

UGANDA'S COVID-19 ECONOMIC STIMULUS PACKAGE: WILL IT DELIVER?



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UGANDA'S COVID-19 ECONOMIC STIMULUS PACKAGE: WILL IT DELIVER?

INTRODUCTION

The Government of Uganda announced the economic stimulus package to be implemented during financial year 2021 in the medium term in order to boost economic growth and lead the economy out of the projected economic slowdown resulting from the COVID pandemic and institution of containment measures.

It is projected that Uganda's Real gross domestic product (GDP) growth will fall to a range of 3 to 3.3¹ percent in FY 20 from 6.5 percent in FY19² and approximately 780,000 Ugandans could be pushed into poverty³. A slowdown in overall economic growth is already being felt, and this is acute in hard-hit sectors such as; education, information services, tourism, entertainment and construction and manufacturing that faced a decrease in revenue streams and severe liquidity constraints.⁴ This is despite the progressive opening of the lockdown, that saw businesses like Salons, Arcades, reopened, and 'Boda Boda' riders – bicycle and motorcycle taxis allowed to operate.

The package seeks to restore household incomes, re-ignite business activity through; the provision of tax deferments, an increase in government spending, lowering interest rates and provision of access to credit to support Micro Small and Medium Enterprises (MSMEs), amongst others.⁵

It is envisaged that MSMEs and other manufacturing firms affected as a result of the COVID pandemic and subsequent national lockdown and containment measures, would be able to access investment finance and improve their cash flows.

Micro enterprises (93.5 percent), small (4.1 percent) enterprises have been hit disproportionately harder and experienced the largest decline in business activity during COVID compared to medium and large firms (2.4 percent) enterprises.⁶

According to the Ministry of Trade and Cooperatives, 4,200 companies across the country shut down by April as a result of the ongoing COVID-19 lockdown, and only 215 industries/factories,

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- 1 Cabinet Memorandum 62 on Government Economic Policy Responses to cope with the effects of COVID-19, approved by Cabinet on May 25, 2020.
 - 2 Budget Speech 2020.
 - 3 The Minister of Finance, Planning and Economic Development, Statement On the Economic Impact of Covid-On Uganda, March, 20, 2020.
 - 4 UNCDF, Uganda Business Impact Survey, Impact of Covid-19 on the formal sector, small and medium enterprises, 2020.
 - 5 Budget Speech 2020 / 2021 available at <http://statehouse.go.ug/sites/default/files/attachments/press-releases/fy-2020-21-budget-speech.pdf>
 - 6 United Nations, Analyses of the socioeconomic impact of COVID-19 in Uganda, 2020.

especially those producing essential commodities, were still operating.⁷

The economic stimulus package will be implemented through three major institutions: Uganda Development Bank (UDB); Uganda Development Corporation (UDC); Microfinance Support Centre (MSC) to support citizens and MSMEs that were out of business or need to improve liquidity. This factsheet analyses whether the government's plan will provide MSMEs with liquidity and reach those who need it the most. The factsheet focuses on the institutional capacity for each of the institutions to deliver on the stimulus package.

