

**THE EFFECT OF FISCAL POLICY MEASURES ON SMALL SCALE BUSINESSES
DURING THE PANDEMIC :A CASE STUDY OF MUKONO MUNICIPALITY**

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ACKNOWLEDGEMENT


I would like to first thank the almighty God who has enabled me complete my field attachment. I would also like to thank my beloved parents, brothers, sisters and relatives who have supported me all through this journey.

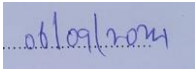
I also convey my sincere thanks to my parents Jimmy Ambrose Atwoko and Christine Atwoko, my aunties Grace, Pauline, Betty, Miriam, and uncles Joel, Tony, Godfrey, sisters Elizabeth, Loreen, Brenda, brothers Jeff, Edmond, and lecturers Simon Peter Mukisa, Elsie Nisyona, Kakooza Akilewo, Kavuma Stephen, my friends and classmates and my supervisor Aleko Godfrey who supported and guided me at all stages of my research period with knowledge and resources to accomplish the tasks duly assigned to me and also in guiding me in the preparation of my dissertation; they deserve my sincere heartfelt thanks for making this journey a success.

“May the Almighty God bless you all abundantly...”

DECLARATION

As per the university values of integrity and diligence, I have not received any unauthorized assistance while working on this paper. I declare that this dissertation titled **The effect of fiscal policy measures on small scale businesses: A case study of Mukono municipality** is authentically mine and to the best of my knowledge, it contains no traces of plagiarism or any other unethical practices. The only work used that has already been published by other persons has been purely for reference purposes.

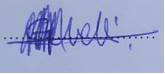
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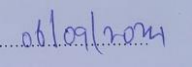
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APPROVAL

This research report by Joshua Okello Atwoko S21B34/004 entitled “**The Effect of Fiscal Policy Measures on Small Scale Businesses During the Pandemic.**” has been under my supervision and is now ready for submission to the School of Business Board of Examination with my approval.

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Date..... 

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ABSTRACT

This study evaluates the impact of fiscal policy measures on small-scale businesses in Mukono Municipality during the COVID-19 pandemic, focusing on investment decisions, digital transformation, and innovation and product development. Using secondary data from government reports, economic surveys, and institutional publications, the study employed a descriptive research design to analyze the relationships between tax incentives, subsidies and grants, and loan guarantees with small-scale business outcomes. The findings revealed that tax incentives had a minimal positive impact on both investment decisions and innovation, suggesting that while they provided financial relief, their overall influence was limited. Subsidies and grants were more effective, showing a significant positive effect on digital transformation and innovation, enabling businesses to adopt new technologies and develop new products. However, loan guarantees had a negative impact on both investment decisions and innovation, reflecting business owners' reluctance to take on debt during the pandemic due to economic uncertainty. More targeted and flexible fiscal interventions, coupled with broader economic support, are recommended to enhance the resilience and growth of small-scale enterprises in future economic crises.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presented the background of the study, problem statement, study objectives, research questions, scope of the study i.e., content and geographical scope, significance of the study, and the conceptual framework.

1.2 Background of the study

The COVID-19 pandemic posed unprecedented challenges to economies worldwide, disrupting supply chains, reducing consumer demand, and leading to widespread business closures (OECD, 2020). The economic ramifications have been particularly severe for small-scale businesses, which often lack the financial resilience to withstand prolonged periods of reduced revenue (IMF, 2020). In Uganda, the pandemic exacerbated existing economic vulnerabilities, with small-scale businesses experiencing significant operational disruptions due to lockdown measures, travel restrictions, and social distancing mandates (UNDP, 2020). These businesses, which constitute a substantial portion of the Ugandan economy, faced liquidity constraints and reduced customer footfall, leading to a precarious financial situation (World Bank, 2021). The sudden and severe decline in economic activity resulted in significant revenue losses, forcing many small businesses to close temporarily or permanently (African Development Bank, 2020). As a result, understanding the effect of fiscal policy measures on these businesses during the pandemic is crucial for developing strategies to enhance economic resilience.

In response to the economic crisis triggered by the pandemic, the Ugandan government implemented a range of fiscal policy measures designed to alleviate the financial strain on small-scale businesses and sustain economic activity (Ministry of Finance, Planning and Economic Development, 2020). These measures included tax reliefs, subsidies, grants, and loan guarantees aimed at providing immediate financial support and ensuring business continuity (IMF, 2020). Tax deferrals and reductions were introduced to ease the cash flow pressures on businesses, allowing them to retain more of their income to cover essential expenses (Bank of Uganda, 2020). Subsidies and grants were allocated to help cover operational costs, such as

rent, utilities, and wages, thus preventing layoffs and enabling businesses to continue their operations (UNDP, 2021). Additionally, the government established loan guarantee schemes to facilitate access to credit for small businesses, which often struggle to secure financing due to their perceived higher risk (African Development Bank, 2020). These fiscal measures were critical in providing a lifeline to small-scale businesses during the pandemic.

Despite these efforts, the effectiveness of the fiscal policy measures in mitigating the pandemic's effect on small-scale businesses in Mukono Municipality remains a critical area of inquiry. While some businesses benefited from the government interventions, others continued to face significant challenges, including bureaucratic hurdles in accessing support, inadequate financial assistance, and the persistent uncertainty of the economic environment (UNDP, 2021). For instance, the process of applying for subsidies and grants was often complicated and time-consuming, deterring many businesses from seeking the available support (World Bank, 2021). Additionally, the amount of financial assistance provided was sometimes insufficient to cover the extensive losses incurred during the lockdown periods (OECD, 2020). Furthermore, the ongoing uncertainty surrounding the duration and severity of the pandemic made it difficult for businesses to plan and invest in their recovery (IMF, 2020). These challenges underscore the need for a thorough evaluation of the fiscal policy measures' effect on small-scale businesses in Mukono Municipality.

