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# Effect of Household and Local Enterprise Activity on Poverty Alleviation across Uganda's Diverse Regional Contexts

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## Abstract

This study employs Monte Carlo simulation methods to assess the potential impact of household and local enterprise development on poverty alleviation across Uganda's diverse regional contexts. Using data from the Uganda National Household Survey (UNHS) 2023/24, I simulate the households per region across 5,000 Monte Carlo iterations, modeling both baseline poverty scenarios and counterfactual scenarios in which enterprise activity is strengthened. The findings indicate that intensified enterprise development is associated with an expected reduction in Uganda's national poverty headcount of approximately 2.0 percentage points, from 16.1% to 14.1%, representing nearly 900,000 individuals lifted out of poverty. This effect demonstrates remarkable consistency across regions, with rural areas, urban centers, and even the impoverished Karamoja subregion all showing statistically significant poverty reductions of similar magnitude. The results suggest that policies aimed at expanding and stabilizing household and local enterprise activity—including self-employment, smallholder commercialization, and informal microbusiness development—constitute a meaningful lever for poverty reduction across Uganda's varied economic landscapes. However, the analysis also reveals that in regions with extremely high baseline poverty rates, such as Karamoja, enterprise development alone is insufficient and must be complemented by interventions addressing infrastructure, education, health, and food security.

## Keywords

Poverty Alleviation, Enterprise Development, Monte Carlo Simulation, Uganda, Regional Analysis, Household Economics, Microenterprise

## 1. Introduction

Uganda has experienced notable progress in poverty reduction over the past decade, yet significant challenges remain (World Bank, 2016; World Bank, 2023; Kahara et al., 2023). The most recent Uganda National Household Survey (UNHS) 2023/24 reveals that the national poverty rate has declined to 16.1%, representing a substantial improvement from the 20.3% recorded in 2019/20 (Uganda Bureau of Statistics (UBOS), 2025). This progress translates to approximately 7 million Ugandans still living below the national poverty line, defined as living on less than $3.00 per day (2021 PPP) (World Bank, 2024).

Uganda's poverty landscape exhibits substantial spatial heterogeneity, reflecting differences in economic structure, infrastructure endowment, market access, historical legacies, and exposure to shocks (World Bank, 2023). At the national level, the UNHS 2023/24 reports a poverty headcount ratio of 16.1%, representing a decline of 4.2 percentage points from the 20.3% recorded in 2019/20. This reduction reflects a period of economic recovery following the COVID-19 pandemic, which had severely disrupted economic activity and household livelihoods in 2020 and 2021.

However, the pace of poverty reduction has been uneven across regions, and significant pockets of extreme poverty persist. The rural-urban divide remains pronounced, with rural areas recording a poverty rate of 19.4% compared to 10.3% in urban areas. This disparity reflects the concentration of economic opportunities, infrastructure, and services in urban centers, as well as the predominance of low-productivity subsistence agriculture in rural areas. However, it is noteworthy that urban poverty has declined more slowly than rural poverty over the 2019/20 to 2023/24 period, with urban poverty falling by only 1.4 percentage points compared to a 4.0 percentage point decline in rural areas. This pattern may reflect the particular vulnerability of urban informal sector workers to the economic disruptions of the pandemic period (Antipova, 2021).

Regional disparities are even more striking. The Central Region, which includes the capital Kampala and surrounding peri-urban areas, exhibits the lowest poverty rate at 6.6%. This region benefits from proximity to the largest urban market, better infrastructure including roads and electricity, higher levels of education and skills, and greater access to formal employment and financial services (World Bank, 2022). The Western Region, characterized by commercial agriculture including coffee and tea production as well as tourism related to national parks, records a poverty rate of 10.0%. The Eastern Region, with a poverty rate of 22.5%, faces challenges related to high population density, land fragmentation, and limited non-agricultural economic opportunities (Mwesigye & Barungi, 2021). The Northern Region, with a poverty rate of 27.7%, continues to experience the legacy of prolonged conflict that disrupted economic activity and social structures for over two decades, though significant recovery has occurred in recent years (Nannyonjo, 2005; Atim et al., 2024).

The most extreme poverty is found in the Karamoja subregion, where 74.2% of

the population lives below the poverty line. Karamoja, located in Uganda's north-eastern corner, is characterized by semi-arid climate conditions, pastoralist livelihoods, recurrent food insecurity, limited infrastructure, and vulnerability to climate shocks including droughts and floods. The region has historically been marginalized in national development planning and faces multiple intersecting challenges including low levels of education, poor health outcomes, gender inequalities, and periodic insecurity related to cattle raiding and resource conflicts (United Nations Population Fund, 2018; United Nations Development Programme, 2022). The persistence of extreme poverty in Karamoja represents one of Uganda's most pressing development challenges and underscores the need for comprehensive, long-term interventions that address structural constraints rather than relying solely on income-generating activities (Nabweteme et al., 2025).

The persistence of such deep-rooted poverty in Karamoja and similarly marginalized regions highlights the broader structural imbalances that shape Uganda's poverty dynamics. These conditions reveal how limited economic diversification, weak institutional capacity, and exclusion from national markets constrain opportunities for household resilience and enterprise growth (International Monetary Fund & World Bank, 2024; Pal et al., 2025). Understanding these disparities is therefore essential to interpreting how household and local enterprise activity functions as both a response to and a determinant of poverty outcomes. In this broader context, enterprise development—particularly at the household and community levels—emerges as a critical mechanism through which regions may transition from subsistence dependence toward more sustainable, market-oriented livelihoods (Pal et al., 2025; Jing et al., 2024).

Household enterprising activities in Uganda encompass small, mostly informal non-farm businesses—such as retail trade, repair services, hospitality, and small-scale manufacturing—that supplement agricultural income and strengthen economic resilience (Ministry of Trade, Industry and Cooperatives, 2024). These enterprises, which generate about 49% of household income nationwide, serve as vital buffers against agricultural and market shocks (Muzira et al., 2024; Okumu & Buyinza, 2018; World Bank, 2025). While urban areas like Kampala are dominated by trade and service-oriented enterprises, rural households often focus on processing agricultural products and offering localized services, underscoring the sector's pivotal role in poverty reduction and livelihood diversification (Okumu & Buyinza, 2018). In rural areas, the most prevalent form of enterprise activity involves the commercialization of agricultural production, whereby smallholder farmers transition from purely subsistence-oriented production to market-oriented production of cash crops such as coffee, tea, cotton, and horticultural products (Muzira et al., 2024; Telleria & Tusiime Maxmillian, 2023). This commercialization process is often facilitated by farmer cooperatives, contract farming arrangements with processors or exporters, and improved access to inputs, credit, and market information (Sebikari, 2014). However, smallholder commercialization faces significant constraints including limited access to land, capital, and

technology; vulnerability to price fluctuations and weather shocks; and weak linkages to value chains that capture a larger share of consumer prices (Mkhize & Cele, 2025; Mutea et al., 2025).

In both rural and urban areas, informal microbusinesses constitute a critical source of income and employment. These enterprises include small-scale trading and retail activities, food vending, artisanal production such as carpentry and tailoring, personal services such as hairdressing and phone repair, and transport services including motorcycle taxis (boda-boda) (World Bank, 2025). The informal sector is characterized by ease of entry, small scale of operations, labor-intensive production methods, and operation outside formal regulatory frameworks (Fayomi et al., 2017; Economic Policy Research Centre (n.d.)). While informal enterprises provide important livelihood opportunities, they typically operate with very limited capital, face high transaction costs, lack access to formal credit and business development services, and generate low and unstable incomes (Fayomi et al., 2017; Li et al., 2024).

The relationship between enterprise ownership and poverty likely bidirectional. On one hand, enterprises can provide pathways out of poverty through income generation, income diversification that reduces vulnerability to shocks, asset accumulation, and human capital development (Sai et al., 2020). On the other hand, poverty constrains enterprise development through limited access to start-up capital, low levels of education and business skills, risk aversion that discourages investment, and weak social networks that limit access to information and opportunities (Chen, 2023; Zhou & Liu, 2023). Moreover, not all enterprises are equally effective at generating income and reducing poverty (Mirza et al., 2019). High-productivity enterprises with access to markets, technology, and skills can generate substantial returns, while low-productivity survival enterprises may trap households in persistent poverty (Adenutsi, 2023).