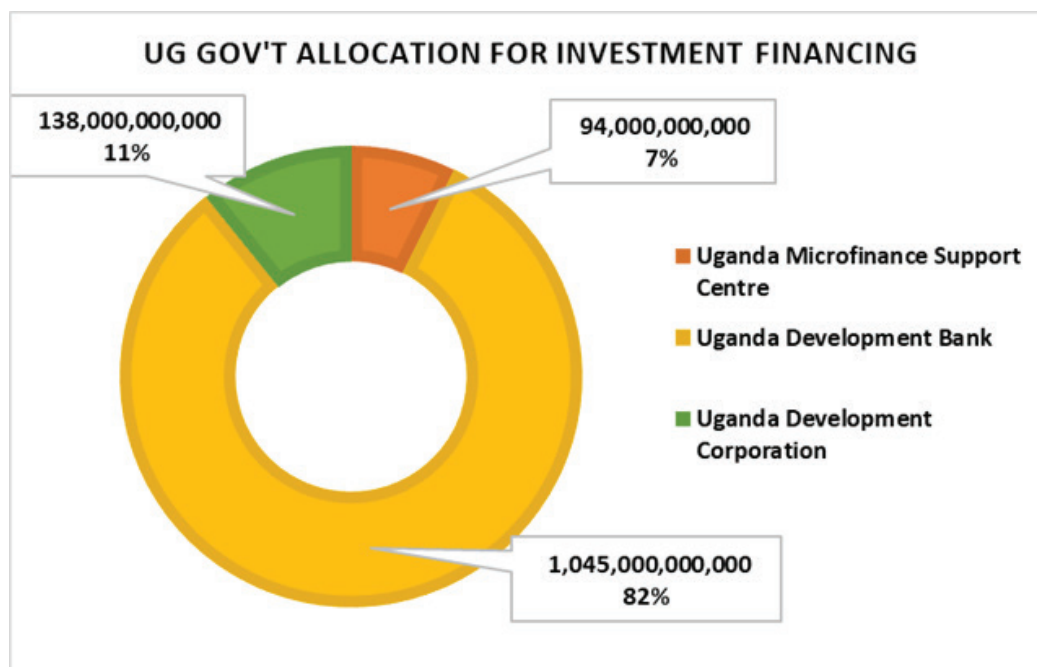
UGANDA - COVID-19 FISCAL STIMULUS PACKAGE

Government of Uganda Economic stimulus and growth strategy

For the FY 2020/21, the government has mobilized from International Financial Institutions (IFIs) and domestic resources to stimulate the economy.

It has allocated approximately UGX 1 trillion 277 Billion towards the recapitalization of UDB, UDC, and MSC to improve the availability of investment finance and the cash-flows of MSMEs and other manufacturing firms,

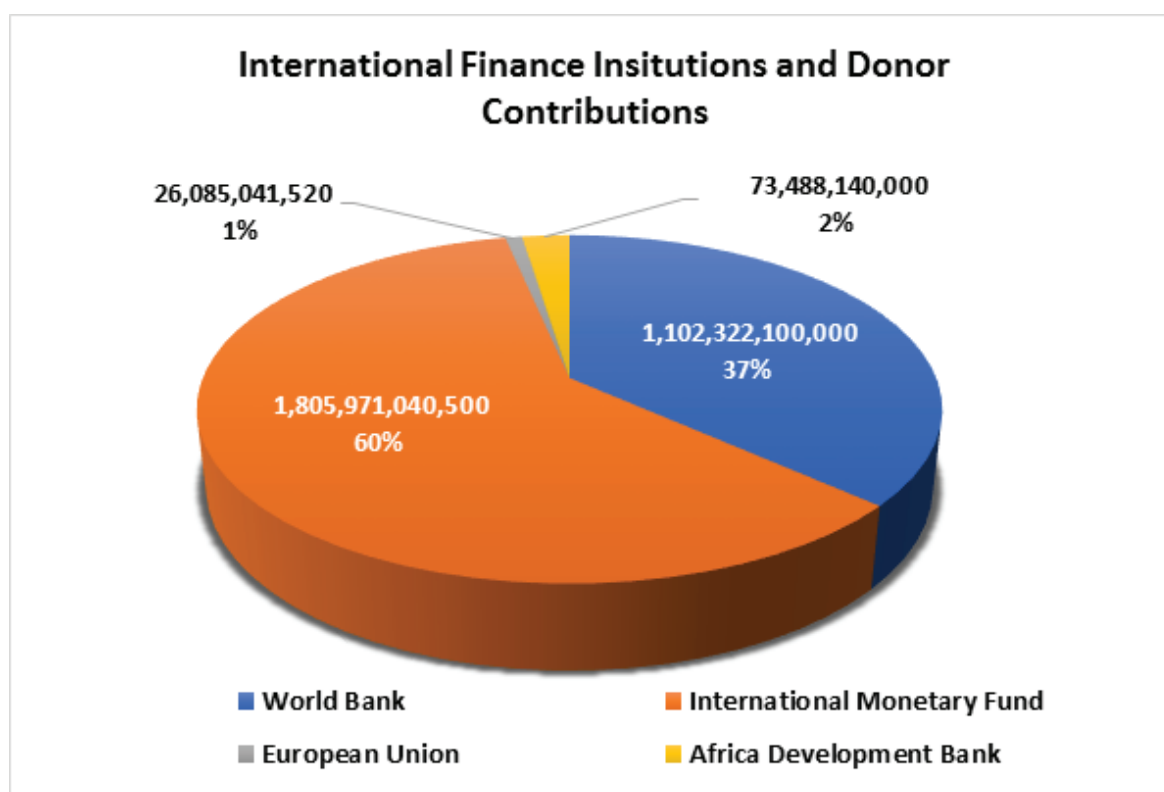
as represented below;