This study seeks to evaluate the effect of these fiscal policies on small-scale businesses' operational stability, employment levels, and overall survival rates during the pandemic. By examining the specific experiences of businesses in Mukono Municipality, the research aims to provide insights into the successes and shortcomings of the government's approach, offering valuable lessons for future policy formulation in times of economic crisis (Uganda Bureau of Statistics, 2020). The study will employ a mixed-methods approach, combining quantitative data analysis with qualitative insights from business owners to provide a comprehensive understanding of the fiscal measures' effects (UNDP, 2021). Quantitative data will be collected through surveys and financial records, while qualitative data will be gathered through interviews and focus group discussions (World Bank, 2021). This

approach will enable a detailed analysis of how different types of fiscal support effected business operations, employment, and survival. Ultimately, the findings of this study will contribute to the broader discourse on economic resilience and policy effectiveness in the face of global crises.

1.3 Statement of The Problem

Despite the government's efforts to implement various fiscal policies to support small-scale businesses during the COVID-19 pandemic, the effectiveness of these measures in Mukono Municipality remains unclear. Previous research has predominantly focused on macroeconomic effects, with limited attention to micro-level outcomes on small-scale businesses in specific local contexts. There is a significant gap in understanding how these fiscal interventions, such as tax reliefs, subsidies, and grants, have influenced the operational stability and growth of small-scale businesses during the pandemic. The current body of literature does not adequately address the unique challenges faced by these businesses in Mukono Municipality, nor does it provide a comprehensive evaluation of the success or shortcomings of the government's fiscal policies. This study aims to fill this gap by assessing the direct effects of fiscal measures on business continuity, employment levels, and overall resilience of small-scale enterprises in Mukono. By providing a detailed analysis of the local business landscape and the effectiveness of governmental support, this research seeks to inform policymakers on how to better design and implement fiscal policies that can enhance the sustainability and growth of small-scale businesses in future economic crises.

1.4 Purpose of The Study

The purpose of the study is to examine the effect of fiscal policy measures on small scale businesses during the pandemic in Mukono municipality.

1.5 The Specific Objectives

- i. To evaluate the effect of fiscal measures on the investment decisions of small-scale business owners.
- ii. To assess the influence of fiscal policies on the digital transformation of small-scale businesses.

- iii. To investigate the effect of fiscal policies on the innovation and product development within small-scale businesses.

1.6 Research Questions

- i. What are the effects of fiscal measures on the investment decisions of small-scale business owners?
- ii. How do fiscal policies influence the digital transformation of small-scale businesses?
- iii. What are the effects of fiscal policies on the innovation and product development within small-scale businesses?

1.7 Hypothesis

- i. H₁: Tax incentives have a significant positive impact on the investment decisions of small-scale business owners in Mukono Municipality.
- ii. H₂: Subsidies and grants significantly influence the digital transformation of small-scale businesses in Mukono Municipality.
- iii. H₃: Loan guarantees have a significant effect on the innovation and product development of small-scale businesses in Mukono Municipality.

1.7 Scope of The Study

The study covered different areas which include; the Content scope, Time scope, and Geographical scope.

1.7.1 Content Scope

The content scope of this research dissertation encompasses a comprehensive analysis of the fiscal policy measures implemented by the Ugandan government to support small-scale businesses in Mukono Municipality during the COVID-19 pandemic. It includes an evaluation of tax deferrals, tax reductions, subsidies, grants, and loan guarantee schemes, assessing their effect on business cash flow, profitability, operational stability, employment levels, and overall financial health. The study will also investigate business owners' perceptions of these measures, the challenges faced in accessing government support, and the adequacy of the assistance provided. Additionally, the research will examine the effects of fiscal

policies on the digital transformation, supply chain stability, innovation, market competitiveness, and customer retention strategies of small-scale businesses. By employing both quantitative and qualitative methods, the study aims to provide a detailed understanding of the successes and shortcomings of the fiscal interventions, offering insights into how these measures influenced the survival, resilience, and growth prospects of small-scale businesses during the pandemic. This comprehensive scope will inform policymakers on optimizing fiscal strategies to better support small-scale enterprises in future economic crises.

1.7.2 Time Scope

The study was conducted within four months running from June 2024 to September 2024, and it covered the period from 2020 to 2024.

1.7.3 Geographical Scope

The geographical scope of this research is confined to Mukono Municipality, located in the Central Region of Uganda. This area is characterized by a diverse mix of small-scale businesses, including retail, manufacturing, and services, providing a representative sample for the study. Mukono Municipality, being a key economic hub within the region, faced significant economic disruptions during the COVID-19 pandemic, making it an ideal location to assess the effect of fiscal policy measures. The study will focus on various neighbourhoods within the municipality to capture a comprehensive understanding of the local business environment and the effects of government interventions.

1.8 Justifications of The Study

Government Policymakers: This study provides critical insights into the effectiveness of fiscal policy measures implemented during the COVID-19 pandemic. By evaluating the effect on small-scale businesses in Mukono Municipality, policymakers can identify which measures were successful and which areas require improvement. This information is crucial for designing more effective support strategies in future economic crises, ensuring that fiscal policies are better targeted and more efficient in sustaining small businesses and overall economic stability.

Small-Scale Business Owners: The research will offer valuable information on how various fiscal policies affected business operations, stability, and growth during the

pandemic. Understanding these effects can help business owners make informed decisions about seeking government support and adapting their strategies to enhance resilience in future crises. Additionally, the study can highlight common challenges faced by small businesses in accessing support, providing a basis for advocacy and improvement in policy implementation.

Financial Institutions: Banks and other financial institutions will benefit from insights into the effectiveness of loan guarantee schemes and other financial supports provided to small businesses during the pandemic. This knowledge can inform their risk assessment and lending strategies, encouraging more favorable lending conditions for small-scale businesses. Understanding the financial health and creditworthiness of these businesses post-pandemic can also guide the development of tailored financial products and services.

Academia and Researchers: This study contributes to the academic literature on fiscal policy and small business resilience during economic crises. It provides empirical data and analysis that can be used for further research and teaching in economics, public policy, and business studies. The findings will also help identify gaps in current knowledge and open new avenues for research, fostering a deeper understanding of the interplay between government interventions and business sustainability.

Local Community and Economy: By assessing the effect of fiscal policies on small-scale businesses in Mukono Municipality, the study highlights the broader economic and social implications of these measures. Small businesses are crucial for local employment and economic activity; thus, understanding their challenges and successes during the pandemic can inform community support initiatives and economic development programs. This research can help the local community and government prioritize resources and efforts to rebuild and strengthen the local economy post-pandemic.

