2: Business characteristics

Items		Frequency	Percent
Current age of the business	Less than 2 years	153	71.2
	2-5 years	22	10.2
	6-10years	2	0.9
	More than 10 years	38	17.7
	Total	215	100
Type of business	Sole proprietorship	150	69.8
	Partnership	64	29.8
	Total	215	100
Current number of employees	Less than 5 years	173	80.5
	6-10years	33	15.3
	11-15years	5	2.3
	16-20 years	2	0.9
	Total	215	100
Kind of business activity	Soap making	8	3.7
	Shoe production	53	24.7
	Herbal medicine	47	21.9
	Woodwork	73	34
	Metal fabrication	34	15.8
	Total	215	100
Level of your daily business income	Under 50,000=	47	21.9
	50,000= to less than 100,000=	77	35.8
	100,000= to less than 300,000=	81	37.7
	300,000= to less than 500,000=	6	2.8
	500,000= or more	4	1.9
	Total	215	100

Source: Primary data

Age of the business

The data shows that a substantial majority of cottage industries in Uganda are relatively new, with 71.2% of businesses being less than two years old. This suggests a recent surge in the establishment of cottage industries, possibly driven by favorable policies or economic conditions encouraging entrepreneurship. The small percentages of businesses that have been operating for 2-5 years (10.2%) and 6-10 years (0.9%) indicate high turnover or challenges in sustainability. However, the 17.7% of businesses that have operated for more than ten years demonstrate the potential for longevity and stability in this sector. This trend highlights the need for support systems to help newer businesses survive and thrive, contributing to sustained economic development.

Type of business

The majority of cottage industries operate as sole proprietorships (69.8%), indicating that individual entrepreneurs are the primary drivers of this sector. This could reflect the ease of starting and managing a sole proprietorship compared to other business forms. Partnerships, comprising 29.8%, suggest collaboration but are less common. Encouraging partnerships could enhance resource pooling and risk-sharing, fostering growth

and innovation in the cottage industry. These insights can inform policies aimed at providing support structures, training, and incentives to both individual entrepreneurs and partnerships.

Current number of employees

A significant proportion of cottage industries (80.5%) employ fewer than five people, indicating that these businesses are predominantly small-scale operations. This is typically characterized by minimal capital and labor inputs. The presence of slightly larger businesses with 6-10 employees (15.3%) and very few with 11-15 (2.3%) and 16-20 (0.9%) employees suggests limited scalability. Policies that provide support for scaling operations, such as access to financing and market expansion opportunities, could help these businesses grow and increase their employment capacity, thereby enhancing their economic impact.

Kind of business activity

Woodwork (34%) and shoe production (24.7%) are the most common activities, followed by herbal medicine (21.9%) and metal fabrication (15.8%). Soap making, at 3.7%, is less common. This diversity indicates varied skill sets and market demands within the cottage industry. Fostering specialization and providing targeted support for each type of activity, such as training programs, market access, and technological advancements, could enhance productivity and innovation across the sector, contributing to overall economic development.

Level of daily income

The majority of businesses have daily incomes ranging from 50,000 to less than 300,000 Ugandan Shillings (73.5%), with a significant portion earning 50,000 to less than 100,000 (35.8%) and 100,000 to less than 300,000 (37.7%). This indicates moderate income levels, suggesting that while these businesses are viable, there is potential for growth. A smaller percentage earn under 50,000 (21.9%) or more than 300,000 (4.7%), showing disparities in income levels. Policies aimed at increasing profitability, such as improving access to markets, providing business development services, and enhancing financial literacy, could help boost incomes and economic stability within the cottage industry.

Table 3: Correlation

	Trade Facilitation	Innovativeness	Cottage industry development
Trade Facilitation	1		
Innovativeness	.745**	1	
Cottage industry development	.679**	.667**	1

** Correlation is significant at the 0.01 level (2-tailed).

There is a positive correlation between Trade Facilitation and Cottage Industry Development. This relationship is at a 99% level of confidence (r=.679, p<.01). This further indicates that a positive change in trade facilitation is associated with a positive change in the development of cottage industries.

From the qualitative data, the results indicate the following.

Respondent 1: *"From my experience, whenever there are improvements in trade facilitation—like better infrastructure, easier access to markets, or reduced bureaucracy—we see immediate growth in cottage industries. Entrepreneurs can expand production, reach new customers, and even export their goods. It's clear that when trade is made easier, small industries can thrive and grow."*

Respondent 2: *"I've noticed that the more support we get in terms of trade facilitation, the better the development of cottage industries. For example, when transport routes are improved or customs processes become quicker, small-scale producers have a chance to compete more effectively. This leads to more opportunities for local artisans and craftsmen to grow their businesses and even hire more workers."*

The findings, both qualitative and quantitative, highlight a significant positive relationship between trade facilitation and the development of cottage industries. Quantitatively, the correlation coefficient ($r = .679$, $p < .01$) confirms that improvements in trade facilitation are strongly associated with the growth of cottage industries at a 99% confidence level. Qualitative responses further support this, as respondents emphasize how enhanced trade infrastructure, market access, and streamlined processes directly benefit small-scale producers by enabling expansion, competitiveness, and increased employment opportunities. Together, these

insights suggest that fostering trade facilitation is a key driver in promoting the sustainable development of cottage industries.

In addition, the analysis also indicates a positive relationship between Innovativeness and Cottage Industry Development (r=.667, p<.01), an indication that higher levels of innovativeness are associated with the development of cottage industries. The results are also significant at the 99% level of confidence. The findings were also supported by the qualitative responses, where the respondents indicated;
Respondent 4: *"In my view, innovativeness is crucial for the growth of cottage industries. Whenever we introduce new production techniques or develop unique products, our business tends to expand. This innovation not only attracts more customers but also helps us adapt to market trends, making our cottage industry more competitive."*
Respondent 2: *"I've seen that innovation plays a big role in driving the success of small industries. Whether it's adopting new technology or finding creative ways to cut costs and improve quality, those businesses that focus on being innovative are the ones that stand out and grow. Innovation gives us the edge to move forward and grow in a competitive market."*

Conclusion
The combined qualitative and quantitative findings underscore a strong positive relationship between both trade facilitation and innovativeness with the development of cottage industries. Quantitatively, the correlation coefficients for trade facilitation (r = .679, p < .01) and innovativeness (r = .667, p < .01) both indicate significant relationships at a 99% confidence level. The qualitative insights further reinforce these results, as respondents highlight how both improved trade support and a focus on innovation enable cottage industries to thrive, compete, and expand. This suggests that policies aimed at enhancing trade facilitation and fostering innovation are key drivers for the sustainable growth of cottage industries.

Regression Analysis
The regression analysis was performed to confirm the correlation findings and also to explain the predictive power of each independent variable on the dependent variable. The results are indicated in the table below.

Table 4: **Regression Table**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.845	0.179		4.721	0.000
	Innovativeness	0.341	0.067	0.361	5.064	0.000
	Trade Facilitation	0.444	0.077	0.41	5.738	0.000
R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.	
.720a	0.519	0.514	0.34149	114.377	.000b	

A Dependent Variable: Cottage industry development
a Predictors: (Constant), Trade Facilitation, Innovativeness

An analysis of the results indicates that trade facilitation is a significant predictor of cottage industry development (Beta=.41, p<.01). This indicates that for each unit increase in Trade Facilitation, Cottage Industry Development increases by 0.41 units, suggesting that Trade Facilitation has a positive effect on Cottage Industry Development. The t-value for Trade Facilitation is (t=5.738), which also shows that Trade Facilitation is a significant predictor of Cottage Industry Development.

For innovativeness, the results indicate that a unit increase in innovativeness would result in a 0.361 unit increase in Cottage industry development (Beta=.361, t=5.738) thus confirming a hypothesis that there is a positive significant relationship between Innovativeness and Cottage Industry development.

Further, the analysis also indicates that 51.4% of the variance in Cottage Industry Development can be explained by Innovativeness and Trade Facilitation, meaning that 48.6% of the variance is due to other factors not considered in this study.

From the qualitative responses, the findings indicated that;
Respondent 3: *"Trade facilitation has helped our cottage industry grow. When the process of getting our products to market becomes smoother, we see immediate improvements in our ability to scale up and reach more customers. Without those improvements, we'd be stuck at a smaller level."*
Respondent 1: *"Innovating in our business has been essential. Every time we come up with a new idea or implement new processes, our growth accelerates. It allows us to remain relevant and competitive, even in a crowded market. Innovation is what keeps us moving forward."*

Discussion
The analysis of results demonstrates that theory and empirical evidence match well because trade facilitation and innovativeness play essential roles in cottage industry development in Uganda. The study confirms through the Resource-Based View (RBV) that trade facilitation and innovation serve as strategic assets that boost small enterprise competitiveness and sustainability. The observed statistical relationships, together with qualitative testimonies, demonstrate that internal capabilities and external institutional factors, which NIE theory describes, play a crucial role in business growth. The literature review supports the idea that better logistical infrastructure and regulatory efficiency, and market information access directly benefit small producers by reducing transaction costs and expanding market reach (Grainger, 2007; UNESCAP, 2022). The research shows that innovation through product differentiation and technological adoption, and process enhancement serves as a strong tool for market adaptation and resilience, which supports the findings of Liu and Xie (2020) and Olyanga et al. (2022). The regression model's predictive power demonstrates the practical value of these factors, which supports the need for coordinated policies and institutional approaches that will develop innovation ecosystems and trade facilitation reforms to maximize cottage industry potential.

5. Conclusion and Recommendations

Conclusion: The findings highlight the critical role of both trade facilitation and innovativeness in promoting the growth and development of cottage industries. Respondents consistently emphasized that improved market access and innovative practices directly contribute to expanding their businesses and increasing competitiveness. The analysis suggests that supporting these areas can significantly enhance the potential for growth in the cottage industry sector, while other factors should also be considered for a comprehensive development strategy.

Recommendations: The sustainable development of cottage industries in Uganda requires better trade facilitation through specific infrastructure development and institutional backing. The achievement of these goals requires investments in rural and peri-urban transport networks as well as customs and border process streamlining and the establishment of local trade information centers for small-scale producers. The empowerment of cottage industry operators will occur through improved market accessibility combined with trade fairs and digital trading platforms, which will help them reach more consumers and minimize delivery challenges. The interventions will drive production expansion and supply chain optimization while enabling micro-enterprises to succeed in competitive markets.

The promotion of innovation requires specific capacity building and incentive programs that are tailored to the local context. The training program should deliver practical instruction about value addition and digital tools, eco-friendly production techniques, and entrepreneurship development. Innovation hubs should receive support for development, while local artisans should work with technical institutions to create opportunities through seed grants or innovation funds, which will promote experimental product development. The informal sector should receive policies from policymakers and development partners that provide incentives for creative and technological adaptations. The implementation of these initiatives will boost both domestic and international market performance of Uganda's cottage industries by enhancing their resilience and adaptability.

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Journal of Economics and Behavioral Studies (JEBS)
Vol. 17, No. 2, June 2025 (ISSN 2220-6140)

Customer Satisfaction and Customer Loyalty in the Banking Sector in Mbarara City: A Case of Stanbic Bank

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Abstract: Customer loyalty is a crucial aspect for organizations, especially in the banking sector, due to its significant financial benefits. Banks, being high-involvement service providers, maintain long-term relationships with customers, making customer satisfaction vital. While customer loyalty is a well-explored topic globally, limited research has been conducted in developing countries, particularly Uganda. This study aims to assess the influence of customer satisfaction on customer loyalty in the banking industry in Mbarara City, Uganda, with Stanbic Bank's Mbarara Branch as a case study. The study's objectives include evaluating customer satisfaction and loyalty levels and determining their correlation. The methodology involved a descriptive cross-sectional survey of 50 respondents, including management, employees, and customers, using both quantitative and qualitative approaches. Data analysis was performed using SPSS to test the correlation between satisfaction and loyalty. Findings indicated a positive relationship between service quality, trust, and long-term relationships with customer satisfaction. Similarly, trust and repeat purchases were linked to customer loyalty. Recommendations suggest banks should enhance customer follow-ups, innovate banking services, and host customer feedback events. Further studies could explore factors hindering customer satisfaction, the role of technology, and the impact of savings and credit societies on loyalty to commercial banks.

Keywords: *Customer satisfaction, Customer Loyalty, Banking Sector, Mbarara City*

1. Introduction

The study assessed the influence of customer satisfaction on customer loyalty in the Banking Industry with a case study of Stanbic Bank, Mbarara Branch, located in Mbarara city. Stanbic Bank (Uganda) Limited (SBU) is a Commercial Bank in Uganda. It is one of the commercial banks licensed by the Bank of Uganda, the national banking regulator. The bank is the largest commercial bank in the country, by assets, with an estimated asset valuation of over US$ 2.105 billion) and shareholders' equity was valued at approximately US$ 286.3 million as of February 2023.

The banking sector plays an instrumental role in the economic growth process and any country and Uganda is not an exception. It plays the key role of facilitating the payment system and mediating the surplus spending units (Savers) and deficit spending units (Borrowers). In Uganda, the Banking sector has remained important for the provision of financial intermediary services such as the mobilization of savings, risk management, and diversification of risks. Through the provision of short-term, medium-term term and long-term loans, the banking sector has also been crucial in promoting investments in areas of construction, agriculture and manufacturing. The sector has also been important in facilitating trade through the provision of services such as bank drafts, cheques, bills of exchange and credit cards. Implementation of government monetary policy has also been aided by the banking sector (Nathan et al, 2020)

Uganda's banking system is small, undeveloped and characterized by a large share of foreign ownership and high concentration. The level of financial intermediation is low by regional and low-income countries' standards (LICs) partly reflecting low confidence in the financial system in the past, which is the result of a weak supervisory framework, bank failures, dominant state ownership and widespread directed lending. However, the health of the banking system has improved remarkably following the closure of several distressed banks, substantial improvements to supervision with the introduction of a risk-based approach and the privatization of the dominant state-owned Uganda Commercial Bank (UCB) in September 2002 to a reputable

international bank. The regulatory framework also has been thoroughly modernized up to international standards with the passage of the new Financial Institutions Act (FIA) in 2004 (David et al, 2008).

In Mbarara City, commercial banks have over the decade made strategic interventions that could enhance customer satisfaction and maintain their effectiveness in the market. This has involved interventions like agency banking, Mobile Money, and ebanking as a way of giving customers satisfaction and convenience in their banking experience. Despite these efforts banks still face stiff competition because the products offered by commercial banks are largely homogeneous and therefore banks are desperate to retain customers. This study will explore the relationship between customer satisfaction and customer loyalty using Stanbic Bank Mbarara as a case study.

Background

In the consumer marketing community, customer loyalty has long been regarded as an important goal (Reichheld & Schefter, 2000) while investigations into the nature and drivers of customer loyalty have been gaining increasing attention in the field of marketing and customer relations by academics and practitioners (Ofori et al., 2017). Customer loyalty has been defined by Jacoby and Kyner, 1973, as an attitude to say that different feelings create an individual's overall attachment to a product, service, or organization. These feelings define the individual's (purely cognitive) degree of loyalty. The second definition of loyalty is behavioral. Examples of loyalty behavior include continuing to purchase services from the same supplier, increasing the scale and or scope of a relationship, or the act of recommendation (Hallowell, 1996)

Both marketing academics and professionals have attempted to uncover the most prominent antecedents of customer loyalty. Numerous studies have pointed out that two of the more effective means of generating customer loyalty are to delight customers (Lee, Lee & Feick, 2001) and to deliver superior value derived from excellent services and quality products (Parasuraman & Grewal, 2000).

Only a moderate amount of empirical research has been conducted to examine the relationships among customer satisfaction, and customer Loyalty especially in the banking sector. The interrelationships among these constructs have not been fully uncovered and understood (Jones & Sasser, 1995). According to (Bodet, 2010) customer loyalty has been infrequently investigated with simultaneous consideration for its attitudinal and behavioral dimensions. This study aimed to explore the customer satisfaction and customer loyalty relationships paying attention to the banking sector in South Western Uganda. Customer Loyalty is a key issue in marketing and nowadays it's a concern for many managers and other strategic leaders. This is as a result of competition that exists in the service industry (Bodet, 2010) and the researcher is interested in establishing the relationship between customer satisfaction and customer loyalty in the banking sector in Mbarara city in Uganda.

Problem Statement

Customer Loyalty has increasingly become a very important subject in the marketing arena to most organizations since the financial benefits that arise have been well documented (Hill and Jim, 2017). The Banking Industry is perhaps the largest sector that caters to the needs of people belonging to all sections of society. Moreover, Customer satisfaction tends to play a significant role in high involvement (high interaction between customers and service providers) industries like banks (Angur et al., 1999). Also, banks traditionally have long-term business relationships with customers.

According to Ojo (2010), even though the service sector is the majority of the total economy, customer Loyalty is still considered to be a key competitive advantage in global markets. A huge number of empirical studies have been found on the subject matter of customer satisfaction (Choi, Cho, Lee, Lee & Kim, 2004; Ojo, 2010;) Most of the research has been conducted in both developed and under developed countries like United Kingdom, Japan, United States, India and Nigeria. However, very few and limited studies have been found in most developing countries, particularly Uganda where very little research has been done in the banking industry. The researcher therefore wants to find out whether customer loyalty is brought about by customer satisfaction a gap that motivated him to do this study.

The Purpose of the Study

To assess the influence of customer satisfaction on customer loyalty in the banking industry in Southwestern Uganda using a case study of Stanbic Bank, Mbarara Branch

Objectives

- To assess the level of customer satisfaction in the banking sector in Mbarara City, Uganda
- To assess the level of customer loyalty in the banking sector in Mbarara City, Uganda
- To assess the influence of customer satisfaction on customer loyalty in the banking sector in Mbarara City, Uganda

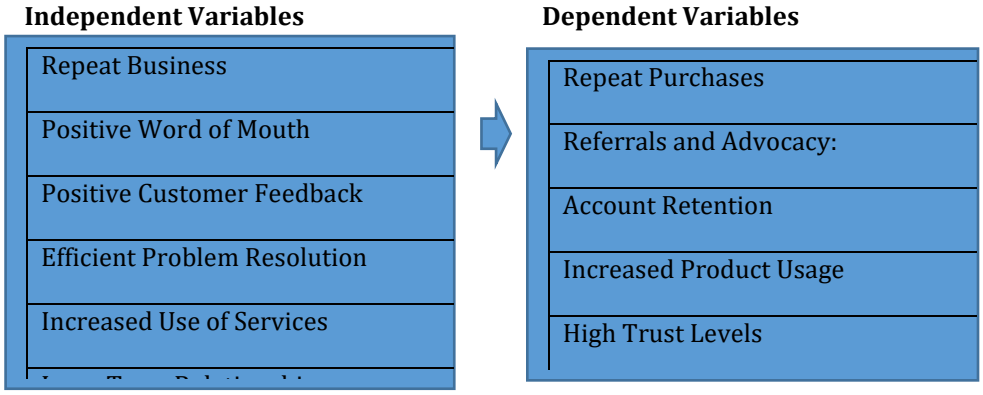
Research Questions

- What are the levels of customer satisfaction in the banking sector in Mbarara City, Uganda?
- What levels of customer loyalty are present in the banking sector in Mbarara City, Uganda?

Hypothesis

H1: Levels of customer satisfaction have no statistical significance with customer satisfaction in the banking sector in Mbarara City, Uganda.

Conceptual Framework



The Significance of the Study

The study findings from this research will be helpful to entities, especially commercial banks in designing marketing Strategies. The study will provide relevant content with insights that will help entities build a connection with customers and be able to retain loyal Customers**.** The study will help provide meaningful information on how companies can deepen their customer connections outside the business premises which can result in repetitive buying and create positive customer service interactions.

The study will provide meaningful recommendations on how marketing and sales managers can tap into new customer bases and attract new buyers outside their segments by turning customers into marketing advocates. The study is of benefit for interested decision makers, managers, leaders, scholars, researchers, academicians, companies, organizations and other stakeholders with useful information about the influence of customer satisfaction on customer loyalty in the Banking Industry.

The results of this study are significant in the sense that it would enable both the management of Banking Industry and the labor The results of this study are significant in the sense that it would enable both the management of Banking Industry and the labor union to better understand the relationship between customer satisfaction and customer loyalty in Banking Industry for improved and sustained business productivity.

2. Literature Review

This section presents literature about customer satisfaction in the banking sector.

To assess the level of customer satisfaction in the banking sector in Mbarara City, Uganda
Almurshidee (2018) states that banks that have introduced e-banking have created a competitive edge over others hence customer satisfaction and when there is service quality improvement, customer satisfaction increases. Sarfraz et al (2017) state that once organizations get involved in corporate social responsibility, they gain trust from the customers and that customer commitment will also arise when customers believe in a relationship with a legal obligation built with their banks.

Al Sayyed et al (2015) state that in case customers perceive that the service quality and trust in the services, it's a level of satisfaction. According to Haruna (2015), price is one of the common means of sending messages to customers, results from studies show that price influences customer satisfaction According to Haruna (2015), the environment where the business does its operations also boosts satisfaction, hence keeping places with furnishing, color, parking areas boosts customer satisfaction.

To assess the level of customer loyalty in the banking sector in Mbarara City, Uganda
Surfraz et al (2017) states that its easy when customers identify with the organization to build loyalty since it gives them comfort as it serves their wishes, it is also stated that customers can be loyal because of the different commitment types they develop that is continuation and cumulative commitment, continuance reveals that customers are forced to remain attached to the organization.

Scholars such as Ofori et al (2017) posit that when a customer has a positive perception of a service provider, the customer will likely spread favorable views about the quality of service delivered by the company, thus increasing the market potential of the company. Moreover, various researchers have demonstrated that the cost of acquiring a new customer is 5 times more expensive than retaining an existing customer, and 50–100 times more expensive to win back a lost customer (Ofori et al., 2017). Therefore, companies need to understand the needs of their customers and aim to build a relationship around those needs to promote long-term customer loyalty and profitability.

Hasiri and Afghanpour (2016) assert that a customer displays loyalty to a product or service produced by a company, when these products /services meet the customer's needs in the best possible manner. However, attracting customers to the products and services of a business is more psychological than the utilitarian value of the product to satisfy the wants of the customers. Magasi (2016) noted that services rendered by banks are fairly homogeneous and close substitutes. Merrin et al. (2013) Factors influencing consumer loyalty also noted that though a producer might be able to satisfy the customer's want, this may not be enough reason for the customer to repeat patronage since it is possible for the customer to get the same or a superior level of satisfaction from another bank (Tweneboah-Koduah and Farley, 2015). Therefore, it is possible for bank customers who were satisfied at their previous visit not to return. Customer loyalty is not guaranteed by good products or service alone.

To assess the influence of customer satisfaction on customer loyalty in the banking sector in Mbarara City, Uganda
Customer satisfaction, which is largely influenced by the perception of service quality and trust, is a critical factor in determining loyalty. According to Bisimwa, Nuwagaba, and Musigire (2019), the perceived quality of service and trust in the banking sector of Bukavu significantly affect customer satisfaction, subsequently leading to increased customer loyalty. Similarly, Karim (2020) demonstrated through a PLS method that service quality has a direct effect on customer satisfaction, and satisfied customers are more inclined to stay loyal to their banks in Bangladesh.

In a study conducted in Nepal, Joshi (2023) established a significant, positive correlation among service quality, customer satisfaction, and loyalty, with satisfaction serving as a mediating factor. Similarly, Christanto and Santoso (2022) observed in Yogyakarta that customer satisfaction acts as a mediator between service quality, corporate image, and loyalty. Additionally, Alzaydi (2023) pointed out that in Saudi Arabia, the quality of multi-channel integration enhances the connection between service quality, satisfaction, and loyalty. Additionally, research conducted in Ghana's banking sector after the crisis (2021) confirmed that improving customer satisfaction is crucial for restoring customer loyalty. Chikazhe, Makanyeza, and Chigunhah (2021) examined satisfaction as a mediating factor and discovered that its influence on loyalty is influenced by a range of

contextual elements. Together, these studies confirm that customer satisfaction is not just important but fundamental in nurturing and enduring customer loyalty within the banking industry.

3. Methodology

The researcher employed a descriptive cross-sectional survey research design that helps in gathering information where little knowledge is known. A cross-sectional study design across the Management, Employees and Customers of Stanbic Bank, Mbarara Branch was used to survey the study population. Both quantitative data were collected and this enabled the researcher to draw valid and dependable conclusion and recommendations of the study.

