

# Priorities for MSMEs Economic Recovery

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- MSMEs play a crucial role in the economic growth of Uganda
  - ▶ Contribute to 75% of GDP
  - ▶ Employ 90% of the non-agricultural labor force
  - ▶ Produce over 80% of manufactured output
- Largely concentrated in major urban areas, with almost 30% in Kampala
  - ▶ Strongly hit by second lockdown policies
  - ▶ Potential ripple effects on the rest of the country via supply chains

## Questions:

1. How did the second lockdown affect firms across Kampala?
2. What policies would be most effective at fostering firm resilience and recovery?

- Representative survey of **600 tailoring firms** across 14 parishes in Kampala
  - ▶ Firms sampled from Census of 2,000+ establishments in May 2021 Census
  - ▶ Median: 1 worker, revenues 120\$/month, 5years old, 93% informal
- Data collected between May and July 2021:
  - ▶ 61% of firms interviewed before second lockdown introduced on June 18th
  - ▶ Can track firm closures / sales / relocation as new measures are introduced
  - ▶ Can look at impacts on firms in and outside Kikubo
- Survey of **600 customers** of these firms
  - ▶ 50% final customers, 50% business customers
  - ▶ Data on purchases → can tell us whether stopped buying and/or changed suppliers

# The 2021 COVID-19 Lockdown in Uganda

Two crucial policy changes introduced in June 2021:

1. **June 7th:** Mobility restrictions

- ▶ Restriction of nonessential inter-district travel, except between Kampala, Wakiso, and Mukono

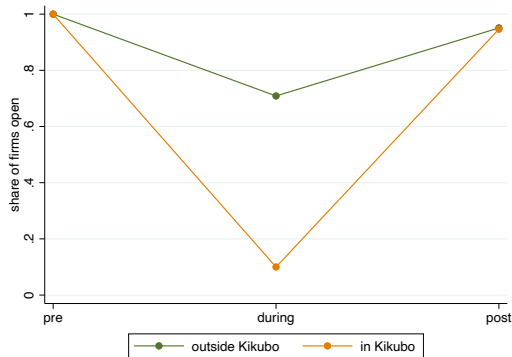
2. **June 18th:** Hard nationwide lock-down

- ▶ Intra-district movement of public transport and by private vehicles or boda bodas suspended
- ▶ All businesses in Kikubo to remain closed
- ▶ Night curfew from 7pm to 5.30am

3. Most restrictions lifted on August 2nd

- ▶ Public transport to operate at 50% capacity
- ▶ Activities in Kikubo allowed to reopen

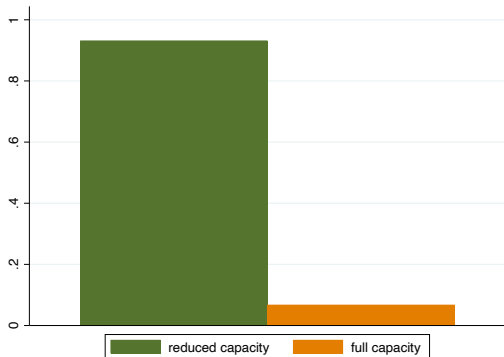
# Firm Closures in Kampala



Note pre: May 2021, during: July 2021, post: September 2021

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

## Firms kept operating at reduced capacity



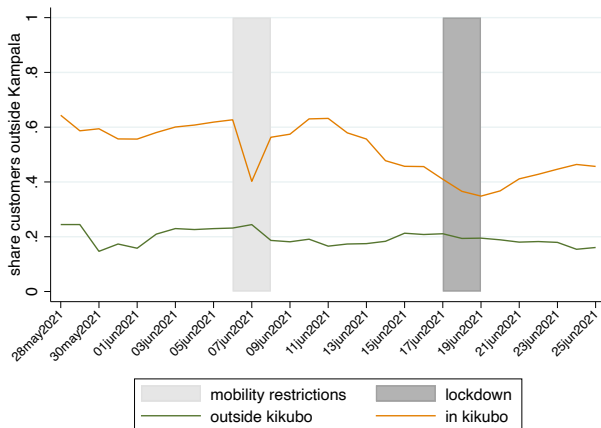
- During the lockdown, over 95% of open businesses operated at reduced capacity
- Lower capacity almost universally related to reduced hours of operation