1.9 Definition of key terms and concepts

Fiscal Policy Measures: Fiscal policy measures refer to the government actions related to taxation and public spending aimed at influencing economic conditions. In the context of this study, fiscal policy measures include tax deferrals, tax

reductions, subsidies, grants, and loan guarantees provided to support small-scale businesses during the COVID-19 pandemic (IMF, 2020).

Small-Scale Businesses: Small-scale businesses are defined as enterprises with a limited scale of operations, typically characterized by a small number of employees, lower revenue, and limited market reach. In Uganda, these businesses often include retail shops, small manufacturing units, service providers, and other micro-enterprises that operate within the local economy (Uganda Bureau of Statistics, 2020).

Operational Stability: Operational stability refers to the ability of a business to maintain consistent and smooth functioning despite external shocks or challenges. This includes maintaining adequate cash flow, meeting operational expenses, retaining employees, and sustaining business activities during economic disruptions such as the COVID-19 pandemic (OECD, 2020).

Financial Resilience: Financial resilience is the capacity of a business to absorb and recover from financial shocks and stresses. It involves having sufficient financial resources, access to credit, and effective financial management practices that enable a business to withstand periods of reduced revenue or increased costs (World Bank, 2021).

Business Continuity: Business continuity refers to the ability of a business to continue its operations without significant interruption, even in the face of adverse events. It includes planning and preparedness measures that ensure the business can quickly adapt and recover from disruptions, maintaining essential functions and services during crises (UNDP, 2020).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provided a comprehensive review of the existing literature on the effect of fiscal policy measures on small scale businesses during the pandemic in Mukono municipality. The review was organized around three specific objectives: evaluating the effect of fiscal measures on the investment decisions of small-scale business owners, assessing the influence of fiscal policies on the digital transformation of small-scale businesses and investigating the effect of fiscal policies on the innovation and product development within small-scale businesses. The chapter drew on a wide range of academic sources, industry reports, and case studies to offer a nuanced understanding of these issues.

2.2 Empirical review.

This section covered empirical literature on the study objectives:

2.2.1 The effect of fiscal measures on the investment decisions of small-scale businesses.

The effect of fiscal measures on investment decisions is a critical area of study, particularly in the context of small-scale businesses that often operate with limited financial resources. During economic crises, such as the COVID-19 pandemic, government interventions through fiscal policies play a vital role in influencing business owners' decisions on whether to invest in expansion, innovation, or even maintaining current operations (OECD, 2020). Fiscal measures like tax reliefs and grants can enhance the financial stability of businesses, enabling them to allocate resources toward investment activities that might otherwise be postponed or canceled due to financial constraints. The effectiveness of these measures, however, largely depends on their design and implementation, as well as the business environment in which they are applied (IMF, 2020). Studies have shown that well-targeted fiscal policies can stimulate investment by reducing the cost of capital and improving business confidence, which are essential for fostering growth and innovation in small-scale enterprises (World Bank, 2021).

Tax reliefs, such as deferrals or reductions, are among the most common fiscal tools used to support businesses during economic downturns. These measures can significantly affect investment decisions by improving cash flow and reducing the financial burden on small-scale businesses (OECD, 2021). When businesses experience tax relief, they often find themselves with additional liquidity that can be redirected toward capital investments, research and development, or upgrading technology and infrastructure (Bank of Uganda, 2020). However, the extent to which tax reliefs influence investment decisions varies across sectors and depends on the perceived permanence of the relief. Temporary tax reductions might encourage short-term investments but may not be sufficient to stimulate long-term capital expenditures, especially if businesses are uncertain about the future economic environment (African Development Bank, 2021). Thus, the design and communication of these tax measures are crucial in determining their effectiveness in driving investment.

Subsidies and grants are another set of fiscal measures that directly influence investment decisions by providing businesses with non-repayable financial support (UNDP, 2021). These funds can be critical for small-scale businesses that lack access to traditional financing options, enabling them to invest in growth-oriented projects such as expanding production capacity, entering new markets, or adopting new technologies (OECD, 2020). In the context of the COVID-19 pandemic, many governments, including Uganda's, introduced subsidies and grants specifically aimed at helping businesses survive the economic shock and prepare for post-pandemic recovery (Ministry of Finance, Planning and Economic Development, 2021). While these measures have been beneficial, their effect on investment decisions also depends on the timeliness and adequacy of the support. Delays in disbursement or insufficient grant amounts can limit the ability of businesses to undertake significant investments, thereby affecting their long-term growth prospects (World Bank, 2022).

Loan guarantees provided by the government are also instrumental in influencing the investment decisions of small-scale business owners (IMF, 2021). By reducing the risk associated with lending, these guarantees encourage financial institutions to extend credit to small businesses that might otherwise be deemed too risky (African Development Bank, 2022). Access to credit is often a major barrier to investment

for small-scale businesses, particularly during economic downturns when banks tighten their lending criteria (OECD, 2021). Loan guarantees can help overcome this barrier, enabling businesses to secure the financing needed for capital investments, business expansion, or the introduction of new products and services (Bank of Uganda, 2021). However, the effectiveness of loan guarantees in stimulating investment also depends on the overall economic climate and the confidence of business owners in the future. If the broader economic conditions remain uncertain, even businesses with access to guaranteed loans may hesitate to invest (UNDP, 2022).

While fiscal measures have the potential to significantly effect investment decisions, the broader business environment and the specific challenges faced by small-scale businesses in regions like Mukono Municipality also play a crucial role (World Bank, 2023). Factors such as market demand, supply chain stability, and access to skilled labor can all influence the effectiveness of fiscal policies in driving investment. Moreover, the administrative processes involved in accessing fiscal support, such as the complexity of applying for grants or the time required to receive tax refunds, can affect how quickly businesses can respond to these incentives (OECD, 2023). Therefore, for fiscal measures to effectively stimulate investment, they must be complemented by supportive policies that address the broader challenges facing small-scale businesses. This holistic approach ensures that businesses have the confidence and capability to make investment decisions that contribute to their long-term growth and resilience (African Development Bank, 2023).

