Policy brief
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Livia Alfonsi[1], Vittorio Bassi[2], Priya Manwaring[3], Peter Ngategize,[4] John Oryema[5], Miri Stryjan[6], Anna Vitali[7]

International Growth Centre

The impact of COVID-19 on Ugandan firms

Evidence from recent surveys and policy actions for supporting private sector recovery

In brief

- This policy brief outlines key discussions from a policy seminar on the impact of COVID-19 on Uganda's firms held on 28 January 2021 by the Ugandan Ministry of Finance's Private Sector Development Unit and the International Growth Centre.
- Researchers presented key findings from work exploring different impacts of the pandemic on Uganda's economy.
- The evidence shows that the majority of firms closed down over lockdown but have since re-opened, though are now operating below capacity. Firms have experienced a significant drop in demand, revenue, and profits, and encountered difficulties in accessing customers, inputs, and suppliers.
- Employment and earnings also dropped significantly during lockdown – but not as much as firm revenues. The evidence also suggests gender plays a significant role, as female-owned business households suffered more with lockdown.
- In terms of government support, firms and employees highlighted interest rate subsidies, cash transfers, and social assistance grants as key policies to support recovery, but there appears to be limited awareness of existing support programmes.

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1. University of California, Berkeley
2. University of Southern California
3. IGC, Uganda
4. Private Sector Development Unit, MoFPED
5. Private Sector Development Unit, MoFPED
6. Aalto University
7. University College London

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COVID-19 and its impact on the Ugandan economy

The COVID-19 pandemic came at an enormous cost to both developed and developing countries, and Uganda is no exception to this. Though the country has so far been shielded from the worst in terms of health impact, measures put to curb the spread of COVID-19 and the sharp global downturn in economic activity have hit the economy hard.

For instance, severe limitations on international transport have reduced exports and tourism and restricted access to key industrial inputs. At the same time, the collapse in the world economy has reduced aggregate demand and lowered remittances from Ugandans living abroad. Lockdown measures between March and May 2020 compounded economic difficulties by preventing people from working and limiting internal mobility. As a result of the global crisis, GDP growth slowed from 6.8% in FY 2018/19 to 2.9% in FY 2019/20, and is expected to grow at a similar level in FY 2020/21 (World Bank, 2020).

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In light of this, on 28th January 2021, the Ministry of Finance's Private Sector Development Unit and the International Growth Center held a policy seminar on the *impact of COVID-19 on Ugandan firms*. Findings from a number of ongoing research projects on this topic were presented, and key policy actions discussed.

Surveys presented

Miri Stryjan, Assistant Professor at Aalto University, presented results from a survey undertaken on "*The impact of the COVID-19 lockdown on Ugandan SMEs and their workers*" (Gulesci, Loiacono, Madestam and Stryjan). This phone survey that was undertaken in August 2020 studies the impact of COVID-19 and Uganda's lockdown on 1,747 SMEs that are part of a panel that the research team has followed for 4 - 6 years. The project covers firms in retail, manufacturing and service sectors, and their employees.[1]

Livia Alfonsi (University of California, Berkeley) and Anna Vitali (University College London) presented initial findings from two phone surveys conducted between October – December 2020. The first survey, titled "*COVID-19, firm dynamics and market structure in Uganda*" (Bassi, Alfonsi, Bandiera, Burgess, Rasul, Vitali) covered 4,000 Ugandan SMEs in catering, construction, electrical wiring, hairdressing, motor-mechanics, plumbing, tailoring and welding. The purpose of the project is to study how firms have been affected by COVID-19, with a special focus on firm characteristics and the environment in which firms operated before the shock.[2]

1. Referred to below as Gulesci et al. (2021)
2. Referred to below as Gulesci et al. (2021a)

The second survey, titled "*Vocational training, on-the-job training, and resilience to the COVID-19 shock*" (Bassi, Alfonsi, Bandiera, Burgess, Rasul, Vitali), builds on a labour market experiment which tracks 1,700 workers over four years. The new survey sheds light directly on the impact of COVID-19 on workers, and how different skills training programmes increase resilience to and recovery from the economic shock posed by COVID-19.[3]