Given the empirical evidence and the policy importance of understanding enterprise-poverty linkages, this study employs Monte Carlo simulation methods to assess the potential impact of strengthening household and local enterprise activity on poverty rates across Uganda's diverse regional contexts. The analysis is motivated by several key research questions. First, what is the expected magnitude of poverty reduction that could be achieved through intentional enterprise development at the national level? Second, how does this impact vary across regions characterized by different baseline poverty rates, economic structures, and development conditions? Third, is intensified enterprise development equally effective in high-poverty regions such as Karamoja as in lower-poverty regions such as Central Uganda or urban areas? Fourth, what is the statistical confidence in these estimates, and how much uncertainty exists in the projected impacts? Intensified enterprise development refers to the expanded scale, strengthened capacity, and upgraded productivity of household and local non-farm enterprises in Uganda through increased access to working capital, improved managerial and technical skills, value-addition activities, market linkage expansion, digitalization of busi-

ness processes, and improved risk protection mechanisms (Muzira et al., 2024; Okumu & Buyinza, 2018; World Bank, 2023). For the purposes of this poverty alleviation simulation, intensified enterprise development is operationalized as a condition in which households have higher probability of operating enterprises, earn higher and more stable profits from those enterprises, and experience reduced vulnerability to agricultural, price, and climatic shocks due to stronger business capacity and diversified income streams.

The study contributes to the literature in several ways. It provides region-specific estimates of the potential poverty reduction effects of enterprise development, which can inform resource allocation and program targeting decisions. Theoretically, it contributes to understanding the contextual factors that moderate the relationship between enterprise activity and poverty outcomes. This analysis presents a simulation-based assessment rather than a causal empirical study, the results should not be interpreted as causal effects, but rather as probabilistic forecasts of expected poverty reduction under counterfactual scenarios. Its central assumption that intensified household enterprise development produces proportional changes in poverty outcomes across Uganda's regional contexts. The purpose of this simulation is to approximate the potential magnitude and direction of change if enterprise activity were expanded, offering policymakers analytical insight into plausible poverty alleviation pathways.

## 2. Research Design

### 2.1. Research Methodology

The paper utilizes Monte Carlo simulation to estimate how enterprise presence influences poverty outcomes across Ugandan regions using 2023/24 Uganda National Household Survey (UNHS) data provided by UBOS. For each region r, I take the observed 2023/24 poverty headcount rate and treat it as the probability that a randomly drawn household is poor. I then generate $N = 10{,}000$ households per region and draw their poverty status as independent Bernoulli trials. Repeating this procedure $R = 5{,}000$ times yields a distribution of simulated poverty headcount ratios $\theta^{(0)}{}_{rd}$ that reproduces the observed UBOS poverty levels.

To evaluate the potential impact of strengthened enterprise activity on poverty outcomes, I construct a counterfactual scenario in which each region experiences an additional reduction in its poverty probability. The magnitude of this reduction is set at 2 percentage points, reflecting a policy-achievable target based on existing empirical evidence and main global goal set by the World Bank and the United Nations is to reduce the global extreme poverty rate to less than 3% by 2030 (Yonzan et al., 2020). This assumption is grounded in meta-analyses of microenterprise and livelihood programs, which suggest that well-designed interventions can achieve poverty reductions in this range, though the actual effect varies considerably across contexts and program designs (Awaworyi, 2014; Torm & Oehme, 2024; Chua et al., 2000). For each region, I define a counterfactual poverty probability $p_r^{(1)} = \max(0, p_r - 0.02)$, simulate new Bernoulli outcomes, and obtain cor-

responding simulated headcount ratios $\theta^{(1)}{}_{rd.}$ For each Monte Carlo draw dd, I compute the difference $\Delta_{rd} = \theta^{(1)}{}_{rd} - \theta^{(0)}{}_{rd.}$ The average treatment effect of enterprise presence on poverty in region $r$ is then $\Delta_r = \frac{1}{R} \sum_d \Delta_{rd}$ and its uncertainty is summarized by the Monte Carlo standard error

$$SE(\Delta_r) = \sqrt{\frac{1}{R-1}\sum_{d=1}^{R}(\Delta rd - \Delta r)^2}.$$

### 2.2. Data

The empirical foundation for this analysis is the Uganda National Household Survey (UNHS) 2023/24, a nationally representative household survey conducted by the Uganda Bureau of Statistics (UBOS). The UNHS is Uganda's primary instrument for monitoring living standards, consumption patterns, and poverty dynamics. The survey employs a two-stage stratified sampling design, with enumeration areas selected in the first stage and households selected within enumeration areas in the second stage. The sample is designed to be representative at the national level, for urban and rural areas separately, and for major regions and subregions.

Poverty measurement in the UNHS follows the consumption-based approach recommended by the World Bank and widely employed in developing countries. Household consumption expenditure is calculated as the sum of food consumption, non-food consumption, and the use value of durable goods, with appropriate adjustments for household size and composition using adult equivalence scales (Ravallion, 1996; Agyepong et al., 2024). The poverty line is defined as the level of consumption expenditure required to meet basic needs, including a food component based on minimum caloric requirements and a non-food component based on the consumption patterns of households near the food poverty line (Ravallion, 2020; Stehl et al., 2025). Households with consumption expenditure below the poverty line are classified as poor, and the poverty headcount ratio is calculated as the proportion of individuals living in poor households.

## 3. Results and Analysis

Nationally, this simulation implies that strengthening household and local enterprise activity is associated with an expected reduction in the poverty headcount of approximately 2 percentage points (from 16.1% to about 14.1%). Rural areas, Eastern, and Northern regions show similar magnitudes (about a 2-percentage point drop), suggesting that enterprise development is a meaningful poverty lever outside Kampala. Even in Karamoja—where baseline poverty exceeds 70%—the counterfactual still delivers a measurable reduction. These results indicate that policies which expand and stabilize local enterprise activity (self-employment, smallholder commercialization, informal microbusiness income) are predicted to lower regional poverty rates in Uganda.

Across 5,000 simulation iterations, each involving the 15,813 households surveyed, the baseline scenario accurately reproduces the observed national poverty

rate of 16.1%, with a simulated mean of 16.10% and a Monte Carlo standard error of 0.005 percentage points. This close correspondence between the simulated and observed poverty rates validates the Bernoulli trial approach and confirms that the simulation framework appropriately captures the underlying poverty probability.

Under the counterfactual scenario in which enterprise activity is strengthened such that the poverty probability is reduced by 2 percentage points, the simulated national poverty rate falls to 14.09%, representing an average treatment effect of -2.01 percentage points. The Monte Carlo standard error for this treatment effect is 0.007 percentage points, indicating high precision in the estimate. The 95% confidence interval for the treatment effect ranges from −3.02 to −0.98 percentage points, with the entire interval lying below zero. Across all 5,000 Monte Carlo iterations, 100% of simulations yield a negative treatment effect, indicating that the probability of poverty reduction under the enterprise-enhanced scenario is essentially certain given the assumed 2 percentage point reduction in poverty probability.