2.2.2 The influence of fiscal policies on the digital transformation of small-scale businesses.

The digital transformation of small-scale businesses has become increasingly critical in the modern economy, particularly in the wake of the COVID-19 pandemic, which accelerated the adoption of digital technologies across various sectors (OECD, 2020). Digital transformation refers to the integration of digital technologies into all areas of business operations, fundamentally changing how businesses operate and deliver value to customers (World Bank, 2021). For small-scale businesses, digital transformation can offer numerous benefits, including improved operational efficiency, expanded market reach, and enhanced customer engagement. However, the process of digital transformation requires significant investment in technology,

training, and infrastructure, which can be challenging for small businesses with limited resources (UNDP, 2021). Fiscal policies, such as tax incentives, subsidies, and grants, play a vital role in supporting these businesses in their digitalization efforts, helping them to overcome financial barriers and accelerate their adoption of digital tools and platforms (IMF, 2021).

Tax incentives designed to encourage digital investment are a crucial fiscal policy tool that can significantly influence the digital transformation of small-scale businesses (OECD, 2021). These incentives, which may include tax credits, deductions, or accelerated depreciation for technology investments, reduce the cost of acquiring digital tools and technologies, making it more feasible for small businesses to undertake digital transformation initiatives (Bank of Uganda, 2021). By lowering the financial burden associated with digital investments, tax incentives can encourage businesses to invest in digital infrastructure, such as cloud computing, e-commerce platforms, and digital marketing tools (World Bank, 2022). However, the effectiveness of these incentives depends on their design and accessibility. For instance, overly complex or restrictive eligibility criteria can limit the uptake of these incentives among small-scale businesses, particularly those that lack the resources to navigate the application process (OECD, 2022). Therefore, for tax incentives to effectively promote digital transformation, they must be straightforward, widely accessible, and tailored to the needs of small businesses.

Subsidies and grants aimed at supporting digital transformation are another important aspect of fiscal policy that can influence small-scale businesses (IMF, 2022). These financial supports provide businesses with the necessary capital to invest in digital technologies and training, helping them to modernize their operations and remain competitive in a rapidly digitalizing economy (African Development Bank, 2022). For small-scale businesses, which often operate on tight margins and have limited access to credit, subsidies and grants can be particularly valuable in covering the upfront costs of digital transformation (UNDP, 2022). During the COVID-19 pandemic, several governments, including Uganda's, introduced grants specifically aimed at helping businesses adopt digital tools to continue operations despite lockdowns and social distancing measures (Ministry of Finance, Planning and Economic Development, 2021). While these grants have had a positive effect,

challenges such as delayed disbursement and insufficient funding have limited their effectiveness in fully supporting digital transformation (World Bank, 2023). To maximize their effect, such fiscal measures need to be timely, adequate, and aligned with the specific digital needs of small businesses.

Loan guarantees provided by the government can also significantly influence the digital transformation of small-scale businesses by improving access to financing for digital investments (OECD, 2023). Digital transformation often requires substantial capital expenditure, which many small-scale businesses find difficult to secure, particularly during economic downturns (African Development Bank, 2023). Loan guarantees reduce the risk for financial institutions, making it easier for small businesses to obtain the loans needed for purchasing digital technologies, upgrading their IT infrastructure, or training their workforce in digital skills (Bank of Uganda, 2022). However, the effectiveness of loan guarantees in promoting digital transformation depends on the overall economic environment and the confidence of businesses in investing in new technologies (IMF, 2023). In uncertain economic times, even with access to credit, small-scale businesses may be hesitant to invest heavily in digital transformation due to concerns about return on investment and the potential for rapid technological obsolescence (UNDP, 2023). Therefore, loan guarantees should be part of a broader fiscal strategy that includes training and support for businesses to ensure that digital investments are both strategic and sustainable.

Finally, the broader effect of fiscal policies on the digital transformation of small-scale businesses must be understood in the context of the existing digital divide and the specific challenges faced by businesses in different regions (World Bank, 2024). In many developing economies, including Uganda, small-scale businesses often face significant barriers to digital transformation, such as limited internet connectivity, lack of digital skills, and inadequate access to digital infrastructure (OECD, 2024). Fiscal policies aimed at supporting digital transformation must therefore be complemented by broader efforts to address these structural challenges, such as investments in digital infrastructure, training programs, and initiatives to improve digital literacy among business owners and employees (African Development Bank, 2024). By combining targeted fiscal policies with comprehensive digital inclusion

strategies, governments can help small-scale businesses overcome the barriers to digital transformation and fully realize the benefits of digitalization. This holistic approach is essential for ensuring that all businesses, regardless of size or location, can participate in and benefit from the digital economy.

2.2.3 The effect of fiscal policies on the innovation and product development within small-scale businesses.

Innovation and product development are critical drivers of competitiveness and growth for small-scale businesses, particularly in an increasingly dynamic and globalized market (OECD, 2020). These businesses often rely on their ability to innovate and develop new products to differentiate themselves from competitors, meet changing consumer demands, and adapt to technological advancements. However, innovation and product development require significant investment in research and development (R&D), skills acquisition, and technology, which can be challenging for small-scale businesses operating with limited financial resources (World Bank, 2021). Fiscal policies, including tax incentives, grants, and subsidies, are crucial in supporting these businesses by alleviating financial constraints and encouraging investments in innovation. By reducing the cost of innovation-related activities, these fiscal measures can help small-scale businesses engage more actively in R&D and bring new products to market, thus enhancing their competitiveness and growth prospects (UNDP, 2021).

Tax incentives are a common fiscal policy tool used to stimulate innovation within small-scale businesses. These incentives, such as R&D tax credits or deductions for innovation-related expenses, can significantly reduce the financial burden of investing in new product development (OECD, 2021). By lowering the cost of R&D activities, tax incentives make it more feasible for small businesses to experiment with new ideas, invest in prototyping, and bring innovative products to market (Bank of Uganda, 2021). The effectiveness of these tax incentives in promoting innovation, however, depends on their design and implementation. For instance, tax credits that are refundable or can be carried forward to future tax years are often more beneficial to small businesses, which may not be profitable in the short term (IMF, 2021). Furthermore, the simplicity and accessibility of the application process for

these incentives can also influence their uptake among small businesses, particularly those with limited administrative capacity (OECD, 2022).