7 Mukhaye. D. (2020). 4,200 companies close over Covid-19 lockdown, Daily Monitor, 22 April, 2020. Available at https://www.monitor.co.ug/News/National/4-200-companies-close-over-Covid-19-lockdown/688334-5531256-n2g_bmkz/index.html

International Finance Institutions and Donors Contributions

International Finance Institutions and Donors like the World Bank⁸, International Monetary Fund (IMF)⁹, European Union (EU)¹⁰ and African Development Bank¹¹ have contributed funds to support the government set in place measures to ensure provision of relief to businesses that have been most affected the pandemic and foster economic recovery, amongst others.¹²



- 8 On the 29th of June, a US\$300 million budget support recovery for Uganda was approved by the World Bank. See Financial Agreement between Uganda and World Bank.
- 9 On 6th May 2020, The IMF approved a UGX 1.9 trillion (US\$491.5 million) loan to the government of Uganda. See IMF press release No. 20/206, IMF Executive Board Approves a US\$491.5 Million Disbursement to Uganda to Address the COVID-19 Pandemic. Available at <https://www.imf.org/en/News/Articles/2020/05/06/pr20206-uganda-imf-executive-board-approves-us-million-disbursement-address-the-covid-19-pandemic>
- 10 Ministry of Tourism secures UGX 25Bn stimulus package from EU, The Independent, June, 29th, 2020.
- 11 UDB and AfDB signed an agreement for funding worth USD 20 million, aimed at providing credit to Small and Medium Enterprises (SMEs), at favourable interest rates. See <https://www.udbl.co.ug/udb-receives-usd-20m-funding-from-african-development-bank/>
- 12 Financial Agreement between Uganda and World Bank

Analysis of Uganda's Economic Stimulus

The Uganda Development Bank Limited (UDB)

UDB was the first national Development Finance Institution (DFI) in Uganda. Established under Decree No. 23 of 1972 (later the Uganda Development Bank Act Cap. 56 of 1972¹³), the Bank is mandated to provide finance in the form of short-, medium- or long-term secured loans, amongst others.¹⁴

The Bank offers short, medium- and long-term financing, equity financing, and project preparation and business advisory services to SMEs and large-scale development projects in the key priority sectors; agriculture, agro-industrialization, and manufacturing as detailed below.

<i>Loan Type</i>	<i>Term</i>	<i>Features</i>
<i>Short Term Loans</i>	1 to 3 years	<ul style="list-style-type: none"> ➤ Towards working capital requirements ➤ Intended to facilitate key operational requirements that directly aid production such as the purchase of raw materials and productive inputs.
<i>Medium Term Loans</i>	4 to 8 years	<ul style="list-style-type: none"> ➤ Intended for projects with a capital expenditure requirement for expansion, refurbishment, re-equipment, and new asset acquisition
<i>Long Term Loans</i>	5 to 15 years	<ul style="list-style-type: none"> ➤ Suited for large scale projects such as infrastructural development and others. ➤ Projects with a large capital expenditure component to be implemented over a relatively long time

Source: Adopted from UDB website

UDB's credit risk exposure is managed through a rigorous credit assessment process, pre and post sanction adherence to covenants made by borrowers and includes a well-established procedure of comprehensive credit appraisal and rating.¹⁵ For a borrower to access credit, the project for which funding is sought must be under one of UDB's priority areas of agriculture, agro-industrialisation, and manufacturing. Additionally, the businesses must provide the Bank with the necessary

¹³ An Act to establish the Uganda Development Bank and the Credit Guarantee Fund and for other matters connected therewith

¹⁴ Section 4 of the UDB Act.

