



Impact of COVID-19 on Ugandan MSMEs

Inputs to the United Nations Socio-Economic Impact Assessment of COVID-19 in Uganda

May 2020



**MINISTRY OF TRADE,
INDUSTRY AND COOPERATIVES**



MAKERERE UNIVERSITY



Uganda Revenue Authority
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The College of Business and Management Sciences (CoBAMS) of Makerere University aspires to be a leading institution of academic excellence and innovations in Africa in its area of expertise. Its mission is to produce high calibre professionals and promote research and knowledge transfer in Economics, Statistics, Business Management and Population Sciences, for informed policy and sustainable development. CoBAMS is mandated to teach and undertake research in the following areas: Actuarial Sciences, Business, Economics, Management, Statistics and Population Studies.



The Uganda Revenue Authority (URA) is a government revenue collection agency established by the Parliament of Uganda. Operating under the Ministry of Finance, Planning and Economic Development, the URA is responsible for enforcing, assessing, collecting, and accounting for the various tax revenues (including non-tax revenues) imposed in Uganda and to provide advice to government on matters of policy relating to all revenue sources. Its strategic direction is to cultivate a taxpaying culture through provision of reliable services, leadership development and building strategic partnerships.



The Ministry of Trade, Industry and Cooperatives (MoTIC) is entrusted with the responsibility to formulate, review and support policies, strategies, plans and programs that promote and ensure expansion and diversification of trade, cooperatives, environmentally sustainable industrialization, appropriate technology development and transfer to generate wealth for poverty eradication and benefit the country socially and economically. The vision of the Ministry is: "Sustainable cooperatives, competitive trade and world class industrial products and services". The mission of the Ministry is: "To develop and promote a competitive and export-led Private Sector through accelerating industrial development for economic growth."

As part of a broader socio-economic assessment of COVID-19 undertaken by the United Nations in Uganda, UNCDF in cooperation with Makerere University (the College of Business and Management Sciences) and with the support of the Uganda Revenue Authority and Ministry of Trade, Industry and Cooperatives performed an impact assessment on Ugandan micro, small and medium enterprises in the formal and informal sectors. The assessment included econometric modelling and a Business Impact Survey.

Approach

Impact on MSEs in the informal sector



Econometric modelling

- **Historical data analysis** based on the previous cases of health events and epidemics was used to estimate the impact of COVID-19 on Ugandan SMEs, higher weighting assigned to health events that employed partial or total lockdowns.
- **Estimate triangulation** was performed using the latest reported impacts of the COVID-19 on SMEs in Europe, USA, China and Africa.
- **Risk and sensitivity analysis** was performed on the existing data from the Uganda National Manpower Survey (2016) and Uganda Labour Force Survey (2016/17)

Impact on SMEs in the formal sector



Business Impact Survey

- **Nationally representative random sample** of 1,140 registered companies drawn from the URA business registry.
- **Application:** The survey was administered using the URA e-platform for a period of two weeks from 12 to 26 April 2020.
- **Respondents:** The questions were addressed to the registered contact person for the company (Director or General Manager or other authorised person).
- **Response rate:** A total of 1,012 firms registered in the URA database participated in the survey.

Ugandan MSME sector: Overview



90% of the entire private sector, over 80% of manufactured output and about 75% of the GDP



49% in the service sector, 33% commerce and trade, 10% manufacturing and 8% in other fields;
93% micro enterprises, 4% small, 2.5% medium

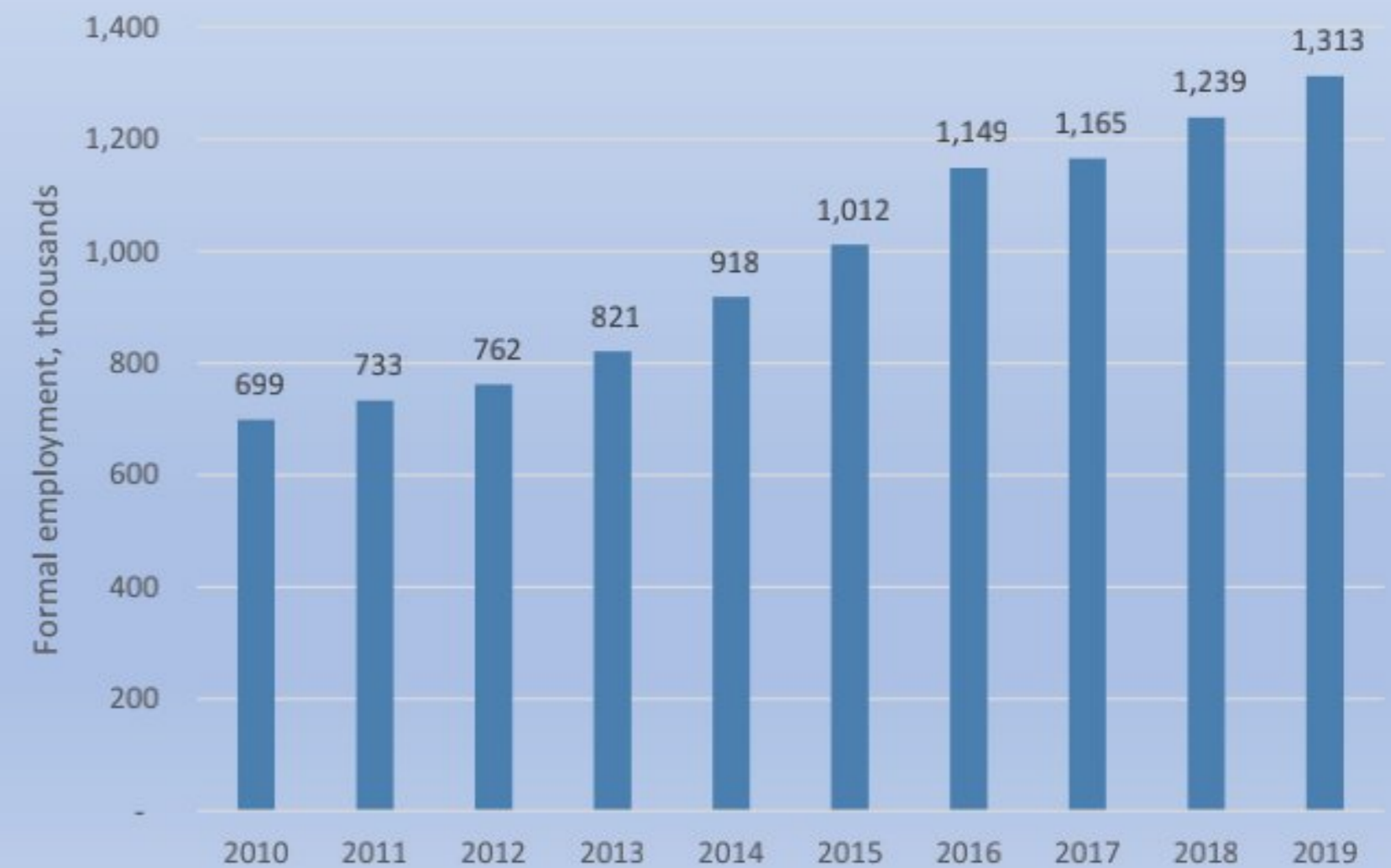


Over 8.5 million people equivalent to 90% of total non-farm workers of the entire private sector

Formal and informal sector contributions to GDP



Formal employment, 2010- 2019



Key findings (1)



Ugandan companies are fragile and have a relatively low cash flow coverage. Only about 15% of surveyed companies can sustain more than three months of operation on their current cash flow. Others must take adjustment measures to keep their profitability at a level that would allow their continued operation. 85% of all businesses are going to be in financial distress after three months of lockdown measures. About 50% of informal businesses will be out of business or fall below the poverty line after just one month.



Business revenues are expected to decrease. 91% of companies expect their 2020 revenues to be less than the previous year, 80% expecting the drop to be more than 10% of last year's revenues. The expectation of loss is uniform across companies of all sizes. The companies that expect a drop of above 10% this year are in culture and entertainment; accommodation and catering; transport and communication; trade; manufacturing. Declining incomes will send about 50% of informal businesses below the poverty line or into closure, especially in manufacturing (46%), hospitality (43%) and trading and services (41%).



Work attendance has dropped significantly and layoffs have started. 74% of the responding companies miss over 30% of their employees who are unable to come to work due to the lockdown. 62% of the respondent companies are considering or have already started cutting jobs. The biggest layoffs are implemented or planned by companies with 11-50 employees (73%). A total of 100,000 jobs will be lost in the formal sector. An estimated 4.4 million informal sector workers will see their earning falling below the poverty line or totally drying up. The loss of formal jobs will be particularly felt in the North and Southwest of the country. The biggest loss of informal jobs will happen in Kampala.

Key findings (2)



Some industries expect an increase of over 30 percent in the cost of inputs and operating costs. These include manufacturing and production and supply of utilities, where 45% percent of companies expect an increase of more than 10%. The other industries where a large number of respondents expect the cost of doing business to increase above 10% include the real estate industry and culture, sports and entertainment (38% each) and agriculture (29%) and trade (27%). Businesses are unlikely to absorb these costs in the aftermath of COVID-19, resulting in higher prices for the consumers.



Export-oriented industries are vulnerable and prepare for a large decline in export volumes. 63% of the companies their export volumes will go down while 49% believe that their exports will decline by more than 20%. By sector, the hardest hit are private educational institutions which cater for foreign students (91%). Almost 70% of companies in information and information technology services also expect a drop in their export volumes. The other affected sectors include agriculture (65%), health and social work (65%), construction (65%), trade (64%), and transport, storage, and postal industry (64%).



Companies adapt and innovate, adjusting their business models and using technology innovations. The most popular adaptation measures include the use of digital and communication technologies as well as new procurement/supply delivery channels. Online channels are used by 40% of all companies, and almost as many use telephone communication to reach out to customers, receive orders and payments. 30% innovate with procurement and supply delivery channels, switching to local materials where possible. 27% of all companies rely on mobile door-to-door delivery. But two sectors with a huge digital potential, education and health report low uptake of digital solutions (23% and 30%). Only about 35% of all companies in accommodation and catering and trade use digital and online solutions.

Key findings (3)



Such feelings as concern, anxiety and fear run very high in the business community. The most pessimistic industries include capital intensive sectors, such as water, environment and public facilities management (83%), mining and quarrying (75%) and some labour intensive, such as construction. Social services (education and entertainment) also feel much anxiety. Less capital intensive and more science and technology-based industries feel more optimistic. This concerns scientific research and technological services (56%), information and information technology services (47%) and the financial industry (42%). Health and social work also feels rather optimistic.