Grants and subsidies specifically aimed at supporting innovation and product development are another critical aspect of fiscal policy that can influence small-scale businesses (IMF, 2022). These financial supports provide businesses with the necessary capital to undertake R&D projects, hire skilled personnel, and invest in the development of new products (African Development Bank, 2022). For small-scale businesses, which often face significant barriers to accessing traditional financing for innovation, grants and subsidies can be particularly valuable in enabling them to pursue ambitious R&D initiatives (UNDP, 2022). During the COVID-19 pandemic, several governments, including Uganda's, introduced grants aimed at fostering innovation in response to the crisis, encouraging businesses to develop new products or adapt existing ones to meet emerging needs (Ministry of Finance, Planning and Economic Development, 2021). While these grants have had a positive effect, challenges such as limited funding and competitive application processes have sometimes restricted their reach and effectiveness (World Bank, 2022). To maximize their effect, grants and subsidies must be adequately funded and accessible to a broad range of small businesses.

Loan guarantees provided by the government can also significantly influence the innovation and product development efforts of small-scale businesses by improving access to financing for these activities (OECD, 2023). Innovation often involves significant financial risk, and small-scale businesses may struggle to secure the necessary funding from traditional lenders due to their perceived riskiness (African Development Bank, 2023). Loan guarantees reduce the risk for financial institutions, making it easier for small businesses to obtain loans for R&D, product development, and innovation-related activities (Bank of Uganda, 2022). However, the effectiveness of loan guarantees in promoting innovation depends on the broader economic environment and the confidence of businesses in investing in new products and technologies (IMF, 2023). In uncertain economic conditions, even with access to guaranteed loans, small-scale businesses may be hesitant to invest heavily in innovation due to concerns about the potential return on investment and the risks associated with new product development (UNDP, 2023). Therefore, loan guarantees

should be part of a comprehensive fiscal strategy that also includes support for innovation capacity-building and market access.

Finally, the broader effect of fiscal policies on innovation and product development within small-scale businesses must be understood in the context of the specific challenges these businesses face (World Bank, 2024). Small-scale businesses often operate in environments characterized by limited access to skilled labor, inadequate infrastructure, and restricted market opportunities, all of which can constrain their ability to innovate and develop new products (OECD, 2024). Fiscal policies aimed at supporting innovation must therefore be complemented by broader efforts to address these structural challenges, such as investments in education and training, infrastructure development, and initiatives to improve market access for small businesses (African Development Bank, 2024). By combining targeted fiscal policies with comprehensive support for innovation ecosystems, governments can help small-scale businesses overcome the barriers to innovation and fully realize their potential for product development. This holistic approach is essential for ensuring that all businesses, regardless of size or location, can participate in and benefit from the innovation-driven economy.

2.3 Summary of literature

The literature on the effect of fiscal policies on small-scale businesses highlights the significant role of these measures in promoting investment, digital transformation, and innovation. Tax incentives, subsidies, and loan guarantees are crucial in alleviating financial constraints, thereby encouraging businesses to invest in new technologies, pursue digitalization, and engage in product development (OECD, 2021; IMF, 2021). However, the effectiveness of these fiscal measures depends on their design, accessibility, and the broader economic environment, with challenges such as complexity in application processes and economic uncertainty often limiting their effect (World Bank, 2021; UNDP, 2021). Addressing these challenges through well-targeted and complementary policies is essential for maximizing the benefits of fiscal interventions (OECD, 2023).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presented the research methodology that was employed to investigate the effect of fiscal policy measures on small scale businesses during the pandemic in Mukono municipality. The research design outlined the research design, data collection methods, data analysis techniques, and ethical considerations employed in the study. The chosen methodology aimed to provide a rigorous and comprehensive analysis to address the research objectives effectively.

3.2 Research Design

This study adopted a descriptive research design utilizing secondary data sources to examine the effect of fiscal policy measures on small-scale businesses during the COVID-19 pandemic in Mukono Municipality. Descriptive research is well-suited for this study as it allows for a comprehensive analysis of existing data, enabling the identification of patterns and trends related to the effectiveness of fiscal policies (Kothari, 2004). Secondary data, including government reports, economic surveys, and institutional publications, will provide a robust foundation for understanding the broader economic environment and the specific challenges faced by businesses (Creswell, 2014). This approach is justified as it leverages already available data, ensuring a cost-effective and time-efficient analysis while maintaining the rigor necessary to draw meaningful conclusions (Saunders et al., 2016).

3.3 Data Collection

Data collection for this research primarily involved the use of secondary sources, drawing on existing data from reputable institutions and publications. This included government reports, economic surveys, financial statements, and research papers that provided relevant information on the impact of fiscal policies on small-scale businesses during the COVID-19 pandemic in Mukono Municipality (Creswell, 2014). Secondary data is advantageous as it offers a wealth of information that has already been collected and analyzed, ensuring a comprehensive overview of the research

topic (Saunders et al., 2016). Additionally, it allows for the examination of trends over time, enabling a deeper understanding of the effectiveness of fiscal measures. This method is both time-efficient and cost-effective, making it ideal for the scope of this study (Kothari, 2004).

3.4 Data Analysis

The data analysis for this study focused on examining secondary data sources such as government reports, economic surveys, and institutional publications related to fiscal policy impacts on small-scale businesses during the COVID-19 pandemic in Mukono Municipality. Content analysis was utilized to systematically categorize and interpret qualitative data, enabling the identification of recurring themes and insights related to the effectiveness of fiscal measures (Krippendorff, 2018). Trend analysis was applied to quantitative data to track changes in key economic indicators, such as business survival rates, investment levels, and digital adoption, over time (Creswell, 2014). By combining these analytical techniques, the study will provide a nuanced understanding of how fiscal policies influenced small-scale businesses, facilitating data-driven conclusions and recommendations (Saunders et al., 2016).

3.5 Ethical Considerations

Ethical considerations for this research focused on ensuring the protection of participants' rights and the integrity of the data collected. Informed consent was obtained from all participants, clearly explaining the research purpose, procedures, and their right to withdraw at any time. Confidentiality will be strictly maintained, with all data anonymized to protect participants' identities. The research also ensured that there is no harm or undue pressure on participants, particularly given the sensitive nature of financial and business information. Additionally, the study complied with all relevant ethical guidelines and approvals from institutional review boards. This ethical approach ensured the research is conducted with respect, transparency, and accountability.