¹⁵ UDB Annual Report, 2017.

documentation to facilitate due diligence;

- A business plan and all other documents that lay out the feasibility and viability of the business.
- The business must demonstrate expected development impacts such as job creation, tax revenue generation and import substitution.
- The business must demonstrate its contribution to the business, in the form of equity, of between 10%-60%. This means that UDB will often only lend up to a certain percentage of the money needed for a project and requires that the business owner contributes 10%-60% to cover the balance.
- The business must have collateral if required.
- The businesses or projects must show a minimum lending requirement of 100m.¹⁶

According to Patricia Ojangole, the Managing Director, UDB, *50% of Ugandan business, MSMEs included, fail to access funding from UDB, the main reason being failure to meet lending requirements, chief among them being the provision of collateral security*¹⁷. The above requirements present various challenges when applied to the COVID19 economic stimulus program as indicated in the table below;

Challenge	Explanation
Rigorous Credit Appraisal Processes will alienate MSMEs	<p><i>The credit approval processes and high minimum lending thresholds are biased towards large corporate borrowers, who provide better business plans, have credit ratings, more reliable financial information, better chances of success, and higher profitability. The rigorous and lengthy credit appraisal and assessment processes followed by UDB will discourage many SMEs, especially those that have no working relationship with the Bank. Commercial lending in Uganda is relational, an existing relationship with a bank and a good credit history as well as the availability of assets that may serve as a collateral increase the chances of larger companies to obtain commercial credit.</i>¹⁸</p> <p><i>The 100m minimum lending requirement will alienate most MSMEs. It is noteworthy that, Ugandan enterprises are largely informal focused on low productivity activities and largely a by-product of poverty and a lack of accessible formal employment.</i>¹⁹ <i>Importantly, 70% (321,250 Million) firms in Uganda generate UGX 5 million or less in annual</i></p>

16 Faridak. K. (2020). Why 50% of Businesses Don't Get Credit from UDB. July, 22, 2020

17 Ibid

18 IFC, Assessment of The Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets. Also see Alice Arinaitwe* & Rogers Mwesigwa, 2015, Improving Credit Accessibility among SME's in Uganda. <https://www.longdom.org/articles/improving-credit-accessibility-among-smes-in-uganda.pdf>

19 World Bank. (2017). From regulators to enablers: The role of city governments in economic development of greater Kampala. Washington D.C.: World Bank Group.

	<p><i>turnover, while 20% (91,447 Million) firms generate between 5-10 million and only about 10 percent (45,409) have an annual turnover of more than 10 million.²⁰ Indeed, only 10% of these firms have a bank loan or line of credit.²¹</i></p> <p>Additionally, <i>the lack of detailed credit information by MSMEs closes access to finance.</i> According to the IFC, MSMEs often lack the necessary technical knowledge to keep, let alone prepare the kind of sound financial statements needed for loan applications²². The application of tough screening measures will drive up costs on all sides for MSMEs and make credit inaccessible.</p>
Legal registration requirements make credit inaccessible to most MSMEs	<p>To qualify for financial services from UDB, MSMEs must have undergone the legal process of forming a corporate entity with the Uganda Registration Services Bureau (URSB) or registered as a Co-operatives or registered farmer groups. This disregards the glaring statistics. According to the Ministry of Trade, Industry and Cooperatives, a greater percentage MSMEs are unregistered and operate informally and yet these businesses are the backbone of economic growth in Uganda.²³</p>
Reliance on land titles as Collateral excludes MSMEs who are most financially constrained	<p><i>The reliance on land titles as collateral excludes many otherwise creditworthy small-scale borrowers.</i> According to a study, access to finance represents one of the most significant challenges for entrepreneurs and the creation, survival, and growth of small businesses in Uganda and yet financial institutions do not sanction credit to the SMEs for lack of collateral.²⁴ This is because movable assets such as machinery, equipment, or receivables — as opposed to fixed assets, such as land or buildings — often account for most of the firms' capital stock, particularly for MSMEs.²⁵ The use of movable</p>