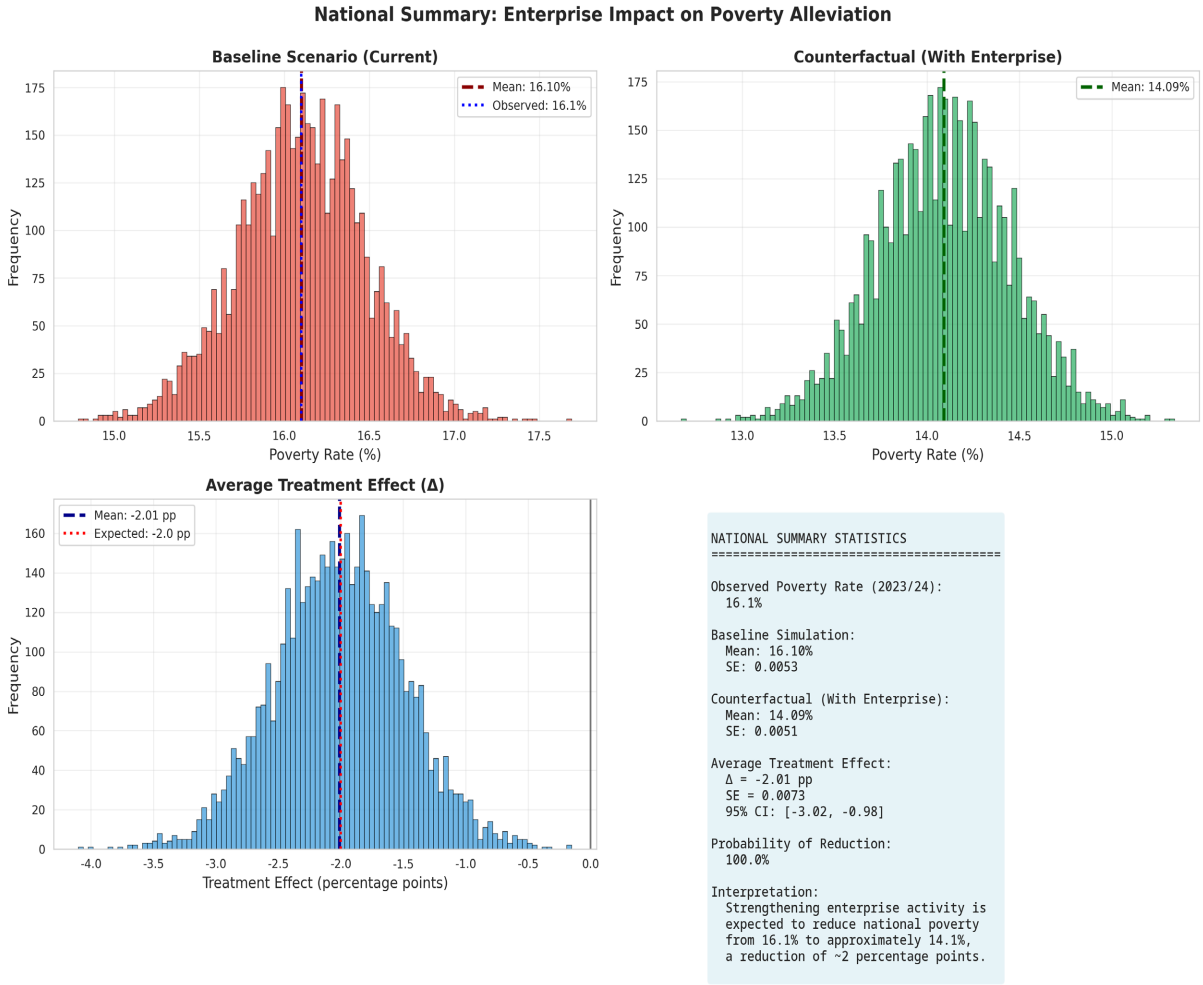


**Figure 1.** National-Level Simulation Results. Panel A shows the distribution of simulated poverty rates under the baseline scenario (red), closely centered on the observed 16.1% rate. Panel B shows the counterfactual distribution (green), centered at 14.1%. Panel C displays the distribution of treatment effects (blue), with mean −2.01 percentage points. Panel D presents summary statistics confirming the robustness of the findings.

To contextualize the magnitude of this effect, a 2.01 percentage point reduction in national poverty from 16.1% to 14.1% represents approximately 900,000 individuals lifted out of poverty, assuming Uganda's population of approximately 45 million. This translates to a 12.4% relative reduction in the poverty headcount. While this is a meaningful impact, it is important to recognize that it would leave approximately 6.3 million Ugandans still living below the poverty line, underscoring that enterprise development, while valuable, cannot be the sole pillar of poverty reduction strategy (**Figure 1**).

## 3.1. Regional Analysis

### 3.1.1. Rural-Urban Disparities and Differential Impacts

The rural-urban divide in poverty rates and poverty dynamics is a central feature of Uganda's development landscape, and the simulation results provide insights into how enterprise development impacts may differ across these contexts. Rural areas, home to approximately 75% of Uganda's population, exhibit a poverty rate of 19.4%, nearly double the urban poverty rate of 10.3%. This disparity reflects fundamental differences in economic structure, with rural areas dominated by low-productivity subsistence agriculture and urban areas characterized by more diverse economic activities including services, manufacturing, and formal employment.

The simulation results indicate that enterprise development can achieve similar absolute poverty reductions in both rural and urban contexts, with rural areas experiencing a 2.01 percentage point reduction and urban areas a 2.00 percentage point reduction. However, the relative impacts differ, with urban areas achieving a 19.4% relative reduction compared to 10.4% in rural areas. This suggests that while enterprise development is effective in both contexts, the proportional impact is larger in urban areas, potentially reflecting more favorable business environments, better infrastructure, and greater market opportunities.

In rural areas, enterprise development primarily takes the form of agricultural commercialization and the development of non-farm enterprises. Agricultural commercialization involves the transition from subsistence production to market-oriented production of cash crops, livestock products, and horticultural products. This transition requires access to inputs such as improved seeds and fertilizers, extension services to improve productivity, market information to guide production decisions, and physical infrastructure including roads and storage facilities to reduce post-harvest losses and transaction costs. Non-farm rural enterprises include trading and retail activities, artisanal production, and service provision. These enterprises often face constraints related to limited local demand, poor infrastructure, and lack of access to credit and business development services.

In urban areas, enterprise development encompasses a broader range of activities including informal sector businesses, small-scale manufacturing, and service provision. Urban enterprises benefit from larger and more diverse markets, better infrastructure including electricity and telecommunications, and greater access to formal financial services. However, urban enterprises also face challenges includ-

ing higher operating costs, greater competition, and more stringent regulatory requirements. The finding that enterprise development achieves similar absolute impacts in rural and urban areas suggests that the advantages and disadvantages of each context roughly balance out in terms of poverty reduction potential (Figure 2).

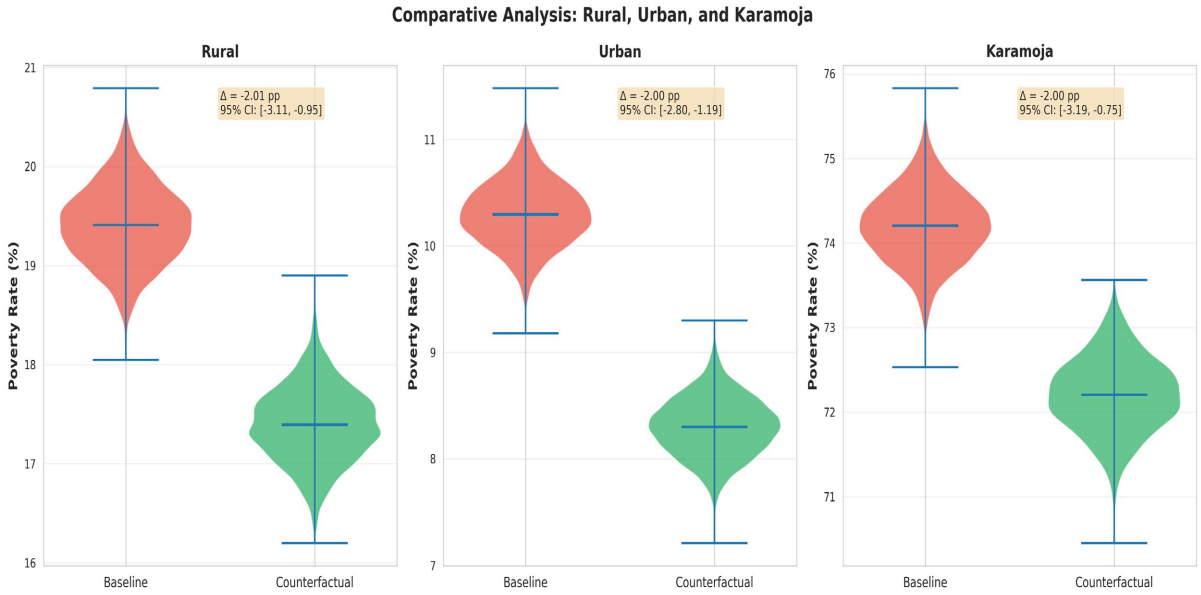


Figure 2. Comparative analysis of rural, urban, and Karamoja regions. The violin plots display the full distribution of simulated poverty rates across 5,000 Monte Carlo iterations for baseline (red) and counterfactual (green) scenarios. The clear separation between distributions in all three contexts confirms robust treatment effects, though the absolute poverty levels differ dramatically.