The study population was put into groups namely: the Management, Employees and Customers of Stanbic Bank, Mbarara Branch. The study engaged a total of fifty (50) respondents. Convenience sampling was used to select the first thirty (30) customers of Stanbic Bank who appeared in the Bank for any transactions to reduce bias in sampling. A simple random sampling method was used to select twenty (20) employees (staff) of Stanbic Bank, Mbarara Branch.

The data units were then sorted according to the study objectives to produce coherent meaning. The data will be organized, entered into the computer-based statistical application program (SPSS), where both inferential and descriptive analyses will be carried out to test for correlation between customer satisfaction and customer loyalty using the Pearson correlation coefficient. The study results were presented in the form of tables for easy interpretation. Conclusion and recommendations were further drawn in the same arrangement with the study objectives accrued from the study findings.

4. Data Presentation, Interpretation and Analysis

This chapter presented the findings obtained for the study in the form of a table and an interpretation and analysis of the findings were made.

Response rate
A total of 50 questionnaires were given out and 41 were returned giving a percentage of 82% which is a good representation of the study.

Demographic Characteristics

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	MALE	28	68.3	68.3	68.3
	FEMALE	13	31.7	31.7	100.0
	Total	41	100.0	100.0	

From the findings on gender 68.3% were male and 31.7% were female, which indicates that the bank has more male customers compared to female customers.

Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	TERTIARY LEVEL	41	100.0	100.0	100.0

The findings above indicate that 100% of the customers contacted had attained tertiary institutions, an indicator that they were able to understand the value of customer satisfaction and customer care in the banking sector.

Years of Banking

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	7	17.1	17.1	17.1
	6-10	21	51.2	51.2	68.3
	16 AND ABOVE	13	31.7	31.7	100.0
	Total	41	100.0	100.0	

The findings indicated that 51.2% of the had been in the bank for six to ten years, 31.7% had used the bank for sixteen years and above while 17.1% had been in the bank for one to five years, the above findings clearly show that most customers hand used the bank for more than five years and therefore would give information that is useful o he study.

To assess the level of customer satisfaction in the banking sector in Mbarara City, Uganda

Repeat Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	23	56.1	56.1	56.1
	AGREE	13	31.7	31.7	87.8
	NEUTRAL	5	12.2	12.2	100.0
	Total	41	100.0	100.0	

From the findings 56.1% of the respondents strongly that repeat business indicates a high level of customer satisfaction,31.7% agreed that it also shows customer satisfaction while, 12.2% were neutral of the matter, this indicates that repeat business indicates that there is customer satisfaction since a dissatisfied customer would not comeback for a repeat business.

Positive Word of Mouth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	29	70.7	70.7	70.7
	AGREE	10	24.4	24.4	95.1
	NEUTRAL	1	2.4	2.4	97.6
	DISAGREE	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

The findings indicate that 70.7% and 24.4% strongly agree and agree respectively to positive word of mouth being a level of customer satisfaction while 2.4% responded to it being neutral and disagreeing with the same. This therefore shows that positive word of mouth shows a level of customer service in the banking sector.

Positive Customer Feedback

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	24	58.5	58.5	58.5
	AGREE	14	34.1	34.1	92.7
	NEUTRAL	2	4.9	4.9	97.6
	DISAGREE	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

The study findings indicated that 58.5%,34.1% agreed strongly and agreed respectively about positive customer feedback being a level of customer satisfaction while 4.9% and 2.4% were neutral and also disagreed to the same ,however since the majority were in agreement it shows that positive customer feedback shows a high level of customer satisfaction.

Efficient Problem Resolution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	26	63.4	63.4	63.4
	AGREE	13	31.7	31.7	95.1
	NEUTRAL	2	4.9	4.9	100.0
	Total	41	100.0	100.0	

The findings indicate that 63.4% and 31.7% of the respondents agreed strongly and agreed respectively while 4.9% were neutral that efficient problem resolution is a level of customer satisfaction, The big percentage of agreement shows that efficient problem resolution shows a high level of customer satisfaction in the banking sector.

Increased Use of Services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	22	53.7	53.7	53.7
	AGREE	16	39.0	39.0	92.7
	NEUTRAL	3	7.3	7.3	100.0
	Total	41	100.0	100.0	

The above findings of 53.7% and 39% agreed strongly and agreed while 7.3% were neutral to increased use of services as a level of customer satisfaction, this shows that once customers increasingly use the banking services then this has a level of satisfaction in the banking sector.

Long-Term Relationships

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	17	41.5	41.5	41.5
	AGREE	22	53.7	53.7	95.1
	NEUTRAL	2	4.9	4.9	100.0
	Total	41	100.0	100.0	

The findings indicated that 53.7% and 41.5% of the respondents agreed and strongly agreed that having a long-term relationship indicates a level of customer satisfaction while 4.9% were neutral to the question, the big percentage of those in agreement indicates that a long-term customer relationship indicates a high level of customer satisfaction.

Strong Trust in the Bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	28	68.3	68.3	68.3
	AGREE	12	29.3	29.3	97.6
	NEUTRAL	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

From the findings above 68.3% and 29.3% of the respondents strongly agree and agree that strong trust in the bank shows customer satisfaction levels while 2.4% of the respondents were neutral on the question. The high response rate shows that strong trust in the bank is associated with a high level of customer satisfaction.

High Participation in Surveys and Feedback

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	23	56.1	56.1	56.1
	AGREE	16	39.0	39.0	95.1
	NEUTRAL	1	2.4	2.4	97.6
	STRONGLY DISAGREE	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

The findings show that 56.1% and 39% strongly agree and agree respectively to high participation in surveys and feedback as a level of customer satisfaction, while 2.4% for both neutral and strongly disagree, which shows that high participation in surveys and feedback has a big response rate, hence a level of customer satisfaction.

To assess the level of customer satisfaction in the banking sector in Mbarara City, Uganda

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Customer Satisfaction	41	3.1315	.67230	.06269

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Customer Satisfaction	2.098	40	.038	.13152	.0073	.2557

One-Sample Effect Sizes

				95% Confidence Interval	
		Standardized	Point Estimate	Lower	Upper
Customer Satisfaction	Cohen's d	.67230	.196	.011	.380
	Hedges' correction	.67676	.194	.011	.377

a. The denominator used in estimating the effect sizes.
Cohen's d uses the sample standard deviation.
Hedges' correction uses the sample standard deviation, plus a correction factor.

The analysis examined whether customer satisfaction levels in Mbarara's banking sector differed significantly from a neutral midpoint (3 on a Likert scale). The sample of 41 customers showed a mean satisfaction score of 3.13 (SD = 0.67), slightly above neutral. A one-sample t-test confirmed this difference was statistically significant ($t(40) = 2.10$, $p = .038$), with customers reporting marginally higher satisfaction than neutral (mean difference = 0.13, 95% CI [0.01, 0.26]). However, the effect size was small (Cohen's d = 0.20), indicating limited practical significance. While results show customers are statistically more satisfied than neutral, the minimal difference suggests satisfaction levels are only slightly positive. The narrow confidence interval around the effect size (95% CI [0.01, 0.38]) further indicates the true impact may be negligible. These findings imply that while banks are meeting basic expectations, there's substantial room for improvement to achieve genuinely positive customer satisfaction. The small sample size (N=41) cautions against overgeneralization, and additional research with larger samples would help validate these results. The marginally positive satisfaction likely reflects adequate but unexceptional service quality, prompting recommendations for banks to investigate specific service aspects needing enhancement to move satisfaction from neutral to strongly positive.

To assess the level of customer loyalty in the banking sector in Mbarara City, Uganda

Repeat Purchases

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	24	58.5	58.5	58.5
	AGREE	12	29.3	29.3	87.8
	NEUTRAL	4	9.8	9.8	97.6
	DISAGREE	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

The respondents at 58.5% and 29.3% strongly agreed and agreed respectively to repeat purchase being a level of customer loyalty while 9.8% and 2.4% responded to neutral and disagree respectively, this is evidence that repeat purchase is a level of customer loyalty.

Referrals and Advocacy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	18	43.9	43.9	43.9
	AGREE	22	53.7	53.7	97.6
	NEUTRAL	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

From the findings 53.7 % and 43.9% of the respondents strongly agreed and agreed respectively that customers who give referrals and advocacy are loyal whereas 2.4% were neutral to the idea, this shows that a big percentage is in agreement that loyalty levels are high because of referrals and advocacy.

Account Retention

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	27	65.9	65.9	65.9
	AGREE	11	26.8	26.8	92.7
	NEUTRAL	2	4.9	4.9	97.6
	DISAGREE	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

The respondents at 65.9% and 26.8% strongly agreed and agreed respectively that retaining an account in a bank is a sign of loyalty as compared to 4.9% and 2.4% who were neutral and disagreed to the statement, since the biggest percentage was in agreement then account retention is a level of customer loyalty in banks.

Regular Engagement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	21	51.2	51.2	51.2
	AGREE	18	43.9	43.9	95.1
	NEUTRAL	2	4.9	4.9	100.0
	Total	41	100.0	100.0	

From the findings 51.2 % and 43.9% of the respondents were in agreement with regular engagement as a level of customer loyalty while 4.9% were neutral, since the majority were in agreement it shows that customer regular engagement is a sign of customer loyalty.

High Trust Levels

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	22	53.7	53.7	53.7
	AGREE	17	41.5	41.5	95.1
	NEUTRAL	1	2.4	2.4	97.6
	DISAGREE	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

Responses show that 53.7% and 41.5% agree that high trust levels show loyalty while 2.4% were neutral and in disagreement, the biggest percentage agrees that high trust levels indicate loyalty in the banking sector.

Willingness to Pay Fees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	22	53.7	53.7	53.7
	AGREE	14	34.1	34.1	87.8
	NEUTRAL	5	12.2	12.2	100.0
	Total	41	100.0	100.0	

The respondents at 53.7% and 34.1% also agree that customers willing to pay fees are loyal compared to 12.2% who were neutral, which indicates that customers' willingness to pay fees shows loyalty.

Long-Term Relationships

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	20	48.8	48.8	48.8
	AGREE	16	39.0	39.0	87.8
	NEUTRAL	3	7.3	7.3	95.1
	DISAGREE	1	2.4	2.4	97.6
	STRONGLY DISAGREE	1	2.4	2.4	100.0
	Total	41	100.0	100.0	

From the findings 48.8% and 39% of the responses showed that having long-term relationships is a level of customer loyalty centrally with 7.3% and 2.4% who were neutral and in disagreement, since the biggest percentage agreed that long-term relationship indicates customer loyalty in banks.

Loyalty Rewards Participation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	24	58.5	58.5	58.5
	AGREE	13	31.7	31.7	90.2
	NEUTRAL	2	4.9	4.9	95.1
	DISAGREE	2	4.9	4.9	100.0
	Total	41	100.0	100.0	

The findings indicated that 58.5% and 31.7% of the respondents were in agreement that participation in loyalty rewards is a sign of customer loyalty while 4.9% responded neutral and disagree, since the majority agreed that it shows that only loyal customers participate in loyalty and rewards.

To assess the level of customer loyalty in the banking sector in Mbarara City, Uganda

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
customer loyalty	41	3.2136	.63673	.05938

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Customer loyalty	3.597	40	.000	.21359	.0960	.3312

One-Sample Effect Sizes

				95% Confidence Interval	
		Standardized[a]	Point Estimate	Lower	Upper
Customer loyalty	Cohen's d	.63673	.335	.147	.523
	Hedges' correction	.64096	.333	.146	.519

a. The denominator used in estimating the effect sizes.
Cohen's d uses the sample standard deviation.
Hedges' correction uses the sample standard deviation, plus a correction factor.

The analysis examined customer loyalty levels in Mbarara's banking sector compared to a neutral midpoint (3 on a Likert scale). A sample of 41 customers showed a mean loyalty score of 3.21 (SD = 0.64), indicating slightly positive loyalty. A one-sample t-test revealed this difference was statistically significant ($t(40) = 3.60$, $p < .001$), with customers demonstrating notably higher loyalty than neutral (mean difference = 0.21, 95% CI [0.10, 0.33]). The effect size was medium (Cohen's d = 0.34, 95% CI [0.15, 0.52]), suggesting meaningful practical significance. These results indicate that while customer loyalty is statistically and practically above neutral, the moderate effect size implies room for improvement to achieve strong loyalty. The positive findings likely reflect

adequate banking services, but strategic enhancements could further strengthen customer retention. The tight confidence intervals around both the mean difference and effect size increase confidence in these results, though the modest sample size (N=41) warrants cautious generalization. Overall, banks in Mbarara appear to be maintaining satisfactory customer loyalty levels, but targeted initiatives could potentially elevate loyalty from moderate to strong levels.

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Correlations

		objective1	objective2
objective1	Pearson Correlation	1	.116
	Sig. (2-tailed)		.471
	N	41	41
objective2	Pearson Correlation	.116	1
	Sig. (2-tailed)	.471	
	N	41	41

The correlation to ascertain if customer satisfaction has a significant relationship was done using Pearson correlation at which showed 0.116 which shows that the relationship is weak meaning that customer satisfaction does not signify that customers have loyalty in the banking sector.

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Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.760[a]	.577	.573	.41599

a. Predictors: (Constant), customer satisfaction

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.664	1	22.664	154.087	.000[b]
	Residual	13.554	39	.173		
	Total	36.218	40			

a. Dependent Variable: **customer loyalty**
b. Predictors: (Constant), customer satisfaction

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.961	.186		5.178	.000
	customer satisfaction	.719	.058	.760	12.413	.000

a. Dependent Variable: **customer loyalty**

The regression analysis reveals a strong and statistically significant relationship between customer satisfaction and customer loyalty in Mbarara's banking sector. The model explains 57.7% of the variance in customer loyalty (R^2 = .577), indicating that satisfaction levels are a powerful predictor of loyalty. The ANOVA results ($F(1,39) = 154.09$, $p < .001$) confirm that the overall model is highly significant. The coefficient analysis shows that a significant positive relationship exists ($B = 0.719$, $p < .001$), meaning each 1-point increase in satisfaction leads to a 0.72-point increase in loyalty.

The standardized beta coefficient (β = 0.760) shows a very strong effect size. The constant term (0.961) is also significant ($p < .001$), suggesting some baseline loyalty exists independent of satisfaction levels. The standard error of estimate (0.416) indicates the model's predictions are reasonably precise. These findings strongly suggest that improving customer satisfaction would directly and substantially enhance customer loyalty in Mbarara's banking sector. The results are particularly robust given the high significance levels and large effect sizes.

5. Discussion, Summary, Conclusion and Recommendations

This section discusses the findings of the study comparing the results of he already existing studies.

Discussion

53.7% and 39% agreed that increased service use indicates a level of customer satisfaction, which is in agreement with Almurshidee (2018), who stated that when service quality improves, customer service increases.

The findings also indicated that 53.7% and 41.5% agree that high trust levels due to increased services offered increase customer satisfaction. This is in agreement with Sarfraz et al 2017 who stated that involvement in corporate social responsibility breeds trust and Al Sayyed et al (2015) who stated that in case of customers. The findings also indicated that 63.4% and 31.7% that efficient problem resolution is a level of customer satisfaction. This is in agreement with Haruna (2015) who stated that once customers are oriented to rely on the banks boosts satisfaction.

The findings also indicated that 53.7% and 41.5% of the respondents agreed that having a long-term relationship indicates a level of customer satisfaction. This was stated by Surfraz et al (2017), who stated that customer commitment will arise when customers believe that a relationship is built, hence satisfaction.

The findings of this study on customer satisfaction in Mbarara's banking sector reveal key insights when examined alongside existing literature. While the analysis identified statistically significant yet only marginally positive customer satisfaction ($M=3.13$, $p=.038$), the small effect size ($d=0.20$) suggests that banks are merely meeting not exceeding basic expectations. This aligns with Almurshidee's (2018) argument that service quality improvements drive satisfaction, implying that Mbarara's banks may need more substantial enhancements, particularly in digital banking, to achieve a meaningful competitive edge.

The modest satisfaction levels observed contrast with Sarfraz et al.'s (2017) findings on the strong influence of corporate social responsibility (CSR) on customer trust and commitment. This discrepancy may indicate that CSR initiatives in Mbarara are either underdeveloped or less prioritized by customers compared to other factors. Similarly, while Al Sayyed et al. (2015) highlight the critical role of perceived service quality and trust, the current results suggest these elements are merely adequate in Mbarara's banking sector rather than exceptional.

Haruna's (2015) insights on pricing and physical environment offer further context for these findings. The neutral-to-slightly-positive satisfaction scores could reflect suboptimal pricing strategies or insufficient attention to physical banking spaces. Given the small effect size in this study, targeted improvements in these areas might yield significant satisfaction gains.

The study's key contribution lies in demonstrating that while Mbarara's banks meet minimum expectations (evidenced by statistically significant results), substantial room for improvement remains. Integrating these quantitative findings with prior qualitative research suggests several strategic opportunities:
Digital Transformation: Following Almurshidee's (2018) recommendations, greater investment in e-banking solutions could enhance convenience and satisfaction.
Service Quality Enhancement: As Al Sayyed et al. (2015) propose, elevating perceived service quality and trust could push satisfaction beyond its current marginal levels.
Holistic Customer Experience: Addressing Haruna (2015) identified factors such as pricing and physical environment could shift satisfaction from adequate to strongly positive.

The study's limitations, including a small sample size, warrant caution in generalizing the results. However, the alignment between these findings and established customer satisfaction theories suggests meaningful patterns. Future research with larger, more diverse samples could further validate these insights and offer more targeted recommendations for Mbarara's banking sector and similar regions. Hence, while Mbarara's banks are fulfilling basic customer expectations, they have yet to fully leverage the opportunities highlighted in broader literature to boost satisfaction and loyalty. Strategic focus on service quality, digital innovation, CSR, and physical environments could help close this gap.

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From the findings responses of 53.7% and 41.5% agree that high trust levels show loyalty which is in line with Surfraz et al (2012), who stated that customers identify with the organization as it gives them comfort. The findings also showed that 58.5% and 29.3% agreed that repeat purchase is a level of customer satisfaction, which is in agreement with Surfraz et al (2017) who state that a customer who has satisfaction or cumulative satisfaction becomes a basis of weighing repeat purchase, hence loyalty.

The findings of this study on customer satisfaction in Mbarara's banking sector, when examined alongside existing literature, present a nuanced understanding of customer loyalty and satisfaction dynamics. While the study reveals marginally positive customer satisfaction (M=3.13, p=.038) with a small effect size (d=0.20), suggesting that banks are meeting basic expectations but not exceeding them, broader literature provides deeper insights into why this may be the case and how banks can enhance both satisfaction and loyalty.

Sarfraz et al. (2017) argue that customer loyalty is strengthened when customers identify with an organization, as it fosters comfort and aligns with their individual needs. They also highlight the role of commitment continuance and cumulative in sustaining loyalty, where continuance commitment suggests that customers may remain attached due to circumstantial constraints rather than genuine satisfaction. This perspective aligns with the current findings, where satisfaction levels in Mbarara's banking sector are only marginally positive, possibly indicating that customers stay with banks out of necessity rather than a strong emotional or psychological attachment.

Further, scholars such as Ofori et al. (2017) emphasize the importance of positive customer perceptions in driving word-of-mouth referrals and market expansion. Their assertion that retaining existing customers is far more cost-effective than acquiring new ones underscores the need for banks to prioritize relationship-building strategies. Given the neutral-to-slightly-positive satisfaction levels in Mbarara, banks may be missing opportunities to convert satisfied customers into loyal advocates. If customers perceive service quality as merely adequate rather than exceptional, they are less likely to actively promote the bank, limiting its growth potential.

Hasiri and Afghanpour (2016) add another layer by distinguishing between utilitarian and psychological drivers of loyalty. They argue that while meeting customer needs is essential, loyalty is often rooted in emotional and psychological connections rather than functional benefits alone. This is particularly relevant in banking, where services are largely homogeneous, as noted by Magasi (2016). If Mbarara's banks focus solely on functional service delivery without fostering emotional engagement, they risk losing customers to competitors offering similar or marginally better services.

The challenge of sustaining loyalty despite satisfaction is further highlighted by Merrin et al. (2013) and Tweneboah-Koduah and Farley (2015), who note that even satisfied customers may switch banks if alternatives provide comparable or superior value. This reinforces the current study's implication that Mbarara's banks must go beyond basic satisfaction to cultivate deeper loyalty. Strategies such as personalized customer engagement, consistent service excellence, and emotional branding areas not fully explored in the current study could help bridge this gap.

Therefore, while the study confirms that Mbarara's banks meet baseline customer expectations, the broader literature suggests that achieving true loyalty requires more than transactional satisfaction. Banks must integrate psychological and emotional elements into their service delivery, enhance perceived value, and build strong relational bonds with customers. Future research could explore these psychological drivers in Mbarara's

study context to provide actionable insights for banks aiming to transform passive satisfaction into active, long-term loyalty.

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The regression analysis demonstrates a strong and statistically significant relationship between customer satisfaction and customer loyalty in Mbarara's banking sector, with the model explaining 57.7% of the variance in customer loyalty ($R^2 = 0.577$). This indicates that customer satisfaction is a powerful predictor of loyalty. The ANOVA results ($F(1,39) = 154.09$, $p < .001$) confirm the overall significance of the model, while the coefficient analysis reveals that each one-point increase in satisfaction leads to a 0.72-point increase in loyalty ($B = 0.719$, $p < .001$). The standardized beta coefficient ($\beta = 0.760$) shows a very strong effect size, and the significant constant term (0.961, $p < .001$) suggests some baseline loyalty exists independent of satisfaction levels. The standard error of estimate (0.416) indicates that the model's predictions are reasonably precise, reinforcing the robustness of these findings.

These results align with previous research in various banking aspects, supporting the universal importance of customer satisfaction in fostering loyalty. Studies such as those by Bisimwa, Nuwagaba, and Musigire (2019) in Bukavu and Karim (2020) in Bangladesh have similarly found that perceived service quality and trust significantly enhance satisfaction, which in turn strengthens loyalty. Joshi (2023) confirmed in Nepal that satisfaction mediates the relationship between service quality and loyalty. Christanto and Santoso (2022) observed in Yogyakarta that satisfaction mediates service quality, corporate image, and loyalty. Additionally, Alzaydi (2023) highlighted in Saudi Arabia that multi-channel integration quality strengthens the link between service quality, satisfaction, and loyalty, emphasizing the role of seamless customer experiences. Research in Ghana's post-crisis banking sector (2021) further reinforced that improving satisfaction is important for rebuilding customer trust and loyalty, while Chikazhe, Makanyeza, and Chigunhah (2021) noted that satisfaction's impact on loyalty can vary depending on different contextual factors.

Given the strong predictive power of satisfaction on loyalty, banks in Mbarara should prioritize strategies that enhance customer satisfaction, such as improving service quality, building trust through transparency, enhancing multi-channel integration, and personalizing services to meet individual customer needs. The findings confirm that customer satisfaction is a fundamental driver of loyalty in Mbarara's banking sector, with a strong, statistically significant, and practically meaningful effect. These results are consistent with global banking research, reinforcing the idea that satisfied customers are more likely to remain loyal. Banks that invest in service quality, trust-building, and customer-centric strategies are likely to see higher retention rates and long-term profitability. Future research could explore additional moderating factors, such as competitive intensity or digital banking adoption, that may influence the satisfaction-loyalty relationship in this region.

Recommendations

The study recommends the following.

- Banks should always do a follow-up with their customers to know the current status of why they have not been visiting banks
- Innovations such as automatic teller machines, mobile banking, and call centres should be introduced to ease banking issues and solve customer problems.
- The banking sector should also always come up with customer days where the management meets them to air their views on what they need addressed

Areas for further studies

For further studies, the following areas are suggested

- Factors that hinder customer satisfaction of customers in the banking sector.
- The influence of technology on boosting customer satisfaction and customer loyalty
- The emergence of savings and credit Societies on loyalty to commercial banks

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Journal of Economics and Behavioral Studies (JEBS)
Vol. 17, No. 2, June 2025 (ISSN 2220-6140)

An Analysis of Local Community Perspectives on How Land Registration Frameworks Influence Land Tenure Security and Contribute to Land Grabbing in Kayunga District

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Abstract: This study explores local community perspectives on how land registration frameworks influence land tenure security and contribute to land grabbing in Kayunga District. Guided by Conflict Theory, Property Theory, and Production Theory, the study analyses the interaction between formal land registration processes and customary landholding systems. The findings reveal that although land registration promotes legal recognition and improves access to financial services, it also contributes to land grabbing due to high registration fees, limited institutional accountability, and procedural gaps. Respondents perceived the process as favouring elites while marginalizing customary landowners and smallholder farmers. The study concludes that the current land registration system in Kayunga District, while offering potential for tenure security and economic empowerment, has exacerbated land-related conflicts and socio-economic inequalities due to corruption, procedural barriers, and exclusion of customary tenure systems. The study recommends integrating customary tenure into statutory law, establishing transparent and accountable governance structures, enhancing legal protections against land grabbing, and promoting community participation and legal awareness to ensure equitable and culturally appropriate land administration.