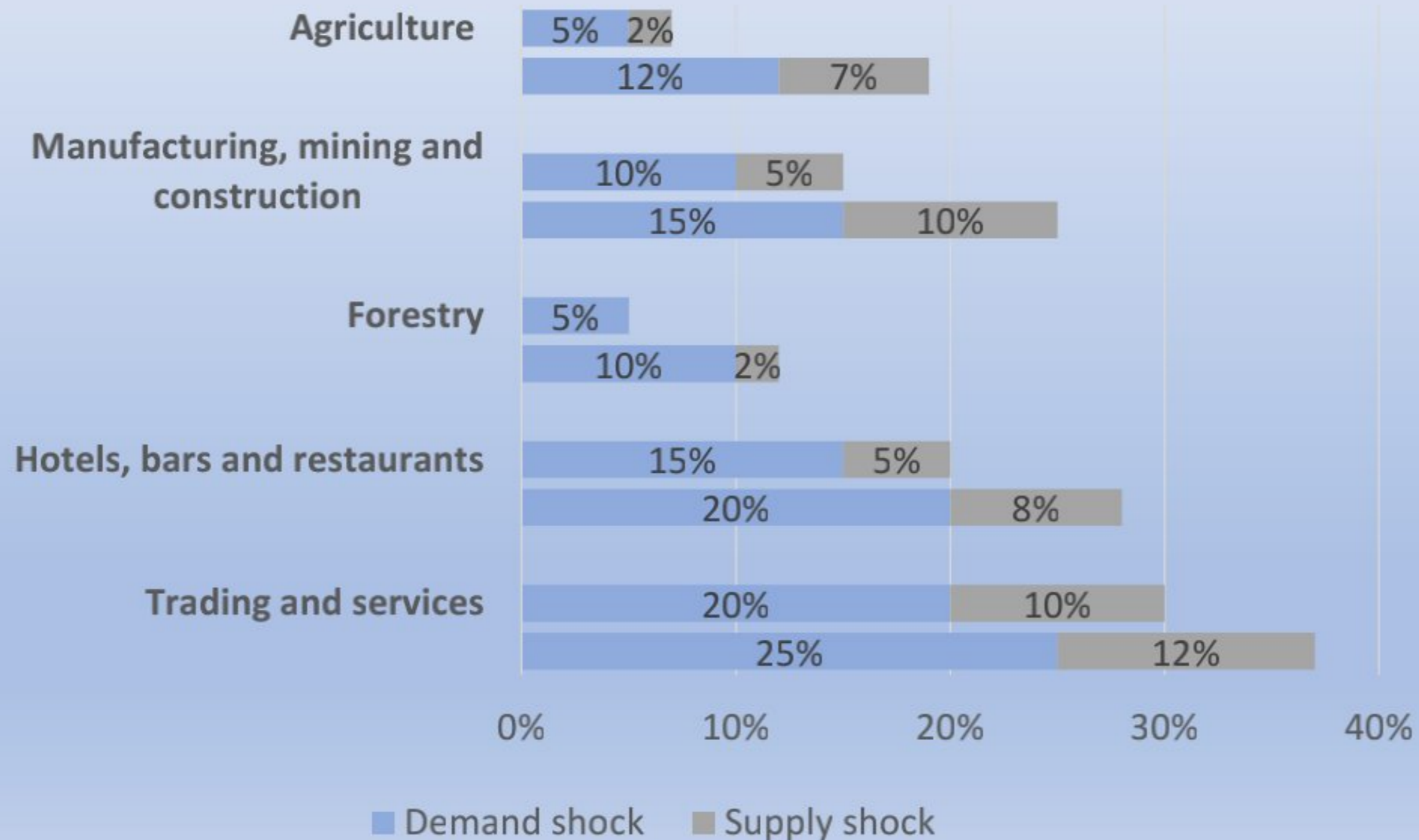
Relief measures introduced by the government and financial institutions are effective. The two most appreciated business relief measures are an extension of loans terms and reduction of financing costs for SMEs (67% of all responding companies) as well as an extension of tax payment deadlines to the Uganda Revenue Authority (URA) (also 67%). Suspending payments for the utilities and loan interests is also viewed as an effective relief measure by 44% of the respondents.



Recovery for most businesses is expected to take more than 3 months and possibly until the end of the year. 70% of businesses estimate their recovery time of more than 3 months. 26% envisage a recovery period of one to three months. Industries with the longest period of recovery of more than 3 months include accommodation and catering (58%); production and supply of utilities (54%); real estate (54%); financial industry (44%); and manufacturing (41%). The tourism industry, which started slowing down in January and all but stopped in early February, does not expect to recover until over a year from now. The slowest recovery is expected in the Western and Eastern regions. The informal sector is expected to rebound mostly within 3 months, although manufacturing and hospitality are expected to take longer.

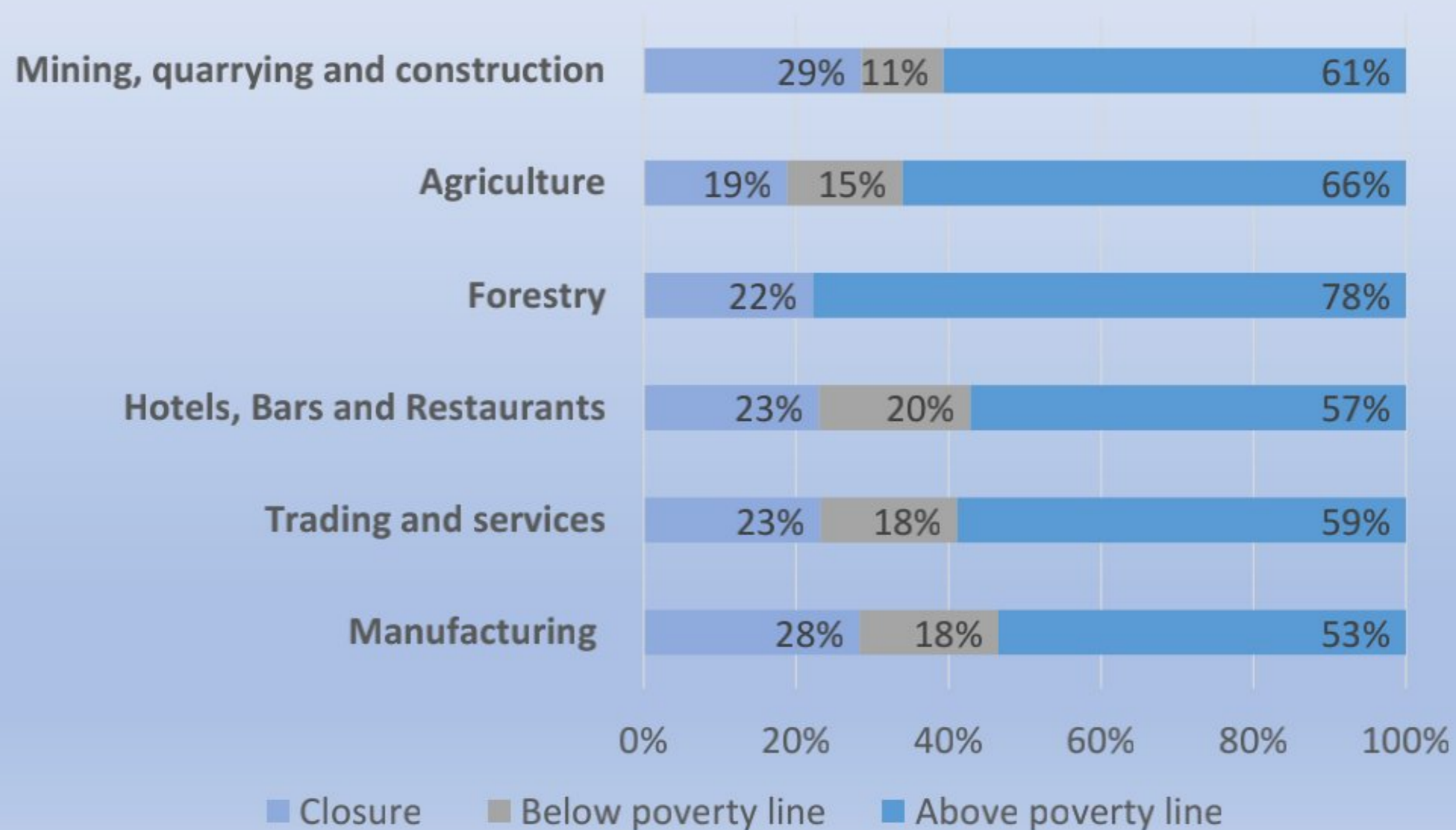
COVID-19 combined economic shock (without the financial component) will be particularly pronounced in trading and services followed by the hospitality industry, which are likely to lose 20-30 percent of their total revenue assuming the current level of restriction measures is maintained over a period of three months. In the worst-case scenario, their losses may reach 28-37 percent.

Total economic shock (revenue loss) for MSMEs



Reduced incomes of informal MSEs due to the COVID-19 restriction measures are taking a particularly heavy toll on manufacturing sending 46 percent of businesses below the poverty line or into closure as well as the hospitality industry (43 percent) followed by trading and services (41 percent). Agriculture is also getting seriously affected, with 15 percent of businesses slipping below the national poverty line and 19% discontinuing their operations altogether.