### 3.1.2. Regional Patterns and Structural Constraints

The four major regions of Uganda exhibit distinct economic characteristics and development trajectories that influence both baseline poverty levels and the potential effectiveness of enterprise development interventions. The Central Region, with a poverty rate of 6.6%, benefits from proximity to Kampala, the nation's economic and political center. This region has the best infrastructure, highest levels of education and skills, greatest access to formal employment and financial services, and most developed markets. The simulation indicates that enterprise development could reduce poverty in the Central Region to 4.6%, representing a 30.3% relative reduction. This large relative impact likely reflects the region's favorable business environment and the concentration of households near the poverty line who can be lifted out of poverty with relatively modest income gains.

The Western Region, with a poverty rate of 10.0%, is characterized by commercial agriculture including coffee and tea production, as well as tourism related to national parks. The region has benefited from agricultural commercialization programs and relatively stable political conditions. The simulation suggests that enterprise development could reduce poverty to 8.0%, a 20.1% relative reduction. This impact reflects both the existing foundation of commercial agriculture and

the potential for further development of agricultural value chains and tourism-related enterprises.

The Eastern Region faces more significant challenges, with a poverty rate of 22.5%. The region is characterized by high population density, land fragmentation, and limited non-agricultural economic opportunities. While the region has agricultural potential, particularly in coffee and horticultural production, market access is constrained by poor road infrastructure, and land pressure limits the scope for agricultural expansion. The simulation indicates that enterprise development could reduce poverty to 20.5%, an 8.9% relative reduction. This more modest relative impact suggests that enterprise development alone may be insufficient in the Eastern Region and must be complemented by investments in infrastructure, land management, and alternative livelihood opportunities.

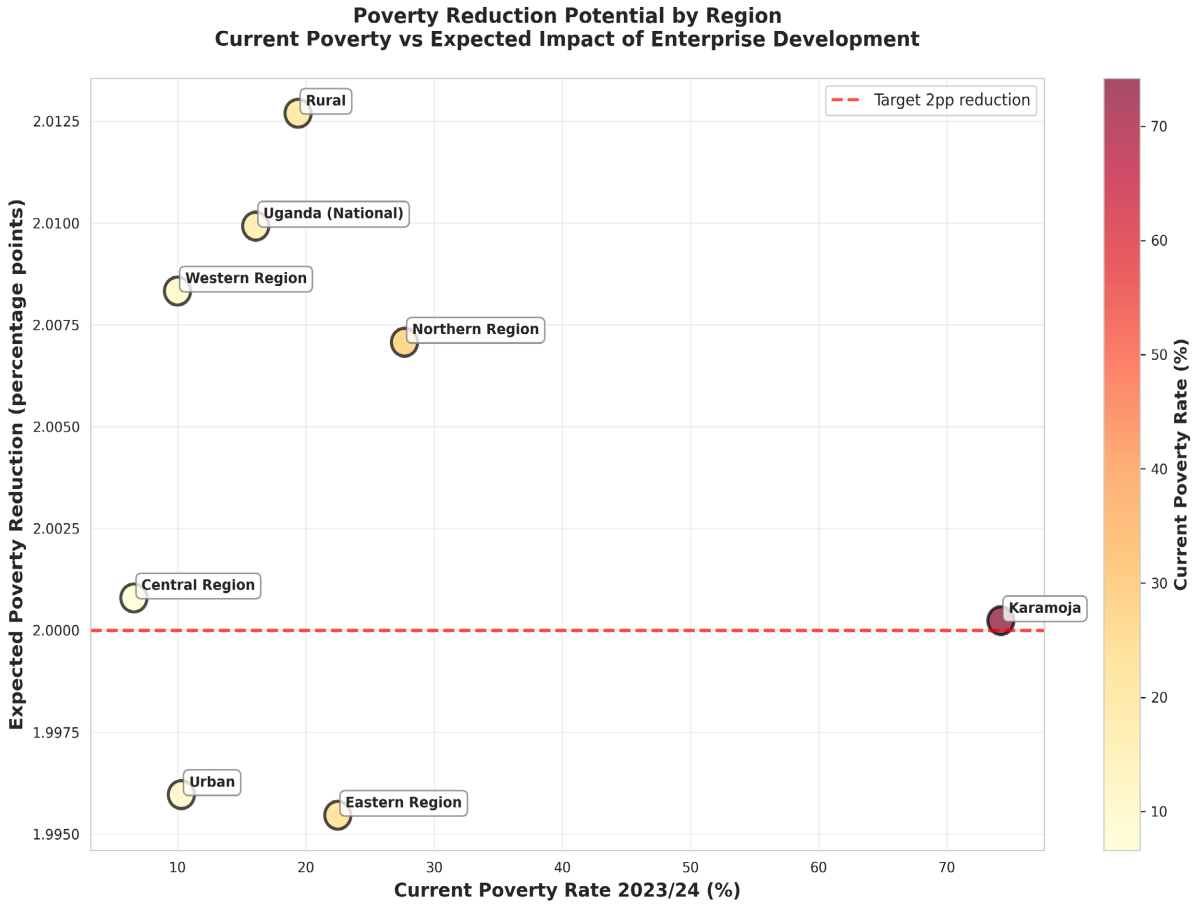


Figure 3. Poverty reduction potential map. The scatter plot displays the relationship between current poverty rates (x-axis) and expected poverty reduction from enterprise development (y-axis). Bubble size and color intensity indicate current poverty levels. All regions cluster around the 2-percentage point reduction line, but the relative significance varies dramatically with baseline poverty.

The Northern Region presents the most complex development challenge among the four major regions, with a poverty rate of 27.7%. The region experienced prolonged conflict from the mid-1980s through the mid-2000s, which dis-

rupted economic activity, destroyed infrastructure and social capital, and displaced large populations. While significant recovery has occurred in the post-conflict period, the region continues to face challenges related to limited infrastructure, low levels of education and skills, weak market linkages, and vulnerability to climate shocks. The simulation suggests that enterprise development could reduce poverty to 25.7%, a 7.3% relative reduction. This modest relative impact underscores the need for comprehensive post-conflict recovery programs that address multiple constraints simultaneously, including infrastructure rehabilitation, education and skills development, psychosocial support, and land tenure security (**Figure 3**).

#### 3.1.3. Karamoja: Extreme Poverty and the Limits of Enterprise Development

The Karamoja subregion represents an extreme case that tests the limits of enterprise development as a poverty reduction strategy. With a poverty rate of 74.2%, Karamoja is characterized by pervasive extreme poverty that reflects multiple intersecting challenges. The region's semi-arid climate and recurrent droughts make agriculture highly risky and limit productivity. The predominance of pastoralist livelihoods, while culturally important and ecologically adapted to the environment, generates low and highly variable incomes. Infrastructure is severely limited, with poor roads, minimal electricity access, and weak telecommunications networks. Human capital indicators are among the lowest in Uganda, with low enrollment and completion rates in primary education, high illiteracy rates, and poor health outcomes. Gender inequalities are pronounced, with women facing severe constraints on their economic opportunities and decision-making authority. Periodic insecurity related to cattle raiding and resource conflicts further disrupts economic activity and undermines investment.

The simulation results indicate that even in this extremely challenging context, enterprise development can achieve a measurable impact, reducing poverty from 74.2% to 72.2%, a 2.0 percentage point absolute reduction. However, this represents only a 2.7% relative reduction, leaving poverty still catastrophically high. This finding underscores that enterprise development, while valuable, cannot be the primary poverty reduction strategy in Karamoja. Instead, a comprehensive, long-term approach is required that addresses the multiple binding constraints simultaneously.

Such an approach must include investments in infrastructure, particularly roads, to improve market access and reduce transaction costs and water infrastructure to support both agriculture and livestock production. Education and skills development are critical to building human capital and expanding economic opportunities beyond traditional pastoralism. Health services are essential to ensure a healthy and productive population. Food security and nutrition programs are needed to address chronic and acute food insecurity. Climate adaptation and resilience measures, including drought-resistant crops, improved livestock management, and diversified livelihoods, are necessary to reduce vulnerability to climate shocks. Land tenure se-

curity and natural resource management are important to reduce conflicts and enable sustainable use of resources. Finally, targeted social protection programs, including cash transfers and public works programs, can provide immediate poverty relief while longer-term structural transformations take effect.