Vittorio Bassi, Assistant Professor at the University of Southern California, presented work on "*COVID-19 and the value of relationships in informal economies*" (Bassi, Porzio, Sen and Tugume). This project studies how informal relationships in Uganda's labour and rental market are affected by COVID-19. The survey covered 1,000 SMEs and their employees in carpentry, metal fabrication and grain milling businesses.[4]

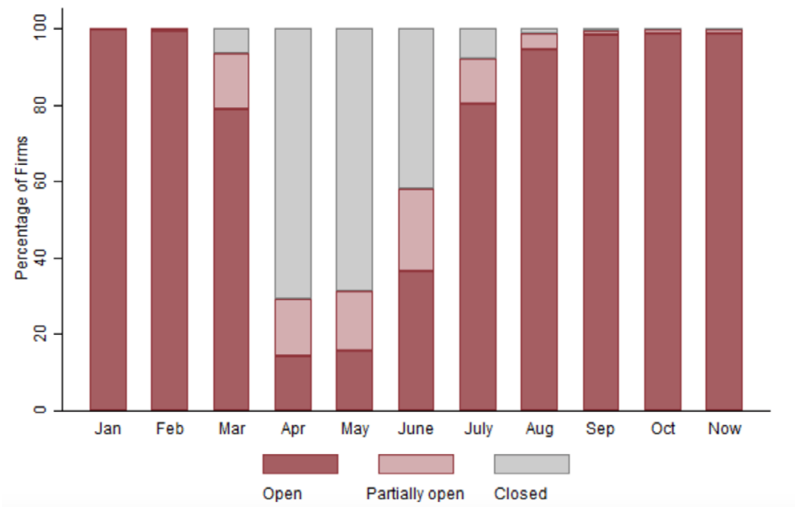
Key findings from the surveys

1) The majority of firms closed down over lockdown but have since re-opened, though are now operating below capacity.

The lockdown had a significant impact on firm closures – according to Alfonsi et al. (2021a), only 10% of firms stayed open over this period. Despite this, 93% were back in operations by October 2020.

However, firms continue to operate below capacity – 75% of firms surveyed report significantly reduced hours, workers and machine usage.

Figure 1: Operational status by month (carpentry, welding)



Source: Bassi et al., 2021

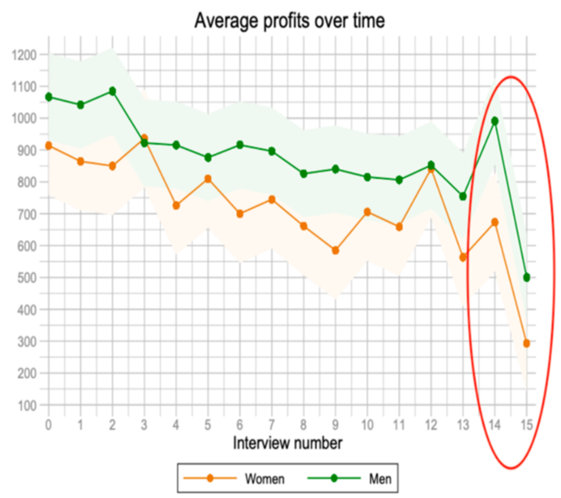
3. Referred to below as Alfonsi et al. (2021b)
4. Referred to below as Bassi et al. (2021)

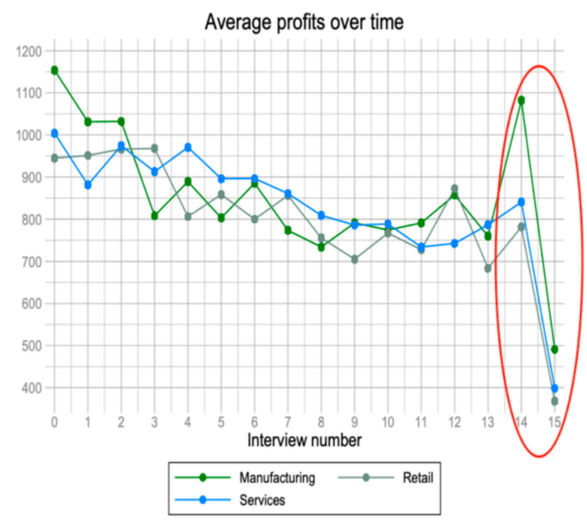
2) Firms have experienced a significant drop in demand, revenue, and profits.