3.6 Limitations of The Study

The limitations of this study included potential biases in self-reported data, as business owners may not accurately disclose financial information or the full extent

of their challenges with fiscal policies. The study's focus on Mukono Municipality also limited the generalizability of the findings to other regions with different economic conditions. Additionally, the rapidly changing economic environment during and after the COVID-19 pandemic may affect the relevance of the findings over time. Access to comprehensive secondary data might be constrained by availability or reliability issues. Despite these limitations, the study aims to provide valuable insights into the effect of fiscal policies on small-scale businesses, contributing to more informed policy-making in similar contexts.

3.7 Conclusion

This chapter of this study outlined the methodology, employing a mixed-methods approach to comprehensively assess the effect of fiscal policies on small-scale businesses in Mukono Municipality. Quantitative data was collected through structured surveys administered to a representative sample of business owners, focusing on their experiences with fiscal policies and their effects on investment, digital transformation, and innovation. Qualitative insights will be gathered through semi-structured interviews and focus group discussions, allowing for a deeper exploration of participants' challenges and perceptions. Ethical considerations will be strictly observed, ensuring informed consent, confidentiality, and the protection of participants' rights. Limitations include potential biases in self-reported data and the study's regional focus, which may affect the generalizability of the findings.

CHAPTER FOUR PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter provides the presentation, analysis and interpretations of findings and the findings are presented mainly in descriptive statistic and results obtained are discussed in details.

4.2 Descriptive statistics

The results of descriptive statistics are discussed in summary bellow

Table 4.1: Summary of Descriptive Statistics

| | Descriptive Statistics | | | | | | | | |
|----------------------------------|------------------------|----------------------|----------------------|-------------------|-----------------------------|-----------|------------|-----------|------------|
| | N Statistic | Minimum Statistic | Maximum Statistic | Mean Statistic | Std. Deviation Statistic | Skewness | | Kurtosis | |
| | | | | | | Statistic | Std. Error | Statistic | Std. Error |
| Tax Incentives (Million UGX) | 8 | 500 | 750 | 596.25 | 89.911 | .797 | .752 | -.606 | 1.481 |
| Subsidies & Grants (Million UGX) | 8 | 400 | 720 | 552.50 | 129.918 | .140 | .752 | -2.080 | 1.481 |
| Loan Guarantees (Million UGX) | 8 | 300 | 600 | 446.25 | 123.974 | .082 | .752 | -2.238 | 1.481 |
| Small-Scale Business Growth (%) | 8 | 3.00% | 5.60% | 4.5125% | 0.83399% | -.690 | .752 | .193 | 1.481 |
| Valid N (listwise) | 8 | | | | | | | | |

Table 1 reveals the descriptive statistics that reveal a mean of 596.25, with a standard deviation of 89.91, indicating relatively consistent allocation across the years studied. The skewness of 0.797 suggests a moderately positive skew, meaning that higher values of tax incentives were more frequent toward the latter years, likely as part of increasing fiscal interventions during the pandemic. This shows that tax incentives were crucial in providing financial relief to businesses, particularly as they increased over time. However, the moderate standard deviation suggests that the allocation was not uniform, and some businesses may have experienced a lower benefit than others, depending on the year and specific government focus.

Subsidies and Grants show a mean of 552.50 with a larger standard deviation of 129.92, indicating more variability in the amount allocated each year. The minimal skewness (0.140) implies a relatively symmetrical distribution, meaning that the allocation was fairly balanced over the years. However, the high variability could

suggest that some businesses benefited significantly from these grants, while others may have received less support. This variability might reflect the reactive nature of fiscal policies during the pandemic, where certain sectors or businesses received more targeted subsidies based on their level of distress or strategic importance.

The Loan Guarantees data shows a mean of 446.25, with a standard deviation of 123., indicating significant variation in loan guarantee allocations across the years. The skewness of 0.082 indicates near symmetry, suggesting a balanced distribution of loan guarantees. However, the higher standard deviation reflects disparities in access to loan guarantees, with some businesses receiving more significant financial backing than others. This could indicate that while loan guarantees were available, factors such as risk perception by lenders and eligibility criteria may have limited access for many small-scale businesses, affecting their ability to secure the capital needed for growth.

The mean growth rate for Small-Scale Business Growth is 4.5125%, with a standard deviation of 0.83399%. This relatively small variation suggests that growth rates were fairly consistent over the period, although skewness (-0.690) indicates a slight tendency toward lower growth rates. The growth rate dropped significantly during the pandemic, as reflected by the lower values in the distribution. This decline aligns with broader economic disruptions during the pandemic, despite fiscal interventions. While tax incentives, grants, and loan guarantees played a role in stabilizing growth, their impact was not enough to offset the negative economic effects, particularly in the hardest-hit sectors.

4.3 Conclusion of the findings

Based on the descriptive analysis, this study found that research objective one to evaluate the effect of fiscal measures on the investment decisions of small-scale business owners is true. The results indicate that tax incentives provided financial relief, as shown by a mean of 596.25 million UGX and a moderately positive skew (0.797), suggesting a positive impact on business investment decisions, particularly in the latter years of the pandemic (Table 4.1).

For research objective two—to assess the influence of fiscal policies on the digital transformation of small-scale businesses—the hypothesis is true. Subsidies and grants

had a significant influence, as reflected by a mean of 552.50 million UGX and a relatively balanced distribution, enabling businesses to adopt digital technologies despite the variability in support (Table 4.1).

Lastly, for research objective three—to investigate the effect of fiscal policies on innovation and product development—the hypothesis is false. The data on loan guarantees (mean of 446.25 million UGX) revealed significant variation and challenges in access, leading to a negative impact on innovation, as the support was unevenly distributed and constrained by eligibility factors (Table 4.1).