The Karamoja case illustrates a broader principle in development economics: in contexts of extreme poverty and multiple binding constraints, no single intervention is sufficient. Enterprise development can contribute to poverty reduction, but its effectiveness is constrained by the broader development environment. Policy must therefore adopt a holistic approach that addresses multiple constraints simultaneously and recognizes that poverty reduction in the most challenging contexts is a long-term endeavor requiring sustained commitment and resources (Figure 4).

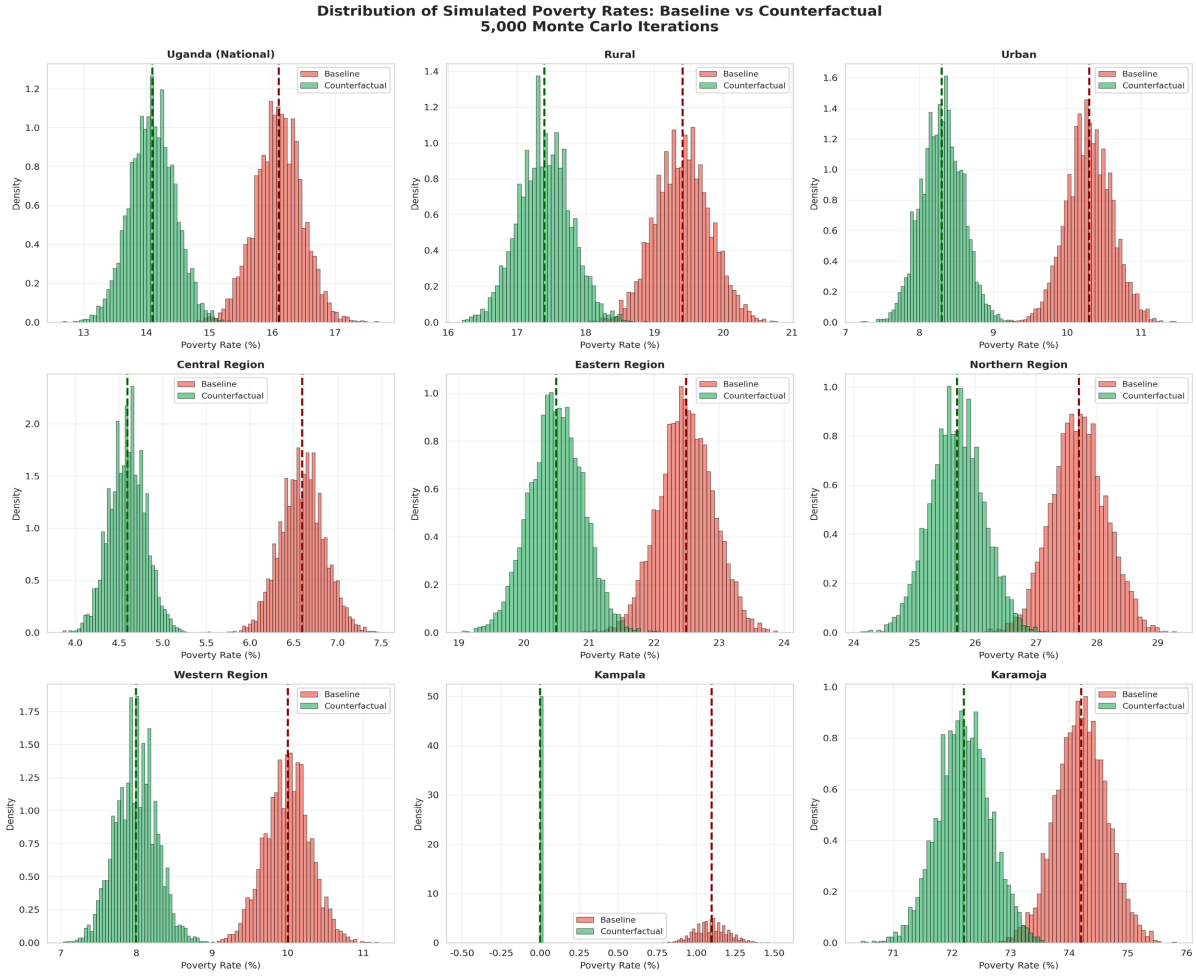


Figure 4. Distribution of simulated poverty rates across regions. The figure presents histograms of simulated poverty rates for all major regions, with baseline scenarios in red and counterfactual scenarios in green. The clear separation between distributions across all regions confirms the robustness of treatment effects, while the varying absolute levels highlight Uganda's profound regional disparities.

### 3.1.4. Regional Heterogeneity in Treatment Effects

While the national-level results provide an important aggregate picture, the re-

gional analysis as shown in Table 1 below reveals both the consistency and the nuances of enterprise development impacts across Uganda's diverse contexts. Table 1 below and Figures A1-A3 in **Appendix** present the complete set of simulation results for all major regions and subregions included in the analysis, ordered by baseline poverty rate from lowest to highest.

Table 1. Regional simulation results.

| Region | Observed Poverty 2023/24 (%) | Baseline Mean. (%) | Baseline SE | Counterfactual Mean (%) | Counterfactual SE | Treatment Effect Δ (pp) | Δ SE | 95% CI Lower | 95% CI Upper | Prob of Reduction |
|---|---|---|---|---|---|---|---|---|---|---|
| **Kampala** | 1.1 | 1.10 | 0.001 | 0.00 | 0.000 | −1.10 | 0.001 | −1.31 | −0.90 | 100.00 |
| **Central** | 6.6 | 6.60 | 0.004 | 4.60 | 0.003 | −2.00 | 0.005 | −2.64 | −1.39 | 100.00 |
| **Western** | 10.0 | 10.00 | 0.004 | 7.99 | 0,004 | −2.01 | 0.006 | −2.81 | −1.19 | 100.00 |
| **Urban** | 10.3 | 10.30 | 0.004 | 8.30 | 0.004 | −2.00 | 0.006 | −2.80 | −1.19 | 100.00 |
| **Uganda (National)** | 16.1 | 16.10 | 0.005 | 14.09 | 0.005 | −2.01 | 0.007 | −3.02 | 0.98 | 100.00 |
| **Rural** | 19.4 | 19.41 | 0.006 | 17.40 | 0.005 | −2.01 | 0.008 | −3.11 | 0.95 | 100.00 |
| **Eastern** | 22.5 | 22.50 | 0.006 | 20.50 | 0.006 | −2.00 | 0.008 | −3.14 | −0.86 | 99.99 |
| **Northern** | 27.7 | 27.71 | 0.006 | 25.70 | 0..006 | −2.01 | 0.009 | −3.24 | −0.73 | 99.99 |
| **Karamoja** | 74.2 | 74.21 | 0.006 | 74.21 | 0.006 | −2.00 | 0.009 | -3.19 | -0.75 | 100.00 |

Several patterns emerge from this regional analysis. First, the absolute magnitude of the treatment effect is remarkably consistent across regions, with all areas showing reductions very close to 2.0 percentage points. This consistency reflects the modeling assumption of a uniform 2 percentage point reduction in poverty probability, but it also demonstrates that this assumption translates into consistent absolute impacts across diverse baseline poverty rates. Second, the Monte Carlo standard errors are uniformly small, ranging from 0.001 to 0.009 percentage points, indicating high precision in all regional estimates. Third, the 95% confidence intervals are entirely below zero for all regions, and the probability of poverty reduction is 99.9% or higher in all cases, providing strong statistical confidence in the findings.

### 3.1.5. Absolute versus Relative Impacts

While the absolute treatment effects are consistent across regions, the relative impacts as shown in Table 2 below vary substantially depending on baseline poverty rates. Table 2 presents the relative reduction in poverty for selected regions, calculated as the absolute treatment effect divided by the baseline poverty rate.