Impact of reduced income on the operation of informal MSEs



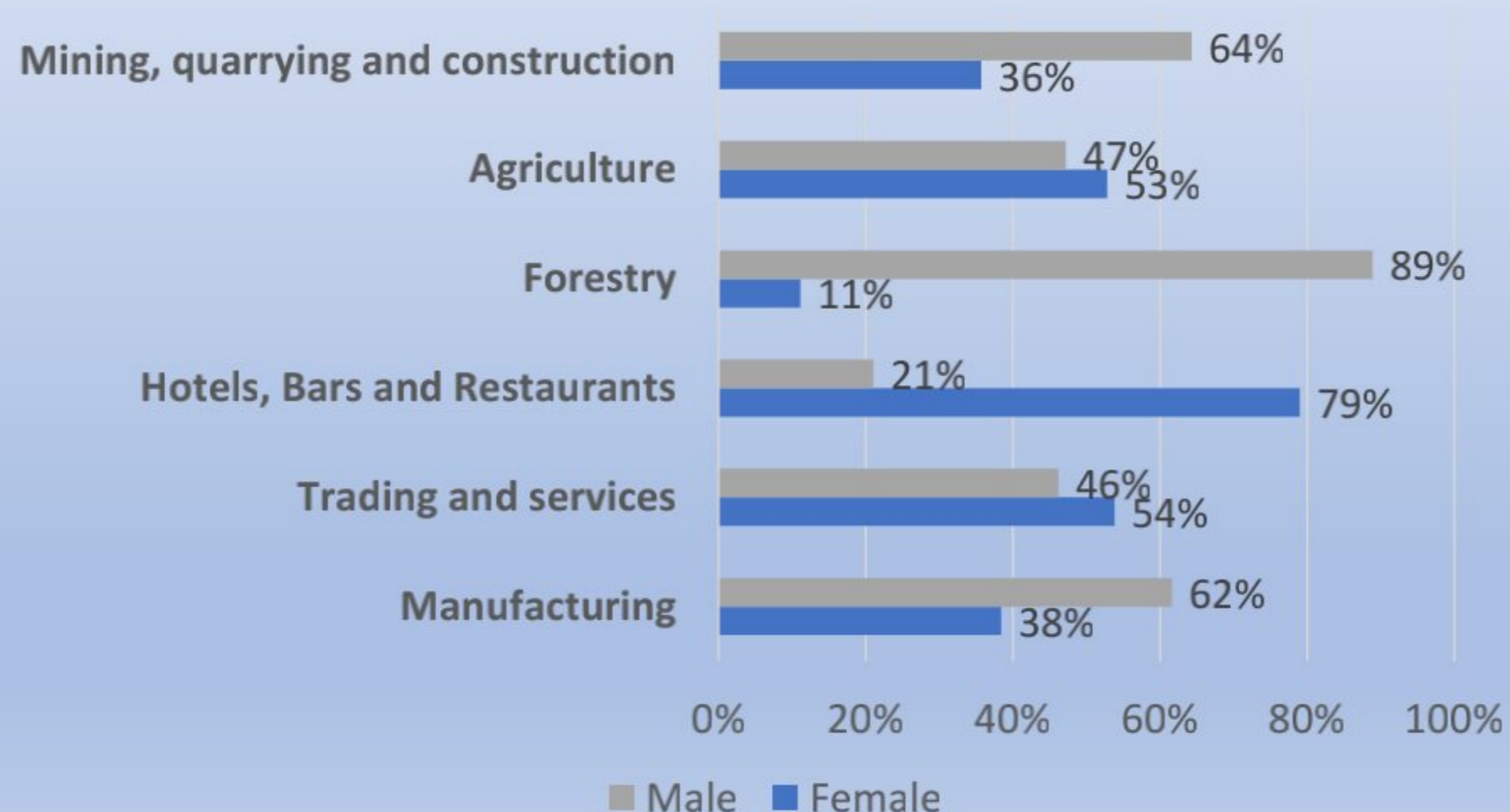
An estimated 4.4 million informal sector workers will see their earning falling below the poverty line or totally drying up. This does not imply that as many people will become poor overnight because many informal workers diversify their employment by engaging in more than one economic activity. On the other hand, a survey of informal sector firms in Kampala, showed that 93% of them are already operating below the poverty line.

COVID-19 impact on informal MSEs by sector (number of workers affected)

Sector	Workers without earnings	Workers with earnings below the poverty line
Manufacturing	582,239	373,836
Trading and services	1,510,384	1,168,775
Hotels, Bars and Restaurants	360,945	311,530
Forestry	4,297	-
Agriculture	64,454	51,564
Mining, quarrying and construction	17,188	6,445
Total for informal sector	2,539,507	1,912,150

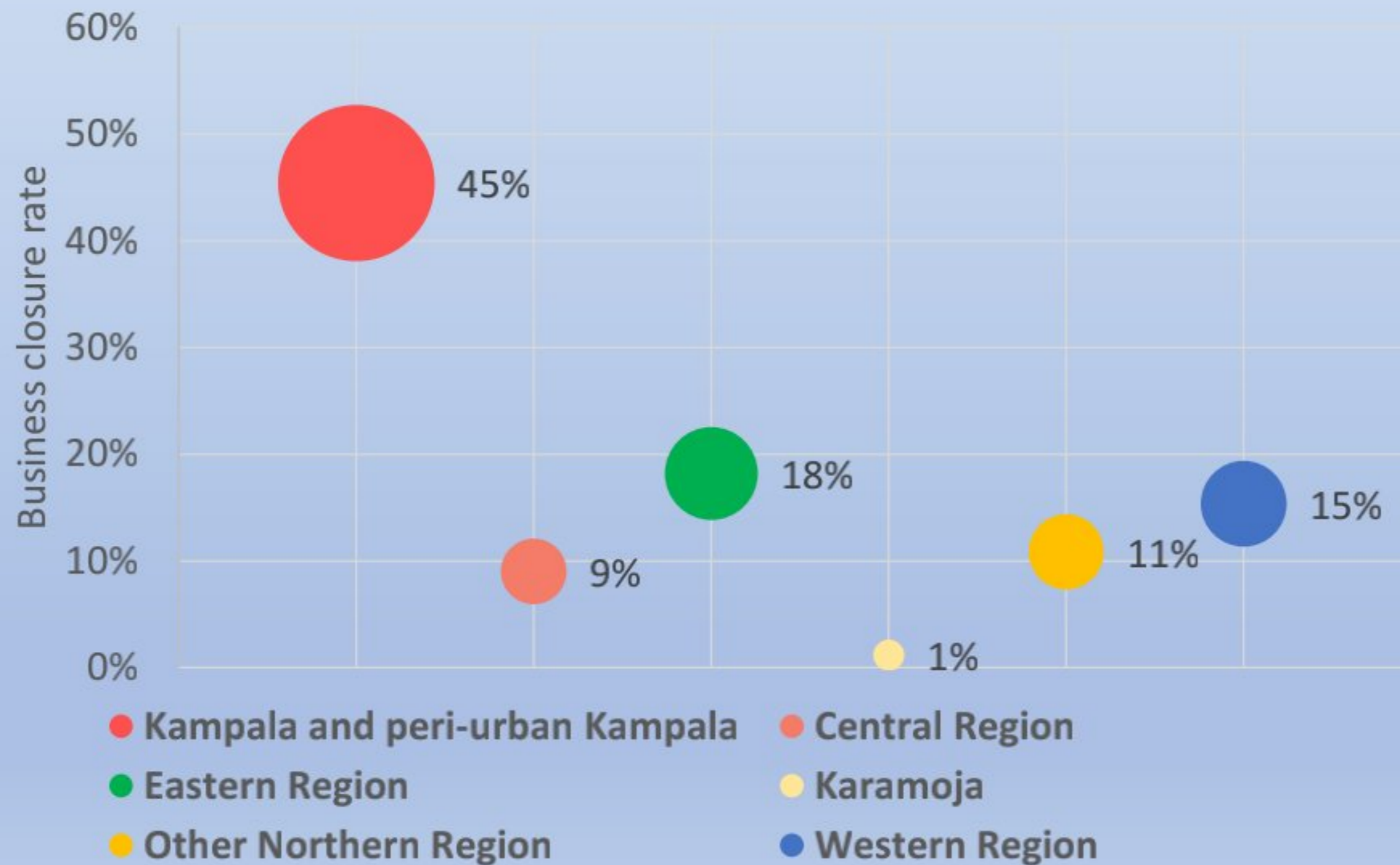
COVID-19 impact has a clear gender dimension. COVID-19 will affect women's businesses and their earnings to a larger extent than men's. In the total number of MSEs affected by COVID-19, there will be 11% more enterprises owned or managed by women. Women-led enterprises will be particularly hit in trading and services and hospitality, the two sectors that will experience the brunt of COVID-19. women-led businesses will outnumber those led by men by 58% in hospitality (hotels, bars and restaurants) and by 8% in trading and services.

Impact on informal MSEs by the owner's sex



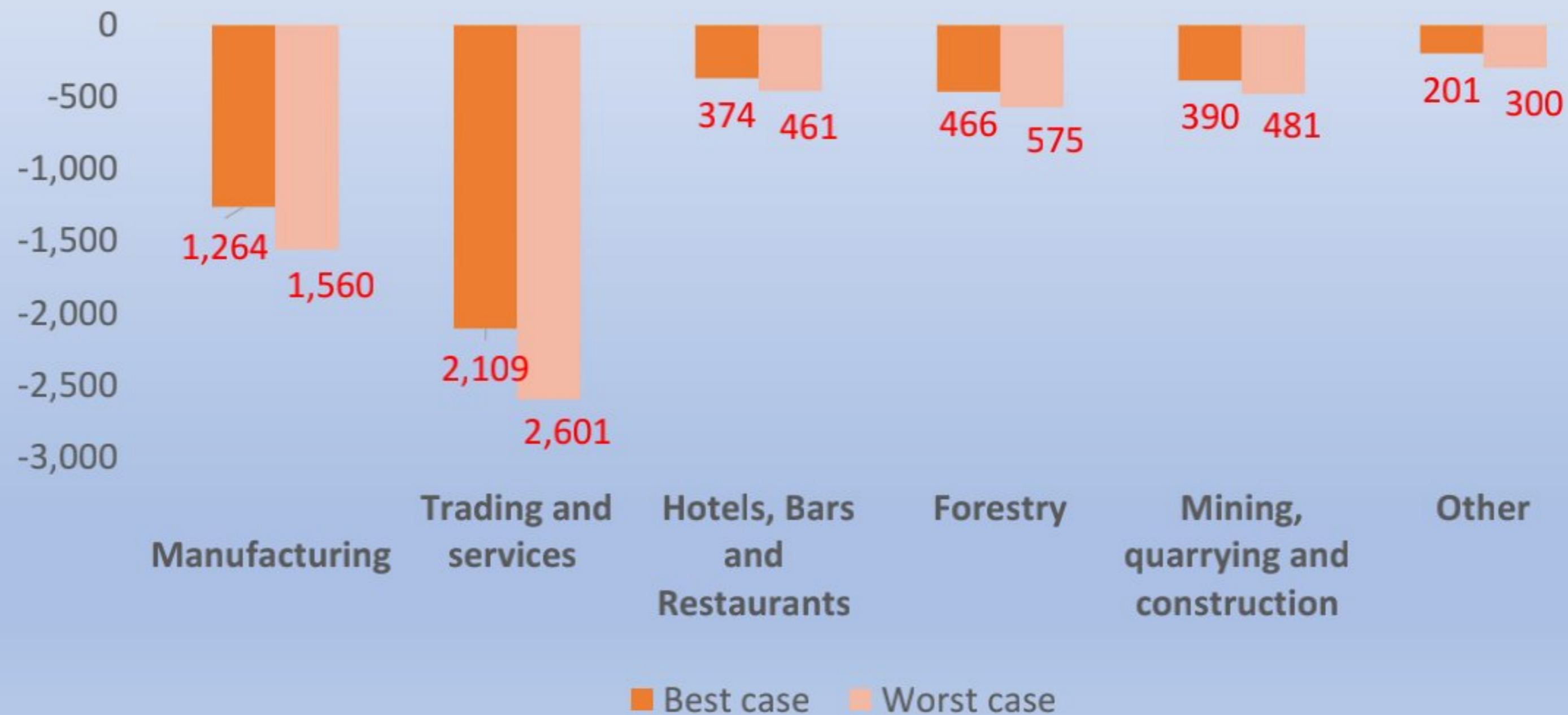
The Eastern and Western Regions account for 33 percent of the total loss with the other regions contributing the remaining 20 percent. However, Karamoja that contributes just 2 percent to the total national loss of income will experience the strongest shock among other regions with about a third of its MSEs closing. This is an evidence of how fragile MSEs in that region are.