Consistent with the general economic downturn, firms are not yet back to pre-lockdown levels in terms of revenues and profits. Bassi et al. (2021) find that while revenue losses were about 70% during lockdown and it was still 30% after lockdown. Gulesci et al. (2021) found that relative to late 2019, businesses experienced a 52% drop in profits in August 2020.

This is largely due to reduced demand - Alfonsi et al. (2021a) find that firms are also reporting a 49% reduction in the number of customers, with no change in the number of competitors in the market. As such, business owners continue to experience significant income losses.

Figure 2: Profits over time of firms





Source: Gulesci et al., 2021. Note: The x axis indicates interview wave. Waves 0-12 were carried out within a 12-month interval of receiving a loan for each firm, while waves 13-15 represent mid-term and long term follow ups (after 2, 4 and 4.5 years, on average).

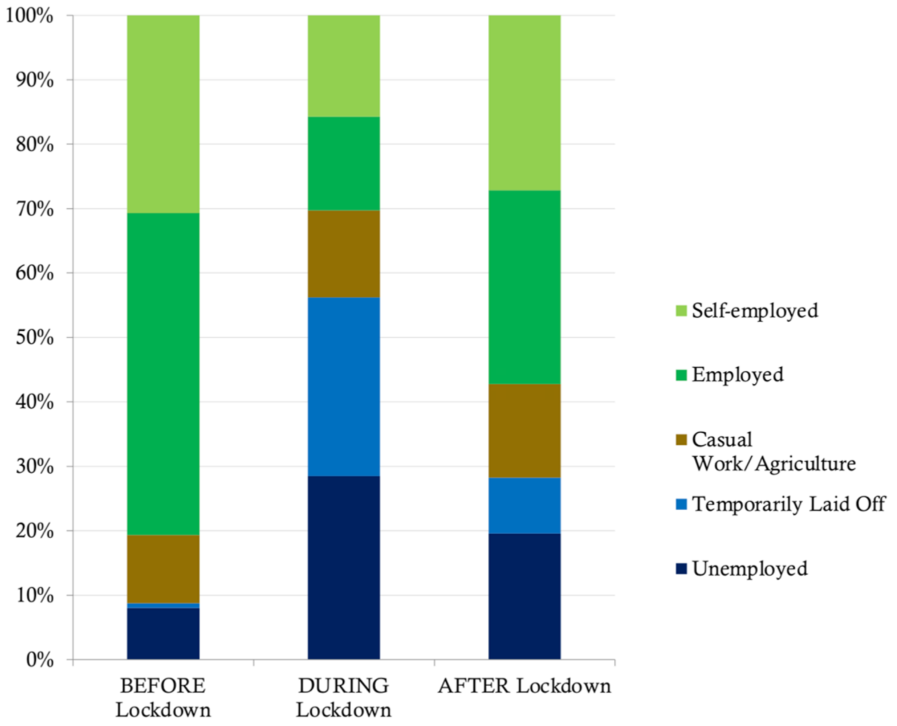
3) Employment and earnings also dropped significantly during lockdown – but not as much as firm revenues.

There were large losses in employment during lockdown, with 95% of employees let go over this period. Of those who were let go, there was a limited shift to agriculture or casual work.

However, layoffs were largely temporary. According to Bassi et al. (2021), 90% of employees who were laid off were subsequently hired back after lockdown. Gulesci et al. (2021) reported that only 6.5% instituted permanent layoffs. A significant number of employers instead appear to manage costs by reducing or delaying payments to employees.

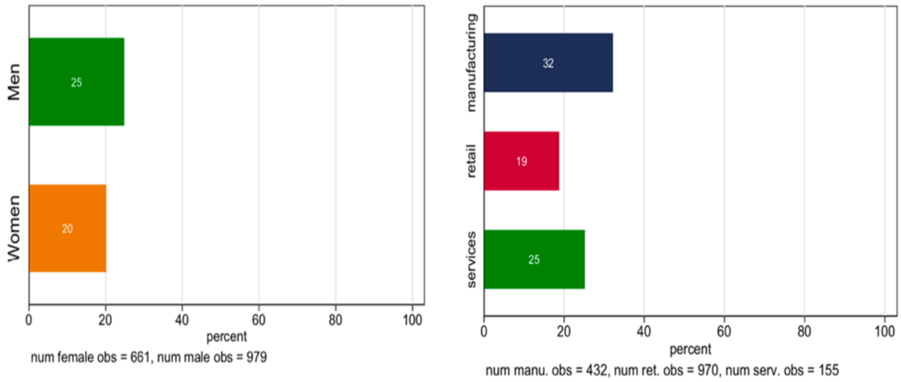
Since lockdown, there has been a slow recovery. The surveys conducted by Alfonsi et al. and Bassi et al. suggest wage employment is still far below pre-pandemic levels. After lockdown, those employed were earning between 50-70% of what they were before lockdown (Alfonsi et al., 2021b; Bassi et al., 2021).