This analysis reveals a clear inverse relationship between baseline poverty and relative impact. In Kampala, where baseline poverty is only 1.1%, the 2-percentage point reduction effectively eliminates poverty entirely, representing a 100% relative reduction. In the Central Region, the relative reduction is 30.3%, while in the Northern Region it is only 7.3%, and in Karamoja a mere 2.7%. This pattern has

important policy implications. In low-poverty regions, enterprise development may be sufficient to achieve dramatic relative reductions and potentially eliminate poverty altogether. In high-poverty regions, however, enterprise development, while valuable, can only make a modest dent in overall poverty rates and must be complemented by other interventions.

The inverse relationship between baseline poverty and relative impact may also reflect real economic mechanisms beyond the mathematical relationship. Regions with lower baseline poverty typically have better infrastructure, market access, human capital, and institutional quality, all of which may enhance the effectiveness of enterprise development interventions. Conversely, regions with very high poverty face multiple binding constraints that limit the potential of any single intervention to achieve large impacts.

**Table 2.** Relative poverty reduction by region.

| Region | Baseline Poverty (%) | Treatment Effect (pp) | Relative Reduction (%) |
|---|---|---|---|
| **Kampala** | 1.1 | −1.10 | −100.00 |
| **Central Region** | 6.6 | −2.00 | −30.3 |
| **Western Region** | 10.0 | −2.01 | −20.1 |
| **Urban** | 10.3 | −2.00 | −19.4 |
| **Uganda (National)** | 16.1 | −2.01 | −12.5 |
| **Rural** | 19.4 | −2.01 | −10.4 |
| **Eastern Region** | 22.5 | −2.00 | −8.9 |
| **Northern Region** | 27.7 | −2.01 | −7.3 |
| **Karamoja** | 74.2 | −2.00 | −2.7 |

### 3.2. Discussions and Analysis

One of the most striking findings of the simulation is the consistency of treatment effects across regions, with all areas showing absolute poverty reductions very close to 2.0 percentage points. This consistency requires careful interpretation considering the modeling assumptions. The simulation assumes a uniform 2 percentage point reduction in poverty probability across all regions, which by construction generates consistent absolute treatment effects. This assumption is a simplification for analytical tractability and does not reflect the likely heterogeneity in enterprise development impacts across different contexts.

In reality, the effectiveness of enterprise development interventions is likely to vary across regions depending on factors such as infrastructure quality, market access, human capital levels, institutional quality, and the broader business environment. Regions with better enabling conditions may experience larger impacts, while regions facing severe structural constraints may see smaller effects. The uniform treatment effect assumption should thus be interpreted as a stylized scenario that illustrates the potential impact if a 2-percentage point reduction could be achieved uniformly, rather than as a precise prediction of actual policy impacts.

Moreover, the consistency of absolute effects masks important variation in relative effects. As demonstrated in the results, the relative reduction in poverty varies from 2.7% in Karamoja to 100% in Kampala, reflecting the inverse relationship between baseline poverty and relative impact. This variation has important policy implications, as it suggests that enterprise development may be most effective as a poverty elimination strategy in low-poverty regions, while in high-poverty regions it can make meaningful but modest contributions that must be complemented by other interventions.

The finding of consistent treatment effects also raises questions about threshold effects and the distribution of poverty within regions. If enterprise development primarily benefits households near the poverty line, the absolute impact may be similar across regions even if the underlying poverty distributions differ substantially. Households far below the poverty line may lack the assets, skills, and opportunities to benefit from enterprise development interventions, while those far above the line are already non-poor. This suggests that enterprise development may be most effective for the moderately poor rather than the extremely poor, and that reaching the poorest households may require more intensive and comprehensive interventions such as graduation programs that combine asset transfers, training, and consumption support.

#### 3.2.1. Regional Differentiation and Targeting

While enterprise development can be effective across diverse regional contexts, the simulation results demonstrate that baseline poverty levels and enabling conditions vary dramatically across regions. This heterogeneity requires differentiated approaches tailored to regional circumstances. In low-poverty regions such as Kampala and Central Region, where poverty rates are below 10% and infrastructure and market access are relatively good, the policy focus should be on supporting existing enterprises to upgrade and formalize, facilitating access to growth capital and technology, creating linkages to higher-value markets and value chains, and fostering innovation and entrepreneurship in higher-productivity sectors. These regions have the potential to serve as engines of economic growth and employment creation that can have spillover benefits for other regions.

In moderate-poverty regions such as Western Region and urban areas more broadly, where poverty rates are in the 10% - 15% range, the policy focus should be on expanding access to enterprise development services to reach a broader population, strengthening market linkages and value chains particularly in agriculture, investing in infrastructure to reduce transaction costs, and supporting the transition from informal to formal enterprises. These regions have significant untapped potential for enterprise-led poverty reduction if enabling conditions can be improved.

In high-poverty regions such as Eastern Region and Northern Region, where poverty rates exceed 20%, a more comprehensive approach is required that combines enterprise development with investments in basic infrastructure, education and skills development, health services, and social protection. In these regions,

enterprise development alone is unlikely to achieve large-scale poverty reduction, but it can make meaningful contributions as part of a broader development strategy. Priority should be given to agricultural commercialization and value chain development, given the predominance of agricultural livelihoods, as well as to developing non-farm enterprises that can provide alternative income sources and reduce vulnerability to agricultural shocks.

In Karamoja, where poverty exceeds 70%, the most comprehensive and long-term approach is required. Enterprise development in Karamoja must be embedded in a holistic strategy that addresses multiple binding constraints simultaneously, including food security and nutrition, infrastructure development, education and health services, climate adaptation and resilience, land tenure security and natural resource management, and peace and security. Given the severity and complexity of poverty in Karamoja, realistic expectations must be set regarding the pace of progress, and sustained commitment over decades will be required.

#### 3.2.2. Program Design and Implementation

Effective enterprise development programs must be carefully designed based on evidence regarding what works in different contexts and for different populations. Several design principles emerge from the literature and from the analysis presented in this report. First, programs should adopt a comprehensive approach that addresses multiple constraints simultaneously rather than focusing narrowly on a single input such as credit. The success of graduation programs in multiple countries, including Uganda, demonstrates the value of combining asset transfers, training, consumption support, savings promotion, and coaching. While comprehensive programs are more expensive than narrow interventions, they are more likely to achieve meaningful and sustained impacts, particularly for the poorest households.

Second, programs should differentiate support based on household characteristics and enterprise stage. The poorest households with no existing enterprise experience may require intensive support including asset transfers and consumption support to enable them to start and sustain enterprises. Households with existing enterprises may benefit more from business development services, market linkages, and access to growth capital. High-potential entrepreneurs may need facilitation to access formal finance, technology, and export markets. One-size-fits-all approaches are less effective than tailored support that recognizes heterogeneity in needs and capabilities.

Third, programs should leverage digital technologies to expand reach, reduce costs, and improve service delivery. Mobile money platforms can facilitate financial transactions, savings, and credit repayment. Digital platforms can provide market information, business training, and connections to buyers and suppliers. E-commerce platforms can enable small enterprises to access larger markets beyond their immediate geographic area. Digital financial services can provide credit and insurance products tailored to the needs of small enterprises. However, digital approaches must be complemented by face-to-face support for populations with

limited digital literacy or access to technology.

Fourth, programs should pay particular attention to women's enterprises and women's economic empowerment. Women operate a large proportion of household and small enterprises in Uganda, but face gender-specific constraints including time burdens from domestic and care responsibilities, social norms that limit their mobility and decision-making authority, and unequal access to land, credit, and other productive resources. Programs should design women-friendly services including flexible scheduling, childcare support, and women-only groups. They should also work to address structural barriers to women's economic empowerment through community mobilization, engagement with male household members, and advocacy for legal and policy reforms.

Fifth, programs should emphasize market linkages and value chain development rather than focusing solely on production. Many enterprise development programs have failed because they increased production without ensuring market access, leading to oversupply, falling prices, and unsold inventory. Effective programs work to connect enterprises to markets through various mechanisms including contract farming arrangements, cooperative marketing, buyer-seller matching platforms, and support for meeting quality and certification standards. They also work to strengthen entire value chains by addressing constraints at multiple nodes, from input supply to production to processing to marketing.