Impact on MSEs by region



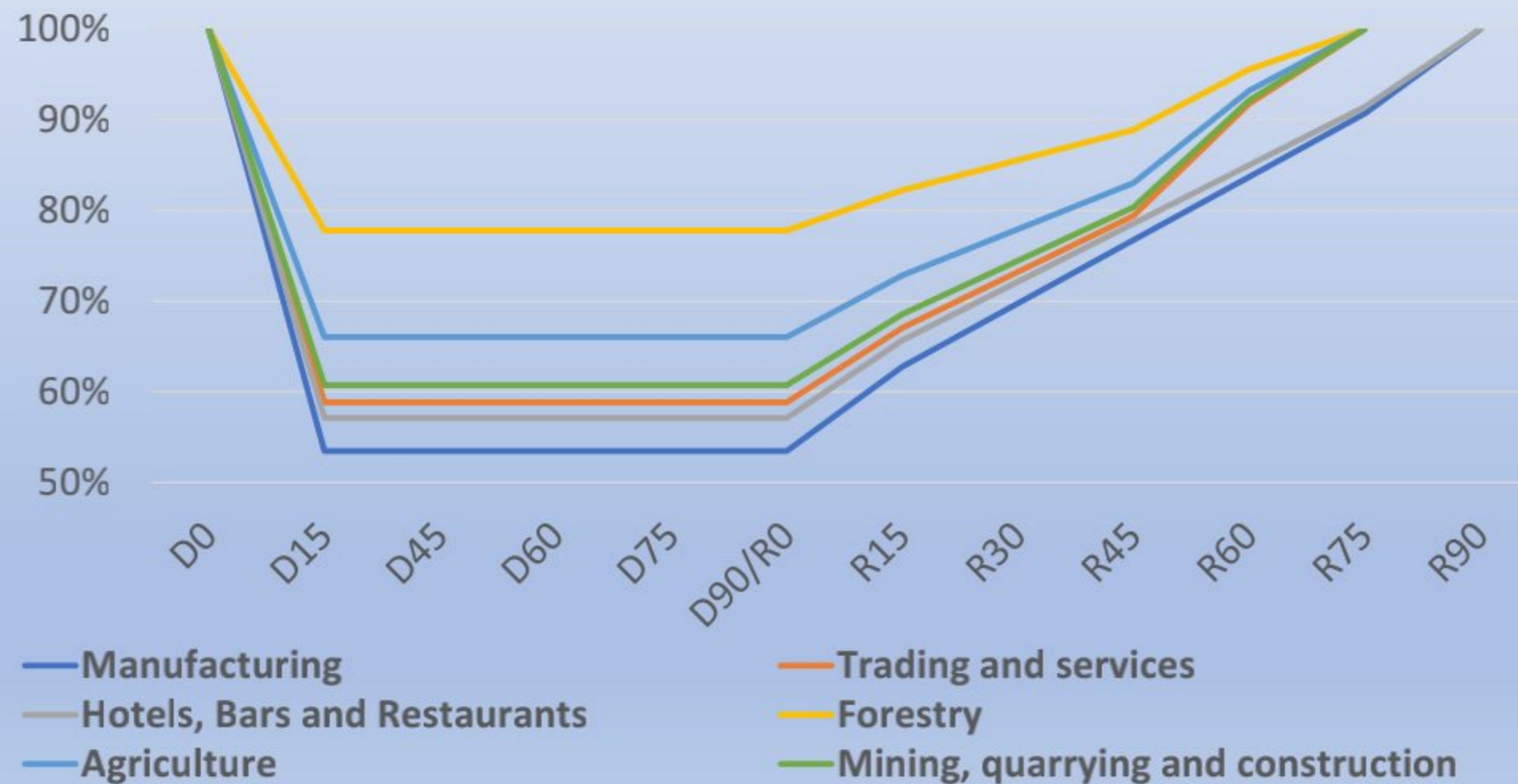
The total loss is likely to be from UGX 4.6 trillion to UGX 5.7 trillion or from 3.17 percent to 3.91 percent of the national GDP depending on the scenario. This is about one half (or more) of the projected GDP growth of 6.2 percent in 2020/2021. Trading and services together with manufacturing will be the main contributors to the drop in the GDP growth.

Informal sector losses



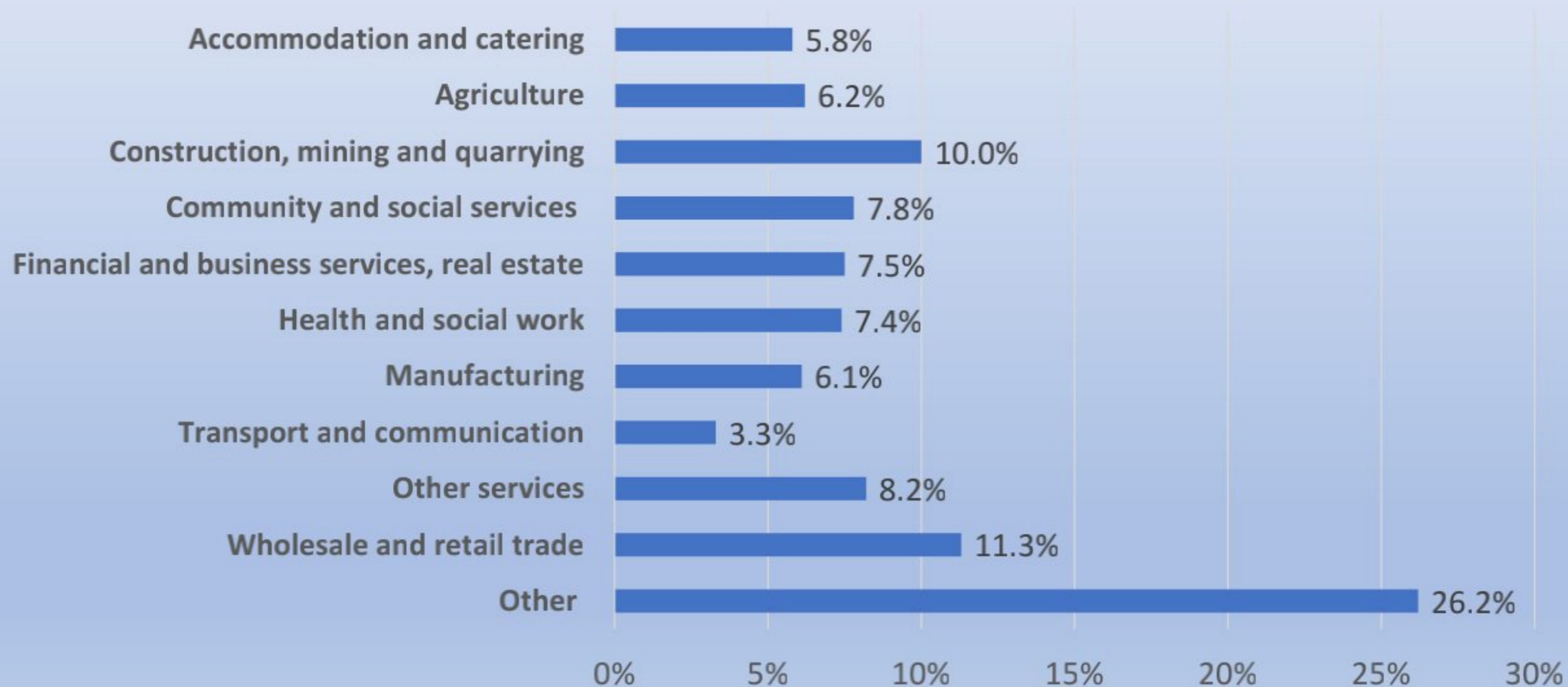
It is expected that demand for goods and services in the informal sector will rebound to its pre-COVID-19 level within 3 months. In this case, the recovery period will be about the same, faster for such sectors as forestry, agriculture, trading and services and somewhat later for manufacturing and hospitality. It does not mean that all enterprises operational before COVID-19 will come back to businesses as some of them may lose their business due to a combination of factors such as loss of assets and loss of market share to more viable businesses.

Informal sector recovery period



The distribution of the responding enterprises is broadly in line with their sectoral distribution in the economy as although the sectors of commerce and trade and of manufacturing are underrepresented. The survey had 40 percent of enterprises in the service sector (against 49 percent nationally), 11 percent in commerce and trade (against 33 percent nationally), and 6 percent in manufacturing (against 10 percent nationally).