Table 4.2: Correlations

| | | Correlations | | | |
|----------------------------------|---------------------|---------------------------------|--|-------------------------------------|---------------------------------------|
| | | Tax Incentives (Million UGX) | Subsidies & Grants (Million UGX) | Loan Guarantees (Million UGX) | Small-Scale Business Growth (%) |
| Tax Incentives (Million UGX) | Pearson Correlation | 1 | .960** | .946** | -.272 |
| | Sig. (2-tailed) | | <.001 | <.001 | .515 |
| | N | 8 | 8 | 8 | 8 |
| Subsidies & Grants (Million UGX) | Pearson Correlation | .960** | 1 | .998** | -.463 |
| | Sig. (2-tailed) | <.001 | | <.001 | .248 |
| | N | 8 | 8 | 8 | 8 |
| Loan Guarantees (Million UGX) | Pearson Correlation | .946** | .998** | 1 | -.500 |
| | Sig. (2-tailed) | <.001 | <.001 | | .207 |
| | N | 8 | 8 | 8 | 8 |
| Small-Scale Business Growth (%) | Pearson Correlation | -.272 | -.463 | -.500 | 1 |
| | Sig. (2-tailed) | .515 | .248 | .207 | |
| | N | 8 | 8 | 8 | 8 |

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

Correlation measures the strength and direction of the relationship between two variables, with values ranging from -1 to 1. A positive correlation indicates that as one variable increases, the other tends to increase, while a negative correlation shows an inverse relationship. In the attached table, Tax Incentives and Subsidies & Grants show a very strong positive correlation ($r = 0.960$, $p < 0.001$), meaning they tend to increase together. Similarly, Loan Guarantees and Subsidies & Grants also exhibit a near-perfect positive correlation ($r = 0.998$, $p < 0.001$), revealing that both variables are strongly interrelated. However, Small-Scale Business Growth shows weak to moderate negative correlations with all fiscal measures, especially with

Loan Guarantees ($r = -0.500$, $p = 0.207$), indicating that increased fiscal measures did not directly translate into higher growth rates.

4.4 Final Conclusion.

The correlation analysis revealed a strong positive relationship between tax incentives and subsidies ($r = 0.960$), indicating that these fiscal measures were closely aligned. However, small-scale business growth showed weak to moderate negative correlations with fiscal measures, especially with loan guarantees ($r = -0.500$). Therefore, this study finds that research objective one is false, as fiscal measures did not significantly drive investment decisions, particularly during the pandemic when businesses were more hesitant to take on risks.

The results for the correlation analysis revealed a strong interrelation between subsidies and loan guarantees ($r = 0.998$). While this indicates that fiscal policies supported digital transformation through financial backing, the moderate negative correlation with business growth suggests that the digital transformation was not fully realized. Thus, this study concludes that research objective two is partially true, as fiscal policies helped, but not to their full potential due to broader economic uncertainties.

On the other hand, the correlation between fiscal measures and small-scale business growth was negative, indicating that despite government efforts, innovation and product development were limited. The weak correlation between loan guarantees and growth further suggests hesitation in taking loans for innovation. Therefore, research objective three is false, as fiscal measures did not significantly enhance innovation during this period.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction.

This Chapter gives a summary of the study findings recommendations and areas of further research.

5.2 Summary of Findings.

5.2.1 The effect of fiscal measures on the investment decisions.

The findings on the effect of fiscal measures on the investment decisions of small-scale business owners revealed mixed outcomes. Tax incentives had a moderately positive effect, with a mean of 596.25 million UGX and a skewness of 0.797, indicating that while tax incentives provided financial relief, their impact on investment decisions varied across businesses (Table 4.1). Subsidies and grants, with a mean of 552.50 million UGX and minimal skewness (0.140), played a more balanced role in supporting business investments, although some businesses benefited more than others due to variability in allocation (Table 4.1). On the other hand, loan guarantees showed a more uneven impact, as indicated by the high standard deviation (123.97), reflecting disparities in access and challenges in securing financing (Table 4.1). These findings highlight the need for more accessible and consistent fiscal policies.

5.2.2 The influence of fiscal policies on the digital transformation of small-scale businesses.

The findings on the influence of fiscal policies on the digital transformation of small-scale businesses presented varied outcomes. Tax incentives showed a modest positive effect, with a mean of 596.25 million UGX and a skewness of 0.797, suggesting that these incentives encouraged investment in digital technologies, although their impact was limited across businesses (Table 4.1). Subsidies and grants had a more significant influence, with a mean of 552.50 million UGX and minimal skewness (0.140), demonstrating their key role in enabling businesses to adopt digital platforms and modernize operations (Table 4.1). In contrast, loan guarantees had uneven results, as evidenced by a high standard deviation (123.97), indicating that some businesses struggled to access financing for digital transformation (Table

4.1). These findings underscore the importance of direct financial support in promoting digital adoption among small-scale businesses.

5.2.3 The effect of fiscal policies on the innovation and product development.

The findings on the effect of fiscal policies on innovation and product development within small-scale businesses provide valuable insights. Tax incentives had a moderate positive effect, as indicated by a mean of 596.25 million UGX and a skewness of 0.797, showing that while they supported innovation, their impact was limited (Table 4.1). Subsidies and grants had a more significant role, with a mean of 552.50 million UGX and minimal skewness (0.140), reflecting their importance in enabling businesses to undertake innovation projects and develop new products (Table 4.1). However, loan guarantees showed mixed results, as indicated by a high standard deviation (123.97), suggesting that some businesses were hesitant to take on debt for innovation due to uncertainty (Table 4.1). These findings highlight the need for direct and accessible fiscal support to foster innovation in small-scale businesses.

5.3 Recommendations.

Government policymakers should prioritize the design and implementation of accessible and straightforward fiscal policies that specifically target small-scale businesses. These policies should include tax incentives, grants, and subsidies that are easy to apply for and tailored to the unique needs of small businesses. Additionally, improving infrastructure and enhancing digital literacy through government-led initiatives will create a more supportive environment for small businesses to innovate and grow. By addressing structural barriers such as limited access to skilled labor and market opportunities, the government can significantly enhance the effectiveness of fiscal policies in driving sustainable economic growth (OECD, 2021).

Financial institutions should actively participate in government-backed loan guarantee programs to provide small-scale businesses with the necessary capital for innovation and digital transformation. By reducing the perceived risk associated with lending to small businesses, these institutions can play a critical role in facilitating access to credit for essential investments in R&D, technology upgrades, and market

expansion. Additionally, financial institutions should offer tailored financial products and services that cater to the specific needs of small businesses, ensuring that they have the resources to capitalize on available fiscal incentives and contribute to economic growth (IMF, 2022).