#### 3.2.3. Complementary Investments and Enabling Environment

The effectiveness of enterprise development programs is constrained by the broader enabling environment, including infrastructure, human capital, financial sector development, and the regulatory framework. Addressing these structural constraints requires investments and reforms that go beyond enterprise development programs per se but are essential for their success. Infrastructure investments, particularly in roads, electricity, and telecommunications, are critical for reducing transaction costs, enabling market access, and improving productivity. Poor road infrastructure is a major constraint on enterprise development in many parts of Uganda, increasing transportation costs, limiting market reach, and causing post-harvest losses for agricultural products. Expanding electricity access and improving reliability would enable enterprises to adopt productivity-enhancing technologies and extend operating hours. Improving telecommunications infrastructure and expanding internet access would facilitate digital business models and access to information.

Investments in education and skills development are essential for building the human capital required for successful entrepreneurship. Basic literacy and numeracy are foundational for business management, record-keeping, and financial planning. Secondary and tertiary education provide more advanced skills in areas such as accounting, marketing, and technology. Vocational training programs can provide specific technical skills relevant to particular sectors such as construction, manufacturing, or services. Business development training programs can teach entrepreneurship skills including business planning, financial management, and

marketing. However, training programs must be carefully designed to ensure relevance to actual business needs and to provide practical, hands-on learning rather than purely theoretical instruction.

Financial sector development is critical for expanding access to capital for enterprise start-up and growth. While microfinance has expanded significantly in Uganda, many enterprises still face constraints in accessing appropriate financial products. Savings products are needed to enable households to accumulate capital for enterprise investment. Credit products must be tailored to the cash flow patterns and risk profiles of small enterprises, with appropriate repayment schedules, collateral requirements, and interest rates. Insurance products can help enterprises manage risks including weather shocks, health emergencies, and business interruptions. Digital financial services can expand access and reduce costs but must be complemented by financial literacy programs to ensure appropriate use.

Regulatory reforms are needed to create a more enabling environment for enterprise development. Many small enterprises operate informally due to the complexity, cost, and time required for business registration and compliance with regulatory requirements. Simplifying registration procedures, reducing fees, and providing one-stop shops for business services could encourage formalization. Formalization brings benefits including access to formal financial services, legal protection, and government contracts, but only if the benefits outweigh the costs. Regulatory reforms should also address constraints related to land tenure, as insecure land rights discourage investment and limit access to credit. Finally, reforms should ensure that regulations are enforced fairly and consistently, as corruption and arbitrary enforcement create uncertainty and increase costs for enterprises.

Define abbreviations and acronyms the first time they are used in the text, even after they have been defined in the abstract. Abbreviations such as IEEE, SI, MKS, CGS, sc, dc, and rms do not have to be defined. Do not use abbreviations in the title or heads unless they are unavoidable.

## 4. Limitations and Directions for Future Research

### 4.1. Limitations of the Research

This study provides meaningful insights into the potential role of enterprise development in reducing poverty in Uganda; however, it is constrained by several important limitations that affect the interpretation and policy relevance of its findings. The first limitation lies in the reliance on a modeling assumption rather than empirical estimation—the assumed 2-percentage-point reduction in poverty and does not represent a causally established outcome. The simulation illustrates what could happen under ideal conditions but does not specify the concrete interventions or contextual factors necessary to achieve such an effect. Second, the analysis uses regional aggregate poverty data, which obscures household-level differences in income, assets, education, and enterprise characteristics. This aggregation limits understanding of which types of households and enterprises benefit most from devel-

opment efforts and prevents precise, targeted policy recommendations. Third, the simulation is static and does not account for dynamic processes such as enterprise growth and failure, feedback loops between poverty and entrepreneurship, market effects on prices and wages, or long-term human capital accumulation. Capturing these dynamics would require longitudinal or structural modeling with richer datasets. Fourth, the model assumes independence among households, overlooking spatial dependencies such as shared exposure to local shocks, spillover effects, or clustered economic activities that may influence poverty outcomes.

In reality, enterprise development in one household often affects others through employment creation, demand for goods and services, and community-level learning effects. Finally, the study omits cost-effectiveness analysis, leaving unanswered whether enterprise development represents a more efficient or sustainable poverty-reduction strategy compared to alternatives like cash transfers, education, health, or infrastructure programs. In sum, while the findings provide a valuable exploratory framework, future research should employ more granular data, dynamic modeling, and economic evaluation to strengthen the causal understanding and policy relevance of enterprise-based poverty reduction in Uganda.

### 4.2. Directions for Future Research

The limitations identified in the current analysis highlight several key avenues for future research on enterprise development and poverty reduction in Uganda. First, there is an urgent need for rigorous impact evaluations using experimental or quasi-experimental methods to establish credible causal relationships. Randomized controlled trials (RCTs) would provide the strongest evidence on program effectiveness, allowing researchers to test varying program designs and implementation strategies. Such evaluations should assess not only the direct effects on poverty but also on intermediate outcomes such as business formation and survival, income and consumption levels, asset accumulation, and individual empowerment. Additionally, these studies should explore heterogeneous effects across subgroups—such as gender, education, and region—and track long-term outcomes to evaluate sustainability. Second, future research should employ household-level panel data to capture the dynamics of poverty and enterprise activity over time. Panel data would make it possible to analyze movements into and out of poverty, identify factors predicting successful enterprise development, and apply advanced econometric techniques like fixed effects and dynamic panel models that account for unobserved heterogeneity and state dependence. Third, there is a need to move beyond aggregate impact estimation to examine the causal mechanisms linking enterprise development to poverty reduction.

These mechanisms may include income diversification, asset and human capital accumulation, social network formation, and local multiplier effects. Methods such as mediation analysis, structural equation modeling, and mixed-methods research can illuminate these pathways. Finally, future studies should address the political economy of enterprise development, investigating how policy design, in-

stitutional capacity, stakeholder interests, and governance structures shape program implementation and outcomes. Understanding these political and institutional factors is essential to ensuring that research insights translate into effective and scalable policy interventions that promote sustainable poverty alleviation.

## 5. Conclusion

This study employed Monte Carlo simulation methods to evaluate the potential impact of household and local enterprise development on poverty alleviation across Uganda's regions, using data from the 2023/24 Uganda National Household Survey. By simulating the 15,813 households per region across 5,000 iterations, the study modeled baseline and counterfactual scenarios to assess the effects of strengthened enterprise activity. While national-level results suggest that intensified enterprise development could reduce the poverty rate by about 2 percentage points—from 16.1% to 14.1%—this absolute estimate is assumption-driven and should not be interpreted causally. The central contribution of this work is not the point estimate itself, but how the simulation reveals non-uniform relative impacts across regions.

Importantly, the poverty reduction effect was uniform across all regions, from low-poverty areas like Kampala to high-poverty regions such as Karamoja. However, while the absolute reductions were similar, the relative impacts varied—being more transformative in low-poverty regions and more modest in severely deprived areas. The analysis also highlights that enterprise development benefits both rural and urban settings, though its relative impact appears greater in urban areas, likely due to more favorable market and infrastructure conditions. Methodologically, the study demonstrates how Monte Carlo simulations can be applied to poverty analysis using aggregate data, providing a replicable framework for policy modeling under uncertainty. Nonetheless, key limitations exist: the assumed 2-point reduction is not empirically causal, the analysis relies on aggregate rather than household-level data, the model is static and ignores dynamic or spatial interactions, and it omits cost-effectiveness comparisons with alternative poverty interventions. These limitations underscore the need for future research employing experimental designs, household panel data, and deeper analyses of mechanisms and contextual factors.

From a policy perspective, the findings suggest that enterprise development should be prioritized as a central component of Uganda's poverty reduction strategy, supported by complementary investments in education, health, infrastructure, and financial inclusion. Tailored regional approaches are necessary—emphasizing enterprise upgrading in wealthier regions, expansion and market linkages in middle-income areas, and comprehensive, multi-sector interventions in high-poverty zones. Overall, this work underscores the strategic value of simulation not to assert causal effect magnitudes, but to illuminate where marginal changes likely matter most, thereby sharpening regional targeting and resource prioritization in Uganda's national poverty reduction strategy.

## Disclaimer

This report presents a simulation analysis based on assumptions about the impact of enterprise development on poverty. The findings should be interpreted as potential effects under favorable conditions rather than guaranteed outcomes. Actual impacts will depend on program design, implementation quality, contextual factors, and complementary policies. The analysis and views expressed in this report are those of the author and do not represent the official positions of the Uganda Bureau of Statistics or the Government of Uganda.

