

SMEs in Uganda

Profits and labour force shrink during COVID-19



In brief

- While the strict lockdown measures implemented in many developing countries aim to prevent the spread of COVID-19, they also risk increasing poverty and vulnerability by lowering economic activity. Uganda experienced some of the toughest lockdowns in the world.
- This policy brief presents key findings from a panel of over 1,600 small and medium-sized enterprises (SMEs) in Uganda, focusing on changes in trends following the lockdown.
- We find that the strict lockdown measures affected SME performance significantly, leading the firms to cut back on salaries and lay off workers. Specifically, profits went down by over 50% between January 2020 and August 2020, and over 20% of the firms laid off workers.
- For both profits and layoffs, the numbers look slightly worse for female as opposed to male entrepreneurs, although it cannot be said with certainty that the difference is caused by the COVID-19 crisis.
- First, entrepreneurs, especially women, had to divert time away from the business to care for household members and had to rely more on family networks for help, something which could lead to higher “kinship taxation” in the future, thereby affecting investments and profits.
- Second, a majority of both male and female firm owners reported issues with food security, even though our respondent pool were not particularly poor before COVID-19.
- Since SMEs are important contributors to growth and employment in the developing world, and create employment for a significant share of the labour force, it is essential to understand the impact of the crisis on the sector to develop appropriate policy responses.

This project was funded by IGC Uganda.

Overview of the research

With the start of the worldwide lockdown policies in April 2020 aimed at curbing the spread of coronavirus, researchers, policy makers and international organisations alike have warned that the economic consequences for low and lower middle-income countries may be devastating. As large parts of the population in these countries lack access to social protection systems, cannot work from home and have limited savings to draw from, immediate effect of lockdowns are increased poverty, hunger and destitution. Existing economic and social inequalities are also likely to be exacerbated (UN/DESA 2020).

Uganda experienced some of the strictest lockdown measures in the world (Hartwig and Lakemann 2020), with many businesses being forced to close or operate under strict social distancing rules, regular curfews, and challenges in accessing markets due to higher transportation and input costs. Moreover, schools and nurseries have been shut down since April 2020, which forces female business owners, in particular, to make trade-offs between tending to the business and engaging in childcare.

“As large parts of the population in these countries lack access to social protection systems, cannot work from home and have limited savings to draw from, immediate effect of lockdowns are increased poverty, hunger and destitution.”

In this policy brief, we present the key findings from a unique long panel of SMEs in Uganda, focusing in particular on changes in the trends following the onset of the COVID-19 pandemic. As part of another study (Gulesci et al. 2019), all firms borrowing from BRAC’s SME lending program across Western, Central, and Eastern Uganda were sampled and surveyed 14 times between 2014 and January 2020. Generous support from the IGC enabled us to re-survey 1,642 of these businesses in August 2020 via telephone. We collected information on:

1. *Key indicators pertaining to firm growth, such as profits, revenues and number of workers.*
2. *How firm owners were affected by the pandemic and lockdown, and how they and their households were coping with it: Here we used questions taken from the IGC/IPA survey firm module (<https://www.covideconsurveys.org/survey>).*

We combine this data with our previous 14 waves of data on the same businesses to examine trend breaks during the COVID-19 lockdown. Since two-thirds of the firms in our sample had one or more hired employee, a key question we explore is whether the job creation trends of SMEs changed due to COVID-19. Our sample is also diverse in terms of sectors covered and gender of the firm owners: among the 1,642 firms surveyed in the recent wave, 27% are operating in manufacturing, 62% in retail and 169 10% in the service sector, and 38% of the firm owners in our sample are female. This allows us to study if and how trends and coping strategies differ across sectors and by gender of the business owner.

Policy motivation for the research

SMEs are important contributors to growth and employment in the developing world and create employment for a significant share of the Ugandan labour force, comprising over 90 % of the private sector (Uganda Bureau of Statistics, 2017). Therefore, it is essential to understand the impact of the COVID-19 crisis on the SME sector. Moreover, as Uganda experienced some of the toughest lockdown measures in the world, it becomes important to trace how this impacts SMEs.

Our study contributes to a small but growing body of evidence on the recent challenges experienced by small firms in developing countries due to the COVID-19 pandemic. Work on small businesses in Pakistan during the lockdown confirms that business owners worry both about supply-side disturbances and losing clients due to the shock (see e.g. Malik et al., 2020, Mahmud and Riley, 2020, and Hartwig and Lakemann, 2020). Compared to these studies, the firms in our panel dataset are much larger and are more geographically representative of the country as a whole. In particular, two-thirds of the SMEs in our sample reported hiring 1 or more employees in the survey collected in November 2019-January 2020, prior to the pandemic. As such, our findings shed light on the impact of the ongoing crisis not only on SMEs but also on their employees.

The study aims to provide information on how business owners were affected by and adjusted to the lockdown measures and the economic downturn that followed. We expect that the findings would be used for developing appropriate policy responses for supporting SMEs both during and after the pandemic.

Key research questions	Summary of key findings
How were profits affected by the pandemic and lockdown	As shown in Figure 1 below, relative to wave 14 collected in January 2020, the average firm in our sample reported 52% lower monthly profits 8 months later, in August of the same year. For female-owned businesses, profits fell by 57%; for SMES with male owners by 50%. Firms in all sectors were hit, with slightly more negative numbers in manufacturing.