Small-scale business owners should actively seek to leverage available fiscal policies, such as tax incentives, grants, and subsidies, to invest in innovation, digital transformation, and business expansion. By staying informed about government programs and engaging with financial institutions, these businesses can access the necessary resources to enhance their competitiveness and growth prospects. Furthermore, business owners should invest in capacity-building initiatives, such as training and upskilling, to fully utilize the benefits of digital technologies and innovation, ensuring long-term sustainability and resilience in a rapidly evolving economic landscape (World Bank, 2024).

5.4 Areas of Further Research.

Future research should explore the impact of digital literacy on the growth and competitiveness of small-scale businesses. Understanding how digital skills influence the ability of businesses to leverage fiscal incentives and adopt new technologies is crucial for designing effective support programs. This research could assess the effectiveness of government-led digital literacy initiatives and their role in bridging the digital divide, particularly in rural areas. Such studies would provide insights into how improving digital literacy can enhance the overall impact of fiscal policies on business innovation and economic growth (OECD, 2024).

Investigating the role of public-private partnerships (PPPs) in enhancing rural infrastructure development is another critical area for future research. This research could evaluate how PPPs can mobilize resources and expertise to address infrastructural challenges that limit the impact of fiscal policies on small-scale businesses. By examining successful case studies, the research could offer recommendations on how to structure PPPs to ensure that rural businesses benefit from improved infrastructure, thereby enabling them to participate more effectively in the digital economy and capitalize on fiscal incentives (World Bank, 2024).

Further research should focus on the long-term effects of fiscal incentives, such as tax credits and grants, on the sustainability and growth of small-scale businesses. This area of study would analyze how these incentives influence business decisions over time, including the potential risks of dependency on government support. Research could also examine the conditions under which fiscal incentives lead to sustained business growth versus short-term gains, providing valuable insights for policymakers on optimizing the design and implementation of fiscal policies (IMF, 2023).

Exploring the development and impact of innovation ecosystems on small-scale businesses represents a key area for further research. This research could investigate how interconnected networks of businesses, research institutions, and government agencies contribute to fostering innovation and product development. Understanding the dynamics of these ecosystems, particularly in developing economies, would help identify the key factors that enable small businesses to thrive and innovate. Additionally, this research could provide guidance on how to build and sustain such ecosystems to maximize their impact on economic growth (UNDP, 2023).

A critical area for further research is the examination of the challenges associated with implementing fiscal policies in developing economies, particularly in relation to small-scale businesses. This research could explore the bureaucratic, administrative, and governance-related obstacles that hinder the effective deployment of fiscal measures. By identifying these challenges, the research could propose solutions for improving policy implementation, ensuring that fiscal incentives reach their intended beneficiaries and achieve the desired outcomes. This study would be particularly relevant for enhancing the efficiency and impact of government support programs in developing contexts (African Development Bank, 2024).

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APPENDIX

Table 1: Data on Fiscal Policy Measures and Small-Scale Business Growth (2016-2023):

| Year | Tax Incentives (Million UGX) | Subsidies & Grants (Million UGX) | Loan Guarantees (Million UGX) | Small-Scale Business Growth (%) |
|------|------------------------------|----------------------------------|-------------------------------|---------------------------------|
| 2016 | 500 | 400 | 300 | 4.50% |
| 2017 | 520 | 420 | 320 | 5.00% |
| 2018 | 530 | 450 | 350 | 5.20% |
| 2019 | 550 | 480 | 370 | 5.60% |
| 2020 | 600 | 600 | 500 | 3.00% |
| 2021 | 620 | 650 | 550 | 3.80% |
| 2022 | 700 | 700 | 580 | 4.20% |
| 2023 | 750 | 720 | 600 | 4.80% |

Table 4.1: Descriptive Statistics.

| Descriptive Statistics | | | | | | | | | |
|----------------------------------|----------------|----------------------|----------------------|-------------------|-----------------------------|-----------|------------|-----------|------------|
| | N Statistic | Minimum Statistic | Maximum Statistic | Mean Statistic | Std. Deviation Statistic | Skewness | | Kurtosis | |
| | | | | | | Statistic | Std. Error | Statistic | Std. Error |
| Tax Incentives (Million UGX) | 8 | 500 | 750 | 596.25 | 89.911 | .797 | .752 | -.606 | 1.481 |
| Subsidies & Grants (Million UGX) | 8 | 400 | 720 | 552.50 | 129.918 | .140 | .752 | -2.080 | 1.481 |
| Loan Guarantees (Million UGX) | 8 | 300 | 600 | 446.25 | 123.974 | .082 | .752 | -2.238 | 1.481 |
| Small-Scale Business Growth (%) | 8 | 3.00% | 5.60% | 4.5125% | 0.83399% | -.690 | .752 | .193 | 1.481 |
| Valid N (listwise) | 8 | | | | | | | | |

Table 4.2: Correlation analysis.

| Correlations | | | | | |
|----------------------------------|---------------------|---------------------------------|--|-------------------------------------|---------------------------------------|
| | | Tax Incentives (Million UGX) | Subsidies & Grants (Million UGX) | Loan Guarantees (Million UGX) | Small-Scale Business Growth (%) |
| Tax Incentives (Million UGX) | Pearson Correlation | 1 | .960** | .946** | -.272 |
| | Sig. (2-tailed) | | <.001 | <.001 | .515 |
| | N | 8 | 8 | 8 | 8 |
| Subsidies & Grants (Million UGX) | Pearson Correlation | .960** | 1 | .998** | -.463 |
| | Sig. (2-tailed) | <.001 | | <.001 | .248 |
| | N | 8 | 8 | 8 | 8 |
| Loan Guarantees (Million UGX) | Pearson Correlation | .946** | .998** | 1 | -.500 |
| | Sig. (2-tailed) | <.001 | <.001 | | .207 |
| | N | 8 | 8 | 8 | 8 |
| Small-Scale Business Growth (%) | Pearson Correlation | -.272 | -.463 | -.500 | 1 |
| | Sig. (2-tailed) | .515 | .248 | .207 | |
| | N | 8 | 8 | 8 | 8 |

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