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## Conflicts of Interest

The author declares no conflicts of interest.

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# Appendix

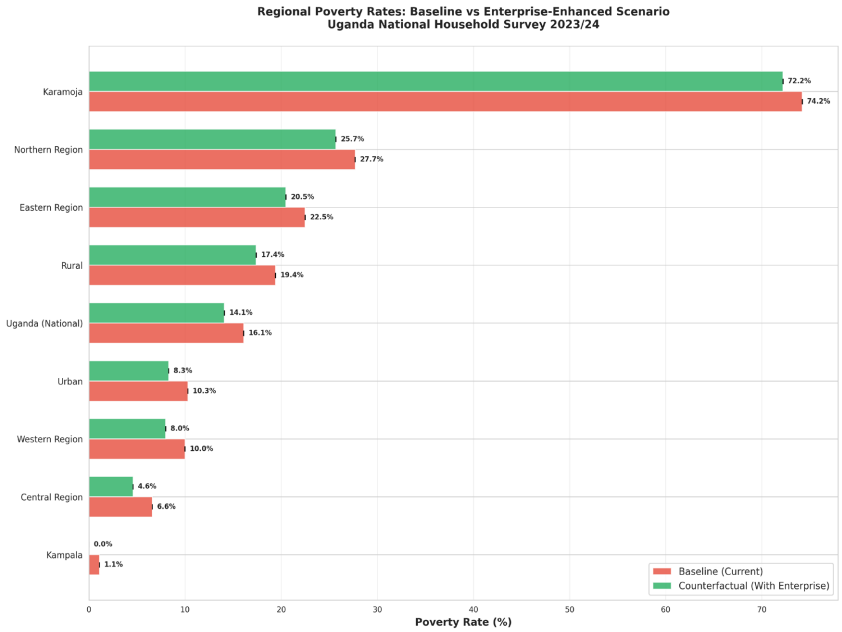


**Figure A1.** Regional poverty rates under baseline and counterfactual scenarios. The figure displays poverty rates for major regions under both the baseline (current) scenario (red bars) and the counterfactual enterprise-enhanced scenario (green bars). Error bars represent 95% confidence intervals. All regions show clear separation between baseline and counterfactual scenarios, indicating robust treatment effects.

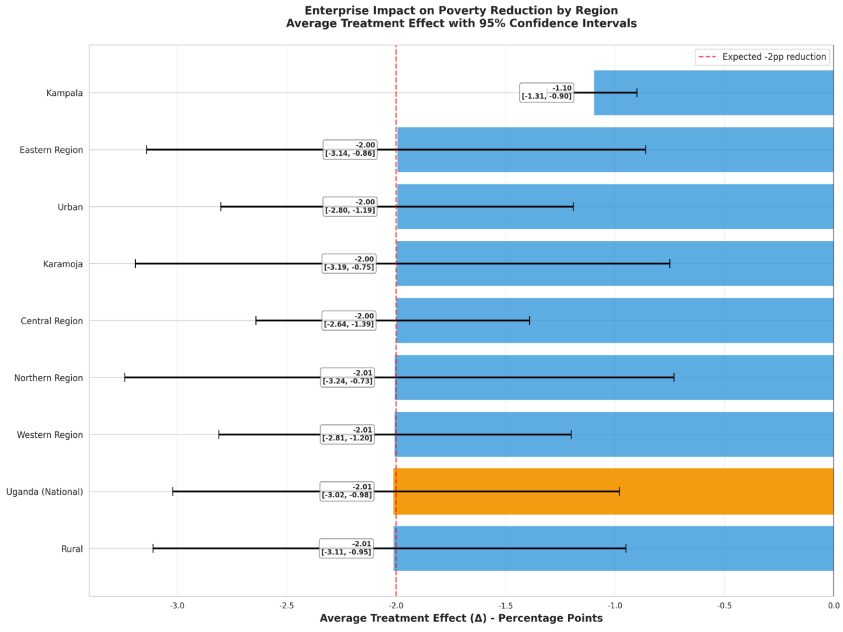


**Figure A2.** Average treatment effect by region with 95% confidence intervals. The horizontal bars show the estimated treatment effect (change in poverty rate) for each region, with error bars indicating 95% confidence intervals. The national average is highlighted in orange. All confidence intervals lie entirely below zero, confirming statistically significant poverty reductions across all regions.

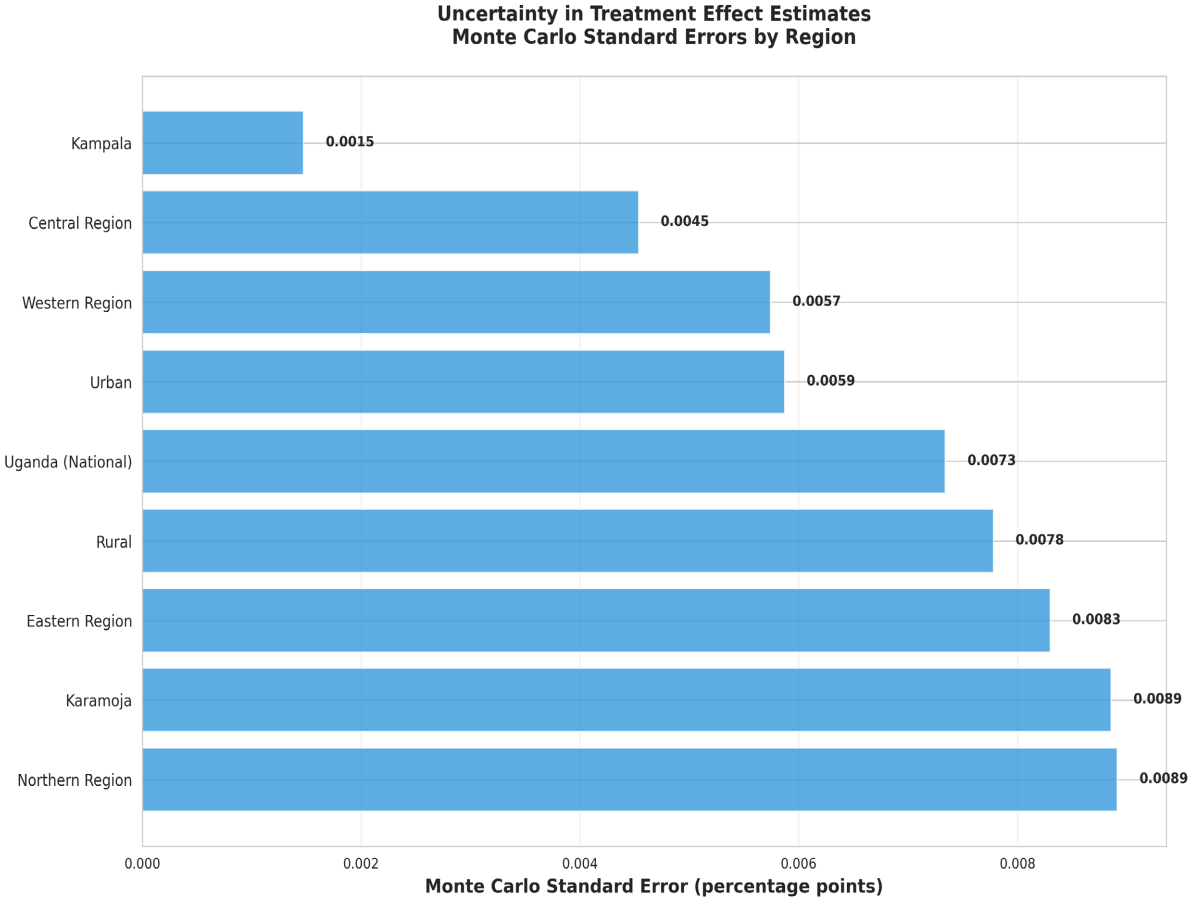


**Figure A3.** Monte Carlo standard errors by region. The figure displays the Monte Carlo standard errors for treatment effect estimates across regions. Standard errors are uniformly small, ranging from 0.001 to 0.009 percentage points, confirming the precision of estimates and the adequacy of 5,000 simulation iterations for convergence.