# Sharp drop in daily revenues



- Change in daily revenues with respect pre-lockdown:
  - ▶ After **mobility restrictions**: 43% lower in Kikubo, no change outside Kikubo
  - ▶ After **lockdown**: 93% and 72% lower in and outside Kikubo
- In 42 days lockdown, firms lost 1.8M and 900k in and outside Kikubo respectively
- Kikubo hit hardly by inter-district travel restrictions → lower demand

# Loss of customers travelling from outside Kampala

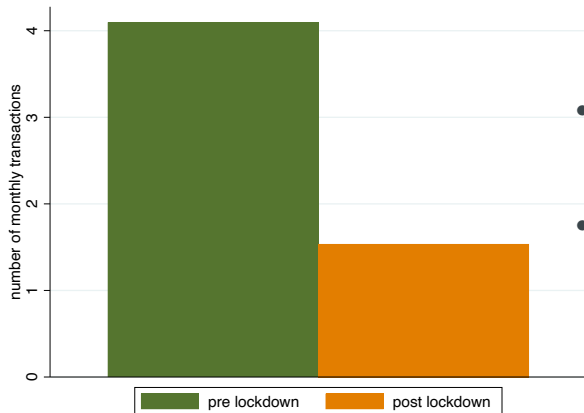


- 49% of customers in Kikubo are from outside Kampala, vs. only 21% of customers outside Kikubo
- Firms in Kikubo lose customers from other districts (typically retailers) who are unable to travel due to restrictions → ripple effects

ShareRetail

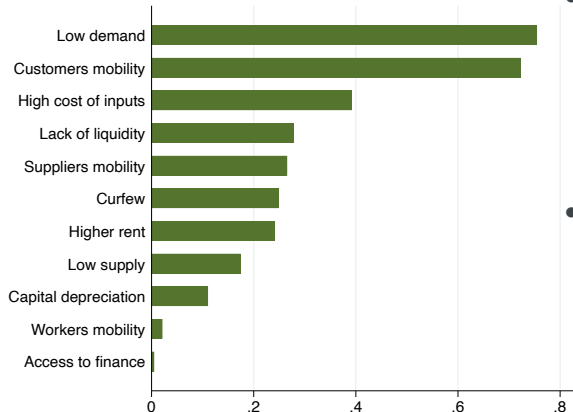


# Change in Monthly Transactions



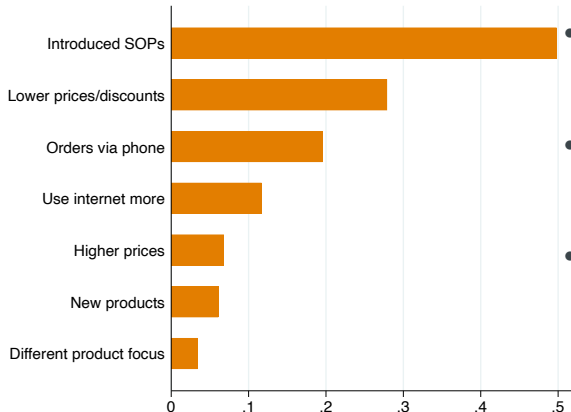
- From customer data, know purchasing history: 62% drop in monthly transactions
- Only 11% of customers started buying from new firms after lockdown
- Suggests customers are unable / unwilling to change suppliers:
  - ▶ Low demand due to lower income
  - ▶ Difficulty of establishing new relationships

