Priorities for MSMEs Economic Recovery

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January 13, 2022
Introduction

• MSMEs play a crucial role for Ugandan economy
  ▶ Contribute to 75% of GDP
  ▶ Employ 90% of the non-agricultural labor force
  ▶ Produce over 80% of manufactured output

• Strongly hit by COVID-19 related restrictions, with potentially large consequence on economic recovery going forward

Questions:

1. What was the impact of the second lockdown on firm survival and performance?

2. What policies would be most effective at fostering firm recovery and resilience?
• Representative survey of **600 tailoring firms** across 14 parishes in Kampala
  ▶ Firms sampled from Census of 2,000+ establishments in May 2021
  ▶ Median: 1 worker, revenues 120$/month, 5 years old, 93% informal

• Can look at impacts on firms in and outside Kikuubo
Timing of Data Collection

Data collected between May and July 2021:

1. **June 7th**: Mobility restrictions
   - Restriction of nonessential inter-district travel

2. **June 18th**: Hard nationwide lock-down
   - Intra-district movement suspended
   - All businesses in Kikuubo to remain closed

3. **Most restrictions lifted on August 2nd**
   - Activities in Kikuubo allowed to reopen
   - Night curfew still in place
Large number of firms closed during lockdown, 5% permanently

- 90% firms in Kikuubo forced to shut down during lockdown
  - Almost all closures occurred on June 19th → policy not anticipated
- Outside Kikuubo, 15% shut down even if not forced to
- By September 2021, 95% of firms had reopened
- No differential survival in and outside Kikuubo

Note: pre: May 2021, during: July 2021, post: September 2021
In Kikuubo, 10% of firms had to relocate after the lockdown

- More than 10% of firms in Kikuubo relocated after lockdown (vs. 4% outside)
- In the majority of cases, located to a different building in same parish
  - Suggests eviction due to missed/late rental payment
- Potential loss of firm’s network
Firms sustained large revenues losses during the lockdown

- After 
  **mobility restrictions**: 43% lower revenues in Kikuubo, no change outside
- After 
  **lockdown**: revenues very close to zero across all locations
- In 42 days lockdown, firms lost 1.8M and 900k in and outside Kikuubo respectively
Firms in Kikuubo lost customers from outside Kampala

- Pre restrictions: 59% of customers in Kikuubo from outside Kampala, vs. only 21% of customers outside Kikuubo
- Loss of customers from other districts unable to travel due to restrictions
  - Ripple effects on retailers in other districts despite localized policies
Key COVID-19 challenges: Lack of demand, access to inputs

- **Lack of demand** by far the most important challenge faced by firms
  - Due both to customers’ limited mobility and lower income

- **On the supply side:**
  - Limited access to inputs due to (i) higher prices (ii) lower liquidity (iii) restricted mobility
But firms are willing to adapt their practices

- 77% of firms introduced new practices in response to new COVID-19 wave
- Introduction of SOPs and lower prices most common practices
- Ordering via phone/internet also became more common → suggests firms open virtual interactions
Recovery from the First Lockdown was slow

- Firm behaviour similar to first lockdown: most firm closures are temporary
- Despite few closures, firms suffer sustained drops in revenues and profits:
  - Respectively 25% and 35% lower than pre-lockdown levels one year later
- Primary challenge still related to low demand

Note: Data is from 2,300 firms across 15 urban areas in Kampala in the following sectors: motor-mechanics, plumbing, catering, tailoring, hairdressing, construction, electrical and welding
COVID-19 related policies

1. **Announce policies** in advance to allow firms to adapt business practices
   - Firms can bring small machines / tools home, where they can operate without having direct contacts with customers
   - Can help alleviate revenues drop

2. Allow **goods to circulate**
   - Limits ripple effects on areas with few COVID-19 cases and less stringent restrictions
   - Public transport operators to earn income by transporting freight
   - Must be accompanied by strict testing rules

3. **Subsidize rent** for firms that cannot operate to limit evictions and loss of business networks
Policies to foster economic recovery

1. **Reduce mobility restrictions** unless necessary for public safety
   - Allows firms to operate at full capacity, customers to avoid overnight travel
   - Particularly important for owners and workers commuting to work

2. Incentivize **virtual interactions** with customers
   - Distribution of internet bundles / Airtime + tech training
   - Reduces transport costs for liquidity constrained customers and firm owners
   - Long-run impacts, e.g. by decongesting crowded city centers

3. Prioritize policies that **stimulate demand** (e.g. cash transfers to consumers)
   - Facilitates firm recovery while providing social protection to households
Thank you!
During the lockdown, over 95% of open businesses operated at reduced capacity.

Lower capacity almost universally related to reduced hours of operation.
• From customer data, know purchasing history: 62% drop in monthly transactions

• Only 11% of customers started buying from new firms after lockdown

• Suggests customers are unable / unwilling to change suppliers:
  ▶ Low demand due to lower income
  ▶ Difficulty of establishing new relationships
Share of Retail Customers

- The graph shows the share of retail customers over time, with specific dates noted:
  - 28 May 2021
  - 30 May 2021
  - 01 June 2021
  - 03 June 2021
  - 05 June 2021
  - 07 June 2021
  - 09 June 2021
  - 11 June 2021
  - 13 June 2021
  - 15 June 2021
  - 17 June 2021
  - 19 June 2021
  - 21 June 2021
  - 23 June 2021
  - 25 June 2021

- Different lines on the graph represent:
  - Mobility restrictions
  - Lockdown
  - Outside Kikubo
  - In Kikubo

- The chart indicates changes in share of retail customers under various conditions and dates.