Keywords: *Local community, land registration, tenure security, land grabbing*

1. Background

Land plays a central role in Uganda's socio-economic fabric, serving not only as a basis for livelihood and identity but also as a critical asset for economic development (Na, 2021). Despite its significance, land tenure security remains elusive, particularly in rural settings where customary and statutory systems operate in parallel, often resulting in overlapping claims and disputes (Adriano, 2023). A large proportion of Ugandans do not possess formal land titles, leaving them exposed to land grabbing—a practice in which land is acquired without the free, prior, and informed consent of its rightful users. This phenomenon, frequently driven by powerful individuals, corporate interests, and government agencies, has led to forced evictions and tenure insecurity in several regions, including Bugiri, Amuru, Kalangala, and Kayunga (Mabikke, 2011).

Land grabbing is not merely a legal or property issue but reflects broader structural challenges (Na, 2021). Economic liberalization and globalization have incentivized the commodification of land, attracting investors and state actors seeking land for commercial agriculture, urban expansion, or infrastructure development. Simultaneously, political patronage systems and weak institutional safeguards have facilitated unchecked land acquisition. These dynamics contribute to the marginalization of rural communities whose customary claims are often disregarded or undervalued in formal legal systems (Ackah-Baidoo et al., 2022)

In response to persistent land conflicts, the Ugandan government and development partners have promoted land registration as a strategy to enhance tenure security and reduce disputes (Ministry of Lands Housing and Urban Development, 2023). However, the process of transitioning from informal customary holdings to formal registration has not been without complications. Vulnerable populations, such as women, indigenous groups, and the poor, often face barriers in accessing registration services due to high costs, limited awareness, or discriminatory practices embedded in local power structures. This has, in some cases, facilitated land speculation and elite capture, thereby exacerbating existing social and economic inequalities. Ackah-Baidoo et al., (2022) illustrated that rather than protecting customary rights, land registration can legitimize dispossession when implemented without safeguards for inclusivity and transparency.

Although substantial scholarship has explored the co-existence of statutory and customary tenure systems in Uganda, there remains a limited empirical focus on how these overlapping systems affect rural communities confronting modern land grabs and state-backed evictions (Anthony, 2022). Specifically, how colonial legacies,

administrative corruption, and weak enforcement intersect to dispossess smallholder farmers and customary landholders has not been adequately documented. This study addresses that gap by focusing on Kayunga District an area deeply affected by historic land reform failures, present-day mailo tenure challenges, and increasing pressure from commercial agriculture. The research aims to deepen understanding of land governance weaknesses by examining grassroots experiences with tenure insecurity and state interventions.

The Development of the Land Law in Uganda

Before colonial rule, land in Uganda was governed by customary norms that varied across ethnic groups, with land primarily held communally by clans or families (Taylor, 1986). Land rights were acquired through inheritance, allocation by elders, or settlement by permission, and disputes were resolved by traditional authorities. Customary tenure systems were diverse, reflecting Uganda's cultural and political structures. In centralized kingdoms like Buganda, Bunyoro, Toro, and Ankole, land was controlled by kings and allocated to chiefs, while Nilotic communities such as the Acholi, Lango, Teso, and Karamoja practiced clan-based governance with collective ownership.

The legacy of colonial land policies continues to profoundly influence contemporary land governance in Uganda. The colonial administration introduced hierarchical and exclusionary systems that prioritized titled, individual land ownership over communal and customary forms (Carmody & Taylor, 2016a). These colonial constructs, especially under the Buganda Agreement of 1900 and the Crown Lands Ordinance of 1903, created fragmented tenure regimes that persist today. For instance, the mailo land system, which institutionalized landlord-tenant relationships, remains a major source of tenure insecurity and land disputes. Although legal reforms have been introduced, many colonial-era statutes such as the Registration of Titles Act (1958) remain operational with minimal modification, limiting the effectiveness of current land administration in addressing structural inequality and access challenges (Owor & Dieterle, 2020).

The persistence of these colonial structures reflects not only legal inertia but also political reluctance to dismantle systems that benefit entrenched elites (Carmody & Taylor, 2016). Post-independence governments adopted land frameworks that largely retained the colonial preference for formal titling, without adequately integrating the customary tenure systems that dominate rural Uganda. This legal dualism has entrenched ambiguity over land rights and facilitated the manipulation of customary land through statutory channels. Vulnerable populations, particularly women, youth, and pastoral communities, continue to face barriers to land access because land policies have often privileged those with resources and legal literacy, replicating patterns of exclusion established during colonial rule.

During colonial rule, the British administration transformed Uganda's land tenure system, introducing new ownership categories that undermined customary land rights. The 1900 Buganda Agreement divided land into mailo, crown, freehold, and leasehold, granting large tracts to Buganda chiefs while leaving most people under customary tenure. This dual system created inequalities and conflicts, as mailo tenure introduced dual ownership, where landlords coexisted with tenants (Miti, 1991).

A series of colonial laws further altered land ownership. The Crown Lands Ordinance (1903) gave the British control over unoccupied land, allowing them to lease or sell it without considering customary occupants. The Busuulu and Envujjo Law (1928) regulated tenant rents in Buganda, reinforcing the landlord-tenant system. The Land Boards Ordinance (1937) centralized land administration, favoring formal registration over customary rights. The Registration of Titles Act (1958) introduced a title-based ownership system, but the high costs excluded many indigenous people (Carmody & Taylor, 2016).

These colonial policies favored private ownership over communal rights, prioritizing European and elite interests while marginalizing peasants and customary landholders. The reforms deepened land inequalities, created a class of landlords and landless peasants, and led to land disputes that persist in Uganda today. The Buganda Agreement, in particular, triggered widespread displacement, turning many Ugandans into tenant farmers on land they previously occupied freely. Ultimately, colonialism established a land tenure system that benefited a few while disadvantaging the majority, laying the foundation for Uganda's enduring land conflicts.
After gaining independence in 1962, Uganda adopted a constitution that recognized four land tenure systems: freehold, leasehold, mailo, and customary. However, successive governments introduced major land reforms

that altered land administration and ownership structures. In 1967, the Republican Constitution abolished kingdoms and placed all land under presidential control. The Public Land Act of 1969 sought to protect customary land rights. However, in 1975, Idi Amin's Land Reform Decree nationalized all land, eliminating private ownership and making all land leasehold under state control. This decree abolished the Busuulu and Envujjo Law of 1928, which had provided some security for tenants (Mukwaya, 1953).

In 1986, President Museveni's government partially restored customary tenure and allowed former mailo owners to reclaim land if they could prove prior ownership. The 1995 Constitution marked a turning point by reaffirming freehold, leasehold, mailo, and customary tenure while introducing new concepts such as co-ownership by spouses and certificates of customary ownership to strengthen tenure security. The 1998 Land Act was enacted to implement the 1995 Constitution, decentralizing land administration and protecting lawful and bona fide occupants from evictions. Over time, the Act has been amended most notably in 2004 and 2010 to enhance women's land rights, increase security of tenure, and regulate land evictions. Additionally, the National Land Policy (2013) and the Uganda Land Use Policy (2006) were developed to ensure sustainable and equitable land management (Ogola, 2015).

Despite these reforms, land tenure insecurity, evictions, land grabbing, and disputes remain major challenges. The mailo land system, which covers about 10% of Uganda's land, is particularly problematic due to dual ownership conflicts between landlords and tenants. The court ruled in St Mark Educational Centre Ltd v Makerere University (CA No. 40 of 1997) that no new mailo titles can be issued beyond those registered before 1928. The government proposed further reforms in 2021, including streamlining mailo tenure, protecting kibanja holders' rights, and improving land dispute resolution. Uganda's land governance framework continues to evolve, shaped by historical inequalities, political decisions, and socio-economic pressures. Despite various reforms, land conflicts, unclear boundaries, corruption, and competing claims over land rights persist, highlighting the need for stronger institutional capacity and enforcement of land policies (Carmody & Taylor, 2016a; Na, 2021).

Land Registration in Uganda

Land registration in Uganda is governed by the Registration of Titles Act, Cap 240, which provides a legal framework for obtaining land titles as proof of ownership (Ministry of Lands Housing and Urban Development, 2013). This Act applies to all land tenure systems except customary tenure, which must first be converted to freehold under Section 10 of the Land Act, Cap 236 before registration. Alternatively, customary landowners can obtain a Certificate of Customary Ownership (CCO), though it offers limited rights compared to a registered title. Unlike registered proprietors, CCO holders cannot transfer land or use it as collateral without first converting their tenure. The registration system is based on a centralized register book, where each land parcel has a certificate of title, issued in duplicate. Once registered, land ownership is indefeasible under Section 64(1) of the Registration of Titles Act, except in cases of fraud. However, the land registration process is costly, bureaucratic, and plagued by corruption, making it difficult for many landowners to secure legal tenure. Despite its importance, land titling remains underutilized in Uganda, with only 20% of landowners having registered interests. This leaves the majority vulnerable to land grabbing and tenure insecurity. The failure to expand land registration has excluded many landowners from legal protections, limiting their ability to fully utilize their land for economic and developmental purposes (Ministry of Lands Housing and Urban Development, 2023).

While land registration is theoretically designed to secure ownership and reduce conflicts, in practice, the system remains inaccessible to many due to procedural complexity, high costs, and limited outreach to rural areas. These barriers are not merely logistical but reflect structural inequalities rooted in Uganda's legal history. The centralized titling process tends to favor urban elites and investors who possess the financial resources and legal knowledge to navigate land offices, often at the expense of rural communities. Furthermore, the lack of integration between customary documentation and statutory records creates loopholes that are exploited in fraudulent land transactions. These systemic flaws reinforce tenure insecurity and undermine the potential of land registration to protect legitimate landholders.

Prevalence of Land Grabbing

Land grabbing affects various aspects, including the environment, economy, social welfare, and human rights. Despite its global prevalence, no single definition fully captures its complexity. At the global level, land grabbing

refers to the control of large tracts of land by public or private entities, domestic or foreign, through legal or illegal means for speculation, extraction, or commodification, often at the expense of smallholder farmers, food sovereignty, and human rights (Owusu Ansah & Chigbu, 2020).

In Uganda, land grabbing is defined as the illegal, fraudulent, or unfair acquisition of land by individuals, businesses, or public enterprises, exploiting power imbalances, corruption, and weak law enforcement. It occurs directly through forced evictions without proper compensation, or indirectly by deceiving owners into signing away their land rights. Domestic elites, government officials, and clan leaders often play a role in facilitating land grabs, targeting vulnerable groups (Mabikke, 2011).

In Africa, land is crucial for smallholder agriculture, food security, and economic stability. Smallholder production remains the backbone of the region's agriculture, with many producers relying on land for food production and agricultural productivity. Beyond economic benefits, land holds cultural and social significance, shaping the identities and traditions of many communities in Sub-Saharan Africa. The growing threat of land grabbing poses serious risks to livelihoods, sustainability, and traditional land stewardship across the region (Stenberg & Rafiee, 2018).

Despite ongoing reforms and the presence of formal land governance frameworks, land grabbing persists in Uganda largely due to systemic failures in enforcement, transparency, and accountability. Weak institutional oversight enables politically connected individuals and corporate actors to exploit legal ambiguities and administrative loopholes to acquire land unlawfully. Furthermore, the legacy of dual tenure systems, where customary and statutory claims overlap, creates legal uncertainty that can be manipulated during land transactions. These conditions have allowed land grabbing to evolve into a sophisticated and often normalized practice, facilitated not only by coercion or deception but also through collusion between land officials, elites, and financial actors. As a result, land grabbing has become both a symptom and a driver of deeper structural inequality in Uganda.

Land Grabbing in Kayunga District

Kayunga District is experiencing a rapid agrarian transformation, where small-scale farmers are being displaced to make way for large-scale agriculture. Land disputes have led to armed force, mob justice, forcible evictions, and violent clashes, leaving many without alternative livelihoods. Bbale sub-county has been the epicenter of land conflicts, particularly in Misenga, Kinawanga, and Kayonza parishes (Kajura & Lule, 2017).

Both public officials and private individuals have been implicated in land grabbing. In 2017, a district chairperson was accused of evicting over 2,000 peasant bibanja holders with minimal or no compensation. District land officials exploit their knowledge of land records to illegally acquire land, while area land committees contribute to confusion by issuing multiple land sale agreements for the same plot. In the private sector, cartels, investors, and predatory money lenders collude with officials to acquire land through fraudulent means (Kajura & Lule, 2017). Kayunga's land tenure system is predominantly mailo, introduced under the 1900 Buganda Agreement, but also includes freehold, Kabaka's land, and customary tenure. The district remains at the center of Uganda's land conflicts, with several people having lost their lives and property due to intensifying land disputes (Mukiibi, 2013; 2021).

Objective of the Study

This study assessed the perspectives of local communities in Kayunga District on the relationship between land registration and land grabbing.

Research Question

What are the views and experiences of local communities in Kayunga District on how land registration and land grabbing impact their land rights and livelihoods?

2. Literature Review

The interface between land registration and land grabbing presents significant tensions in settings where customary tenure dominates, as is the case in much of Sub-Saharan Africa. Bae, (2023), in an analysis of Zambia,

observed that transforming customary land into statutory holdings without community safeguards has enabled large-scale land acquisitions and displacements, particularly where titling costs remain prohibitive. While useful, the study lacks direct relevance to the Ugandan context due to differences in land administration frameworks and socio-political structures. Similarly, Sauls et al., (2022), in a study conducted in Latin America, argued that land registration can grant legal standing to Indigenous groups, but also exposes them to market-driven exploitation and territorial contestations. The transferability of these findings to Uganda remains limited given the contrasting governance dynamics.

Mugambwa, (2007), drawing from Papua New Guinea, emphasized that land is inseparably linked to spiritual and communal identity under customary tenure, and argued that external interventions devoid of legal safeguards erode traditional authority. Although the study supports this position, the lack of methodological detail limits the credibility of that evidence. In Malawi, Bae, (2023) traced colonial land dispossession practices and illustrated how contemporary land acquisition schemes continue to marginalize rural communities through collusion between local elites and state actors. However, the study gives insufficient attention to community-level agency or voice, a dimension that is central to the current study conducted in Kayunga District.

In Uganda, Ashukem, (2020) critically analysed constitutional and statutory provisions related to land, identifying institutional weaknesses and corruption as key impediments to the protection of customary rights. Similarly, Owor & Dieterle, (2020), in a study in the Acholi sub-region, demonstrated the contradictions between communal tenure systems and statutory law, leading to tenure insecurity and land-related tensions. Santiago, (2019), in a study of Bugala Island, revealed the systematic disenfranchisement of local populations through state-sanctioned land acquisitions, where compensation mechanisms were either absent or insufficient. These findings are echoed by Ackah-Baidoo et al. (2022), who underscored how state-backed infrastructure projects continue to undermine land tenure among customary landholders. While relevant, these studies do not specifically interrogate land registration processes in the context of Kayunga District.

Gender disparities in land access have also been critically examined in Ugandan literature. Kasimbazi, (2017) emphasized that rural women face structural exclusions from land ownership under customary tenure, which often privileges male lineage. Akena, (2018) illustrated the cultural embeddedness of land in northern Uganda and the vulnerability of such tenure systems to political and economic pressure. Further, Salcedo-La Viña & Notess, (2017) revealed variations in community responses to land acquisition schemes, shaped by differing degrees of legal awareness and power dynamics. Bottazzi et al., (2016), based on studies in Sierra Leone and Ghana, highlighted that land registration can be manipulated by elites and investors to formalize exclusion, even when it purports to protect local ownership.

Research Gap

Although previous studies have examined the link between land registration and land grabbing, many were conducted in different socio-political contexts such as Latin America, Zambia, and Malawi, which limits their relevance to Uganda's distinct land tenure landscape. Scholars such as Bae, (2023) and Sauls et al., (2022) emphasized the vulnerabilities created through titling reforms and external investment, yet these findings lack direct applicability to Uganda, particularly in rural areas with strong customary land systems. Within the Ugandan context, existing literature including that of Ashukem, (2020), Owor & Dieterle, (2020) and Santiago, (2019) offers useful critiques of institutional weaknesses, policy contradictions, and the consequences of state-sanctioned acquisitions. However, these studies do not adequately explore the perspectives of local communities confronting tenure insecurity during land registration processes.

Further, previous research often focused on legal frameworks and structural failures without incorporating lived experiences of communities subjected to land registration and forced displacement. Limited scholarly attention has been paid to how ordinary land users in rural Uganda interpret, engage with, or resist land registration initiatives. Issues such as the role of local elites, the manipulation of customary rights, and the social consequences of statutory land formalization remain underexplored in site-specific contexts such as Kayunga District. Moreover, gendered experiences and community-level responses are frequently generalized, with insufficient attention to the differentiated effects of registration and land loss on various social groups.

This study has addressed these gaps through a localized investigation that captured the views and experiences of rural community members in Kayunga. It has examined the practical challenges and socio-political dynamics surrounding land registration, explored the structural conditions facilitating land grabbing, and documented the interactions between formal governance mechanisms and customary tenure systems. Through this, the study has contributed a grounded understanding of land governance challenges, reflecting the complex realities facing rural populations in Uganda.

3. Methodology

Philosophical Orientation and research design.

The study is informed by the interpretivism philosophy. Interpretivism philosophy concerns researchers who are attempting to comprehend social happenings through an individual's own experience and the meanings assigned thereafter (Klein & Myers, 1999), such as language, consciousness and common experiences (Walsham, 1995). The interpretivism philosophy tries to understand the subjective meanings embedded in social life and hence tries to explain why people act the way they do (Sartre, 2015).

Interpretivism is used in this study to explore how local communities feel about the relationship between the law on land registration and cases of land grabbing. In addition, this study aims to find out how they see the problem and potential solutions. This study aimed at understanding how they interpret and make sense of the legal framework and economic forces at play. Proponents of interpretivism contend that data is subjective and therefore its clarification is important (Sayer, 2013). To this effect, interpretivism philosophy follows the qualitative approach to give a comprehension of the social and organizational settings, based on building a complex, holistic picture, formed with texts, reported detailed views of respondents and conducted in a natural setting (Creswell, 2014)

A cross-sectional case study design was adopted. This design was chosen as it captures data at a single point in time, allowing for an in-depth exploration of the issue (Kumar, 2018). The study utilized primary which included laws, regulations, court decisions, and official government reports. The study targeted stakeholders in Kayunga District, including legal professionals, policymakers (land board officials, political leaders, opinion leaders), local communities (landowners and tenants), and representatives from regional land offices.

Sample size and sampling techniques

A total of 90 respondents participated in the study. Purposive sampling was used for policymakers and legal professionals based on their roles and expertise in land registration. Local community members were selected through simple random sampling using village registers to ensure equal representation. To reduce bias, the researcher applied clear inclusion criteria, verified participant roles, and ensured representation across locations and categories.

Data Collection Methods and Analysis

The study employed multiple methods to collect data, including document analysis, archival research, case studies, and focus group discussions (FGDs). Document analysis involved reviewing legal texts, statutes, and case law related to land tenure, while archival research examined historical land records and government reports. Case study methods were used to investigate specific incidents of land grabbing in Kayunga District. FGDs were conducted with local landowners to gather community perspectives. For data analysis, thematic analysis was employed. Transcripts from FGDs and case records were coded manually, with themes developed inductively based on patterns emerging from the data. To enhance credibility, codes were reviewed and refined through peer debriefing, and inter-coder reliability was ensured through cross-checking by an independent reviewer. This approach allowed for a comprehensive and reliable interpretation of the qualitative data.

4. Findings

Introduction

The findings from the focus group discussions and interviews that were conducted with the different participants in the different sub-counties and town councils revealed that the local community in Kayunga District holds diverse and complex perspectives on land registration and land grabbing. While some

participants recognized the benefits of land registration, such as securing tenure, preventing disputes, and enabling access to financial services, others expressed concerns over the high costs, bureaucratic hurdles, and corruption that make the process inaccessible. Many landowners and tenants, particularly those with low levels of formal education, struggled with legal and procedural complexities, leading to widespread mistrust in government institutions responsible for land administration. Traditional leaders and elders highlighted the cultural tensions between formal land registration systems and customary landholding practices, arguing that land commodification undermines communal ownership and spiritual ties to ancestral lands. Additionally, participants noted that land registration often benefits elites and wealthier individuals while smallholder farmers and vulnerable groups face increasing exclusion.

The issue of land grabbing emerged as a critical concern, with many participants linking it to weak enforcement of land laws, population growth, corruption, and poverty. Several respondents described experiences of forced displacement, evictions, and land speculation, which have contributed to food insecurity, loss of livelihoods, and heightened social conflicts. Cases of land grabbing involving powerful individuals, government officials, and security forces were frequently cited, with allegations of local authorities colluding with land grabbers to manipulate land titles and dispossess rightful landowners. Government efforts to curb land grabbing, including legal reforms and community sensitization programs, were perceived as largely ineffective due to poor implementation, lack of awareness, and continued corruption. Participants emphasized the need for stronger legal protections, enhanced transparency, and improved accountability mechanisms to safeguard land rights and prevent further injustices in Kayunga District.

Perspectives of the Local Community on Land Registration

The findings presented below reflect the diverse experiences and perceptions of local communities in Kayunga District regarding land registration and land grabbing. Through thematic analysis of focus group discussions and case data, different key themes emerged, each illustrating the complex interaction between customary practices, institutional frameworks, and community realities.

Conflicts Arising from Land Registration

Many participants shared experiences of conflicts arising from attempts to register land, particularly where generational land claims were not documented. The transition from customary to statutory land tenure created disputes over boundaries and ownership, leading to mistrust in the formal registration system. Some community members felt that registration erased historical agreements and customary rights, increasing tensions within families and communities. Additionally, corruption in land transactions was a significant concern, with reports of influential individuals using loopholes in the registration process to displace rightful landowners. One participant noted, *"People used to know whose land it was without papers. Now even families are breaking up because someone has a title" (FGD participant, 2023).* This highlights the need for legal reforms that integrate customary tenure systems and ensure transparency in land governance.

Cultural Perceptions and Communal Values

Cultural values play a crucial role in shaping attitudes toward land registration in Kayunga District. Many participants expressed concerns that land registration might disrupt communal landholding structures, which have traditionally facilitated shared farming, grazing, and resource use. The individualization of land ownership was seen as a potential threat to social cohesion, as it could lead to the fragmentation of communal ties. Some residents worried that the commercialization of land through formal registration would erode cultural identity and spiritual connections to ancestral land. One respondent emphasized, *"Land is more than property; it is where our ancestors are buried. Registration makes it seem like just a commodity"* (Female Tenant, personal communication, October 2023). These concerns highlight the necessity of balancing modern legal frameworks with customary land practices to maintain cultural integrity while providing security of tenure. The government must develop land policies that respect traditional landholding systems while ensuring they align with legal protections.

Economic Opportunities and Financial Barriers

Economically, land registration was seen as both an opportunity and a challenge. Many participants acknowledged that registered land provides access to credit facilities, investment opportunities, and legal protection against encroachment. Farmers noted that a registered land title allowed them to secure loans for

agricultural development and business expansion. A participant shared, *"A title helped me get a loan to expand my farm. but now land is too expensive for my sons" (FGD participant, 2023).* However, some expressed fears that registration would encourage land speculation and drive up land prices, making it unaffordable for smallholder farmers. Additionally, procedural inefficiencies and corruption within land offices discouraged some landowners from pursuing formal registration. The high costs of surveying, valuation, and processing fees further marginalized rural communities, preventing them from reaping the economic benefits associated with land registration. Addressing these financial barriers is essential to ensuring equitable access to land registration services.

Institutional Challenges and Governance Barriers

Institutional challenges in land registration were also highlighted, with participants pointing to inefficiencies within land governance bodies. Many landowners faced long delays due to the fragmented nature of the registration process, which required multiple approvals from different offices. The concentration of land offices in urban centers also created logistical barriers, making it difficult for residents in remote sub-counties to access registration services. Corruption within land offices was another major concern, with reports of officials demanding bribes to process applications. A participant noted, *"They asked for money just to move my file. I waited for months without any response" (FGD participant, 2023).* Additionally, inadequate resources and understaffing in land offices contributed to service delays, further frustrating landowners. Strengthening institutional capacity, decentralizing land services, and enhancing accountability measures are necessary to improve the efficiency and fairness of land registration processes in Kayunga District.