# Challenges related to COVID-19



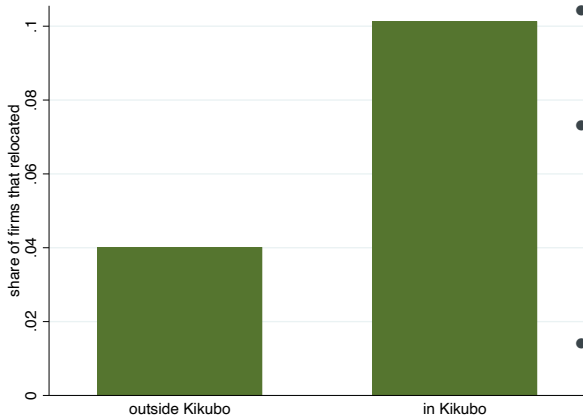
- Lack of **demand** by far the most important challenge faced by firms
  - ▶ Due both to customers' limited mobility and lower income
- On the **supply** side:
  - ▶ Increased cost of inputs
  - ▶ Limited access to inputs due to (i) mobility and (ii) suppliers' reduced business activity

# New practices in response to COVID-19



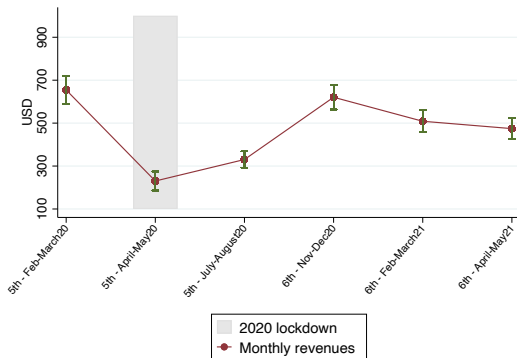
- 77% of firms introduced new practices in response to new COVID-19 wave
- Introduction of SOPs and lower prices most common practices
- Ordering via phone/internet also became more common  
→ suggests firms open virtual interactions

# Firm Relocation



- More than 10% of firms in Kikubo 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

# Comparison with First Lockdown



**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

- 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 25% lower than pre-lockdown levels one year later
- Primary challenge still related to low demand

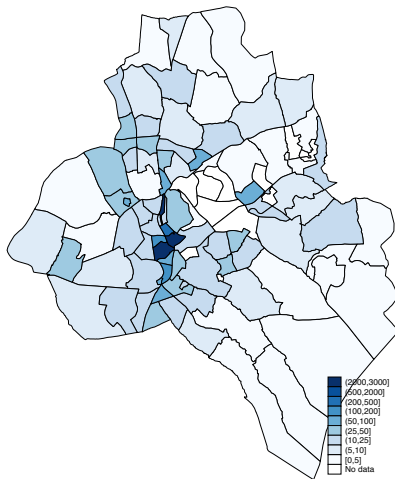
# Policy Recommendations

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
2. Incentivize **virtual interactions** with customers
  - ▶ Distribution of internet bundles / Airtime + tech training
  - ▶ Can have long-run effects and help decongesting crowded areas (e.g. Kikubo)
  - ▶ Must be accompanied by free circulation of goods
3. Allow **goods to circulate**
  - ▶ Limits ripple effects on areas with few Covid-19 cases, where firms can operate
  - ▶ Public transport operators to earn income by transporting freight
  - ▶ Must be accompanied by strict testing rules
4. Policies to **stimulate demand** (e.g. cash transfers to consumers) to facilitate firm recovery

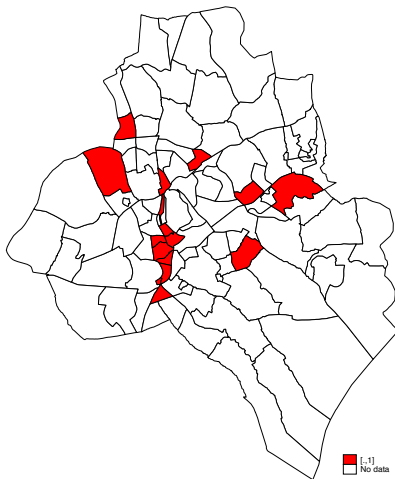
**Thank you!**

# Selected Parishes

Garment firms per square-km



Selected Parishes



Source: 2010 Census of Business Establishments



# Share of Retail Customers