- 20 Uganda Bureau of Statistics, Census Of Business Establishments, 2010/11 Available at https://www.ubos.org/wp-content/uploads/publications/03_20182010_COBE_Report.pdf
- 21 Lakuma, C.P., Marty, R. & Muhumuza, F. Financial inclusion and micro, small, and medium enterprises (MSMEs) growth in Uganda. J Innov Entrep 8, 15 (2019).
- 22 https://www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSME_ReportFINAL.pdf?MOD=AJPERES&CVID=m5SwAQA
- 23 Ministry of Trade, Industry and Cooperatives, Uganda Micro, Small and Medium Enterprise (MSME) Policy, 2015.
- 24 Alice Arinaitwe* & Rogers Mwesigwa & Department of Business Administration Makerere University Business School, Improving Credit Accessibility among SME's in Uganda, Global Journal of Commerce & Management Perspective. Available at <https://www.longdom.org/articles/improving-credit-accessibility-among-smes-in-uganda.pdf>
- 25 https://www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSME_Report_FINAL.pdf?MOD=AJPERES&CVID=m5SwAQA

Property Act, would allow MSMEs to use their movable assets as collateral for loans. Additionally, the establishment of SME Credit Guarantee Schemes to de-risk lending to the MSMEs should also be considered. The Kenyan government allocated Sh3 billion seed capital to operationalize SME Credit Guarantee Schemes, as part of its economic stimulus package.

Uganda Development Corporation (UDC)

UDC is a wholly government owned investment institution with the mandate to facilitate the industrial and economic development of Uganda. UDC's mission is to make long-term investments in strategic sectors of the economy to stimulate industrial and economic development and thus spur private sector growth through:

- i) Establishment of subsidiaries and associated companies;
- ii) Entering into public-private partnerships with any commercial, industrial or agricultural undertakings or enterprises;
- iii) Using public-private partnerships, assisting in financing and management of undertakings promoting industrial or economic development; and
- iv) Promoting and facilitating research into industrial development.

Any project proposal submitted to UDC undergoes; a preliminary assessment to establish whether the intervention will be a strategic one. If the findings are affirmative, comprehensive due diligence and project appraisal is undertaken. However, the stimulus package implemented through UDC may not achieve the intended objective of recovery of the economy as shown in the table below;

Issue	Explanation
Lack of clear guidelines by UDC hinders access, particularly by businesses that are most in need.	Since the government announced the stimulus package intended to revitalize businesses, no details about the criteria or guidelines of application have been widely disseminated. Although UDC official website has general information on the access to credit, it does not specifically spell out what processes businesses would need to undertake to access the Economic Stimulus package.

UDC's focus on pre-defined priority projects makes it unsuitable for emergency recovery funds	UDC's strategic direction for the next 10 years is premised on the gist of utilizing and processing/manufacturing of local raw materials, amongst others. It is therefore imperative that any investments by UDC have a value addition component to them. As April 2019, UDC's current investment portfolio constituted only four projects; Soroti Fruit Factory, Kigezi Highland tea Company, Horyal Investments Holding Company Limited/ Atiak Sugar Factory and Kalangala Infrastructure Services Limited. UDC's focus on pre-defined priority projects makes it unsuitable for emergency recovery funds and leaves out affected by COVID 19 like trade, recreation, and social services, amongst others.
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Microfinance Support Centre (MSC)