Challenges in the Land Registration Process

The findings further revealed a range of systemic challenges that hinder effective land registration and contribute to land insecurity in Kayunga District. These challenges were grouped into four major thematic areas, as outlined below.

Bureaucratic Inefficiencies in Land Registration

The study found that bureaucratic inefficiencies hinder land registration, with lengthy procedures, unclear guidelines, and excessive paperwork discouraging participation. Respondents reported delays caused by administrative bottlenecks, lack of coordination among land offices, and inconsistent legal interpretations. A participant in Nazigo stated, "*The process takes too long, and every time you go back, they ask for a new document, making it expensive and frustrating* (Participant in the FGD, 2023)*".* The requirement to visit multiple government offices, often located far from rural communities, further deters landowners from registering their land, leaving many without legal protection.

Financial Barriers to Registration

Furthermore, financial constraints emerged as a major barrier to land registration, particularly for low-income landowners. Participants highlighted the cumulative costs involved in surveying, valuation, legal fees, and administrative charges as unaffordable. Many respondents noted that informal landowners, especially those under customary tenure, struggle to meet these financial demands. A farmer in Bbaale remarked, *"Even if I wanted to register my land, I cannot afford the surveyor fees, let alone the other costs they keep adding."* (Participant in the FGD, 2023). This financial burden leaves many vulnerable to land disputes and potential land grabbing, as they lack legal documentation to support their claims.

Corruption in Land Offices

The study also found that corruption within land offices significantly undermines the integrity of the registration process. Participants reported widespread bribery, with officials demanding illegal payments to fast-track applications or resolve disputes. Some respondents claimed that individuals with financial influence could manipulate land records to acquire fraudulent titles. A participant in Kayunga Town shared, *"If you don't pay a bribe, your file will never move, and sometimes they even say your documents are lost so that you pay again."* Such systemic corruption fosters inequality, as wealthy individuals and companies exploit the system at the expense of ordinary landowners.

Incidences of Land Grabbing

Land grabbing was reported as a growing concern in Kayunga District, with cases involving illegal acquisitions by investors, companies, and politically connected individuals. Respondents described instances of forced evictions, destruction of homes, and displacement without compensation. A resident in Kitimbwa recounted, *"We woke up to surveyors marking our land, and within days, we were told to leave because someone else had bought it."* (Participant in the FGD, 2023). The absence of clear land documentation exacerbates the problem, as fraudulent claims and manipulated land records often override customary ownership rights.

Cases of land grabbing

The study also reviewed cases of land grabbing in Kayunga District, including the case of State House officials accused of grabbing forest reserves, the 2022 case of a police chief allegedly siding with land grabbers, and the 2009 case of a landlord burned to death by angry tenants. These cases highlight how power struggles, institutional weaknesses, and legal loopholes contribute to unlawful land acquisitions. The allegations against State House officials regarding forest reserves illustrate how government directives can be manipulated to facilitate private land deals, undermining constitutional protections and the public trust doctrine. Similarly, the accusations against law enforcement for siding with land grabbers emphasize the systemic failure of state institutions to uphold property rights and protect vulnerable landowners. The violent response of tenants in the case of John Kibuuka further demonstrates the deep-seated tensions between formal land ownership structures and generational occupancy rights under customary tenure. These incidents emphasize the urgent need for strong legal frameworks, transparent land governance, and enforcement of land rights to prevent future conflicts and protect marginalized communities from exploitation.

Role of Law Enforcement in Land Grabbing

The study revealed that law enforcement agencies frequently fail to protect local landowners from land grabbing, with allegations of bias toward powerful individuals. Participants expressed frustration over the police siding with land grabbers during evictions and failing to investigate fraudulent transactions. A participant in Kangulumira observed, *"Police officers protect those taking our land instead of helping us. Even when we report cases, they do nothing* (Participant in the FGD, 2023)*."* Such institutional failures deepen mistrust in legal mechanisms, leaving communities feeling helpless against land dispossession.

The transition from customary to formal land registration was found to create tensions within communities, as traditional landholding practices do not always align with statutory land laws. Participants emphasized that land is deeply tied to heritage and social identity, and some feared that registration promotes commercialization and individualization of land ownership. A respondent in Busaana stated, *"Land is more than property; it is where our ancestors are buried. Registration makes it seem like just a commodity* (Participant in the FGD, 2023)*"* This resistance to formalization highlights the need for policies that integrate customary tenure systems into the legal framework to ensure inclusivity and community acceptance.

Discussion of Findings

The study findings confirm that land registration plays a crucial role in securing tenure and preventing disputes, aligning with Ackah-Baidoo et al., (2022), who argued that formal land titles reduce conflicts and enhance investment opportunities. In Kayunga District, participants acknowledged that registration provided legal proof of ownership, enabling access to credit and protection from encroachment. However, the study also revealed that access to land registration services is uneven, reinforcing inequalities among socio-economic groups. This supports Ojambo, (2023), who noted that formalization may disadvantage the poor when costs and bureaucracy render the process inaccessible. Mechanisms such as high transaction costs, technical procedures, and distance to urban land offices effectively exclude rural and low-income populations, deepening tenure insecurity. As Deininger & Castagnini, (2006) emphasized, without deliberate inclusion measures, land registration may reinforce rather than correct existing socio-economic disparities.

Corruption within land administration was another major barrier highlighted in the findings. Participants described systemic bribery, lost documents, and favoritism in processing applications. These observations are consistent with Boone, (2014), who argued that weak land governance structures in Africa often serve as enablers for land grabbing. The study confirmed that individuals with financial and political influence were more likely to bypass procedures or obtain fraudulent titles, which Abdulai & Ochieng, (2017) warned

significantly erodes trust in state institutions. Respondents also expressed concerns over law enforcement bias toward land grabbers, affirming Chimhowu, (2019) claim that legal systems in many African contexts often protect elite interests while leaving the poor with limited access to justice.

Beyond institutional weaknesses, the study drew attention to the cultural implications of formal land registration. Many participants perceived registration as a force that undermines indigenous landholding systems and weakens community cohesion. Anthony, (2022) argued that formal titling disrupts the relational and spiritual value of land in African societies, and the present study supports this view. For instance, respondents worried that converting communal lands into individually titled plots threatened traditional forms of shared use such as grazing, cultivation, and burial grounds. As Wily, (2011) noted, the failure to integrate customary norms into statutory frameworks often results in increased social fragmentation and conflict. These findings suggest that land registration reform must go beyond legal inclusion and address the symbolic and cultural meanings attached to land, especially in rural contexts.

The findings also show that land grabbing remains a serious issue in Kayunga District, consistent with broader global patterns documented by (Hall, 2011). Cases of forced evictions and land loss to politically connected individuals reflect Cotula', (2009) observation that large-scale acquisitions often displace smallholder farmers and deepen rural poverty. Respondents described losing land to investors without consultation or compensation, which supports Mabikke, (2011), who highlighted the risk of elite capture in Uganda's land governance. Furthermore, the failure of law enforcement to intervene supports Borras et al., (2011), who noted that weak institutional checks create an environment in which land dispossession continues unchallenged. These findings call for legal and institutional reforms that prioritize transparency, community consultation, and the protection of customary land rights to prevent further marginalization.

5. Conclusion

The study established that the relationship between land registration and land grabbing in Kayunga District is characterized by both opportunities and vulnerabilities. While land registration was acknowledged as a mechanism for enhancing tenure security, enabling access to credit, and mitigating land-related conflicts, the process remains inaccessible to many due to corruption, procedural inefficiencies, and excessive costs. These barriers have enabled elite capture and have marginalized customary landowners, thereby intensifying land insecurity. Moreover, the study demonstrated that the ongoing transition from customary to statutory tenure has disrupted traditional communal systems, threatening cultural identity and community cohesion. Reports of land grabbing, forced evictions, and institutional complicity underscore the failure of existing frameworks to safeguard the rights of vulnerable populations. The findings therefore underscore the urgent need for institutional reforms, cultural integration, and legal safeguards to ensure that land registration contributes to justice, equity, and sustainable land governance in Uganda. The study contributes to legal and policy discourse on land administration in sub-Saharan Africa and provides a foundation for future scholarly and legislative inquiry into inclusive land reform.

Recommendations

Institutional reform within Uganda's land governance system is necessary to ensure efficient, accountable, and transparent registration processes. Adoption of integrated land management systems, such as those implemented under Rwanda's Land Administration Information System, may address bureaucratic delays, improve public access, and limit discretionary corruption. Strengthening internal controls and instituting independent oversight mechanisms would support the integrity of land offices and reinforce public trust.

Legal recognition and incorporation of customary tenure into the formal statutory framework are essential to securing the rights of indigenous and communal landholders. The Ghanaian model of Customary Land Secretariats illustrates how traditional systems can function in parallel with national legislation, provided that adequate legal backing, community participation, and capacity-building measures are in place. However, challenges such as intra-community disputes and competing claims may arise, requiring culturally sensitive dispute resolution mechanisms and participatory mapping processes.

The establishment of a specialized and decentralized land tribunal would facilitate the timely and impartial adjudication of land disputes. Such a tribunal should be composed of judicial officers, land experts, and representatives of customary institutions to promote legal pluralism and improve access to justice for rural populations.

Legal safeguards against land grabbing must be strengthened through legislative amendments that criminalize fraudulent land transactions, reinforce the requirement of Free, Prior, and Informed Consent (FPIC), and introduce procedural transparency for all large-scale land acquisitions. The legal framework governing community land in Kenya offers a reference point for embedding community consent and public participation in land governance processes.

Public awareness and legal literacy campaigns must be institutionalized to inform citizens of their rights, registration procedures, and avenues for redress. Targeted outreach to rural and marginalized populations is critical to ensuring equitable participation in land administration processes. Through such comprehensive and context-responsive reforms, the land registration regime in Uganda can be transformed into a system that upholds tenure security, cultural legitimacy, and justice for all stakeholders.

Declaration of Conflict of Interest

The author declares that there is no conflict of interest related to this study. This research was conducted independently, without any financial, professional, or personal influences that could have affected the objectivity of the findings and conclusions. The study is solely for academic purposes and aims to contribute to knowledge on land registration and land governance in Uganda.

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Journal of Economics and Behavioral Studies (JEBS)
Vol. 17, No. 2, June 2025 (ISSN 2220-6140)

A Policy Review of Rural and Township Economies in Local Economic Development in KwaZulu-Natal, South Africa

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Abstract: The South African government has shifted socioeconomic policy paradigms from focusing solely on attracting Foreign Direct Investment to Small and Medium Enterprises' development since they promise to provide a base for the emergence of dynamic and efficient large-scale firms and, consequently, a more flexible and competitive domestic economy. The newly adopted KwaZulu-Natal Township and Rural Economies Revitalization Strategy (2022) is an application of the popular acclaim that Small and Medium Enterprises are engines of economic development. Therefore, there is a need for policies and strategies geared towards promoting local economic development that corresponds with the socioeconomic climate of host communities. The main objective of this paper was to explore the role of rural and township enterprises in implementing Local Economic Development in KwaZulu-Natal. The study utilised a systematic research approach in which data was gathered from journal articles, conference papers, reports, and all the relevant research material was managed. Findings indicate that Small and Medium Enterprises are a characteristic of successful economies. Despite the theoretical shift in economic policies, poverty, inequality, and unemployment plague South Africa. Rural and township areas are still behind urban areas in terms of structural capacity, technology, and economic development. This study highlights the need for the provincial government to revise policies specific to the host area because issues faced by rural economies are peculiar to township economies.

Keywords: *Rural economies, Township economies, Local Economic Development, Small and Medium Enterprises.*

1. Introduction

There is a range of legacy issues dating back to the apartheid regime that continue to undermine economic efficiency and job creation in South Africa. Rural and township areas were demarcated by the apartheid government as Bantustans for Black inhabitants who were marginalised from economic and structural developments (Webb et al., 2010). Other countries and most explicitly, the United States of America's president, Donald Trump, still view South Africa as having one of the most fragmented socio-economic structures globally because the apartheid regime polarised it into black and white (race) and privileged and oppressed (socioeconomic status) for a long time. The Edelman Trust Institute (2023) ranked South Africa, Argentina, Colombia, the USA, Spain, and Sweden as the most politically polarised countries in the world. In 2025, the Edelman Trust Institute's findings still show a legacy of polarisation in which 71% of South Africans expressed that business and government serve narrow interests by enriching the wealthy against exploiting people. An atypical practice that has been accepted as a norm is rural and township residents travelling long distances to urban areas for household needs, services, and employment because of the rural and township's disadvantageous spatial positioning, which boosts the urban area's LED.

In response to past spatial injustices, the democratic government implemented a motion of corrective measures such as developing basic infrastructure (water and sanitation to all township residents, road infrastructure, etc.) and access to these services. However, townships are still trapped in the cycle of spatial imbalance in the democratic era, and increased rural-urban migration aggravates their position due to the abolition of influx control legislation and climate change (Mthiyane et al., 2022). Despite these social injustices inherited from the apartheid era, rural and township areas are characterised by a periphery complex comprising formal, widespread, unregulated, and informal economies where the township economy is viewed as the survivalist regime for Black communities in Lower Developing Countries (LDCs). The phenomenon has the constitutional wit to redress past social injustices, and its custodians collaborate with the national government in achieving policies nominally centred on redistribution and redress.

However, the initiative must take a holistic approach that considers factors slowing down rural and township economies, such as businesses with limited expansion capacity and businesses that struggle to survive in their markets despite support measures from the government and private sectors (Trade and Industrial Policy

Strategies, 2021). The KwaZulu-Natal (KZN) cabinet has attempted to develop the KwaZulu-Natal Rural and Township Economies Revitalisation Strategy (RTERS) in 2022 that encompasses rural, township, and informal economies (KZN Provincial Government, 2022). The strategy focuses broadly on the economic challenges experienced by enterprises and entrepreneurs in the rural and township areas (KZN Provincial Government, 2022). The policy directive is to assist communities with the financial support most households require to survive and accelerate economic growth. One noteworthy plan is supporting small businesses, starting with the Small Businesses Act 102 of 1996. The purpose of the Act is "to provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency and to provide guidelines for organs of state. To promote small business in the Republic; and to provide for matters incidental to that" (RSA, 1996: 2).

However, the policy has not met the objectives set out in its mandate. As a result, this study sought to determine why the goals have not been met. What challenges are rural and township economies facing? How does the policy address polarisation? How do rural and township economies impact LED, job creation, and poverty alleviation in the host communities? Finally, explore the inclusion of rural and township economies in LED.

Research studies on the theme of LED and the inclusion of rural and township economies have centred on *Exploring the Local Economic Development initiatives for unemployed rural women in Mandeni Municipality* (Dhlodhlo, 2010); *Determining LED in the Rural Areas of Romania: Exploring the Role of Exogenous Factors* (Pavel and Moldovan, 2019); *Investigating the inclusion of township economies in LED case study: Polokwane Local Municipality* (Tshivhase, 2020); *Exploring local economic development to promote inclusive sustainable development in marginalised areas* (Nkosi, 2022), and *The nature and operations of African migrant informal enterprises in the Mandeni Local Municipality, Kwa-Zulu Natal*, *South Africa* (Gumede & Moyo, 2023); and *Temporary youth employment as a Local Economic Development (LED) mechanism in the Thuthukani Township, South Africa* (Hlatshwayo et al., 2025). There is a gap in research evaluating the inclusion of both rural and township economies' contribution to LED. Van Praag (2003) suggested that it was highly relevant to investigate the inclusion of the township economy in LED. This paper contributes to that standard of analysis in KZN, one of the socioeconomically unequal provinces in South Africa. To accomplish this goal, the research utilised a desktop exploration with secondary data sources, specifically the National Policy and KZN Provincial Government policies and reports, relevant strategic documents, and published and unpublished research studies assessing rural economies, township economies, challenges encountered by SMEs, and their effect on LED.

2. Literature Review

Historical overview of South Africa during the apartheid regime

The apartheid system introduced policies and laws that led to the economic demise of South Africa. The country underwent financial sanctions, limited government funding, and economic development policies were only favourable to white suburban areas (Moshood, 2024). Scholars argue that apartheid policies promoted economic dependence on the coloniser countries and economic sufficiency in South Africa, which pushed Foreign Direct Investment (FDI) from investing in the country (Kajiita & Kang' ethe, 2024; Phetha, 2025; Lin and Liao, 2025). Despite investors pulling out of the country, the apartheid government directed state funds to the military defence (Moshood, 2024). Instead of revitalising rural and township economies that were neglected during the colonial and apartheid eras. As a result, South Africa suffers the aftermath of the prehistoric socioeconomic injustices of colonialism and apartheid eras, which are not limited to poor economic planning and policy implementation, inequality, unemployment, poverty, climate change (disaster management), among other challenges. Due to weak economic performance and long-term impediments, the creation of decent jobs has not kept up with the increase in labour supply in recent decades. Consequently, a large segment of the population remains marginalised in the labour market (Verick, 2010). The post-apartheid policy on economic development made a theoretical shift towards pro-economic growth by participating in global trade and tackling socio-economic challenges facing South Africans through the opening of job opportunities in the formal sectors, improving local economies by adopting policies such as the National Framework for Local Economic Development (2006-2011), Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR) in response to the universal United Nations Sustainable Development Goals (SDGs).

Sustainable Development Goals- Goal 12 (Responsible Production and Consumption).

SDGs are 17 policy guidelines that global leaders and institutions adopt to influence public policy and governance (Zarghami, 2025). The requirement is that global-level processes be translated into organisational-level impacts through business engagements related to SMEs (de Villiers et al., 2021). SDG 12 explicitly addresses organisations and acts as guidelines for companies implementing sustainability practices (Sobir, n.d.). The consensus is that companies can achieve the 17 goals, including innovation, responsiveness, and provision of specific skills and resources (Di Vaio et al., 2020). This view is consistent with the new paradigm shift from focusing solely on FDI to capacitating SMEs to lead LED in South Africa. Drawn from the United Nations Department of Economic and Social Affairs report, "no matter how large or small, and regardless of their industry, all companies can contribute to the SDGs" (Sobir, n.d.:2). Pizzi et al. (2022) argued that SMEs struggle with their role in achieving the SDGs framework because of the barriers to entry. Furthermore, SMEs in urban areas can achieve the SDGs goals because of their spatial positioning and access to the knowledge economy. Whereas SMEs in township and rural areas are spatially disadvantaged with limited access to markets and knowledge. Smith et al. (2022) refer to this as the paradoxical nature of SMEs. They explain that SMEs have limited economic, social, and environmental impact as singular entities, but have the potential to influence society when combined. Mio et al. (2020) note that literature on the role of businesses as sustainable development organisations emphasises large urban enterprises over rural and township SMEs, which constitute most organisations worldwide. According to Smith et al. (2022), this creates a gap in the literature that limits a comprehensive, in-depth understanding of SDGs' liabilities and opportunities. Therefore, there is a need to review the role of rural and township economies in implementing the SDG goals through LED policies and initiatives.

National Framework for LED

The current National Framework for LED in South Africa (2018–2028) is undergoing the policy analysis and implementation stage. The preceding National Framework for LED in South Africa (2013–2018) is still policy-relevant, promoting pro-poor and pro-market approaches to LED in South Africa and is accepted as the guiding principle for LED policy (Bronen, 2021). According to Chomane & Biljohn (2023), this dualistic approach creates a conducive environment for businesses to expand and implement LED through poverty relief and job creation initiatives. The framework supports the notion of rural and township economies being engines of economic development by incorporating elements of pro-poor and pro-market in areas of sustainable community projects and partnerships. It is said that this would improve market confidence, exploit comparative advantage, promote enterprise support and business development, and improve good governance (Patterson et al, 2008). The National framework promotes LED as a function of local government and not an approach. The idea is to create a favourable climate for economic development among the government, public sector institutions, businesses, and host communities (Ndabeni & Rogerson, 2017). However, Chomane and Biljohn (2023) pointed out that balancing LED as a function among different actors requires knowledge and skills to advance LED, since there are differing goals for development and how to achieve them. Thus, implementing the National Framework for LED within local governance and communities is subject to individual or community objectives. The gap in the national policy directive calls for a comprehensive review of the policy implementation among different actors from different socioeconomic backgrounds and roles at the provincial level. This will help synthesise our understanding of the role of rural and township economies in implementing LED.

Provincial Policy Response: Township and Rural Economies Revitalisation Strategy

Government adopted and implemented the KwaZulu-Natal Small, Medium and Micro Enterprises and Co-operatives Development Strategies, the BBBEE Act 46 of 2013 (Act 53 of 2003), the KZN Informal Economy Policy of 2010, and the KZN BBBEE Strategy to bridge the gap of economic imbalances and underdevelopment in KZN and respond to the universal SDGs. Despite all these strategies and policies, unemployment, poverty, and inequality in township and rural areas are still rife. Therefore, the KZN provincial government adopted the KZN Township and Rural Economies Revitalisation Strategy (TRERS) to "radically transform the province's township and rural economies into diversified, inclusive and sustainable wealth-generating economic systems, promoting SMEs and actively contributing to the province's economy" (KZN Provincial Government, 2022: 21). The strategy is developed under economic principles, which view rural and township economies as engines of economic growth and having the ability to revitalise host areas' LED through job creation and infrastructural development. However, the strategy is still in its infancy. The township areas' spatial landscape is closer to the

knowledge economy and metropolitan areas. In contrast, rural areas are at the outskirts, far from economic and technological activity. This view is supported by Westlund & Borsekova (2023: 717), who pointed out that "rural areas are outside the positive economic influence and knowledge economy, mainly negative in both developed and developing countries: rationalisation or closure of existing industry and agriculture, depopulation and brain drain." The distinguishing feature is the lack of continuous economic, social, and cultural relationships between vibrant urban centres and remote rural zones (National Planning Commission, 2013). Rural areas are constantly playing catch-up to areas closer to urban areas (core), and their economies are often at the subsistence and household level.

Rural economies as the informal economy in South Africa

The rural economy is defined as all economic activities, mainly agricultural, occurring in rural areas. As an approach, it is recognised as a new rural economy mobilised to achieve the Millennium Development Goals (MDGs) through sustainable development. The concept of sustainable development is interlinked with LED, but on a broader note, is designed to contribute to Gross Domestic Product (GDP) and attract FDI, which has fallen short because of South Africa's corruption status. For example, China is predominantly agricultural, and the rural construction has always been an integral part of China's socioeconomic development policy (Guochao et al., 2023). In KZN, sustainable rural development has not always been an economic policy priority due to its informality, geospatial position (far from homogeneous activity), and small-scale and household growth. This is what Webb et al. (2010) referred to as the apartheid regime's polarisation laws to prioritise white areas at the expense of marginalising Black people in rural areas. The newly adopted shift from a top-down policy approach to a bottom-up community-driven strategy was an attempt to redress social injustices of the past and re-attract FDI (Gargano, 2021). However, it is worth noting that rural areas were entirely self-sufficient before government intervention, specifically in agricultural production. The government's plans to integrate rural economies into economic policy are to formalise and regularise them.

Township economies as a survivalist regime in South Africa

The apartheid regime grouped small-scale businesses, such as hair salons, cooking at taxi ranks, car washes, and housekeeping in their local areas where Black people worked for survival. The township is typically used to describe neighbourhoods deliberately designed under colonialism and then apartheid to function as segregated dormitories supplying labour to economic centres in urban areas (Phosho & Gumbo, 2025). Scheba and Turok (2020) explained that township economies include economic activities within townships, which include producing, distributing, exchanging, and consuming goods and services. In the policy context, townships refer to settlements developed through the democratic government's housing subsidy scheme (Reconstruction and Development Programme (RDP) and Breaking New Ground (BNG)) (RSA, 2021). The large-scale RDP/BNG programme typically resulted in rows of small, free-standing houses on the urban periphery, just as far from economic opportunities as their apartheid predecessors (RSA, 2021). The historical political systems in South Africa promoted an anti-entrepreneurial culture due to the state's dependency on, or control of, the public, which decreased interest in private enterprise amongst the oppressed, who were mainly Black South Africans.