Figure 3: Employment



Source: Alfonsi et al., 2021b

Figure 4: Temporary layoffs/suspension



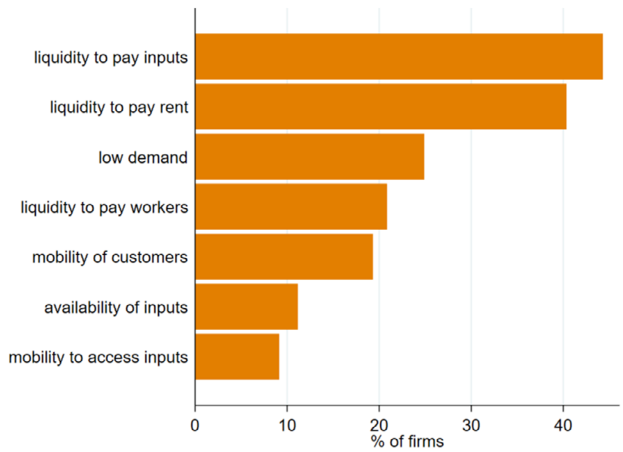
Source: Gulesci et al., 2021

4) Firms highlight lack of liquidity as well as difficulties in accessing customers, inputs, and suppliers as major constraints to doing business.

Gulesci et al. (2021) find that around 75% of firms in manufacturing, retail and service sectors report difficulties in accessing inputs, and 55 – 66% report difficulties in accessing suppliers. Alfonsi et al. (2021a)'s survey finds that on average, firms report a 10% reduction in suppliers.

At the same time, lack of liquidity is reported as a major constraint (Alfonsi et al. 2021a). Despite this lack of liquidity, less than 10% of firms have applied for a loan, suggesting underlying issues with financial inclusion/access.

Figure 5 : Challenges and changes in the economic environment

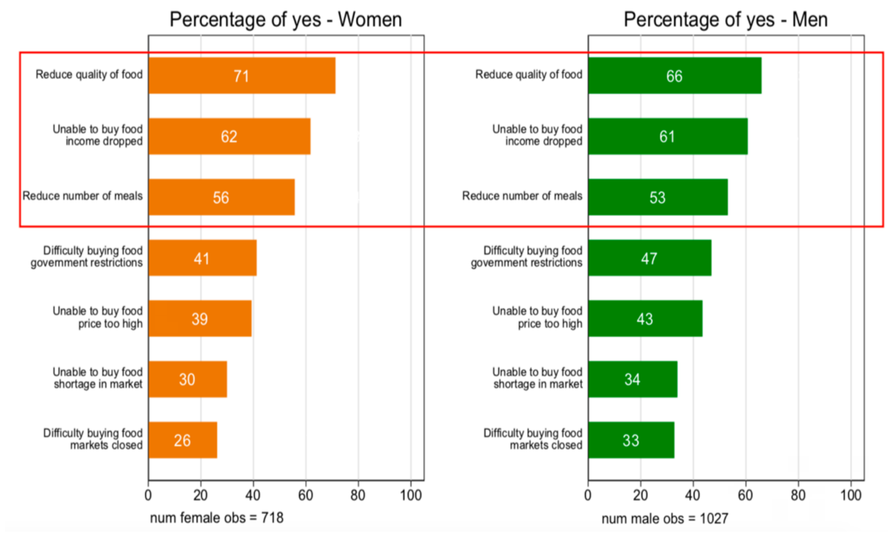


Source: Alfonsi et al., 2021a

5) Gender plays a significant role in the impact of COVID-19 on businesses: female-owned business households suffered more.