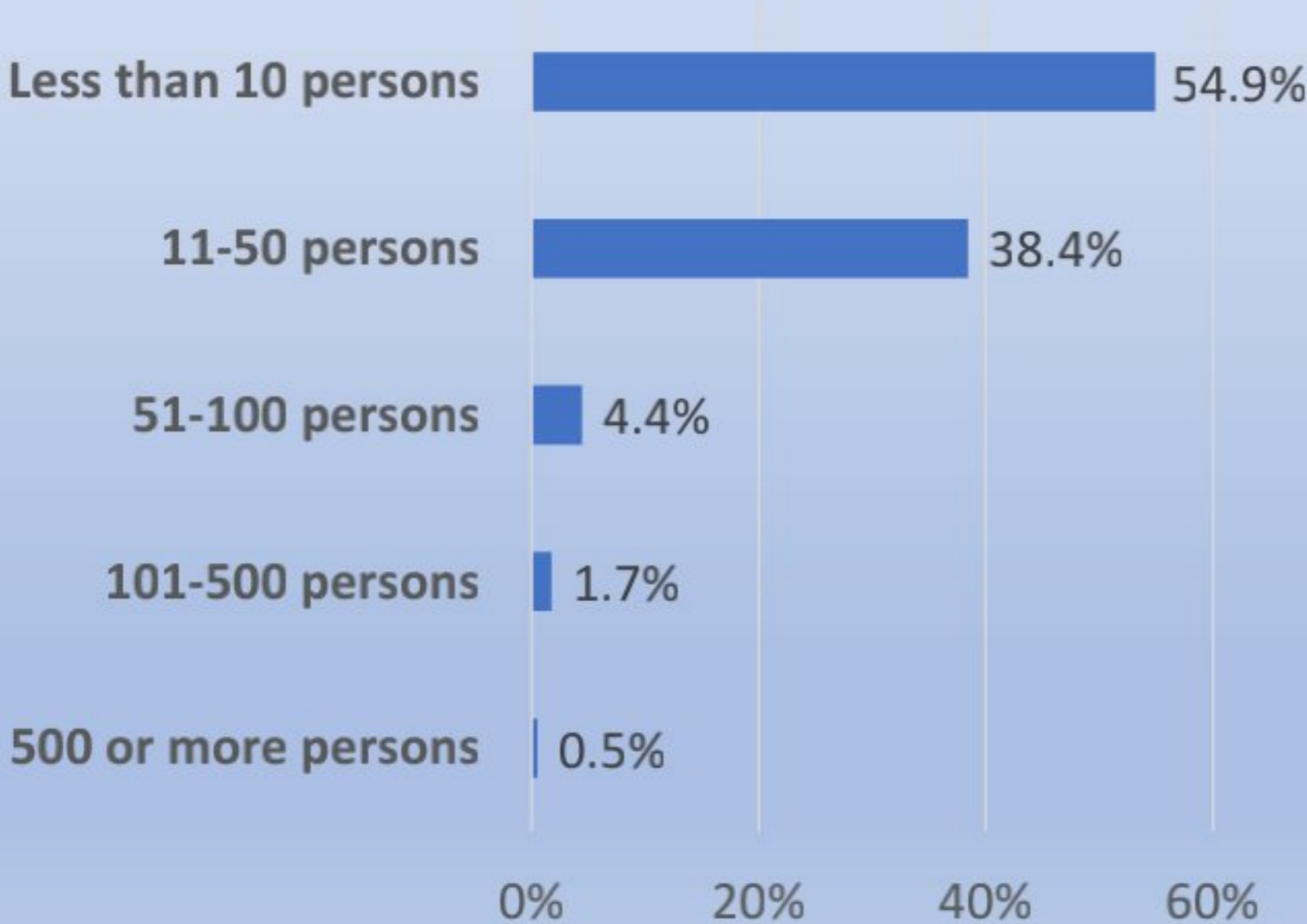
Uganda Business Impact Survey



93% of the responding enterprises had less than 50 employees and can be categorised as small although only 0.1 percent of them reported annual revenues in 2019 below UGX 100 million. At the same time, 98 percent of the enterprises with less than 50 employees had their annual revenue in 2019 less than UGX 150 million. Medium enterprises of up to 100 employees accounted for 4.4 percent of the total responding businesses. 44 percent of these businesses earned from UGX 150 million to UGX 200 million in 2019 and another 18.6 percent in the same category, from UGX 200 million to UGX 300 million.

Companies by size

Companies by number of employees



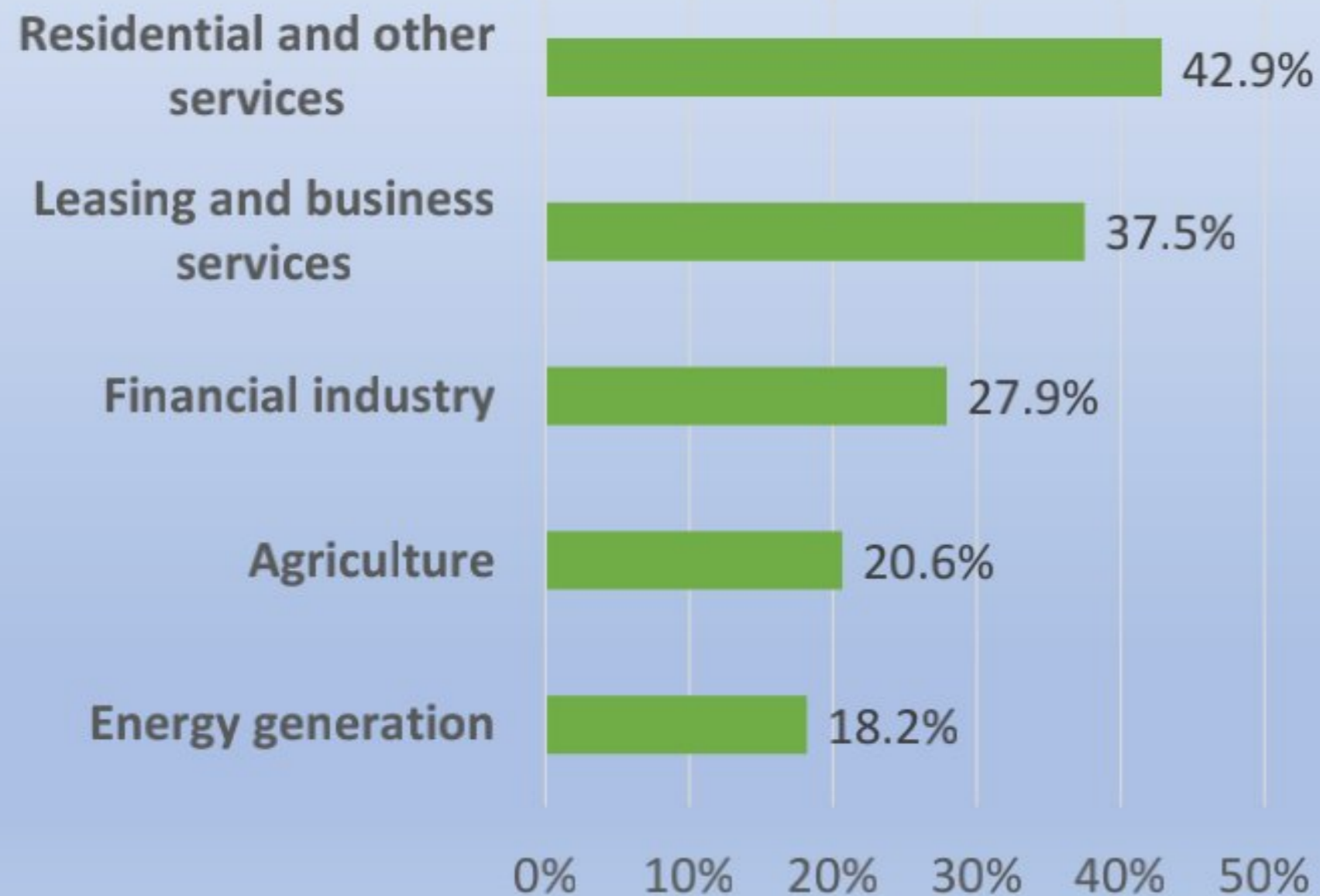
Companies by revenue, UGX millions



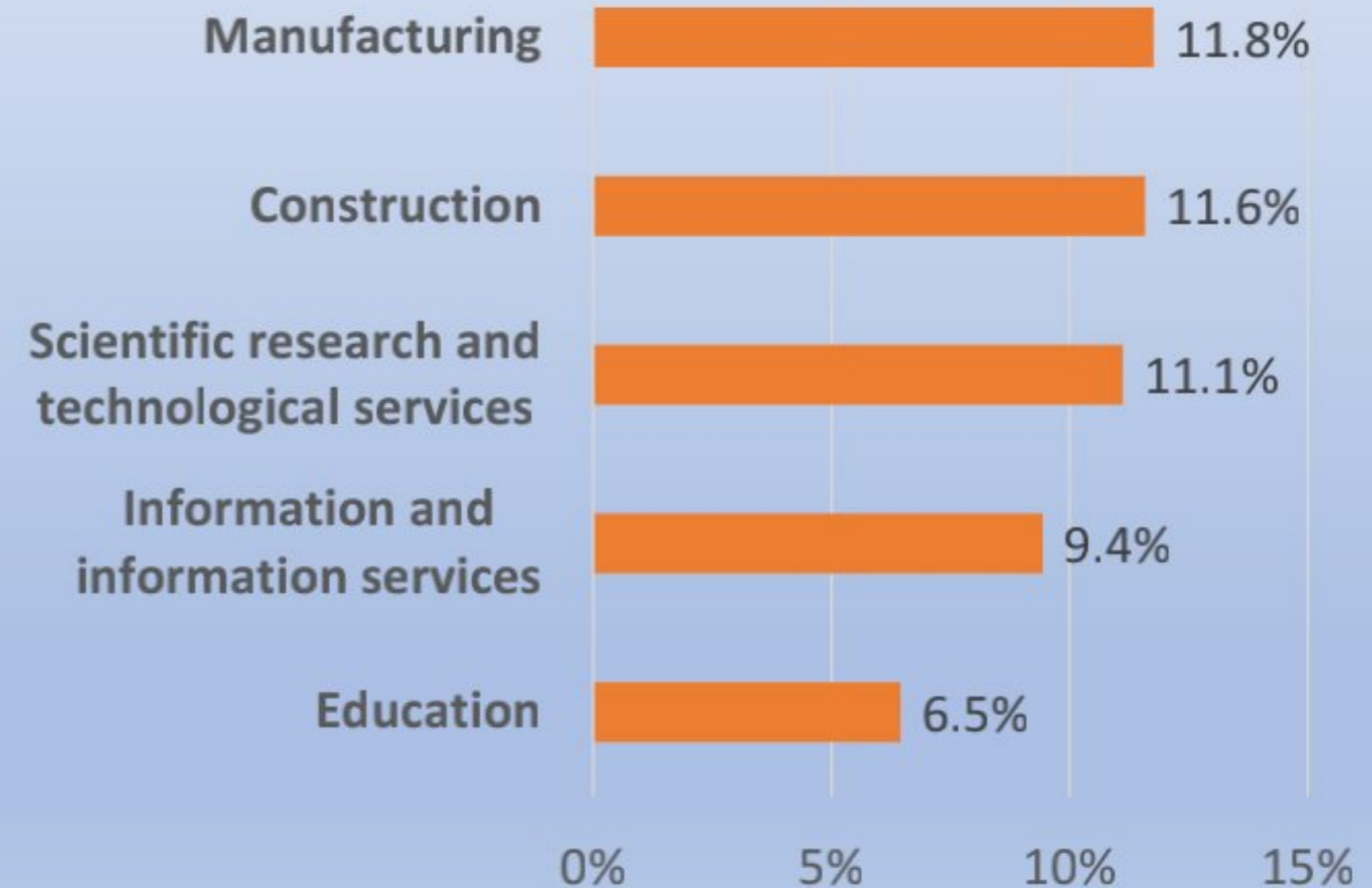
Only about 15% of surveyed companies can sustain more than three months of operation on their current cash flow. Others must take adjustment measures to keep their profitability at a level that would allow their continued operation. 42% of businesses will have to raise additional funding or otherwise restructure their finances to resume their operation after one month of inactivity and another 43% will face the same challenge within three months.

