

Welfare & Distributional Consequences of the COVID-19 Crisis in Uganda

International Growth Centre

Commitment to Equity Institute

Ministry of Finance, Planning and Economic Development

September 01, 2020

Key Questions

Estimate the economic impact of the COVID-19 crisis, as a result of the pandemic, domestic measures and global recession

Specifically:

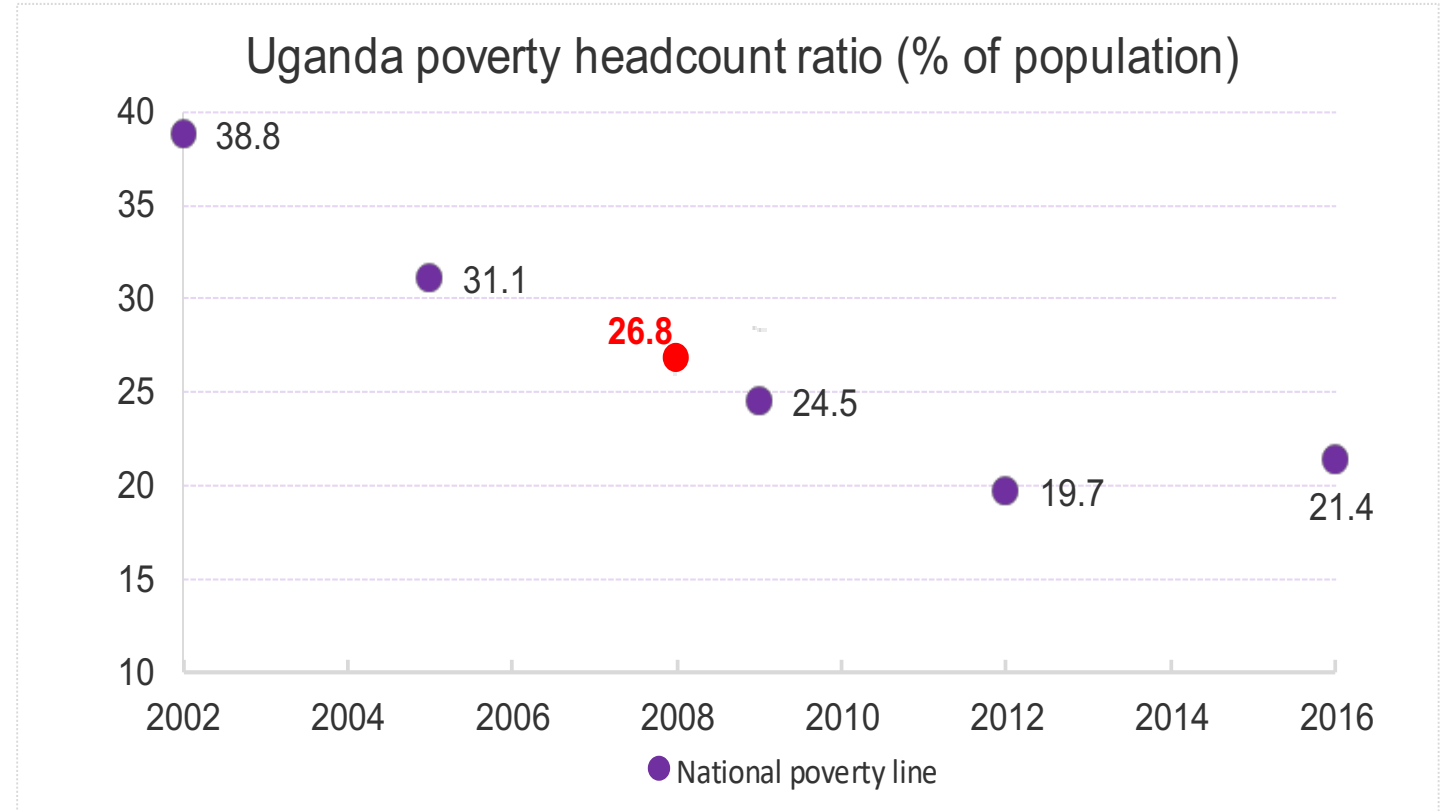
- How much *income* have households lost ?
- How much has *poverty* increased ?
- How income loss varies *by industry* and *by area of residence* ?
- What possible *social protection measures* can help to mitigate impact on poverty and what is the associated *fiscal cost*?