Gulesci et al. (2021) find that 75 percent of the female business owners had to increase the time they spent caring for household members, whereas the corresponding rate was 68 percent for males. Their households also suffered more income losses during the pandemic, and report lower food consumption, as can be seen in the graph below.

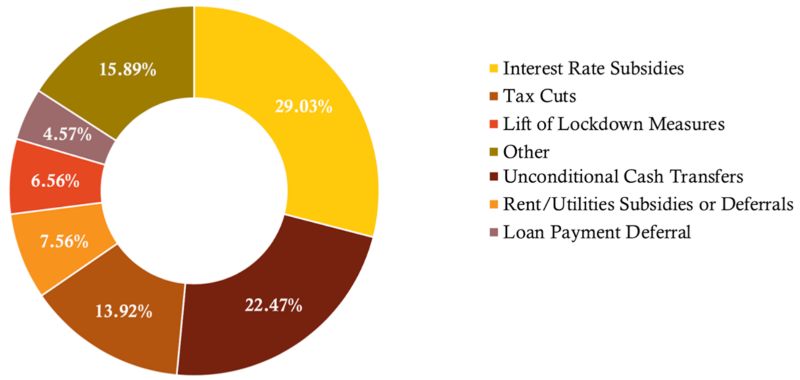
Figure 6: Effects on business owners' households



Source: Gulesci et al., 2021

6) In terms of government support, firms and employees highlight interest rate subsidies, cash transfers, and social assistance grants as key policies to support recovery. There appears to be limited awareness of existing support programmes.

Figure 7: "What would be the most needed policy to support your business over the COVID-19 crisis?"



Source : Alfonsi et al, 2021a

Of those surveyed by Alfonsi et al (2021a; 2021b), only 27% of firms and 12% of workers applied to any government support programme.

Key policy implications for supporting recovery

1. Policies to address liquidity shortages of firms remain crucial in ensuring firm survival.

Options for this include:

- Provision of partial interest rate subsidies for loans
- Extensions of the Bank of Uganda credit relief programme where necessary

2. Longer term recovery of firms will require leveraging new finance and capital.

Some options for this include:

- Increasing access to affordable capital through the Microfinance Support Centre, Agricultural Credit Facility, Uganda Development Bank, UDC. These government programmes/ institutions need to design low cost financial products for promising SMEs and informal sector businesses.
- Tackling the underlying causes of high interest rates for businesses to de-risk lending e.g. strengthening provision of financial literacy training for borrowers, and leveraging new systems for borrower identification and URSB system of tracking immovable property to extend credit on the basis of movable securities.

3. There is need to roll out massive provision of Business Development Services (BDS) to boost their internal management capacities to access government interventions such as soft loans from UDB.

This will also help to reduce informality which is an impediment to structured government interventions.

4. Ensure awareness of existing government support programmes for firms and workers and how to apply, to ensure adequate uptake.

- These include the Uganda Agriculture Insurance Scheme (UAIS), Youth Livelihood Project, EMYOOGA, Business Development Services (Enterprise Uganda), Skilling (Skills Development Facility-SDF) and BTVET programmes.

5. Income support programmes will be important in stimulating demand and maintaining welfare for some time to come given slow recovery of wages and revenues.

Options for this include:

- Modest cash transfers to workers who were permanently laid off as a consequence of COVID-19 and are still unemployed. To avoid fraud, government can work with LC1s to compile the list of potential beneficiaries, and supplement this information with employment and income tax records from the Federation of Uganda Employers (FUE), URA and National Social Security Fund where possible. Eligibility condition for SAGE grant should be revised to include vulnerable groups such as unemployed persons with disabilities and household heads who are above working age population (64 years and above).
- Urban cash for work programmes can be used to employ unemployed youth. The work programmes could include restoration of wetlands, clearing blocked drainage channels, and road repairs.

In making these available, it is important to consider differential effect of crisis on women's profit/employment/consumption. These programmes will also have to be clearly time bound and have sunset clauses, to effectively manage the government budget deficit.

6. Support the development of digitised systems to provide access to inputs, suppliers and customers.

This includes online supplier databases, marketplaces and digitised delivery platforms for firms and customers. While the long-term sustainability of these platforms is likely to necessitate private sector management, the Government can play a role in facilitating and encouraging their development and help SMEs in using them through information and training. District Commercial Officers and Sub County Development Officers could be involved in the training to encourage nationwide uptake.