The inclusion of rural and township economies in Local Economic Development

The integration of rural and township economies into economic policies was driven by the widely recognised notion of SMEs being engines of economic growth; however, their capability rests on their participation in Public Private Partnerships (PPPs). In earlier studies, Fairfoot (2013) advised that SMEs must adopt reform strategies to collaborate with PPPs on best practices to build the economy of rural and township areas. Maloka (2013) suggested that SMEs observe environmental management, work on extension strategies, and collaborate with municipalities to create encouraging conditions for investment. The Organisation for Economic Co-operation and Development (OECD) (2018) supported this by stating that PPPs, large-scale enterprises, support smaller businesses through advisory services and help to grow the economy by subcontracting to and tendering from local companies. The South African government mandates developers of trading areas to incorporate micro-enterprises into their spatial planning frameworks. For example, the National Framework for LED (2018-2028) explicitly stipulates that municipalities have a key role in creating a conducive environment for investment by providing infrastructure and quality services rather than developing programmes and attempting to create jobs directly (RSA, 2023). Mabuza (2017) argued that many PPP models for developed and developing countries do not endorse the role of SMEs as potential suppliers of PPP goods

and services, and they do not embed SMEs into the PPP project structure. He pointed out that the concept of PPPs is centred on the private sector's role as the supplier of public infrastructure. Still, little has been said about using PPPs to develop SMEs and create jobs for the unemployed (Mabuza, 2017). The role of rural and township economies as an engine of growth in LED depends on PPPs and policy environments. However, if SMEs are not mentioned in the policy as suppliers, then the goal of the engine of growth would not materialise

The role of rural and township economies in implementing Local Economic Development

According to the TRERS (2022), rural and township economies implement LED as hubs for community development, employment, and entrepreneurship. Tshivhase (2020) clarified that township economies provide employment opportunities for a wide range of individuals, from the illiterate to the highly skilled, encompassing different age groups and backgrounds. Rural economies' value chains are characterised by communism, where economic activities are domestic and benefits are shared among households, often agrarian and informal. The "new normal", post-COVID, emphasises LED and technological advancement, where local communities must adjust to changes and integrate policy trends into their strategic planning and decision-making (Makhaye and Subban, 2024). Noteworthy is that the rural and township economies were operating as survivalist regimes or an alternative to the labour market saturation before the paradigm shift in policy and governance. In 2024, an estimated 13.4 million people were employed by the MSME sector in South Africa, including those in rural and township areas. This sector, which includes micro, small, and medium enterprises, accounts for 80% of the workforce and has a turnover of over R5 trillion (Solomons, 2024). SMMEs contribute significantly to local economies. Therefore, governments need to support and formalise them to attract investment.

3. Methodology

This study used a systematic research method called secondary data analysis. This method involves reviewing previously collected data on a research topic. The secondary data approach was used to explore the inclusion of rural and township economies in LED. This approach was deemed appropriate since scholars and government publications previously explored LED. This study aimed to elucidate new data sets on the policy implications of marrying rural and township economies under an LED portfolio from various national and international sources, both accredited and non-accredited, obtained from search engines such as Google Scholar, Scopus, and Research Gate, which are credible, accessible, and reliable. This included online commentaries, newsletters, dissertations, and policies from the KZN Provincial Government, explicitly focusing on the *KwaZulu-Natal Township and Rural Economies Revitalisation Strategy (TRERS)*.

Data Analysis

The study used relational content analysis, which begins like conceptual analysis, where a concept is chosen for examination; however, the analysis explores the relationships between concepts. Preiser et al. (2021) explain that individual concepts are viewed as having no inherent meaning, and instead, the meaning is a product of the relationships among ideas. Data analysis involved determining the types of relationships to examine and the level of analysis: word, word sense, phrase, sentence, and themes. The study investigates the relationship between rural economies, township economies, and LED. Secondly, I coded for the existence of meanings by reducing the texts to codes for patterns. The results suggest that empirical data sets on LED share themes of SME growth, community development, and job creation. Once the words were coded, the texts were analysed to determine the relationship's Strength, Sign, and Direction.

4. Results and Discussion

The inclusion of rural and township economies in Local Economic Development.

One of this study's objectives was to investigate the inclusion of rural and township economies in LED. Using relational content analysis, I learnt that the context of this objective has a double meaning: to examine the policy transformation of mainstreaming rural and township economies in LED, and to analyse rural and township economies' role in implementing LED. Using the relational content analysis, the former (examines the policy transformation of mainstreaming rural and township economies in LED) implies the latter (the study of the role of rural and township economies in implementing LED).

The first context of the question can be answered through policy responses. The RTERS stipulates "the implementation plan and arrangement for the rural and township economies revitalisation strategy as a system, processes, and mechanisms that will be used to plan and manage activities. This shall enable effective coordination with others to fulfil the mandate of the *KwaZulu-Natal Rural and Township Economies Revitalisation Strategy.* The strategy maps out how to bring the strategic framework to life by breaking it into identifiable action steps on a set timeline and how to effectively manage it as it gets put into place" (KZN Provincial Government, 2022:65). Considering this policy clause, the KZN provincial government has a vision to revitalise, redress historic injustices and modernise rural and township economies, particularly to diversify SMEs portfolios as suppliers of development infrastructure (KZN Provincial Government, 2022). However, modernising rural and township SMEs (salons, barbershops, repair shops, subsistence farming, shisanyama, etc.) means regulating the economies. This entails applying for finance loans, forming PPPs, becoming innovative, legally registering, and complying with South African Revenue Services (SARS) requirements as a minimum to compete with large-scale businesses successfully. Modernising or formalising SMEs minimises the illegal market and informal businesses; however, it strips societies of their traditional practices and societal norms of community development. In a case study investigating the Struggle for Political Space between Chiefs and Councillors in Malawi, Chinsinga (2006) acknowledged that modernization was a good idea since it brought democracy, constituent policies, and redistribution of resources from the chiefdoms to societies. However, the author admits that the newly adopted system created income gaps and economic independence, where families started businesses for individual and household gain instead of distributing resources and knowledge transfer as a community. In line with Chinisinga's perspective, the formalisation of rural and township economies may not revitalise them but instead achieve urban-like economies that compete to move away from host areas for a better standard of living rather than re-energising their host areas.

Answering the first phase of the objective: examines the policy transformation of mainstreaming rural and township economies in LED. The policy transformation is still in its infancy and a plan; theoretically, township economies can be transformed from survivalist regimes to the largest employer in township areas and attract tourism, depending on the sector and income. However, rural economies are predominantly traditional practices with poor infrastructural development that require deep revitalisation, revamp, and regeneration; as a result, adaptation will take years. The second context of the objective was the role of rural and township economies in implementing LED. I discovered that effectively implementing LED involves enhancing a local area's economic capacity to improve its financial prospects and quality of life. According to Chomane and Biljohn (2023), it entails collaboration among public, business, and non-governmental organisations (NGOs) to improve economic growth and foster job creation. The success of a community relies on its ability to adjust to the dynamic local, national, and international market economies. The ability of communities to improve the quality of life, create new economic opportunities, and fight poverty depends on their understanding of LED processes and innovation to strategically compete in the new market economy.

Considering this, the role of rural and township economies in LED can be viewed as a spectrum, ranging from full integration and belonging to various degrees of participation and adaptation. But instead, it is measured based on PPPs, the host community's adaptiveness, unemployment, poverty reduction, and community cooperation to promote economic advancement and reduce inequality gaps. The literature review on township and rural economies in South Africa revealed a theme of survivalist regimes. According to Utete and Zhou (2024), these economic activities create short-term, unstable jobs, low-quality and low-income jobs, and serve as fallback options when the labour market saturates. This makes it difficult to assess the social impact of rural and township economies in LED. Therefore, these economies may not function as "engines of growth" as proclaimed by the SDGs but can establish sustainable communities in the host areas. After changing the perspective, I came across many policies and research on the agility of these economies to enhance LED in their host areas. The white paper on Small Business and the National Small Business Act of 1996 stipulates that these SMEs can:

a) **Address high unemployment** in South Africa due to having a high labour absorptive ability. Prakasa et al. (2022) explain that SMMEs provide the higher labour-absorptive capacity of small business sector than that of other size classes; the average capital cost of a job created in the SMME sector is lower than in the big business sector; they allow for more competitive markets; they can adapt more rapidly than larger organisations to changing preferences and trends; they often make use of local resources; there is provision of opportunities to

aspiring entrepreneurs especially those who are unemployed, under-employed or retrenched; workers at the smaller end of the scale often require limited or no skills or training; and subcontracting by large enterprises to SMMEs lends fertility to production processes. However, Small Enterprise Development Agency (SEDA) (2016) pointed out that most enterprises from remote areas rarely survive beyond their nascent phases, lasting an average of less than 3.5 years. Mxunyelwa & Vallabh (2025) confirmed that the survival rate for SMEs, including rural and township ones, is 3.5 years. Therefore, job creation is short-term and unstable, depending on the businesses' success and ability to survive during the nascent phases. Furthermore, policies nominally centred on redress must be transparent about the quality and periods of employment within the SME sector.

b) **Promote local competition** by creating markets that grow by identifying new places as they respond to demand changes and international competitiveness because of their flexibility (Small Business and National Small Business Act, 1996). Matekenya & Moyo (2022) argued that SMEs cannot develop without innovation. They said that innovation should not be measured from the technological aspect but also from the integration of cultural, management, and technological innovation, including technology import, innovation, imitation, and independent cooperation. In developing and underdeveloped economies like KwaZulu-Natal's township and rural areas, SMEs are more vulnerable to globalisation and rapid technological change because of their limited resources, limiting their access to funding sources and their possibilities for recruiting talented human resources.

c) **Redress inequalities** created during the apartheid era in terms of patterns of economic ownership and limited career opportunities for Black employees.

d) **Contribute to Black economic empowerment** by having SMEs initiated, owned, and controlled by those who were excluded in the past (Small Business and National Small Business Act, 1996). Building on the evidence presented, the National Development Plan (NDP) and TRERS policies mainstream rural and township economies in LED because policymakers recognise them as a mechanism to redress the social, political, and economic injustices created by the apartheid regime. SMEs in rural and township areas can redress social injustices if given the same effort, access, opportunities, and financial aid conditions as successful, white-led businesses.

e) **Play a vital role in people's efforts to meet their needs without social support systems**. This clause represents the aspect of LED, which is often overlooked in SME research and analysis. According to the Small Business and National Small Business Act (1996), these economies can create better jobs and opportunities, attract investment, and foster sustainable communities with the necessary support. This study asserts that scholars would arrive at a straightforward answer if they studied rural and township economies in LED through the lens of community development's impact on local economies. This way, scholars would produce accurate statistical output. The contribution of rural and township economies in LED is limited to economic production since there is limited evidence in KZN, and the province has not created adaptive communities in local, national, and international markets.

Review policies that guide the intervention of rural and township economies in Local Economic Development.

The NDP is South Africa's blueprint of social policy, an overarching policy framework that extends the UNDGs or Millennium Development Goals (MDGs) to address poverty in developing and underdeveloped countries. In South Africa, the MDGs, as envisioned in the NDP, propose a virtuous cycle of alleviating poverty while creating a virtuous cycle of expanding opportunities, socially including poor communities and uplifting living standards (National Planning Commission, 2013). The government's policy responses from the NDP introduced the National Integrated Small Enterprise Development (NISED) (2023), the National Small Enterprise Amendment Act: South African SMMES (2023), KZN SMME and Cooperatives Development Strategies, the BBBEE Act 46 of 2013 (Act 53 of 2003), KZN Informal Economy Policy of 2010, KZN BBBEE Strategy, the National Business Act of 1996, to create an enabling environment for SMMEs and established several institutions to provide financial and non-financial support to entrepreneurs. The policy mandates are summarised in the table below.

Table 1: Review of policy mandates on rural and township economies in implementing Local Economic Development

Regulatory policy (taxation, labour laws, health and safety regulations, consumer protection, municipal bylaws, access to finance, digital transformation).		
Recommendations based on review	Policy Gaps	Policy recommendations
To reduce restrictive business regulations on SMMEs in the first 5 years of operation.	Implementation recommendations need to be made on how to achieve this.	Further evidence is required on the best way to do this holistically.
There is a lack of employment incentives through staff stipends in SME regulation policies. These incentives will allow SMEs to hire skilled and qualified staff for any scale of jobs.	This policy recommendation has not been studied or implemented. However, a minimum wage allows for SMME exemption, and there is no evidence of another.	Evidence is required to understand whether these exemptions would have the desired effect.
To standardise the regulatory process across types of enterprises with diverse socioeconomic backgrounds.	This has not been implemented.	The paper found that studying SMEs from the lens of "potential" rather than "engine of growth" would encourage policy environments that stimulate the economies' socioeconomic abilities rather than developing policies that drive survivalist regimes.
Regulate independent policy reform at the municipality level where LED coordination occurs.	This has not been implemented.	Explore the feasibility of policy reforms at the municipal level for SMMEs and LED.
The TRERS should improve its implementation guidelines and requirements, prioritising previously disadvantaged groups. Furthermore, the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA) should investigate why current allocations and guidelines have not reached their target groups.	Regulatory policies highlight these groups. However, policies, such as RTERS, do not currently ensure these groups are provided for.	Quantitative data is required regarding these groups to ensure they can be reached, and a mechanism for achieving this can be provided.
Enabling infrastructure and encouraging LED		
Review	Policy gaps	Evidence
LED should be a conditionality for the growth and expansion of SMEs, i.e., SMEs need to source resources from their host area (rural and township) as a prerequisite for financial and non-financial assistance.	The socio-economic policy on including rural and township economies in LED has not married the two concepts with LED in practice. This has only been done theoretically with no implementation plan to redress and revitalise the economies in the ideology that governs them. Instead, they are being transformed into urban economies.	TRERS was developed in 2022 by the KZN Provincial Government, and the policy is at the strategic planning stage.

Under implementation policies, the KZN provincial government can assist SMMEs by developing shared operating premises according to industry and enterprises' needs.	The National Informal Business Upliftment Strategy (NIBUS) contains a provision for a Shared Economic Infrastructure Facility (SEIF) that will cover the funding of a common Infrastructure that is new or upgraded, maintained, and shared by an agreed-upon number of informal businesses, SMMEs, and cooperatives (Department of Small Business Development DSBD, 2023). This policy needs to be implemented in conjunction with SMMEs' policies.	NIBUS policy
KZN Provincial government can stimulate communism in LED by offering incentives for businesses with high employment, skills training, and development rates in host areas.	These recommendations have not been implemented. Further, this requires communism by each member of society, and the government cannot regulate people's buying and spending preferences.	Evidence is required on how private companies can prepare SMME owners for the risks associated with entrepreneurship and incentive schemes to support small businesses.
Socially inclusive strategies are needed to realise the potential for vulnerable groups (youth, women, informal households) to work and entrepreneurship in the township and rural micro-enterprise economies.	Policies explicitly mainstream gender, age, race, and status disparities in SME development and LED. However, policy, practice, and implementation need to emulate the policy directives.	None
Rural areas predominantly engage in the agricultural economy. The KZN Provincial government must encourage other economic activities from the knowledge economy in rural areas to ensure that the rural areas are not left behind.	Sustainable rural development policies must diversify rural economies' portfolios like urban areas. It is unclear if current provisions are adequate.	Rural Development Framework Policy, National Rural Development Strategy, The Rural Economy Transformation Model, and TRERS.
Private sector access to market and competition issues		
Recommendations	Policy Gaps	Evidence
To address market challenges faced by township enterprises, specifically, competition from foreign-owned businesses.	Township economies should be recognised as a distinct type of SMME, and their needs should be responded to specifically. These enterprises are limited by foreign-owned firms that have a comparative advantage in international and domestic markets.	NIBUS recognises the unfair comparative and competitive advantage by prioritising the informal sector and vulnerable groups, but it is not clear that the measures contained therein are adequate for support.
The provincial government should adopt strategies to ensure SMME suppliers are not hampered by the bargaining and competitive power of foreign-owned businesses or co-operatives.	Regulations for Alternate Dispute Resolutions, currently being considered by the KZN EDTEA, may assist in this regard. A proposal for a Small Enterprise Tribunal is also considered.	KZN EDTEA

Expand access to foreign markets for SME-based sectors, and opportunities exist for each sector; mechanisms to link SMMEs to opportunities.	Current policy does not consider this in detail despite identifying key targeted sectors.	Evidence is required on the dynamics of varying SMMEs in different sectors and the existing opportunities.
KZN Provincial policy environment		
Recommendation	Policy Gaps	Evidence
Comparative studies on SMME in Gauteng, Western Cape, and KwaZulu-Natal to monitor KZN's progress	A policy that addresses the constraints faced by and the needs of SMMEs in different geographical areas in South Africa and elsewhere.	
Evidence of unsuccessful PPPs and review of co-operatives.	There needs to be a reassessment of the current policy on co-operatives.	
Evidence on competitive and comparative behaviour by SMMEs across sectors and different types of SMMEs	A policy that encourages the gathering of sector-specific competition data that can be used to inform small business complaints to competition authorities where there is an infringement of competition laws, and design appropriate support where there is no contravention of competition law	
Revise the blanket approach to SMEs in rural and township areas for the adoption of a differentiated approach for rural and township SMEs to help better support measures tailored to individual SMME type and location needs.	Differentiated policy that is responsive to the varying constraints and needs of SMMEs.	
A standalone entity should monitor interventions implemented by municipal government and LED offices to support evidence of interventions that work and do not.	The policy provides for a systematic review of support measures and the building of an evidence base so that interventions can be adapted and responsive to constraints and SMME needs.	

Rural and township enterprises play a role in implementing Local Economic Development

I analysed SMEs from an "engine of growth" perspective, and the results related to the country's GDP and economic products were found in international donors' and governments' strategic documents and policy frameworks. As a result, the research scope was modified to emphasise SME "potential" and cited works by African scholars such as Mabuza (2017), Tshivhase (2020), Chomane & Biljohn (2023), Makhaye & Subban (2024), Westlund & Borsekova (2023), along with relevant case studies aligning with the study's aim of proposing socially inclusive strategies for previously marginalised communities in KZN. The findings indicate that the assessment of SME impact on LED varies from economy to economy and is, therefore, dependent on the area in which it operates.

The case of Uganda

SMEs generated domestic and export earnings, contributing 60% of GDP in low-income countries and 70% in middle-income countries. To reduce overpopulation pressure in the sector, SMEs went into PPPs with foreign partners, and the SME Division (SMED) of the Uganda Investment Authority supported and facilitated the development of MSMEs (Okumu & Buyinza, 2019). Conversely, Turyakira et al. (2023) examined the integration

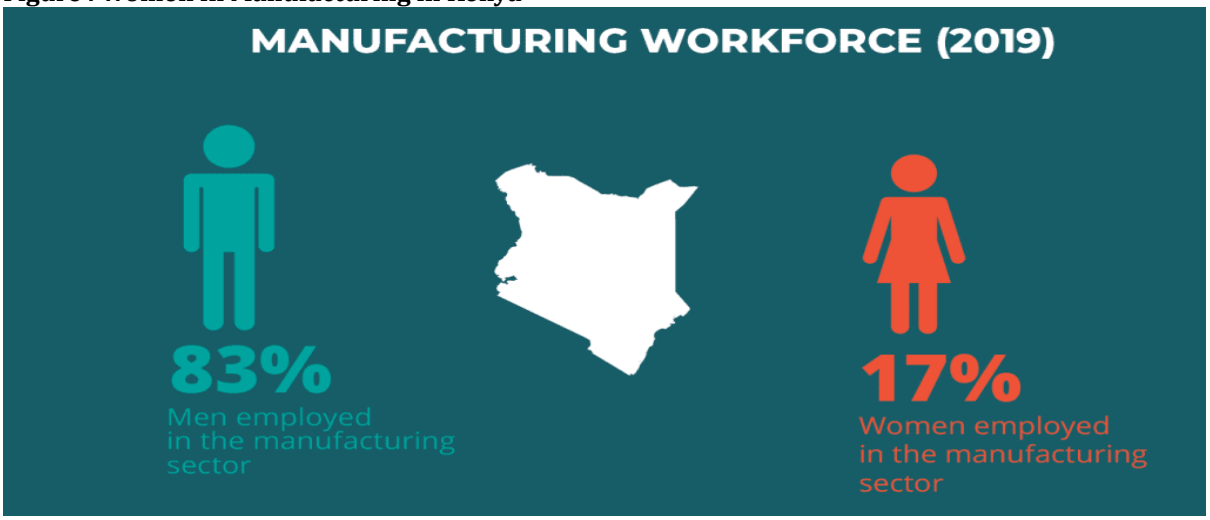
of SMEs in corporate governance in Uganda and found that most rural and township economies could not implement corporate governance because they lacked the technical knowledge about know-how and know-what to implement it. This is likely because most SMEs in Uganda are family businesses, which are not inclined to follow professional management, hence employing managers with limited education. The limited awareness is caused by SMEs not knowing they must implement corporate governance.

The case of Kenya

There was a proliferation of SMEs in rural and township areas as an alternative to the labour market saturation. Mulae (2022) reported that Micro, Small, and Medium Enterprises (MSMEs) comprise 98% of the country's business entities, registered and non-registered. The sector is highly informal, with only 20% of the 7.4 million MSMEs operating as licensed entities. The informal enterprises employ over 7 million people from Kenya's remote areas, including people with disabilities, women, and youth. Considering this, I evaluated the impact of SMEs using the "potential" assessment, which, as already stated, assesses SMEs as a concept to bring economic growth rather than the economic ideology of being an "engine of growth". Using this tool of assessment, I found that MSMEs provide opportunities for the socioeconomic transformation of local communities and the country's economy by absorbing low-skill and economically marginalised vulnerable groups such as youth, women, people with disabilities, and the uneducated and poor. Mulae (2022) argued that SMEs simultaneously grow with LED because the Kenyan government implemented the MSE fund in 2022, commonly called the hustler's fund, which provides financial support to small businesses. The fund focuses on promoting infrastructure development to improve working conditions, and on formalising companies to inform the government about necessary interventions. Moreover, the Kenyan government offers capacity-building through training and coaching and market access through trade fairs and exhibitions (Ahoyi, 2024). Neshamba (2006) made a point, in his assessment of 25 Kenyan entrepreneurs, that the previous work experience of the owner/manager contributed to business success and growth. He also identified knowledge of the market, access to capital, networking, assistance from family members, understanding the customer's needs, and putting in long hours at work as impacting success. Pratt (2012) validated these conclusions by stating that success in Kenya hinges on access to capital, prior business experience, family support, and possession of business skills. Kenya's system of SME integration in LED is successful due to the factors mentioned and the national government's policies, such as providing accessible credit facilities in collaboration with major banks.

Unlike Uganda's family-owned businesses, the Kenyan SMEs' policy environment reveals a patriarchal system. Mulae (2022) explained that gender mainstreaming was lacking in the MSME sector; males owned 71% of the 7.4 million MSEs, individually or jointly, while women owned 53% of the total MSEs, separately or collaboratively. Mugyenyi et al. (2020) explored gender inequality within the manufacturing sector. Their study findings indicated that men had a predominant presence in the industry at 83%, with women comprising only 17% (see figure below).

Figure : Women in Manufacturing in Kenya



Source: Mugyenyi et al. (2020).

The gender disparity in the sector could be explained by women's disinterest in the industry and the societal norm and philosophy that women do not work "male jobs." Wawire et al. (2022) put forward that women in Kenya and elsewhere in Africa are restricted to unpaid work within the home. Yet, African governments understand that human capital formation is boosted by engaging in market activities. Mugyenyi et al. (2020) indicated that many women surveyed faced obstacles when accessing MSME loans and financial support. In addition, the women were exposed to instances of sexual exploitation in exchange for credit facilities and compliance clearances to access and enter the manufacturing sector as business owners (Mugyenyi et al., 2020). This validates Mulae's discovery that women-headed businesses generate less income than businesses owned by men in the country.