Cash flow coverage

Top five cash holders

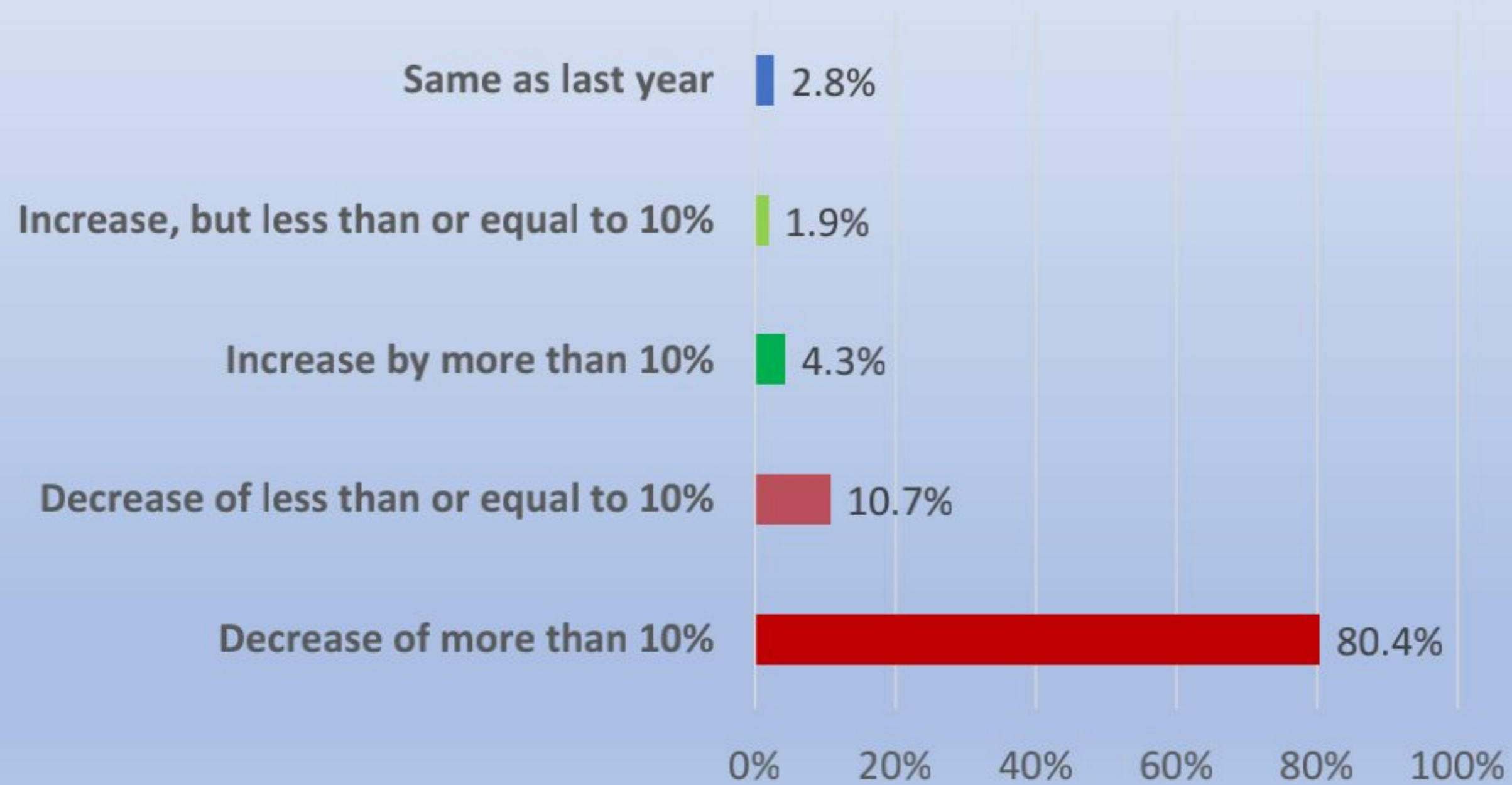


Bottom five cash holders



91 percent of the responding companies expect their 2020 revenues to be less than the previous year, 80 percent expecting the drop to be more than 10 percent of last year's revenues. Only 6.2 percent of firms anticipate an increase in their revenues.

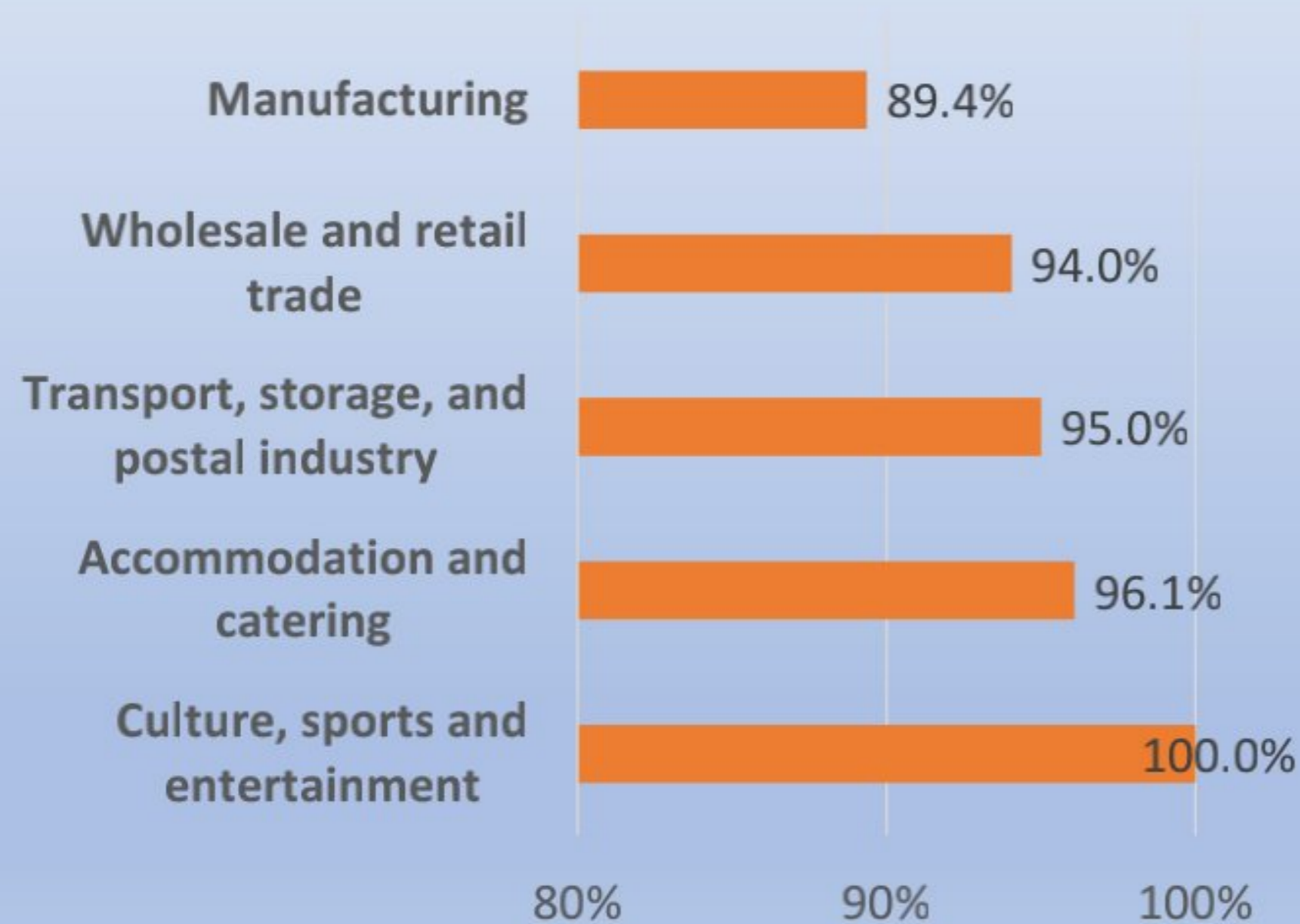
Expected total revenue in 2020 (compared to 2019)



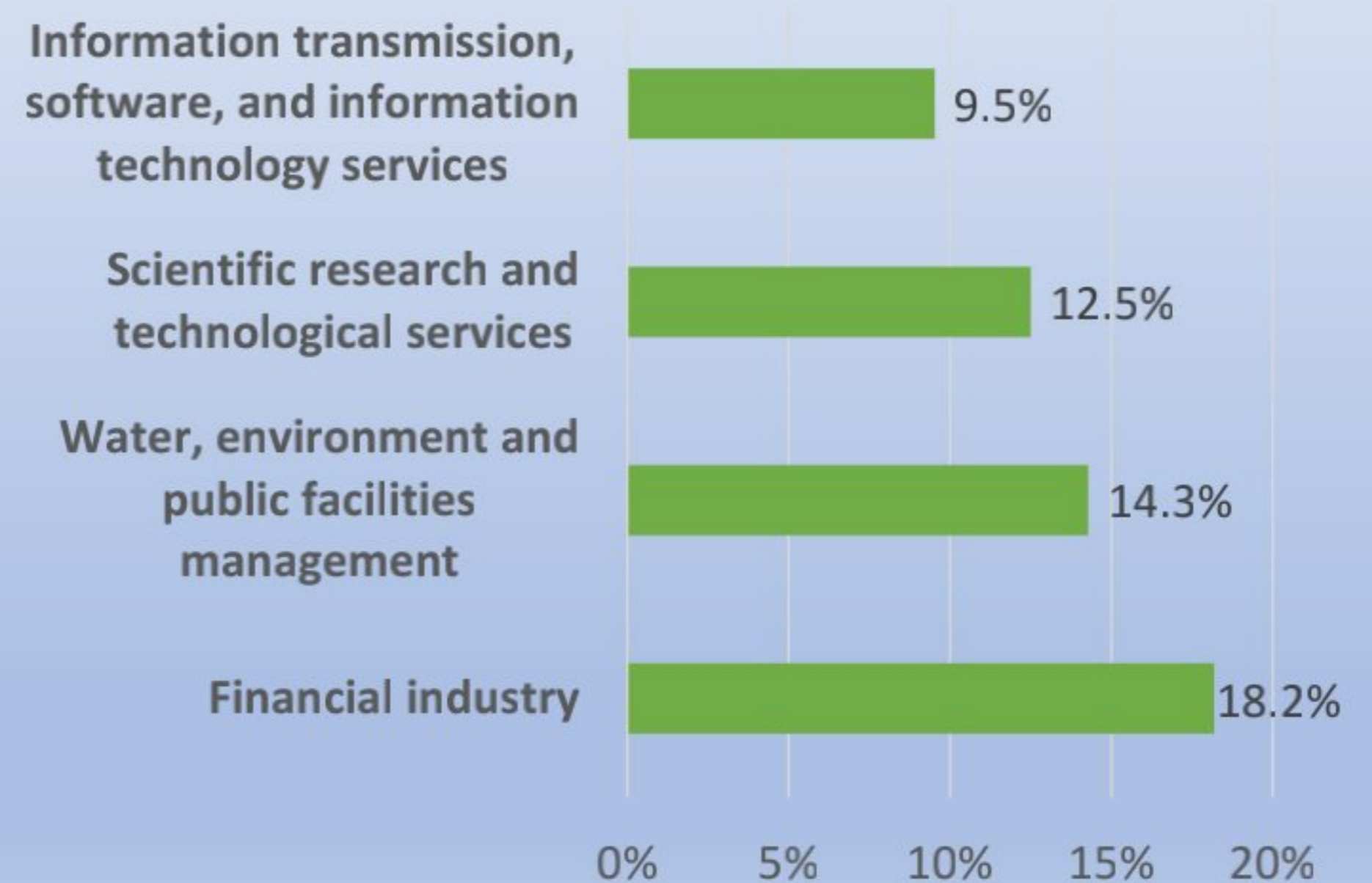
The companies that expect a drop in their revenues of above 10 percent this year belong to the following sectors (about 90 percent of respondents): culture, sports and entertainment; accommodation and catering; transport, storage and postal industry; wholesale and retail trade; manufacturing.