<p>How were workers and jobs affected by the pandemic and the lockdown?</p>	<p>As shown in Figure 2 below, a significant share of the firms in our sample had to lay off workers or reduce salaries. Compared to wave 14, female business owners report much a 32% reduction in workers in August 2020, while for male business owners the reduction in the number of workers in the same time window is smaller. When asked directly about layoffs, over 20% of firm owners reported having temporarily dismissed workers in the month preceding our survey, while around 7% had permanent layoffs, and these figures were higher in manufacturing firms, at 32% and 9%. Also when workers did not lose their jobs, business owners had to reduce salaries: 40% (38) of male (female) business owners with any workers report to have had reductions or delays in their salary payments.</p>
<p>How was time allocation of entrepreneurs affected?</p>	<p>75% of female business owners report having had to increase the time spent caring for household members; the corresponding rate is 68% for males. This is likely driven by increased childcare needs as schools and nurseries remained closed in August.</p>
<p>What are coping strategies of the business owners?</p>	<p>81% of respondents reported spending savings to deal with the income decline. Female business owners also reported an increased reliance on family members as an important coping strategy during the pandemic. This may be related to the larger need of childcare.</p>

“75% of female business owners report having had to increase the time spent caring for household members; the corresponding rate is 68% for males. “

How was household well-being affected?

71% of female firm owners and 66% of male firm owners report having had to reduce the quality of food they consume at home, while around an equal share (62%) report being unable to buy the amount of food they would normally buy because their household income dropped. Overall, it is clear that the crisis seems to have caused food shortages for the respondents in our sample of business owners, even though they do not belong to the lowest socio-economic groups in Uganda.

Figure 1: Average profits over time

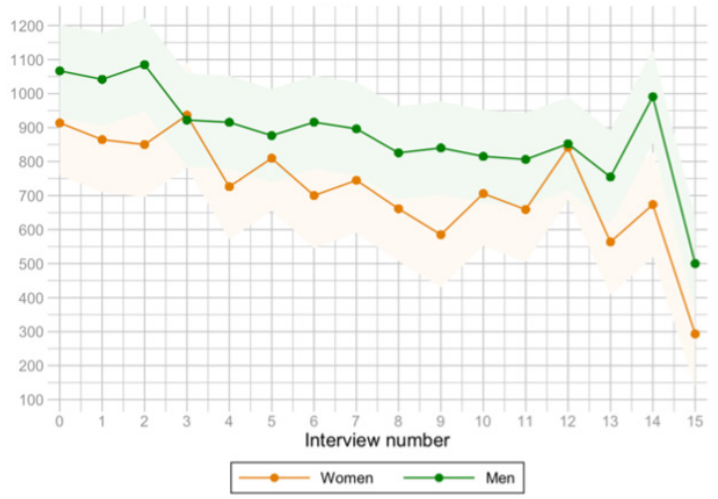


Figure 2: Average total employees over time



Conclusions and policy recommendations

Our findings highlight the importance of policies that support the SME sector's recovery during and following the COVID-19 crisis in Uganda. The crisis led to a sharp fall in job opportunities in the SME sector and a reduction in workers' earnings. As such, any policies to support SMEs during the crisis are likely to benefit both the firm owners and their employees.

“Policy initiatives for supporting SMEs should recognise that female business owners are likely to be affected by such aspects of the lockdown not directly related to the business operations, such as reduced mobility and closure of child care facilities and schools.”

We find suggestive evidence that female entrepreneurs and their businesses were affected more severely, with female business owners being more likely to report that they had to dedicate more time to take care of other household members and having to rely more on support from extended family members. These responses suggest that there could be negative consequences on female-owned businesses' growth patterns in the future, both due to greater time constraints and to intensified kinship taxation. Policy initiatives for supporting SMEs should recognise that female business owners are likely to be affected by such aspects of the lockdown not directly related to the business operations, such as reduced mobility and closure of child care facilities and schools.

A significant share of the firms in our sample describe that they had to lay off workers or reduce their workers' salaries. In line with this, we see a sharp fall in number of workers employed by the SMEs in our sample. At the same time, a significant share of SME-owners reported layoffs to be temporary rather than permanent, which indicates that businesses plan to go back to normal operations. Any policies to support SMEs during the crisis are likely to benefit their workers as well.

Finally, even though the respondents in our sample are not particularly poor, a majority of them report facing difficulties in accessing food and having had to reduce the quantity and quality of their food consumption. It is important to assess the long-term consequences of this on health and general wellbeing of households and their businesses.

References

- Hartwig, R. and T. Lakemann (2020). When the Going Gets Tough. Effects of the COVID-19 Pandemic on Informal Entrepreneurs in Uganda. German Institute for Global and Area Studies, Research Note.
- Gulesci, S., F. Loiacono, A. Madestam, M. Stryjan (2019). "Inside the Production Function: The Effect of Financial Contracts on Growing Firms' Technology Use." AEA RCT Registry. <https://doi.org/10.1257/rct.3062-1.0>.
- International Labour Organization (ILO) (2012). World of work report 2012: Better jobs for a better economy. ILO, Geneva
- Jakiela, P. and O. Ozier (2016). Does Africa Need a Rotten Kin Theorem? Experimental Evidence from Village Economics. *Review of Economic Studies*, 83(1): 231-268.
- Mahmud, M. and E. Riley. 2020. Household Response to an Extreme Shock: Evidence on the Immediate Impact of the COVID-19 Lockdown on Economic Outcomes and Well-being in Rural Uganda. Working paper, Oxford University.
- Malik, K., Meki, M., Morduch, J., Ogden, T., Quinn, S. and Said, F., 2020. "COVID-19 and the Future of Microfinance: Evidence and Insights from Pakistan". Forthcoming, *Oxford Review of Economic Policy* (special issue)
- Squires, M. (2017). Kinship Taxation as a Constraint to Microenterprise Growth: Experimental Evidence from Kenya. Working paper, University of British Columbia.
- Uganda Bureau of Statistics (2017). Trade and Industry Sector Statistical Abstract 2017/18.
- UN/DESA (2020). Policy Brief #66: COVID-19 and the least developed countries. May 1, 2020.