The Case of South Africa

There is a mismatch between the perceived role of SMEs in LED and their role in implementing LED. The impact of SMEs is measured on their absorptive capacity, i.e., SMEs are promoted as an alternative for labour market saturation and not always as a viable sector for long-term economic growth. For example, the Small Business and National Small Business Act, 1996, recognises SMEs as a solution for high unemployment because of their high labour absorptive capacity (RSA, 1996). The national government markets SMEs as engines of economic growth by generating income, employment, alleviating poverty, and inequality. At the grassroots, the expectation is that entrepreneurship brings economic prosperity and development as envisioned by the Preferential Procurement Policy Framework (PPPFA 2000) and the Black Economic Empowerment (BEE) Act and subsequent Broad-Based Black Economic Empowerment Act (BBBEE 2004). These policies introduced the "tenderpreneur", which is a colloquial term used to describe the advancement of black entrepreneurs "who entered the private business sector on a legitimate basis under the framework of state policies to enable the advancement of 'black designated groups' in commerce and industry" (Piper and Charman, 2018: 1). Considering this, there are approximately 3 million medium, small and micro-entrepreneurs in South Africa, employing around 13.4 million people (Solomons, 2024). Despite the significant growth in SMEs, "the official unemployment rate was 31.9%, which decreased from the third quarter's rate of 32.1%. The expanded unemployment rate remained at 41.9%" (Statistics South Africa, 2025). In addition, research indicates that South Africa has one of the highest failure rates for SMMEs in the African continent, with a failure rate of 60% to 80% during the 3.5 nascent years (Leboea, 2017; Rens et al., 2021; Mhlongo & Daya, 2023). The failure rate is not only the lack of skills, education and training, and know-how as reported by Buthelezi, Nxumalo and Ngema (2024), but also contextual and intersectional factors, such as barriers to entry, regulations, high labour expenses, a lack of funding support, access to viable markets, political instability and institutional corruption, lack of infrastructural development, challenging local economic circumstances, high municipal costs, poor service delivery, social ills, post-COVID, short-term government procurement contracts, climate change and increased competition (Matekenya & Moyo, 2022).

The case of KwaZulu-Natal

KZN is the country's second-largest province by population and economic output. It is home to one metropolitan municipality, eThekwini, the province's economic hub, alongside Richardsbay Bay. Other district municipalities are Amajuba, Harry Gwala, iLembe, King Cetshwayo, Ugu, uMgungundlovu, uMkhanyakude, uMzinyathi, uThukela, and Zululand, which are predominantly rural (Zhou & Gumbo, 2021). Jili, Masuku & Selepe (2017) examined the role of SMMEs in the Umlalazi local municipality, a rural area in KZN. 55% of the respondents reported that their business reduced unemployment since they have permanent employees. In contrast, 45% of respondents reported working alone or with family because of the business size. Ndlovu (2021) explained that the limited data on the impact of SMEs in LED was due to a lack of coordination between LED offices and government departments, the private sector, and NGOs, and that projects took place in isolation. He revealed that in Umzinyathi, a rural area in KZN, had agro-processing activities and agriParks, clothing and textile, and paper manufacturers producing paper for Unilever and other large businesses in metropolitan areas. Youth manufacture cleaning detergents to supply Spar and other retail shops across the province. Ndlovu (2021) revealed that KZNEDTEA funded 40 of the SMEs that participated in his study, but the projects took place in isolation.

Challenges encountered by small and medium enterprises in rural and township areas

This section captures the most prevailing themes across the swath of literature on the challenges SMEs face in rural and township areas. Most of the issues stem from policies focused on redressing social injustices of the

past, such as the PPPFA (2000) policy in South Africa, which has received both positive and negative opinions. The positive is government is forming partnerships with SMEs for procurement services, creating employment and reducing poverty, while the negative has been associated with corruption and incomplete service delivery (Piper & Charman, 2018). Sirdar et al. (2024) acknowledge that PPPs are not always a viable solution for SME failure but argue that SMEs run by owners and family members are subject to failure if they are not skilled and trained in business management or accounting. This is supported by Phinney et al. (2022), who report that SMEs that outsourced accountants, network contacts, and consultants developed and adapted to the economic climate. In the case of Singapore, Teng (2011) studied the culture of SME failure and found that the causes were internal and external pressures. The 178 SMEs reported the four most important factors: employment, training, and retention of high-quality staff; having a prevalence of good products and services; excellent relationships with customers; and the availability of top managers with good leadership qualities (Teng, 2011). Unlike Singapore, Tanzanian SMEs had the internal capacity to run and expand a business because of the communal living practices taught in rural villages for sustenance. However, external pressures such as government regulations, licenses, permits, high taxes, and corruption at a municipal level threatened SMEs' role in implementing LED (Tonya & Kagata, 2024). Similarly, Mugyenyi et al. (2020) revealed that the biggest challenges facing SMEs in Kenya were cumbersome laws and regulations, lack of access to credit, and inadequate access to skills training and technology. Conversely, in KZN, business owners lacked operations skills and other functional business areas among youth and adults (Buthelezi et al., 2024).

The enterprises' role in LED depends on the sector; for instance, SMEs in tourism and hospitality attract tourists and investment, who purchase goods and services and participate in the host area's culture and diversity. Additionally, SMEs in construction and government procurement services compete for short-term employment, which extends longer periods but not long-term, employing a technically skilled workforce on a project basis. Linda et al. (2024: 146) reported "adverse outcomes of the nation's regulatory structure, the lack of technical expertise among SME owners, lack of access to markets, insufficient finance support, and information asymmetry." In line with the findings, the rural and township economies face internal (lack of skills and training, finance and technology, and access to the knowledge economy) and external (government regulations and policy, competition, climate change, inflation, crime and corruption, and socioeconomic factors) challenges. To measure the role of these economies in LED, there must be a nexus between the private and public sectors to assist SMEs in expanding operations and profit rather than growing the numerical value of SMEs. The expansion of SMEs calls for a shift in policy to explicitly incorporate LED as a prerequisite for building wealth, and for SMEs to follow communist principles by sourcing resources from their local areas and sharing benefits within those areas.

5. Conclusion and Recommendations

There is a link between economic prosperity and performance; however, there is a lack of a measurement tool for evaluating the success of LED implementation in rural and township economies. Tshivhase (2020) has argued that there is a lack of agreement on measuring SME business success or performance and the critical success factors contributing to this performance. It was noted in the literature that the amount of research on township economies has increased in recent years, including their historical development, daily struggles of residents, social dynamics, civic protests, urban governance, and infrastructure challenges (Linda et al., 2024). There is also a sizeable literature on South Africa's informal and rural economies. However, there is limited literature supporting the idea that township and rural economies are engines of growth, which supports SMEs' economic potential to alleviate poverty and create employment. Therefore, analytical frameworks to understand the trajectories of rural and township economies are rudimentary. Building on the evidence presented, this paper helps better understand the inclusion of rural and township economies in LED. Even though SMEs contribute immensely to developing a country's economy, they face significant challenges. If these challenges can be tackled with the relevant needs to meet them, rural and township economies will surely drive up the economy. As discussed above, SMEs contribute a significant proportion to the GDP of their host economy and merely implement LED; the KZN provincial government should create a conducive environment for rural and township enterprises to implement LED. When harnessed, these economies contribute to employment, reducing poverty, crime, and abuse, improving mental health, and promoting local adaptive communities.

Evidence presented in the analysis showed that several SMEs struggle and often collapse. This study recommends that the government or private lenders issuing loans to SMEs ensure that businesses have an excellent standing long-term by monitoring and evaluating the businesses' operations to prevent a business collapse quickly. This will also help to achieve accurate statistical reports on the impact of SMEs on job creation and poverty alleviation, instead of measuring the success of rural and township economies in terms of their contribution to GDP. Furthermore, the inclusion of rural and township economies in LED is determined by the standard and quality of living in host communities, structural and physical infrastructure, quality of jobs and stability, and adaptive, self-sustainable communities.

Recommendations

Policy review:

- The KZN government needs to revise or develop new policies specific to the economy's host area and avoid blanket approaches because issues faced by rural economies are peculiar to township economies.

Ideological paradigm:

- Rural and township local economic development policies should be rooted in communist and socialist paradigms rather than macroeconomics or modernisation to ensure equal opportunities, benefits, and LED.
- The training programme should be flexible in content and delivery based on entrepreneurs' needs and community feedback. For instance, adding an emotional intelligence module will aid entrepreneurs in themselves more professionally, enabling them to negotiate deals with larger businesses and last longer than 3.5 years.

Government Support:

- To reduce SMEs' challenges, government support agencies should help new and existing rural and township enterprises reduce external barriers, mainly licensing, permits, and taxes.
- KZN provincial government should introduce employment incentives based on qualification and skill grading and exemption legislation, making it easier for SMEs to hire skilled and qualified staff for any scale of jobs.
- Transport, communication facilities, and reliable power should be provided in rural and township areas.
- The Department of Education and Higher Education should introduce technology as a mandatory pass requirement in the school curricula and adult education programmes to capacitate communities in technology.
- Tax incentives should be implemented to favour new business entries during the first 3.5 years of early failure.
- Inflation targeting and interest rate reviews should consider new SMEs.

Private Sector:

- Private companies should assist SMEs in enhancing their competitive and comparative advantage by mentoring, granting access to markets, and buying co-operatives.
- Private companies should consider adopting enterprises through hands-on mentorship programs with annual incentives to motivate profit margins.

Interventions for socially inclusive (women, people with disabilities, and youth) township and rural economies:

- Overcoming educational and language barriers in training

KZN provincial government must revive TVET colleges as entrepreneurship and technical training colleges. The collaboration between government and TVET colleges will foster practical and hands-on learning in basic accounting, taxation, acceleration programmes, and sales recording to make it accessible to women, youth, and persons with disabilities with different levels of education.

The programme should incorporate the local language into explanations and use bilingual teachers who provide culturally relevant examples, making the training more relatable and effective.

South Africa's 11 official languages and the trade countries' languages should be a prerequisite for completing courses to help entrepreneurs communicate in several languages.

- A holistic approach to addressing Social and Economic Realities

Women:

Women-headed households face toxic stress, poverty, and family responsibilities; therefore, education and training should include modules on self-confidence, personal development, and security training against predatory men.

Persons with disabilities:

- Facilities for small businesses need to be equipped to accommodate physically disabled entrepreneurs. Training should also include psychological wellness to ensure entrepreneurs are confident as individuals and in business.
- There needs to be more socially inclusive government support centres for entrepreneurs, including persons with disabilities, which are managed and operated by people with physical disabilities.

Youth:

- Opportunities for township youth are many, but accessibility is an issue. Therefore, properly implementing policy directives from the Youth Enterprise Development Strategy (2013-2023) and South Africa's National Youth Policy (NYP) 2020–2030 would help youth programmes achieve the universally accepted SDGs and MDGs.
- The oversight of National Youth Development Agencies (NYDA) should not only be a function of the municipal LED office, but also the private and public sector's since the agencies have firsthand knowledge of the challenges faced by youth-owned SMEs and the complexities of youth unemployment.

The Ripple Effect

- The training programme should emphasise the spirit of Ubuntu, encouraging participants to reinvest their skills and resources, such as sewing, woodworking, and gardening, into their communities.
- The South African SMMES and Co-Operatives Funding Policy (2023) should incorporate a "pay it forward" clause for government-funded enterprises to reinvest a percentage of profits into host community development projects, namely education and training, skills development, training workshops, and infrastructural development.

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Journal of Economics and Behavioral Studies (JEBS)
Vol. 17, No. 2, June 2025 (ISSN 2220-6140)

''Ogya'' Syndrome: Exploring Impacts of Ghanaians' Admiration for International Migration on Sustainable Economic Development

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Abstract: ''Ogya'' syndrome jargon is a synonym for international migration. The study examines the impact of Ogya syndrome on Ghana's sustainable economic development to determine whether it has positive or negative effects on the economy. The study is grounded in Haas' structural functionalism theory and relates the topic in practical terms, which makes this study distinct from existing research. The paper employs a literature review method, also known as a 'meta-study'. The study's findings reveal that Ogya syndrome enhances significant benefits to Ghana's economic development through rewards and remittances sent into the country, Ghanaian migrants upskill themselves, and on migrants' return, they transfer knowledge acquired internationally to non-migrants. Further, migrants undertake investments, developmental projects, and entrepreneurship ventures in Ghana's economy, which have positive impacts on economic development. The negative findings reveal brain drain, remittances' high dependency, and social impacts (loved ones' separation and divorce). The paper argues that good government of Ghana's (GoG) foreign policies will attract international migrants to contribute to sustainable economic development, whereas bad foreign policies will push them away. Therefore, effective foreign policies must be developed with strategies to harness the positive effects of international migration. However, negative effects such as brain drain and dependency need management and social intervention policies to curb them. The paper recommends good governance, stewardship, probity and accountability from all institutions. Further, Ghanaian immigrants' remittances, investments into businesses, and other developmental projects should be charged less tax to encourage Ghanaian Diaspora's remittances flow and migrants' return to contribute to economic growth and development.

Keywords: *Ogya syndrome, International migration, Migration, Economic development, Ghana*

1. Introduction

The term ''ogya'' syndrome is a jargon, especially among Ghanaian youths both at home and abroad. The word ogya, meaning ''uncomfortable economic conditions'', or ''unbearable economy'', ''underperforming economy'' or ''ailing economy'', is used to describe Ghana's harsh economy from the people of the Akan tribe. Interestingly, the ogya syndrome jargon refers to Ghanaians' migration to any part of the world. Ogya syndrome becomes a synonym for international migration. Simply, Ogya syndrome is Ghanaians' migration as ''self-exportation'' or ''self-exodus'', to the world (Ikuteyijo, 2020). The study is grounded in Haas' (2024) structural functionalism theory and relates the topic in practical terms, which makes this study different from previous research. Do the Ghanaian migrants contribute to the sustainable economic development of the country?

Migration is defined as people's movement from one place to another. Migration is not a new phenomenon to Ghanaians, but rather an old wine in a new bottle. Since independence in 1957, Ghanaians have migrated internally and internationally. Internal migration is people's movement within the country's borders. In other words, internal migrants are migrants who live within the country in places other than their birthplace. Usually, internal migration in Ghana's context is sparked by migration from the northern to the southern part of the country, due to high poverty rates, lack of basic infrastructure, and amenities (Vorvornator, 2025).

Over the years and presently, Ghanaians migrated within, and to neighbouring countries for fishing, mining or farming (Vorvornator, 2025). Currently, Raghuraman and Chaturvedi's (2021) research estimated the number of internal migrants to be a total of 763 million globally. China and India are the countries with the most internal migrants. As of 2021, close to 80 per cent of Ghanaians engaged in internal migration, and about 70 per cent migrated to urban areas to benefit from infrastructural development (Africa Development Bank, 2022). International migration is migration across the borders of a country. International migration examples are migration from South-South, South-North, North-South, and North-North migration (Leal & Harder, 2021).

Ghanaian migrants move from the South-South and South-North regions. This means Ghanaian migrants migrate within the African continent, or to other developing nations outside the continent, or they migrate to Western nations (Vorvornator, 2024). Currently, international migrants worldwide are estimated to be a total of 280.6 million, which represents 3.6 per cent of the world population, and two-thirds live in developing nations (Raghuraman & Chaturvedi, 2021). In 2008, according to statistics from the Ministry of Foreign Affairs (MoFA), now known as the Ministry of Foreign Affairs and Regional Integration (MoFARI) in Kandilige et al (2023), indicated that the majority of Ghanaians reside outside Ghana, were in not least 33 countries in the world. However, some Ghanaians and students targeted Western countries.

West African countries were the host for the majority of Ghanaian migrants, followed by the United Kingdom (UK), the United States (US) and Canada. Most of the emigrants were professionals: teachers, lawyers, administrators, nurses, lecturers, and doctors who went to other African countries (Nigeria, Uganda, Botswana and Zambia), to seek greener pastures and later migrated to the UK, the US and Canada. Kandilige et al. (2023) estimated that about 1.5 million to 3 million Ghanaians resided outside the country. As of 2023, the Ghanaians living abroad are estimated to be 4 million (MoFARI, 2023). Ghanaians' migration did not occur spontaneously, but in various phases, and was triggered by different social, economic, and political factors (Korsi, 2022). The paper suggests that good GoG's foreign policies enhance migrants' contribution to economic sustainable development, whereas bad foreign policies discourage migrants' contributions to the country.

As of 2024, Ghana's economy experienced a current account surplus of 3.2 per cent of gross domestic product (GDP), bolstered by higher exports of crude oil, gold and remittances inflow. This resulted in a surge in gross international reserves from $5.92 to $8.98 billion in the last financial year (World Bank, 2024). However, the fiscal outturn deteriorated with deficits and unbudgeted spending in the economy.

The study is structured as follows: the Ghanaians' migration background; explores phases of Ghanaians' migration, followed by the literature review, then the theoretical framework and the study's methodology. The rest are research findings; presents both positive and negative impacts of Ghanaians' migration to the economy, and later conclusions and recommendations. The next section presents the background of Ghanaians' migration.

Background of Ghanaians' migration

After the 1960s, there was an internal migration in Ghana due to economic activities and mismanagement. The economic decline led to a recession. A recession is defined as an economic decline in a country's productivity for two consecutive quarters. Recession sparks emigration from the country, and migration becomes a means of diversification, and an ''insurance'' to overcome the economic woes. During the 1960s majority of Ghanaians migrated to the countries within the Economic Community of West African States (ECOWAS), and only a substantial number migrated outside the regional blocs (Awuse et al., 2020). In the early 1980s, Ghana witnessed an economic sanction that led to harsh economic conditions coupled with drought. This sparked international migration in Ghana's history (Awuse et al., 2020). Ghanaians, both skilled and unskilled workers, migrated. This scenario originated the jargon ogya syndrome (Korsi, 2022).

Ghana's economy was once prosperous but declined during the eighties (80s due to the Structural Adjustment Programme's (SAP's) implementation. This era triggered another phase of Ghanaians' migration. The SAP is an economic policy used by the International Monetary Fund (IMF) and the World Bank for countries to strictly adhere to before loans are secured. The SAP economic policies had adverse effects on Ghana's economy, resulting in economic meltdown in the 1980s (Taye, 2022).

The recession created a shortage of basic goods in the country. Dairy goods such as sugar and milk became luxury goods and were sold at exorbitant prices in the 'black market'. The black market is the place where goods are hoarded and traded at higher prices illegally (Iqbal, 2020). Basic goods' shortage once again triggered emigration. Ghanaians migrated to Europe, North America, and North Africa, especially to Libya, and other African countries, like Nigeria (Vorvornator, 2025).

Currently, the harsh economic conditions after the COVID-19 pandemic have sparked another migration phase for both skilled and unskilled labourers (Korsi & Mdiniso, 2021). This 'reignite' the jargon ogya syndrome. To

put the ogya syndrome into perspective, OECD (2022) data revealed that Ghanaian migration skyrocketed from 762,000 in 2010 to 1,004,000 in 2020, and 466,000 resided in the West African countries. According to OECD (2022), out-migration among Ghanaians to ECOWAS doubled between 2000 and 2019 (starting from 12,900 in 2000 to 23,000 in 2008, and to 27,400 in 2019). Yet, Ghanaians migrate beyond Africa. Scalabrini Institute for Mobility in Africa (SIHMA) (2021) statistics revealed that Europe, Canada and the US were destinations for Ghanaians. In 2019, 283,000 Ghanaians lived in Europe, 198,000 resided in North America, and 9,600 in Asia and Oceania countries combined (SIHMA, 2021). OECD (2022) research data revealed that between 2000 to 2019, among the OECD nations, the US hosted 8,400 Ghanaians, followed by the UK, Italy and Spain. The four nations hosted an average of 85 per cent of Ghanaian migrants among OECD nations.

Ghana's Minister of Finance, Dr Amin Adam, in the 2024 mid-budget presentation to the parliament, indicated that Ghana's provisional total debt stands at GHC 742billion (US$ 50.9billion), representing 70.6 per cent of gross domestic product (GDP). Repayment of Ghana's total debts affects investment for the economy to grow (Daily Guide Network, 2024). On August 6, 2024, due to economic hardship conditions made Dr Amin apologised to Ghanaians during a town hall meeting that the economic hardship imposed on them for the implementation of the Domestic Debt Exchange Programme (DDEP) is not intentional, but rather a policy from the IMF (Daily Guide Network, 2024). Dr Amin states that:
"We decided to restructure our debts because it was one of the requirements by the IMF. We started with the domestic debt exchange programme, the domestic debt exchange programme was very successful, achieving 95 per cent participation. On this note, I would like to appeal to the people of this country to forgive us'' (Dr Anim).

The DDEP is an approach imposed by the IMF to allow nations that borrow loans to reduce debt obligations and risks' default. Balima and Sy's (2021) research revealed that, usually, socio-economic and political instability sparks international migration worldwide. What is Ogya syndrome on Ghana's sustainable economic development? The next section presents a literature review of the study.

2. Literature Review

Arguments and discourses in favour of international migrants' contributions to sustainable economic development

Migration is inherently complex, especially international migration, where people migrate from one place to another across borders for different reasons. This is elaborated by Malmberg's (2021) research work by grouping the reasons that trigger migration into the international world. However, economic factors are considered to be paramount for people's migration. Malmberg's (2021) research identified economic factors such as employment, trade, insecurity, high rate of economic decline, low income, high prime rate, and interest rates as factors that spark international migration. Ghanaians migrate to international countries such as the ECOWAS sub-region or to OECD nations. However, figures for international migration in most cases are contested because it is difficult for governments and organizations to determine the precise number of emigrants who cross the border. Due to a reason such as unauthorized route use to reach destination countries (Bahri, 2021).

Recently, the South-South migration corridor has been on the rise among Ghanaian domestic workers to the Middle East. However, there have been bans on the visa, namely ''Visa 20'' due to reports of human rights violations in the Middle East (Bahri, 2021). But due to Ghana's unbearable economic conditions, the migration flows have steadily risen. Awumbila et al's (2023) research figures on domestic workers migration provided by the Ghana Labour Department indicate private agencies recruited 2,372 domestic workers to the Middle East region in 2016, and 1,589 from January to May 2017. The actual numbers are likely to be higher, since these figures excluded domestic workers who travel individually (Bahri, 2021).

Könönen's (2020) research only focused on immigration across legal routes without dealing with the use of unauthorized routes. This makes it difficult to establish the number of migrants who used the unauthorized routes to reach destination countries. However, Awumbila et al's (2023) research indicated that immigration across borders nowadays involves professionals from developing nations engaging in unchecked and unregulated migration. Awumbila et al. (2023) revealed that authorized and especially unauthorized use to leave the country is due to an ailing economy, which leads to dissatisfaction, unemployment, underpayment,

and low living standards among Ghanaians. Abioro and Akinyemi (2022) concur that individuals from Ghana and the West African sub-region migrate to Europe and America's exploitative labor market through unauthorized borders. The unauthorized routes considered to be dangerous are: the English Channel, the desert, the Canals, and the Mediterranean Sea. In some instances, migrants lose their lives during the journey. On arrival in the destination countries, improvement in the GDP and infrastructural development entice some Ghanaian migrants to denounce their citizenship for the admiration of other international countries. The reason could be harsh economic conditions, which triggered their migration to the Western world.

A case in point is a recent development where a Ghanaian citizen by birth in the Netherlands got his citizenship status and posted on the social media platform 'TikTok', indicated that his Dutch passport is worth more than Ghana's Doctor of Philosophy (PhD) qualification (Modern Ghana, 2024). The statement indicates a loss of patriotism and Ghanaians' admiration for the Western world over their nation. Such sentiment is triggered by the economic meltdown in the country where the political class, especially the corrupt politicians, live an affluent life and the masses suffer. The Ogya syndrome spurs such remarks for the Ghanaian-Netherlands citizen. Because he knows that living in the Netherlands makes him comfortable financially compared to the PhD holders in Ghana, apart from the political class (Modern Ghana, 2024).

Importance of international migration to Ghana's economy

The mass exodus of Ghanaians to foreign nations has negative impacts such as brain drain (loss of skilled labor to other nations), high dependency on remitters, family separation, and it destroys family structures. However, Ghanaian migrants remit to Ghana through remittances inflow, upskill themselves, and on their return, their skills are transferred to non-migrants. Ghanaian migrants attract foreign direct investments (FDI) into the country and establish capital-intensive businesses due to the availability of funds. Ghanaian Diasporas' contributions help to reduce households' level of poverty, improve living standards, and have positive impacts on the economy. Remittances inflow from offshore is the potential incomes that spur the Ghanaian economy. In Sub-Saharan Africa (SSA), Ghana is noted to benefit from the remittances.

Importance of remittances to Ghana's economy

As of 2021, remittances flowing into Ghana totalled $4.5 billion, which represents 5.9 per cent of Ghana's GDP (Migration Data Portal, 2023). According to the World Bank (2024), personal remittances remitted into Ghana amounted to 4.3 billion USD, representing 6 per cent of GDP. But data on unofficial remittances are not known to the nation. Unofficial remittances are sent through trusted family members and friends who visit Ghana (Yeboah et al., 2021). Also, remittances are given to recipients on the migrants return. In other cases, remittances are sent as in-kind into the country. This means remittances sent in the form of clothes and food.