The MSC is a government-owned company established in 2001 to manage all government of Uganda microcredit programs. It facilitates access to affordable, sustainable, and convenient financial and business development services. MSC is currently implementing the *Emyooga* program as elaborated in the table below;

Categories of beneficiaries	How the beneficiaries are identified	Process of accessing funds
<ul style="list-style-type: none"> • Boda Bodas • Women Entrepreneurs • Carpenters • Salon Operators • Taxi Operators • Restaurant Owners • Welders • Market Vendors • Youth Leaders • Persons with Disabilities (PWDs) • Produce Dealers • Mechanics • Tailors • Journalists • Performing Artists 	<p>The SACCOs for each category will be organized at the constituency level but with operations at the parish level through established parish associations.</p> <p>All economically active Ugandans aged 18 to 35 years of age.</p>	<p>The identification of individuals is at a village level with the support of the LC 1 leadership.</p> <p>An individual must subscribe to one of the 18 categories, subscribe a Parish level association registered with the District Community Development Officer.</p> <p>Each parish association should have 7-30 members enlisted for a particular enterprise.</p> <p>Each member of a group will pay membership and subscription fees as agreed upon by the group.</p> <p>Both membership and annual subscription fees payable by each parish association to the constituency SACCO shall not exceed Ush. 20,000/-</p>

<ul style="list-style-type: none"> • Veterans • Fishermen • Elected Leaders 		<p>The District Task Forces headed by the Resident District Commissioners (RDCS) and comprised of District-Commercial Officers (DCOs), District Community Development Officers (DCDOs), Local Council V Chairpersons (LCV), and District NRM Chairpersons (DNRMC), are charged with mobilizing communities to participate in the program.</p>
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Source: Microfinance Support Centre Website

It is envisaged that the reinforcement of the emyooga Funds would provide support to the most affected businesses like; the boda-boda riders, the salon operators, the bars, the nightclubs, the artists, the president emphasized the plan to have the above funds.²⁷ The Emyooga initiative targets Ugandans from clusters mentioned above and aims to avail each cluster with shs30 million as seed capital. Each constituency, apart from Wakiso district, is entitled to Shs560m. Wakiso will be given Shs4.4b because it has eight constituencies.^{28,29} The initiative, therefore, aims to provide approximately 18 Clusters per constituency except for Wakiso district. However, the stimulus package implemented through MSC may not achieve the intended objective of economic recovery for businesses as shown in the table below;

Issue	Explanation
Emyooga Initiative limited to youth SACCOs and susceptible to Corruption.	<p>The limitation of membership to persons who are 35 and below limits the intervention to youth and does not cater to other business owners that are not in that demographic.</p> <p>Additionally, there have been reports of corruption amongst District leaders that ask for kickbacks while processing on the Emyooga funds. Locals have lost trust in such SACCOs due to corruption and embezzlement by officials responsible for overseeing their implementation³⁰. It is yet to be seen</p>

²⁷ Supra note

²⁸ Arthur Arnold Wadero & Damalie Mukhaye (2020), Government unveils Shs165b poverty eradication scheme, Daily Monitor, July, 10, 2020 <https://www.monitor.co.ug/News/National/Government-unveils-Shs165b-poverty-eradication-scheme/688334-5591234-8uhjru/index.html>

²⁹ Emma Olinga. 400,000 Groups Register for 'Emyooga' Initiative in Teso, Uganda Radio Network, July 10, 2020. Available at <https://ugandaradionetwork.net/story/over-400000-groups-register-for-emyooga-initiative-in-teso>

³⁰ Kigezi leaders doubt effectiveness of 'Emyooga' initiative, The Independent, June, 26, 2020. Available at <https://www.independent.co.ug/kigezi-leaders-doubt-effectiveness-of-emyooga-initiative/> 33 Supra note 34.