Revenue losers and winners by industry

Revenues losers



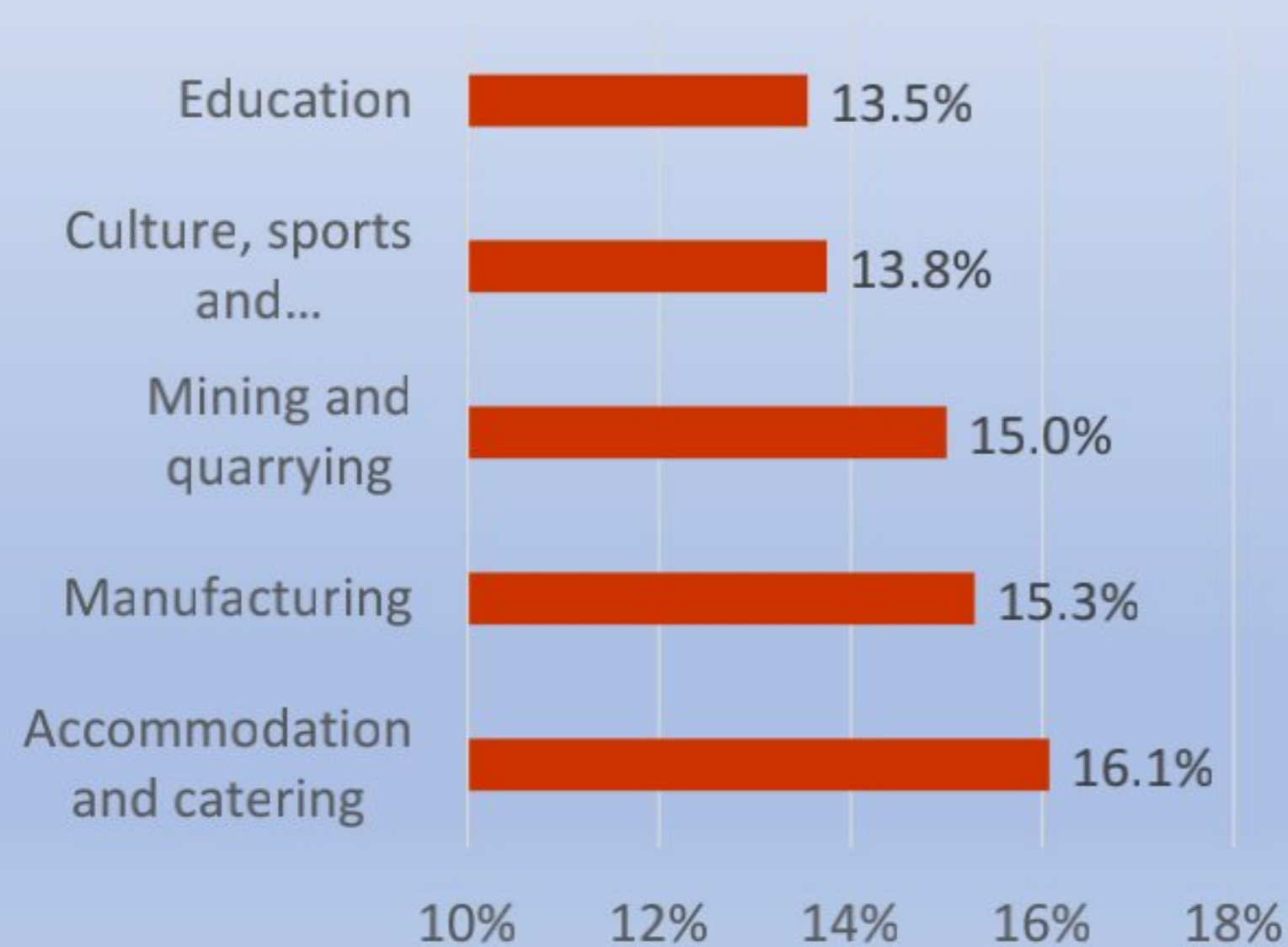
Revenue winners



Although accommodation and catering is the biggest loser in percentage terms, its monetary losses in 2020-21 are projected at UGX 134.4B, only one tenth of the total monetary losses by the manufacturing sector which expects a drop in revenues at about the same percentage level. Construction and trade expect a moderate drop in revenues at 12.4% each, but the actual financial loss is likely to be UGX 823B and UGX 809B, respectively, far above mining and quarrying, for example, which expects a 15.3% revenue loss. In total, the losses of the formal sector are likely to amount to about 10% of the entire formal sector's GDP in 2020/21 (excluding government).

Absolute expected revenue loss by industry

Revenue loss, percentage

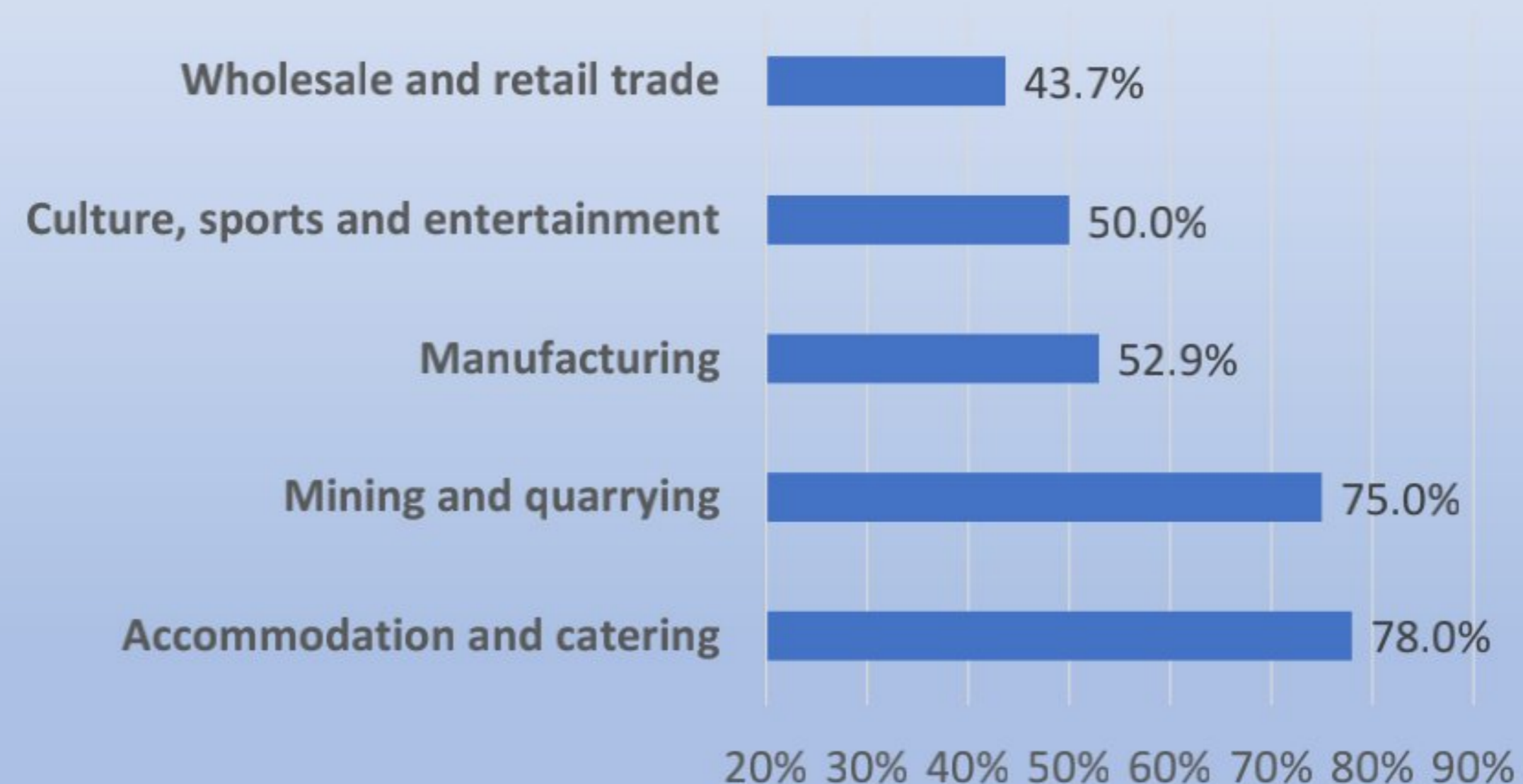


Revenue loss, UGX billion



Five industries that are bracing for the biggest layoffs include accommodation and catering, mining and quarrying, manufacturing, culture, sport and entertainment, and wholesale and retail trade. Many of these sectors expect their 2020 revenues to fall below 10 percent (accommodation and catering; manufacturing; mining and quarrying).

Percentage of actual or intended layoffs by sector of economic activity



Manufacturing is facing potentially the largest loss of employment despite a relatively small shock of 20.8 percent. Accommodation and catering as well as agriculture may each lose about 11,000 jobs, and the expected downsizing in trade is also rather large at 6,879 jobs. There is another sector, education, experiencing significant difficulties due to a zero demand at the moment. This industry employs a large number of workers operating 13,359 educational institutions, from nurseries and primary schools to teachers' colleges and universities and the current closure of schools may be affecting as many as 300,000 educators and other workers employed in the sector.