Perhaps, the importance to Ghana's economy led the GoG to engage in policies to ensure a sense of belonging among the broader Ghanaian Diasporas (Yeboah et al., 2021). The sense of belonging is 'fanned' through the formation of organisations such as the Diaspora Homecoming Summit in 2017, the Ghana Diaspora celebration and Homecoming Summit, and the Year of Return in 2019. Major events held to recognise the immense contributions of Ghanaian Diasporas' nation builders (MoFARI, 2023).

Further, dual citizenship is implemented to attract Ghanaian emigrants to contribute economically to the country. For instance, during the COVID-19 pandemic, due to the global economy's shutdown, the GoG encouraged expatriates through Ghana Commissioners to various nations to remit families, which alleviated economic distress during the lockdown (EEAS, Multiannual Indicative Programme (MIP), 2021). Therefore, a surge in migration leads to substantial remittance flows in the country, and skills returned from the diaspora are transferred into Ghana's economy for development.

Practically, remittance recipients create demand for goods and services, and this entices business owners to increase their supply. An increase in supply spurs demand for factors of production such as labor, land, and capital to produce more goods and services. Laborers are employed by the producers, resulting in job creation and reducing unemployment. Further, incomes earned by the workers create value-chain employment (for drivers, transport owners, and landlords), through creation of demand for services, transport and houses (Moloi et al., 2022).

Moreover, remittances are transferred mostly through financial institutions, and recipient families deposit the money into bank accounts; this enables financial institutions to have more funds to lend to investors, which increases goods and services (World Bank, 2024). Remittances also serve as stabilization effects to Ghana's currency (Cedis). Ghana's currency is stabilized through remittances spur Ghana's currency to be in demand, which stabilizes the exchange rate (World Bank, 2024). Remittances are invested in building projects, electrification projects, community bore-holes, and pipe-borne water. In some instances, remittances are used to sponsor brilliant but needy students. Remittances used for community building projects spur the local economy through job creation and the GoG also benefits from taxes. Taxes are used for economic development. Further, unofficial remittances through friends and families promote private investments and self-employment among the recipients. Therefore, remittances contribute to Ghana's economic development (Yeboah et al., 2021).

However, research reveals that remittances hurt the economy as the main cause of inflation, popularly known as 'Dutch disease'. Dutch Disease is defined as a phenomenon where one sector of the economy affects others to decline. In the case of remittances into the country, if it is not well spent, it leads to high inflation in the economy. This means remittances spent on luxury goods (expensive) instead of conspicuous consumption (basic needs) hurt the economy. Whereas, remittances spent on conspicuous consumption instead of luxury goods create value-chain employment and have positive impacts on the economy (De Haas, 2020).

Brain drains and brain gains

Brain drain is defined as the process of professionals leaving the country for another nation, whereas brain gains involve the remittances and skills migrants return to the country for economic growth and development (Ukaegbu & Okpoko, 2023). In the observation of Peter Obi (2023), the youths' international migration is considered a brain drain today; however, if migration is properly managed, our loss of laborers today will be our brain gain tomorrow. Peter Obi (cited by Ukaegbu & Okpoko, 2023, p.1), in favour of ogya syndrome, states that:

"I have always preached and maintained this same position that 'our brain drains today will be our brain gains tomorrow'.... Ghanaians *leaving the country may look like a loss today, but when we start doing the right things, and taking the governance of our nation more seriously, the knowledge and resources from them will be critical in the building of the* New Ghana*, as it happened in China, India, Ireland and other developing countries "* (Emphasis is mine).

This implies that Ghanaians who leave Ghana's coast today may return and invest in the economy, which has a positive effect on the labor sector. However, there should be good governance in place and foreign policies must be designed to ensure migrants return. Since knowledge and resources from migrants serve as an anchor and critical skills to develop the nation's economy. This means Ghanaians will be willing to return home with acquired skills, training, and resources, and contribute immensely to the nation's economic development if there is good governance. Just as nations such as Portugal and Germany were immigrant nations, but now they are immigration states (Ukaegbu & Okpoko, 2023).

Take, for instance, a Ghanaian who migrated to the US for 10 years, returned to establish a University in the country where staff and non-staff workers are employed in the institution. Practically, Ashesi University in Ghana was established by Mr. Patrick Awuah, who spent 15 years in the US, working at Microsoft Corporation as an engineer and program manager for eight years. Mr Awuah's return benefit Ghana to have Ashesi University, which add value to human resources and contributes to Ghana's economy (Ghana Web, 2017). Despite initial negative impacts such as brain drain, it later results in brain gains, which leads nation's economic growth and development

High dependency on the remitters

The non-migrants' reliance on remittances from both internal and international migrants leads to high dependency on the migrants. This, to some extent, encourages 'laziness' among the recipient households and families. Further, skills that are supposed to develop locally are lost due to over-dependency on remitters. In case of unfortunate events such as sickness or accident 'strike' remitters, and their inability to work and remit to recipients, the family suffers economically (Ukaegbu & Okpoko, 2023).

Social impacts on both migrants and non-migrants

Migration leads to loved ones' separation and responsibilities are shifted to people who might not be in a position to assume such responsibilities. For instance, children in some cases assume parental roles by providing food to the family and taking care of their siblings. This results in children's frequent absenteeism from school and poor academic performance. In other instances, migration leads to divorce in the community, family neglect, social challenges and loss of cultural identification (Leal & Harder, 2021). The next section presents the theoretical framework of the study.

Theoretical Framework

Structural functionalism theory

The study is grounded in Haas' (2024) structural functionalism theory to explore Ogya syndrome on Ghana's sustainable economic development. Structural functional theory explains the procedures that institutions in society should follow. It considers institutions as interdependent. This implies that institutions' effective functioning has positive effects on one another and their malfunctioning affects each other negatively. The structural functionalism theory's central point is the political arena and institutional effects on the country. Political institutions are organizations that have specific functions and authorities to manage a state's resources. This means political institutions are mandated to contribute to society's smooth functioning.

Elements of structural functionalism theory

Structural functionalism theory aims at collaboration between various institutions in the country. This means social institutions such as health, education, family, infrastructure development, and others depend on political institutions for effective and cohesive functioning to deliver services. Structural functionalism theory presents society as a system that is related to the human body or a car. Institutions consist of the government, organizations, and political parties, which work to maintain law and order in the country. Further, to ensure economic growth and stability among institutions.

Structural functionalism theory assumes that political institutions can adapt to changes and challenges. This implies that when challenges occur, political institutions deploy available resources to solve them and ensure economic growth, stability, and national development. Political institutions' inability to adapt and solve challenges affects other structures negatively. This brings disequilibrium in the entire society and bestows hardship among the citizens. International migration becomes an alternative to unbearable economic conditions.

Structural functionalism theory application to this study

Based on the structural functionalism theory assumptions enumerated above, it is undeniable that the theory fits into the framework of this research. Structural functionalism theory explores political institutions, migrants' contributions, and functions to ensure economic growth, stability, and development. Practically, the institutions in this context are the GoG, the Migration Unit in the Ministry of the Interior, the Diaspora Affairs Office at the Office of the President, and the Ghana immigration services. Such institutions function and play positive roles in contributing to Ghana's economic development, about international migration. And their negative roles regress economic development.

Structural functionalism theory stipulates that it is the primary duty of political institutions within their jurisdiction to ensure stability and the development of society. In a practical sense, the GoG and Ghana immigration agencies are entrusted to ensure that international migration benefits are harnessed and tapped to contribute to the state's sustainable economic development. This implies that positive shift in emigration to the international world, the GoG needs to implement policies to ensure the equilibrium and stability of economic growth and development. The next section presents the methodology of the study.

3. Methodology

The study adopts a literature review (LR), otherwise known as a 'meta study', to explore Ghanaian migrants' impact on sustainable economic development (Herman and Whitaker, 2020). The LR is adopted to identify

research gaps, understand the state of knowledge and refine research objectives and questions to enable researchers to present impactful research.

Several keywords, including 'internal migration impacts', 'international migration impacts', and 'sustainable economic development', were used. Search engines such as EBSCOhost, Web of Science, Google Scholar, migration journals, and websites, namely, the International Organization for Migration (IOM), and Journal for International Migration and Integration, were explored. The study acquired 872 publications; 857 of these emerged from an electronic search, and fifteen were derived through backwards and forward search. Eligibility criteria was conducted a total of 35 articles were selected, through criteria as follows; a) the articles that concentrate on both internal and international migration impacts on sustainable economic development; b) focus on either internal or international migrants' contributions to the economy; c) published in English and not later than 2015 (Creswell, 2021). And 2015 was considered because it was the first year after the Great Recession, which triggered migration from developing to developed nations.

I then proceeded to the information analysis stage. It involves coding important articles related to the study. I employed 'framework analysis', which deals with methodological procedures and analysed the literature review, because it facilitates analysing important information. Maxwell (2021) described the process as "sifting, charting and sorting materials according to key themes and issues". Indexing was done through sifting the data related to particular themes; charting the data was also done, and ideal headings and subheadings were carried out during the thematic framework stage (Creswell, 2021). An interpretation that involves assembling all the criteria features of the dataset was performed to synthesise data.

Key articles selected employ a range of qualitative and quantitative methodologies. Meta-analysis for the quantitative data was done because the research methods did not share the same variables. Textual data was coded appropriately using framework analysis processes. The concepts and LR present a clear understanding of existing literature on the topic (Maxwell, 2021). The LR assists in avoiding duplication of previous works by researchers. However, the disadvantage is that since not all academic search engines were used, there could be some previous literature that the literature might not explore. The next section presents findings of the study.

4. Findings

The ogya syndrome impacts on the Ghana's sustainable economic development findings has both positive and negative impact. The positive impacts are:

Sustainability of economic development

The study's findings reveal that Ghanaians' international migration to the international world is significant to the sustainable economic development. The study identifies that Ghanaians' migration decreases unemployment rates, alleviates poverty among families and households whose relatives are abroad through remittance receipts (Awumbila et al., 2023). The major benefits to the state remain remittances sent back into the country, which have proven to reduce financial crises, economic downturn and economic recession.

Remittances benefit Ghana's economy.

The study's finding reveals that Ghanaian migrants send remittances into the country in the form of reward or money to their loved ones and families while residing overseas (World Bank, 2024). Remittances received by Ghana stimulate economic growth and development of the nation. The study indicates that the final beneficiaries of the remittances are not only the loved ones or families, but rather remittances sprinkle and spur the entire economy (World Bank, 2024). Remittances lead to the creation of value-chain employment for drivers, transport owners, and landlords through demand for services such as transport, houses and security among others (Moloi et al., 2022).

Further, remittances are transferred mostly through financial institutions, which generates income for them (financial institutions) to have more funds to lend to investors. This results in stimulating economic growth and development (World Bank, 2024). Remittances also stabilize the country's exchange rate (World Bank, 2024). Remittances invested in building projects spur the local economy and increase tax revenues for Ghana, which creates jobs for the unemployed in the economy, hence the unemployment rate declines (Yeboah et al.,

2021). The study's finding reveals that in some instances, the remittances assist brilliant but needy students to pay school fees. This helps to reduce the level of drop-out rates in the schooling system, increase human resources development, and equip individuals with the necessary educational skills. The unofficial remittances through friends and families promote private investments and self-employment among the recipients; therefore, remittances contribute mainly to Ghana's economic development (Yeboah et al., 2021).

Skills return (brain gains)

The study identifies that apart from remittances stimulating Ghana's economic growth and development, the returnee migrants with new skills and technologies lead to industrial development. Skills acquired by Ghanaian Diasporas in various fields are transferred to non-migrants in Ghana's economy. Ghanaian migrants with acquired skills in high-tech return home, establish industries which create job opportunities in the country (Balima & Sy, 2021). Value-chain jobs are created in the economy as a result of the demand for goods and services such as transport and houses (Moloi et al., 2022). And the industries broaden the tax base for the GoG. The negative impacts of Ogya syndrome findings are discussed below:

Remittances cause inflation

The study's finding reveals that remittances spent on luxury goods instead of conspicuous consumption have negative impacts on Ghana's economy. This causes inflation known as Dutch disease. The Dutch disease deepens the inequality gap between the rich and poor since the price of goods and services increases, making affordability expensive for poor households (De Haas, 2020).

Brain drains

Professionals such as academics and doctors with expertise leave Ghana for the Western world; this creates job opportunities for unqualified laborers to fill and it affects Ghana's economic productivity. Especially, in the sectors where a high level of technology is required (Awumbila et al., 2023).

High dependency on the remitters

Over-reliance on remittances leads to dependency on the migrants. This, to some extent, breeds 'laziness' among the recipient households and families (Ukaegbu & Okpoko, 2023). In case of unfortunate events on the emigrant, such as sickness or accident, and the migrant's inability to remit to the recipients, the entire family suffers financially.

Social impacts on both migrants and non-migrants

Migration might lead to the separation of loved ones, which can lead to divorce, family neglect, social challenges, and loss of cultural identification (Leal & Harder, 2021). The paper argues that whether international migrants would contribute to Ghana's sustainable economic development or not depends on the foreign policies the GoG implements towards the international migrants. Favorable foreign policies that aim to attract Ghanaian migrants would yield economic development, whereas unfriendly foreign policies would deter migrants' contribution to economic development.

Overall, building from the positive and negative impact about the Ghanaian migrants' admiration for international migration on the sustainable economic development, the study positions that, ogya syndrome is beneficial to the Ghana's economic growth and sustainable development, despite the brain drains and high dependency on remitters, especially at the time where GHC equivalent plummeted to almost US$16. Further, the international migration was realized during the COVID-19 lockdown when the GoG encouraged Ghanaian Diasporas to send money home to support their loved ones' economic hardships. Moreover, returnee migrants spur economic growth and development through the establishment of factories, which create job opportunities, reduce unemployment, and stimulate the nation's economic development.

5. Conclusion and Recommendations

The study explored how ogya syndrome in the Ghanaian context contributes to achieving sustainable economic growth and development. It means international migration enhances Ghana's economic growth and development through remittance receipts and knowledge acquisition by Ghanaian migrants abroad. Migrants implement acquired skills on their return, establish businesses, attract foreign direct investment (FDI) into

Ghana, and undertake investment projects such as school building constructions, electrification projects, and providing pipe-borne water, which are necessary ingredients for economic development. Therefore, the GoG must develop strategies to tap and harness the migration's positive effects. However, negative effects such as brain drain and dependency, management policies should be implemented to curb them. The paper recommends good governance, stewardship, probity and accountability among all institutions in the country to attract Ghanaian diasporas to contribute to economic growth and development. In addition, migrant remittances, business investments, entrepreneurial ventures, and developmental projects should attract less tax payment to encourage Ghanaian Diasporas' contributions to ensure national sustainable economic growth and development.

Conflict of interest: The author declares no conflict of interest.

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Journal of Economics and Behavioral Studies (JEBS)
Vol. 17, No. 2, June 2025 (ISSN 2220-6140)

Monetary Policy Tools and Lending Rates in Uganda: A Quantitative Analysis

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Abstract: This study examines the impact of key monetary policy instruments on Uganda's lending rates over the period from 1994-2024. Specifically, it examines the impact of the Central Bank Rate (CBR), Open Market Operations (OMO), Standing Lending Facilities (SLF), and the Cash Reserve Requirement (CRR) on commercial lending rates. With the Autoregressive Distributed Lag (ARDL) methodology, the study accommodates variables of mixed orders of integration and accounts for both short-run dynamics and long-run relationships. After overcoming multicollinearity problems, which resulted in CRR (being utilized as a proxy for demand deposits) being eliminated from the study, the study determines that CBR and the rediscount rate (being utilized as a proxy for SLF) have positive influences on lending rates in both the long run and short run. On the other hand, base money (proxy for OMO) is not statistically significant, and this reflects structural inefficiencies in the channel of passing through liquidity. Since diagnostic tests confirm the model under stability, normality of residuals, homoscedasticity, and no serial correlation, these findings confirm interest rate-based instruments in Uganda's monetary policy arsenal and simultaneously highlight indirect instrument weaknesses, such as OMO. These policy recommendations drawing from the research focus on reinforcing CBR signaling transparency, upgrading SLF mechanisms, and further deepening financial markets to improve policy transmission. This should be accompanied by further research into the wider macroeconomic effects of these instruments as well as further policy levers in Uganda's monetary framework.

Keywords: *Monetary Policy Tools, Lending Rates, Uganda, Quantitative Analysis*

1. Introduction

Lending rates are the average interest banks, SACCOs, microfinance institutions, and other financial institutions impose on fixed-rate loans granted for medium to short-term tenures (Feyen & Zuccardi Huertas, 2020). The rates vary depending on the creditworthiness of a borrower and the loan facility's purpose (Christian Glocker, 2012). Supportive lending rates play a crucial role in affecting macroeconomic stability and the development of the financial sector by stimulating private investment, employment, and income generation, according to Adam (2009).

Across the globe, lending rates are affected by various interconnected factors such as expectations of inflation, global economic trends, monetary policies of central banks, and credit risks (Matemilola et al., 2015a). Bernanke (2012) finds that some of the advanced nations like Japan and certain nations of Europe have managed to maintain low interest rates. Contrarily, lending rates in African economies remain quite high due to macro-financial challenges (Gregor & Melecký, 2018). Accommodative lending rates encourage investment, which in turn gives rise to improved macro-fiscal performance by influencing base interest rates, making financial institutions stable, improving liquidity, raising investments, and mitigating unemployment (Feyen & Zuccardi Huertas, 2020). For instance, World Bank figures reveal that Peru's lending rates are around 0.83%, Japan's is 1.8%, China's is 4.35%, France's is 4.38%, and in Ireland slightly lower than that (Feyen & Zuccardi Huertas, 2020).

As seen from an African point of view, lending rates have a significant impact on economic growth and business activities (Matemilola et al., 2015). Matemilola et al. (2018) opine that changes in lending rates have the capacity to stimulate or slow down growth, depending on their nature. Lending rates affect inflation, exchange rate, cost of production, and consumption choices, all of which are central to economic performance (Fishman, Parker & Straub, 2024). Since the lending rate forms part of the cost of funding, it will determine how much people and businesses are willing to borrow, hence affecting investment patterns and growth performance (Adabor, 2022). Chmel & Shmihel (2019) suggest that such a relationship makes the lending rate a key transmission mechanism for monetary policy to the economy.

Monetary policy tools, both quantitative and qualitative, are utilized by central banks to achieve price stability and economic growth (Mishkin, 2016). Quantitative tools like the Central Bank Rate (CBR), Open Market Operations, and Reserve Requirements are essential quantitative instruments, while qualitative instruments are moral suasion and credit guidelines (Della Valle, King & Veyrune, 2022). These tools have a direct impact on how banks raise funds and what they pay on lending (Pavković & Staka, 2022). To Maehle (2021), a policy tool shift usually has an impact on bank lending behavior in terms of shifts in the cost of capital.

As a central bank reduces its policy rate, the banks are able to refinance at a lower cost, driving them to reduce their lending rates (Maravalle & Pandiella, 2022). On the other hand, whenever it is more costly to borrow from central bank lending facilities like the Standing Lending Facility, lending by banks becomes more expensive in order to ensure profitability (Bindseil & Jablecki, 2021). According to Mayes & Toporowski (2007), government securities sales in open markets tighten liquidity, causing lending rates to increase, and when interest rates on the securities are higher, lending rates rise as banks shift to cover margins.

In Uganda, the monetary policy trend of the last few years has led to an increase in lending rates by commercial banks (International Growth Center, 2020). From 2021 to 2024, interest rates changed from 18.60% in 2021 to 18.4% in 2022, went up to 19.27% in 2023, and decreased slightly to 17.74% in 2024 (Kakeeto, 2023). These levels have been making it increasingly difficult for companies to get cheap credit to finance investments (Mbabazize et al., 2020). Most commercial banks in Uganda are accompanied by loan rates of more than 20% and deposit rates of just 5%, earning a huge interest rate spread (International Growth Center, 2020). This wide dispersion, as stated by Mugume & Rubatsimbira (2019), raises the borrowing cost, limits business profitability, and slows down economic momentum since businesses and households cannot easily obtain access to capital at a reasonable price.v

2. Literature Review

Theoretical Review

The monetary policy theory advanced by Milton Friedman (1912–2006) suggests that banks use a range of monetary instruments to control the supply of money with a view to controlling lending rates, interest rates, and inflation with a view to triggering economic growth, stability, and employment (Bordo, 2013). At its essence, the theory is based on the premise that changes in the supply of money are prime causes of economic activity (Mathai, 2009b). It emphasizes that central banks, by altering the money supply and other liquid assets in the market, have enormous power over the economic growth rate of a country (Singh, 2023).

The theory assumes that the central bank can control the money supply and changes in the money supply have a significant impact on lending rates.

$$R = RO + \frac{(Ms - Md)}{(\beta * Md)}$$

Where: **R** is the lending rate.
Ro: Equilibrium interest rate.
MS: Money supply.
Md: Money demand.
β: Interest rate elasticity of money demand.

The strength of the theory is its potential to fight inflation by its influence on lending rates through policy manipulation, elasticity towards changes in economic conditions, and having a definite mechanism of transmission on how monetary policy instruments affect lending rates (Maravalle & Pandiella, 2022). Gregor and Melecký (2018) state that the theory has an evident conceptual framework for understanding how central bank actions filter through into commercial bank lending rates. Nevertheless, the theory is tenuous. The theory primarily focuses on monetary aspects at the expense of other elements like fiscal policy and institutions, which also have a considerable influence on lending rates (Adabor, 2022). Further, the theory can be undermined by outside factors like world economic trends and unstable exchange rates, which affect the influence of monetary interventions (Feyen & Zuccardi Huertas, 2020).

The second is the Customer Reaction Theory, which depicts those banks during difficult economic times that can avoid increasing lending rates due to fear of negative customer response (De Bondt, 2005). The theory argues that if the policy rate goes up, the lending rates move upwards as well. It also indicates how the behavior of borrowers responding to lending rates influences credit markets. According to Fishman, Parker, and Straub (2024), borrowers are still highly responsive to changes in lending rates, and those changes directly affect their attitudes and behaviors. These reactions from the borrowers contribute to credit market equilibrium (Chmel & Shmihel, 2019).

The Collusive Behavior of Banks Theory, which Hans Degryse formulated in 2005, links lending rates with the level of bank competition and retail market concentration. The theory posits that banks are able to withstand cutting lending rates so as not to break collusive arrangements (De Bondt, 2005). Matemilola et al. (2015a) add that collusion would result in sticky lending rates even after policy rates decline. The theory focuses on implicit or explicit collusion among banks that influences how the determination of rates is done and how credit markets work. It also relates to bank decision-making interdependence, market power, and information sharing between banks, which together determine lending (Gregor & Melecký, 2018).

Effect of the variables

Central Bank Rate (CBR) and Lending rates.

Various studies have shown that the Central Bank Rate (CBR) significantly affects commercial bank lending rates, particularly in Uganda. Openjuru & Ph (2019) uncover a positive effect of the CBR on lending rates within short and long terms, with a deeper effect in the long term. Their evidence attests that increases in the CBR raise the cost of opportunity of funds, forcing banks to increase lending rates. Similarly, Kakeeto & Michael (2023) also confirm this positive association using the ARDL method and regression analysis. They establish that inflation, along with the CBR, has a significant impact on lending rates, and that higher inflation relative to deposit rates discourages saving. These findings are in line with Cobbinah & Ekow (2011), who have a strong correlation between Ghana's policy rate and lending of banks, affirming that policy changes are passed on fully to consumers as interest rates. Taken collectively, these studies strongly argue that monetary policy tools like the CBR go a long way in determining lending rates, especially in fairly responsive banking systems like Uganda and Ghana.

However, the universality of the effect across different economies cannot be guaranteed. The transmission of the central bank's policy rates to lending rates can be weak depending on banking structure and market circumstances, as stated by Chmel & Shmihel (2019). In elaboration, they further mention that constant changes of the policy rate discourage banks to change lending rates in an expeditious way. Furthermore, when the demand for credit is relatively inelastic, banks may not be willing to hike or lower lending rates even when policy rates fluctuate. The Ukrainian situation, which is typified by the presence of non-performing loans, is a manifestation of this deficiency but additionally. Banks may be more interested in maintaining their existing risky portfolios than in granting new credit, weakening the intended effect of central bank rate fluctuation. This criticism refers to the central research gap: while the Ugandan and Ghanaian cases illustrate a strong rate of transmission, the limit of this correlation is placed by risk levels, elasticity of loan demand, and market structure. Future research in Uganda can explore whether market competition, consumer sensitivity, and risk exposure influence the strength of monetary policy transmission to interest rates.

Open Market Operations (OMO) and lending rates.