Approach

- Use detailed information from UNHS, 2016/17 round, for microsimulations
- Estimate that some part, or all, of household income is “at-risk” of loss
 - based on area of residence (Kampala, Other Urban and Rural)
 - based on whether the industry of employment is “essential” under the lockdown rules
- ∴ Two (2) key parameters about each income earner in the UNHS survey, based on industry and place of residence
 - Of those with at-risk income, share that lose income
 - Of those losing income, a share of their ‘pre-crisis’ income is lost

Preview of Key Findings:

- Significant income losses: 9.1 percent of GDP, affects 65% of Ugandans
- Erasing poverty gains of past 10 years
- Rise in poverty sharpest for Kampala but crisis reaches well beyond urban areas
- Analysis covers only short-term impact, longer-term effects would likely be dismal, underscoring need for post C-19 recovery plan






Results 1: Income Losses are Severe

Income loss				
	in USD (million)	Share of monthly GDP	# people in HHs losing income (million)	Share of population losing income
National	184	9.1%	27.0	65%
Kampala	31	1.6%	1.2	68%
Other Urban	78	3.9%	6.0	72%
Rural	74	3.7%	19.8	63%

Results 2: Poverty Increases Significantly

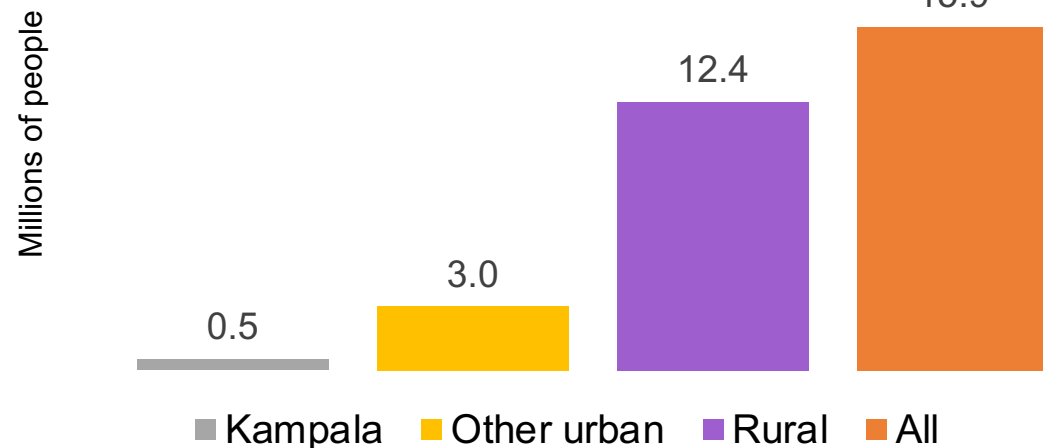
Poverty Rate Changes			
	Before Crisis	After Crisis	People falling into poverty (millions)
National	18.9%	26.8%	3.3
Kampala	2.2%	→ 18.9%	0.3
Other Urban	9.1%	→ 22.0%	1.1
Rural	22.4%	28.5%	1.9

Results 3: Job and Income Losses by Sector

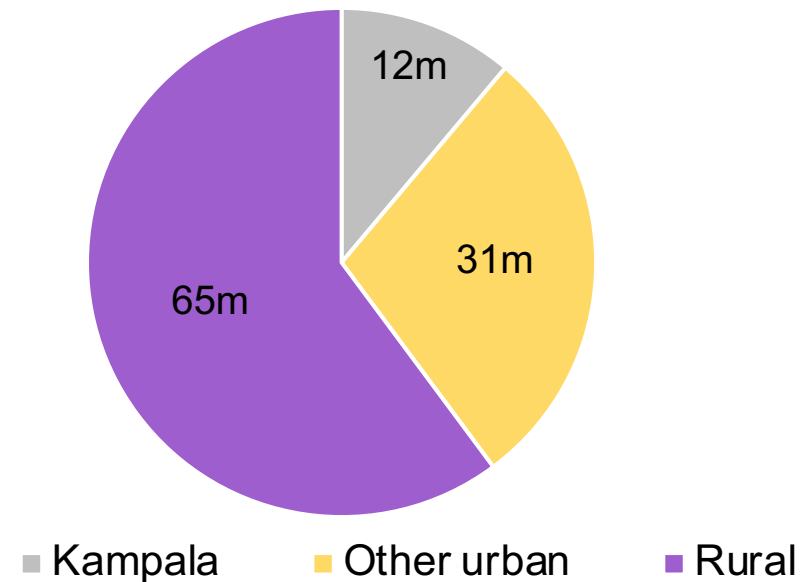
Industry	Total Income Losers	Lost Income per Income Loser (UGX per month)	Change in Poverty ^{/1} (pp)
Growing of crops, ex beverage crops	792,233	30,845	0.1
Livestock raising	7,938	147,709	0.0
 Fishing	69,050	119,810	0.4
Manufacturing, food and beverage	18,160	375,473	0.1
Construction	156,697	244,332	0.7
 Retail, non-food	258,778	231,162	0.7
Retail, food	37,861	207,903	0.1
 Transport and storage	316,576	304,005	1.3
Accommodation and food service	166,521	245,622	0.4
Public administration	19,928	67,062	0.0
Education	267,072	225,808	0.8
Washing, hair care, other personal services	144,705	200,127	0.3