	<p>if the money allocated per parish will be enough to sustain all registered SACCOs. According to Simon Peter Egiriat, the Zonal Manager Micro support Centre, Soroti; revealed that Amuria has the highest number of people seeking Emyooga funding with 654, followed by Kumi with 461, Ngora 436 and Serere 384. The others are Katakwi with 340 files, Kalaki 215, and Kaberamaido 210.</p>
<p>Forced SACCO registration may lead to unsuitable businesses.</p>	<p>Setting the formation of SACCOs as a prerequisite for access to credit forces people to quickly come together just for purposes of accessing credit without proper planning. This may limit the effectiveness of the extended credit as many businesses may fail and result in a limited capacity to pay. It is impossible to rule out conflict such cases like these where people who have no prior business relationship simply come together to access credit. Additionally, SACCOs also have an elaborate regulatory framework that may present challenges in the short term.</p>

Cross Cutting Challenges

Lack of transparency, limited participation, and clear accountability mechanisms

Overall, the lack of transparency, limited participation, and clear accountability mechanisms remain key challenges in the utilisation and disbursement of the economic stimulus package. Beyond the amount of money allocated for various purposes, the government did not publically disclose detailed specifications on the measures including costing and transparent eligibility criteria. This has made monitoring by civil society and other actors difficult. In June 2020, SMEs called upon the government to share a clear plan on how it intends to reinvigorate the economy through the proposed stimulus package.³¹ Although the government unveiled the proposed economic stimulus package and various measures to provide liquidity for private firms affected by the COVID-19-induced national lockdown, many information gaps still exist.

31 Kasemiire .C. (2020). Uncertainty around government stimulus worries SMEs. Daily Monitor, June, 1, 2020. Available at <https://www.monitor.co.ug/Business/Finance/Uncertainty-around-government-stimulus-worries-SMEs/688608-5568700-92j115z/index.html>

The dissemination of information for eligibility criteria and application processes was left to the various implementing Financial Institutions, most of which uploaded the same information on their websites. Having information only on websites presents a challenge given the targeted demographic who often lack internet. Only nine percent of Ugandans living in rural areas have access to the Internet and about a third (30%) of urban area dwellers using it.³²

Additionally, given the nature of the COVID-19 pandemic, wide consultations with stakeholders, and the general public to tailor the economic stimulus package and fine-tune its parameters was not undertaken. Notwithstanding the need for speed and flexibility in the face of the pandemic, the design of the support package should have followed set standards of transparency and participation to ensure the effectiveness of the package, and avoid any misappropriation of funds disbursed.

RECOMMENDATIONS

- Mass sensitisation and information sharing by the implementing institutions and the government should be undertaken to ensure access to relevant information by the most in need and promote transparency and accountability. Implementing institutions should move beyond mere sharing of some information on their official websites and newspapers to more targeted dissemination of information to their targeted audience.
- Ensure meaningful participation of intended beneficiaries before, during and after implementation of the stimulus package to enable sustained economic recovery.
- Participating development Institutions should put in place flexible arrangements for credit access that include smaller businesses and informal sector that would otherwise not benefit under the existing criteria. The use of movable property as security as regulated by the Security Interest in Movable Property Act for example, should be adopted to foster access to credit by MSMEs. This will help minimize the risk that stimulus aggravates economic disparities
- The government should adopt Risk-sharing strategies like provision of credit guarantees to increase MSMEs' access to by lowering the amount of collateral that an MSME needs to pledge to receive a loan. A credit guarantee scheme would allow for higher-risk borrowers to access credit. Kenya for example has set up in the current crisis a credit guarantee scheme to ensure access to credit by SMEs.
- Set and apply objective, transparent criteria for determining eligibility for economic stimulus packages and make this information readily accessible. This will foster the availability of credit information by supporting information sharing between parties.
- International Finance Institutions like the World Bank should share the responsibility of ensuring transparency and accountability by requiring the government to publicize what the funds have done in response to the COVID situation.

32 Research ICT Africa, The State of ICT in Uganda, 2019. Available at https://researchictafrica.net/wp/wp-content/uploads/2019/05/2019_After-Access-The-State-of-ICT-in-Uganda.pdf



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