Several studies have attempted to find the effect of Open Market Operations (OMO) on lending and short-run interest rates, most notably employing instruments like repos, reverse repos, and treasury bills. Subedi and Chaulagain (2022) confirmed that repos reduce interbank rates, whereas reverse repos and treasury bills increase them. Their result indicates that their issue of 1 billion NRs lowers the interbank rate marginally by 0.01% to 0.06%, whereas their reverse repo issue of the same amount raises the rate by at most 0.05%. Treasury bills have a very strong positive impact, a 1% rise in their rate causing the interbank rate to increase by 0.9%. In addition, Paper (2000) and Omonywa & Nairobi (2019) similarly establish a direct association between treasury bill yields and lending rates, where treasury bill yield increases raise the cost of capital, which gets transmitted to lending rates. These facts suggest that OMOs, particularly through the pricing of government securities, transmit information that shifts the cost of credit in financial markets, which directly affects private sector lending.

This is made complex, however, by Risal & Karki (2018). Applying Nepal as a lens, their evidence is of a reversal of normal predictions: repos increased interest rates and reverse repos decreased them, the reverse of normal monetary policy theory. They attribute this to the information effect; where production of these instruments is assumed to signal poor market expectations, rather than liquidity management. Also, backed up by studies like Brunetti et al. (2010) and Heider et al. (2009), these opposite findings may be due to liquidity hoarding or panic in the marketplace that reduces the efficiency of effective standard OMO tools. To everyone's surprise, their study found that it is not the size but the maturity length of repos that stabilizes interest rates. A longer maturity period gradually makes up for the bearish sentiment, allowing the actual effect of the OMO tool to take hold. This reveals a research gap of critical significance: most OMO research assumes textbook transmission channels, but in developing or turbulent agribusiness such as Uganda, maturity structure and market sentiment can be more pervasive than has been assumed hitherto. Future research in Uganda should explore whether OMO performance is more a matter of perception and maturity play than volume.

Cash reserve requirement (CRR)and lending rates.

Yimer (2018), using data from the Ethiopian Commercial Bank and the Ordinary Least Squares method, determined that while cash reserve requirements (CRR) have a positive effect on commercial bank lending, the effect was statistically insignificant. This would imply that in some developing economies, commercial lending could be driven more by other macroeconomic or structural variables than by changes in CRR alone. This view is not without its challenges, though. Alper et al. (2018) provide a strong argument showing that CRR plays an important role in influencing the lending behavior of banks. In their view, an increase in reserve requirements reduces the liquidity of the banking system, which forces banks to raise lending rates in order to ensure both profitability and liquidity. This is highly relevant to those economies with less developed financial markets where banks utilize deposits largely to finance lending.

Furthermore substantiating this statement, Hemedes and Lapid (2005) reaffirmed that elevated CRR is a levy on financial intermediation and thus an augmentation of the cost of credit. They are in agreement with Feinman (1993), who described the decrease in interest income on mandatory reserves as an effective cost to the private sector. Such a concept is also echoed by the IMF (1993), citing that in the case where CRR is set at below-market or non-remunerative levels, it effectively acts as a financial charge that disrupts lending incentives. The implication then is that in economies like Uganda's where lending interest rates are high (Mugume & Rubatsimbira, 2019), policy tools like CRR might need careful re-evaluation. Because this is the case, the reduction in CRR would ease the pressures of liquidity and allow banks to decrease lending rates, thus enhancing credit access and economic growth.

Standing lending facilities (SLF) and lending rates

Eleam, Umebali, and Atel (2021) found that an increase in the Standing Lending Facility (SLF) reduces the cost of borrowing and improves the liquidity of Nigeria, thereby resulting in a reduction of lending rates. Their study supports the hypothesis that SLF is a multidimensional monetary tool for managing liquidity risks and providing access to credit. This is in line with Bindseil and Jablecki (2021), wherein the same observations in Europe were also noted that lowering SLF rates by central banks was equivalent to lowering commercial lending rates. Both authors believe that the impact of SLF is positive when its rates are kept low because banks will be able to transfer benefits to clients. The impact on deposit rates, however, is not so certain. While the Nigerian data suggests deposit rates may go up or down depending on the bank's preference to cut costs or attract deposits, European data is more interested in dynamics on the lending side. Fife et al. (2022) also further reinforce that SLFs act as a ceiling for market interest rates, damping sudden spikes and controlling volatility.

This function becomes more critical in circumstances where monetary policy transmission is weak, as is often the situation with most of Africa's economy. In contrast,, although these foreign results guarantee the positive impact of SLF on credit markets, Uganda is a different story. Mugume and Rubatsimbira (2019) elucidate that Uganda's high interest rates persist due to weak transmission of monetary policies by the central bank and market structure inefficiencies. Kakeeto (2023) also testifies that the central bank rate has had no consistent impact on commercial lending rates in Uganda, which he blames for liquidity access and risk pricing difficulties. Adam (2009) also contributes that monetary policy transmission in Uganda is characteristically affected by poorly developed financial infrastructure. This testifies to a gap whereby policies like SLF can have a limited effect in the case of lacking financial sector-wide reforms. Relative to Ghana, Adabor (2022) found that interest rate responses to growth are asymmetric in that easing rates need not boost credit or output. Generally, while SLFs can work well in tranquil banking systems, their performance in countries like Uganda will be a function of the quality of monetary signals transmission to actual bank behavior and whether liquidity interventions are supported by structural changes.

Summery

The reviewed studies show that monetary policy tools such as the Central Bank Rate (CBR), Open Market Operations (OMO), Cash Reserve Requirements (CRR), and Standing Lending Facilities (SLF) have significant impacts on lending interest rates, mainly through their impact on liquidity and cost of funds (Openjuru & Ph, 2019; Subedi & Chaulagain, 2022). Theoretical frameworks such as Friedman's monetary policy theory, Customer Reaction Theory, and the Collusive Behaviour of Banks Theory offer systematic explanations of how central banks influence commercial lending through supply manipulation, borrower reaction, and bank rivalry (Singh, 2023; Gregor & Melecký, 2018). Empirical evidence supports these models, showing policy rate increases raise the price of borrowing, while tools like SLF and OMO have varying effects based on their utilization (Kakeeto & Michael, 2023; Eleam et al., 2021). Yet in countries like Uganda, expected policy impacts remain unsuccessful due to institutional frailties like poor transmission channels, low competition, and poor financial infrastructure (Mugume & Rubatsimbira, 2019; Adam, 2009). This exposes a key gap; while theory and experience from other economies confirm strong monetary policy transmission, Ugandan experience calls for additional research into how variables like market structure, elasticity of credit demand, and risk perception shape the real effect of such instruments.

3. Methodology

Research design

This study followed a longitudinal research design, which is appropriate for monitoring trends and patterns over time (Nwabuko et al., 2024). Using time series data from the period 1993 to 2024, it employed multivariate regression analysis to establish how every monetary policy tool has impacted lending rates over the years (Gottman et al., 1969). The research adopted a purely quantitative approach for 31 years, the time during which the Bank of Uganda began actively using monetary policy tools to manage lending. The lending rates have continued to be high despite the interventions, limiting access to credit from financial institutions and banks. All the data used in the research were secondary, and it was collected on a quarterly basis throughout the period of research.

Data sources and collection

Data was gathered from different credible institutions like the Bank of Uganda (BOU), Uganda Bureau of Statistics (UBOS), International Monetary Fund (IMF), World Bank (WB), and the Ministry of Finance, Planning and Economic Development (MoFPED). Some of the reports that were reviewed included quarterly economic statements, monetary policy reports, commercial banks' annual reports, financial stability reports, and other publications that touched on the monetary policy and lending rate relation in Uganda.

Definition and measurement of variables

The variables were clearly defined and measured. Standing Lending Facilities (SLF) are short-term facilities whereby the central bank extends liquidity to commercial banks on demand. Interest rates on SLFs were obtained as percentages for the entire duration (Fishman et al., 2024). Cash Reserve Requirements (CRR), or the proportion of deposits commercial banks must hold as reserves, were also obtained as percentages for all 31 years (Yimer, 2018). The Central Bank Rate (CBR), the rate at which commercial banks are lent by the central bank, was also gauged. Open Market Operations (OMO), in which the central bank sells and buys government securities to control liquidity, were represented by the yield rates of the securities (Axilaod & Axilrod, n.d.). Lastly, the lending rates were operationally defined as banks' volume-weighted mean interest rates on short- to medium-term loans. They were collected in percentages over the study (No, 2020).

4. Results

Summary statistics of the used variables

This study set out to investigate the influence of key monetary policy instruments on lending rates in Uganda, focusing on four main objectives: to examine the effect of the Central Bank Rate (CBR), the impact of Open Market Operations (OMO) which was proxied by base money, the influence of the Cash Reserve Requirement (CRR) which was proxied by demand deposits, and the role of the Standing Lending Facilities (SLF) which was proxied by the rediscount rate. Each objective targets a specific policy tool commonly used by the Bank of Uganda to steer short-term interest rates and control liquidity in the Ugandan economy.

Table 1: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Lending Rate	32	20.80077	1.915208	18.12701	26.06232
Rediscount Rate	32	14.39258	3.961674	7.511667	26
CBR	32	15.87565	4.664045	6.708333	20.41667
Demand Deposits	32	3117.616	3288.871	125.1028	10482
Base Money	32	3605.322	3699.915	170.971	12392.17

The summary statistics reveal that the lending rate has a relatively low standard deviation (1.92) compared to its mean (20.8), indicating moderate variation over the observed period. In contrast, monetary policy variables like base money and demand deposits exhibit extremely high variability (standard deviations of 3699.92 and 3288.87, respectively), suggesting substantial fluctuations in monetary aggregates. Rediscount rate and CBR1 (central bank rate) also show moderate variation and overlap in their ranges, which aligns with their direct policy role in influencing interest rates. The rediscount rate has a mean of 14.39 and spans from 7.51 to 26, closely matching the lending rate range. These patterns suggest that rediscount rate and CBR1 are strong candidates for examining direct policy effects on lending rates, while base money and demand deposits may reflect broader liquidity conditions influencing lending indirectly. Their inclusion in the analysis is justified, as together they capture both the direct interest rate tools and the monetary aggregates central to monetary policy transmission mechanisms. All variables were log-transformed based on their large standard deviations to facilitate further analysis.

Examining the threat of multicollinearity

Given that the independent variables in this study; CBR, base money, demand deposits, and the rediscount rate; all represent different instruments of monetary policy, there is a potential risk of multicollinearity due to their conceptual and functional overlap. To ensure the reliability of the regression results, the study examined multicollinearity. This step was essential to confirm that the independent variables are not excessively correlated, which could distort the estimated effects and weaken the explanatory power of the model.

Table 2: Initial VIF results

Variable	VIF	1/VIF
Base Money	471.91	0.002119
Demand Deposits	470.11	0.002127
CBR	3.63	0.27564
Rediscount Rate	1.34	0.748902
Mean VIF	236.7475	

The initial VIF results reveal a severe multicollinearity problem, with base money and demand deposits showing extremely high VIF values of 471.91 and 470.11, respectively; far above the acceptable threshold of 10. Such high collinearity indicates a strong linear relationship between these two variables, which threatens the reliability of coefficient estimates by inflating standard errors and reducing statistical significance. This level of multicollinearity can block accurate model estimation and undermine the interpretability of results. To address this, demand deposits were dropped from the model, as they serve only as a proxy for reserve requirements and are less directly tied to policy than base money. A revised VIF test was conducted to ensure the remaining variables did not present similar multicollinearity issues.

Table 3: VIF results after dropping demand deposits

Variable	VIF	1/VIF
CBR	3.62	0.276336
Base Money	3.49	0.28673
Rediscount Rate	1.08	0.92732
Mean VIF	2.73	

The updated VIF results show a significant improvement in multicollinearity levels following the removal of demand deposits from the model. All remaining variables, CBR1 (VIF = 3.62), base money (VIF = 3.49), and the rediscount rate (VIF = 1.08), now fall well below the critical VIF threshold of 10, indicating that multicollinearity is no longer a threat to model estimation. The mean VIF of 2.73 further confirms that the predictors are sufficiently independent and that their coefficients can be estimated reliably. This outcome validates the decision to drop demand deposits, ensuring that the model maintains both theoretical soundness and statistical stability.

Variable stationarity tests

Following the resolution of multicollinearity concerns, the study proceeded to test for stationarity of the variables using the Augmented Dickey-Fuller (ADF) test. This step was essential to ensure that the time series data used in the analysis did not exhibit unit roots, which can lead to spurious regression results and unreliable inferences. Testing for stationarity provides a foundational check for model validity, as many econometric models, such as OLS and VAR, require that variables be stationary to produce consistent and unbiased estimates. The ADF test results helped determine whether differencing or other transformations were necessary before proceeding with model estimation. The results are presented as follows.

Table 4: ADF test results

Variable	Level Test Statistic	Level p-value	1st Difference Test Statistic	1st Difference p-value	Order of Integration (I(d))
Lending Rate	-1.239	0.6565	-3.516***	0.0076	I(1)
Rediscount Rate	-4.978***	0.0000	-	-	I(0)
CBR	-0.479	0.8961	-2.864**	0.0496	I(1)
Base Money	-1.542	0.5124	-7.605***	0.0000	I(1)

The Augmented Dickey-Fuller (ADF) test showed that the variables in this study were of different orders of stationarity. Lending rate, central bank rate (CBR), and base money were unstable in their level form but ended up being stable when the first difference was applied. They are therefore integrated in order one, or I(1). The rediscount rate was already stationary at a level and is therefore an I(0) variable. Due to this combination of I(0) and I(1) variables, the research could not utilize conventional cointegration techniques such as the Johansen test, which is only applicable when all the variables are of I(1) order. The research, therefore, utilized the Autoregressive Distributed Lag (ARDL) model. This technique is best applied when there are mixed integration orders of variables and is effective even with small samples. It helps to establish both short-term and long-term effects, hence the best instrument to understand how monetary policy affects lending rates in Uganda.

Table 5: ARDL Model Results

Variable	Coef.	Std. Err.	t	P>|t|
Long run				
Error Correction Term	-0.40727**	0.152908	-2.66	0.014
Rediscount Rate	0.315663**	0.136418	2.31	0.030
CBR	0.350618*	0.182987	1.92	0.068
Base Money	0.068352	0.045958	1.49	0.151
Short Run				
Rediscount Rate	0.118538***	0.041538	2.85	0.009
CBR	0.185439*	0.092837	2	0.058
Base Money	-0.20972	0.137974	-1.52	0.142
Constant	0.327657	0.463757	0.71	0.487

Model Summary: ARDL (1,1,1,1) Regression, Sample: 1994 – 2024, Log likelihood = 52.168164, Number of observations = 31, R-squared = 0.6189, Adjusted R-squared = 0.5029, Root Mean Squared Error (RMSE) = 0.0522

Influence of Central Bank Rate (CBR) on Ugandan Lending Rates

Adjustment of the Central Bank Rate (CBR) in the short run captures a positive and relatively significant effect on lending rates. A moderate rise in the CBR has the impact of increasing lending rates, though the impact is quite slightly significant, i.e., not very powerful but still significant. This is reasonable because whenever the central bank modifies its policy rate, it changes how much money commercial banks pay in order to borrow funds, which then affects how much they charge people as customers. The fact that lending rates react to such short-term policy adjustments means that signals from the central bank are important as far as determining banks' rates are concerned.

In the long run, the historical CBR values continue to drive lending rates upwards positively though in this case, the evidence is less strong on a statistical level. The trend is that commercial banks will increase lending rates subsequently if the central bank keeps rates up over a period. Both short and long-term findings generally show that the CBR is a significant tool in how Uganda's monetary policy affects lending rates.

Role of Open Market Operations (OMO), Proxied by Base Money

For Open Market Operations (OMO), proxied here by base money change, the short-run impact on lending rates seems weak and uncertain. Although there is some evidence that more liquidity (an increase in base money) would lower lending rates, this is not strongly supported in the data. This would mean that there is a time lag for the effect of OMO to work its way through the financial system or other market issues hold up the impact.
In the long run, the relationship is tenuous and statistically insignificant, suggesting that persistent alterations in the money supply from OMOs do not have a material impact on the lending rates in Uganda. These results suggest potential shortcomings of relying on OMO alone to efficiently manage interest rates, and other parts will tend to have greater effects in the lending market.

Role of Standing Lending Facilities (SLF), Proxied by Rediscount Rate

The rate of rediscount, which signifies SLF, explains the evident and strong influence on the short and long lags of lending rates. Any change in this rate, which central banks use to borrow overnight or funds in emergencies, directly impacts the price at which banks lend. Such a strong effect in the short run makes the rate of rediscount a pointed indicator of monetary policy change, which affects the cost of credit access.

In the long run, the rediscount rate continues to set lending rates, proving it has a lasting influence on how banks price loans and forecast future interest rates to move. This strong relationship proves the rediscount rate is an effective monetary instrument in Uganda, especially since the central bank is likely to act as lender of last resort and supply liquidity in the market.Diagnostic tests after model estimation

Normality test for residuals

The study conducted a normality test to ensure that the regression model's residuals followed a normal distribution, which is one of the assumptions required in proper hypothesis testing and confidence interval estimation. The Jarque-Bera (JB) test was employed to ascertain whether the residuals were considerably deviating from normal. Ensuring this assumption renders the statistical inference of the model more credible and justifies the reliability of policy inference of the study from the results.

Table 6: Normality Test

Test	Test Statistic	Chi-squared (df = 2)
Jarque-Bera normality test	0.2096	0.9005

The Jarque-Bera test statistic is 0.2096 and the p-value is 0.9005. The p-value is much greater than 0.05. Therefore, we cannot reject the null hypothesis that the residuals are normally distributed. That implies that the model residuals are not significantly apart from normality. Therefore, the normality assumption holds good, and statistical inferences made using the regression model are true.

Heteroscedasticity test

The study performed a heteroscedasticity test to assess whether the residuals' variance was constant across observations, as required for efficient and accurate estimates. The Breusch-Pagan test was used to check for any presence of heteroscedasticity in the model. Ensuring homoscedasticity confirms standard errors and test statistics and thus enhances the validity of the study findings.

Table 6: Heteroscedasticity Test

Statistic	Value
$chi^2(1)$	1.08
Prob > chi^2	0.2984

Notes: Breusch-Pagan / Cook-Weisberg Test for Heteroskedasticity, Null hypothesis (H_0): Constant variance (homoskedasticity), Tested on: Fitted values of Lending Rate

Since the p-value (0.2984) is greater than 0.05, the study fails to reject the null hypothesis. This suggests there is no significant evidence of heteroskedasticity in the estimated model.

Serial Correlation Test

The study tested for serial correlation to determine whether the residuals from the regression model were independent over time, as required for consistent and unbiased parameter estimates. The Breusch-Godfrey LM test was applied to identify any autocorrelation in the error terms. Ensuring the absence of serial correlation supports the reliability of the model's estimates and the robustness of its policy implications.

Table 7: Serial Correlation Test

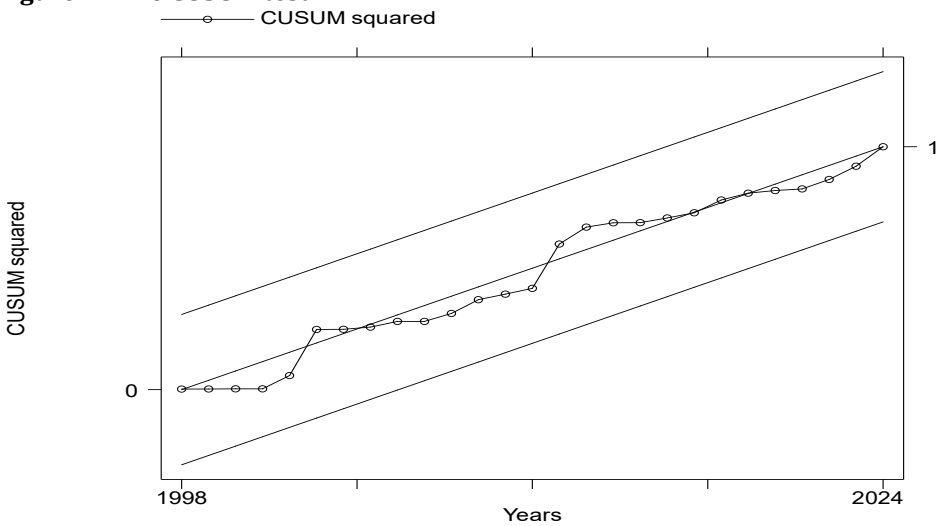
lags (p)	chi^2	df	Prob > chi^2
1	3.689	1	0.0548

Notes; Null hypothesis (H_0): No serial correlation
Since the p-value (0.0548) is just above the 0.05 significance level, the study fails to reject the null hypothesis at the 5% level. This suggests there is no evidence of autocorrelation in the residuals.

Model stability test

The study conducted a model stability test to assess whether the estimated coefficients remained stable over the sample period, which is crucial for consistent and reliable forecasting. The CUSUM test was employed to detect any structural breaks or parameter instability in the model. Verifying model stability confirms that the relationships between variables are stable over time, enhancing the credibility of the study's findings and their relevance for policy analysis.

Figure 1: The CUSUM test



The CUSUM squared plot shows that the test statistic remains within the 5% significance level boundaries throughout the sample period from 1998 to 2024. This indicates that there are no significant structural breaks or instability in the estimated model parameters over time. Since the CUSUM squared line does not cross the critical bounds, the study concludes that the model is structurally stable, and the relationships among the variables are consistent, reinforcing the reliability of the regression results for both inference and policy analysis.

5. Conclusion

The study demonstrates that the CBR has a meaningful influence on lending rates in both the short and long run. This validates its role as the central signaling mechanism under Uganda's inflation-targeting framework. Both theoretical models and empirical results confirm that when the CBR rises, lending rates follow suit, indicating effective policy transmission. This finding underscores the importance of preserving the credibility and responsiveness of the Bank of Uganda's interest rate policy. It also highlights the need for timely and transparent communication from the central bank to reinforce expectations and guide market behavior.

The rediscount rate has been found to have a significant and sustained impact on lending rates, making it a crucial instrument alongside the CBR. Its effectiveness in influencing short-term credit conditions and long-term expectations positions SLFs as vital tools for managing liquidity and credit supply. These findings suggest that the Bank of Uganda should continue to use the rediscount window not just for emergency liquidity, but also as an intentional interest rate management mechanism, especially in periods of financial uncertainty or inflationary pressure.

Base money, used to proxy OMO, did not significantly affect lending rates in the short or long run. This indicates that liquidity injections alone may not translate effectively into lower borrowing costs, likely due to transmission frictions such as excess liquidity, low financial depth, or limited competition among banks. This highlights the need for reforms aimed at strengthening financial markets, improving interbank operations, and enhancing competition to improve the efficiency of OMO as a policy tool. Without such structural adjustments, OMOs may remain ineffective as standalone levers for influencing lending behavior.

Study Recommendations

Strengthen the Central Bank Rate (CBR) framework through enhanced transparency and market signaling. Given the significant influence of the CBR on lending rates, the Bank of Uganda should continue refining its inflation-targeting approach by ensuring timely, clear, and consistent communication of CBR decisions. Forward guidance and policy statements should be widely disseminated and easily interpretable by financial institutions and market participants to reinforce the signaling power of the CBR. Additionally, increasing the frequency of policy reviews or publishing expected CBR pathways can help anchor market expectations and improve the responsiveness of lending rates to policy changes.

Expand the role and accessibility of Standing Lending Facilities (SLF) to manage short-term liquidity more effectively. The rediscount rate is a strong driver of lending rate adjustments, suggesting it should be actively used in both routine monetary operations and emergency liquidity management. The Bank of Uganda should ensure that commercial banks have streamlined access to SLF mechanisms, especially during periods of market stress or seasonal liquidity shortages. Furthermore, enhancing the visibility of SLF rate adjustments; by including them in policy announcements can strengthen their role in influencing market interest rates and reinforcing policy objectives.

Deepen financial markets to improve the transmission of Open Market Operations (OMO) to lending rates. To enhance the effectiveness of OMOs, structural reforms are needed to develop Uganda's money and capital markets. This includes increasing the diversity and tradability of government securities, promoting secondary market activity, and fostering stronger interbank linkages. The central bank should also invest in financial sector education and digitization to reduce liquidity hoarding and improve banks' responsiveness to liquidity changes. These measures would help ensure that changes in base money translate more efficiently into credit supply and lending rate adjustments, enhancing the overall efficacy of monetary policy.

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