Results 4: Loss in Remittances explains welfare loss in rural areas

Total People in HHs Losing Income



Total Lost Income (million UGX per month)



Remittances and Gifts	Impact on Poverty ^{/1}
Kampala	1.1
Other urban	1.1
Rural	1.4
All	1.3

/1 Assumptions based on BOU April 2020 projections & domestic income losses

/2 Other channel of welfare loss in rural areas is reduced farm gate prices for perishable crops (matooke, fruits & vegetables).

Illustrative Policy Responses:

- Simulate 3 possible scenarios: (i) Universal Cash Transfer excl. pensioners and public sector (ii) Expansion of the SAGE grant, available to persons 80+ to those 65+, and (iii) Targeted transfer to pre-crisis poor and (iv) Urban Cash for Work Programme (UCWP). Framework can be adopted for various other scenarios.

Overall Impact and Fiscal cost of ALL Scenarios:

	Poverty Rate			Total Budget, monthly (UGX billion)	Average transfer per adult equiv. (LCU)	Share of excess transfer in total
	Before Crisis	After Crisis	After Crisis + Transfer			
<i>UCT</i>	18.9%	26.8%	18.9%	278.7	9,831	46%
<i>Expand SAGE</i>	18.9%	26.8%	25.5%	62.4	10,609	46%
<i>Pre-Crisis Poor</i>	18.9%	26.8%	21.8%	51.8	9,831	12%
<i>Urban Cash for Work</i>	18.9%	26.8%	26.5%	35.5	35,210	34%

Simulations of Policy Responses: SAGE (65yrs +)

Expand SAGE grant to those 65 or older

Transfer = 25,000 (per beneficiary) , Cost = 0.8% of monthly GDP, Poverty impact = - 1.3 pp

	Poverty Rate			Total Budget, monthly UGX (billion)	Share of excess transfer in total
	Before Crisis	After Crisis	After Crisis + Transfer		
<i>National</i>	18.9%	26.8%	25.5%	62.4	46%
<i>Kampala only</i>	2.2%	18.9%	18.4%	2.5	29%
<i>Other Urban only</i>	9.1%	22.0%	21.0%	11.5	37%
<i>Rural only</i>	22.4%	28.5%	27.1%	48.3	49%

Simulations of Policy Responses: SAGE (65yrs +) & Urban Cash for Work Programme (UCWP)

Cash income for Public Works and Expand SAGE to 65yrs+

Transfer = 14,646 (per adult equivalent) , Cost = 1.3% of monthly GDP , Poverty impact = -1.6 pp

	Poverty Rate			Total Budget, monthly UGX (billion)	Share of excess transfer in total
	Before Crisis	After Crisis	After Crisis + Transfer		
<i>National</i>	18.9%	26.8%	25.2%	97.8	42%
<i>Kampala only</i>	2.2%	18.9%	16.5%	10.2	29%
<i>Other Urban only</i>	9.1%	22.0%	19.9%	39.3	37%
<i>Rural only</i>	22.4%	28.5%	27.1%	48.3	49%

Policy Conclusions

- Short-term effects on poverty & income are severe (incl. impact of both domestic measures and global recession)
- Crisis erases poverty gains of the past 10 years, and reaches well beyond Kampala
- Impact on sectors varies, depends on vulnerability to external shock as well as effect of lockdown
- Various social protection measures, Gov't could adopt to mitigate impact (incl. cash transfers, food relief, public works, etc.)
- However size and impact of social protection measures is significantly lower ($\cong \frac{1}{5}$) than estimated income losses. \therefore Need for more!
- Analytical framework \rightarrow should be seen as a tool that can be used to evaluate and assess chosen policy response

International Growth Centre
London School of Economics and Political
Science
Houghton Street
London WC2 2AE

www.theigc.org

Thank you, questions?