Expected employment loss by sector

Employment loss by industry, percentage

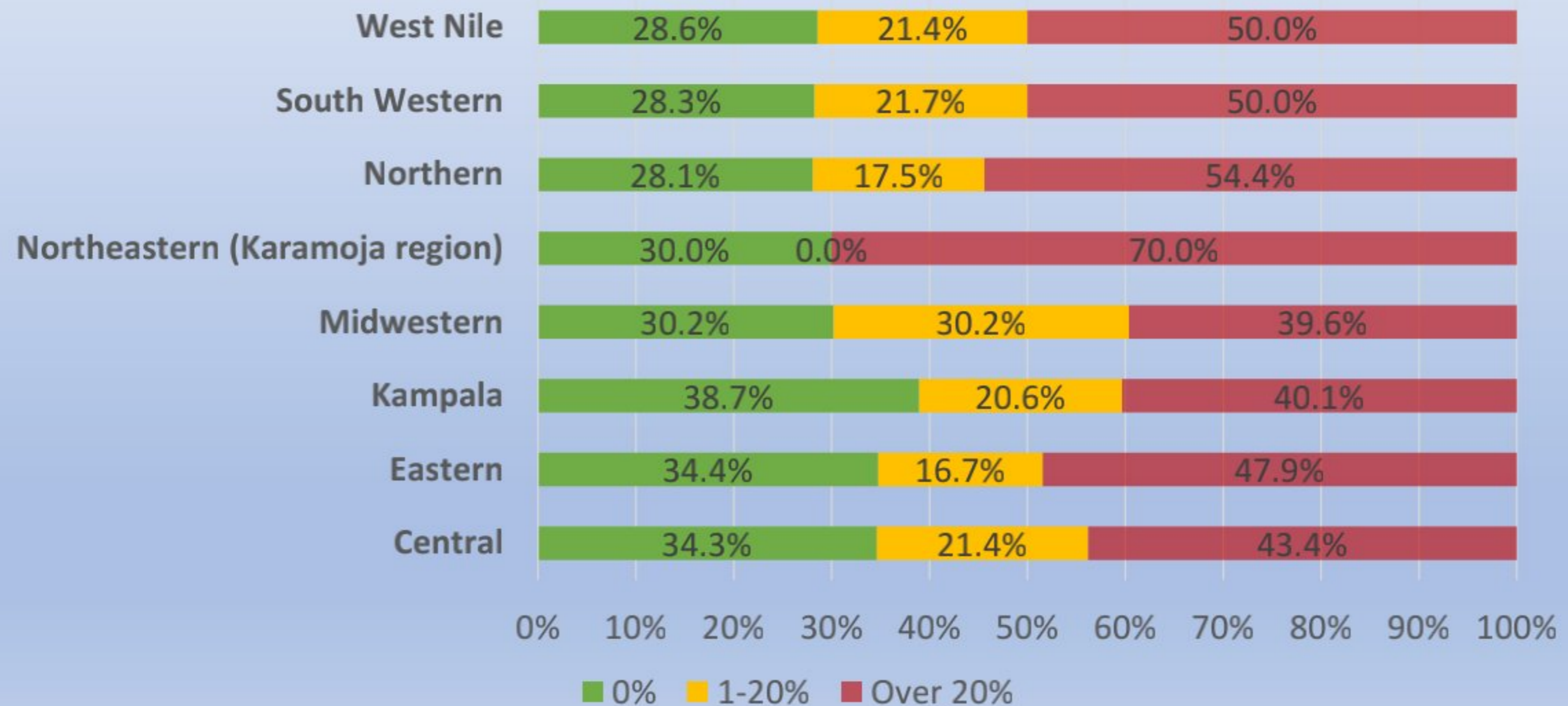


Employment loss by industry, number of workers



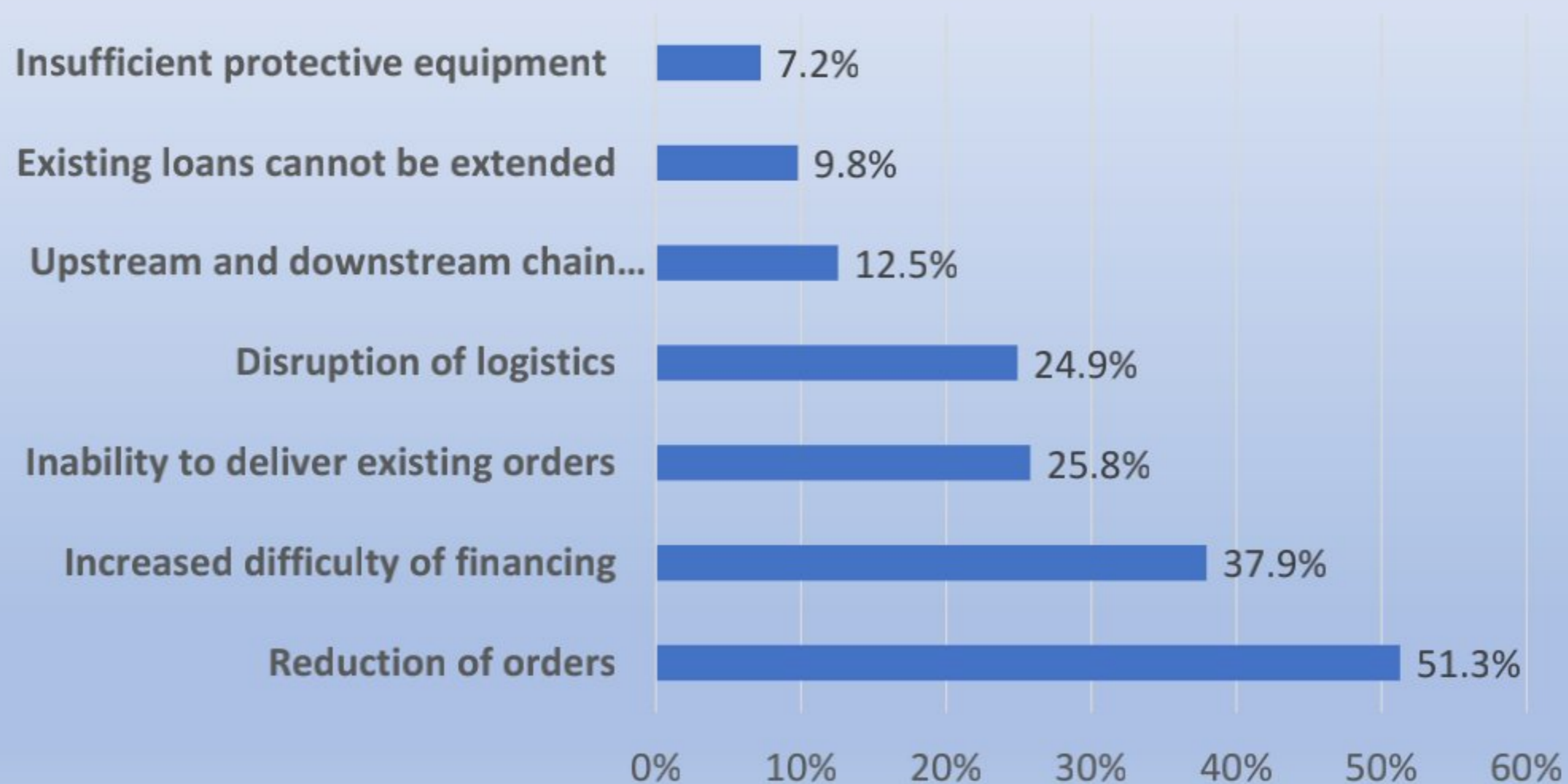
The regions least affected by job cuts include Kampala, Eastern and Central regions where 34 to 38% of companies are not implementing any layoffs. Conversely, Karamoja, West Nile, Northern Region (without Karamoja and West Nile) and the South Western Region are the ones where the percentage of companies without actual or planned layoffs is below 30%. The same regions are the ones where the largest layoffs are likely to take place (above 20% of the total workforce), with 70% of Karamoja businesses implementing or planning layoffs of more than 20% of their employees.

Loss of jobs by region



Most companies (51.3 percent) have experienced a reduction of orders, which reflects a decrease in aggregated demand due to the lockdown measures. An increased difficulty of financing business operations comes second (37.9 percent). Disruption of logistics and upstream and downstream chains was mentioned as a challenge by 37.4 percent of the respondent companies.

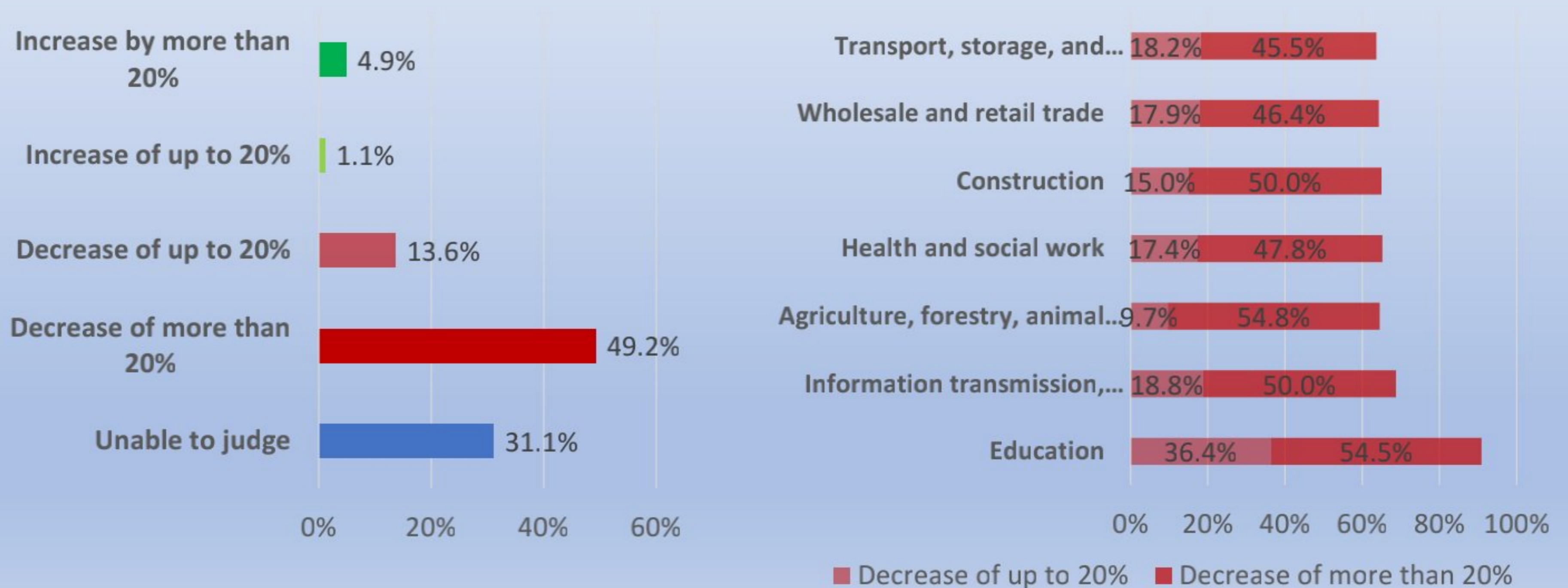
Other challenges faced by companies



* Percentages do not total 100 as the respondents could chose two answers.

The prevailing expectation among the export-oriented companies is decreasing export volumes (62.8%) while 49.2 percent believe that their exports will decline by more than 20%. Only 6% expect their exports to increase. By sector, the hardest hit are private educational institutions which cater for foreign students, 91% of them expecting a drop in their export-oriented activities. Almost 70% of companies in information technology services also expect a drop in their exports.

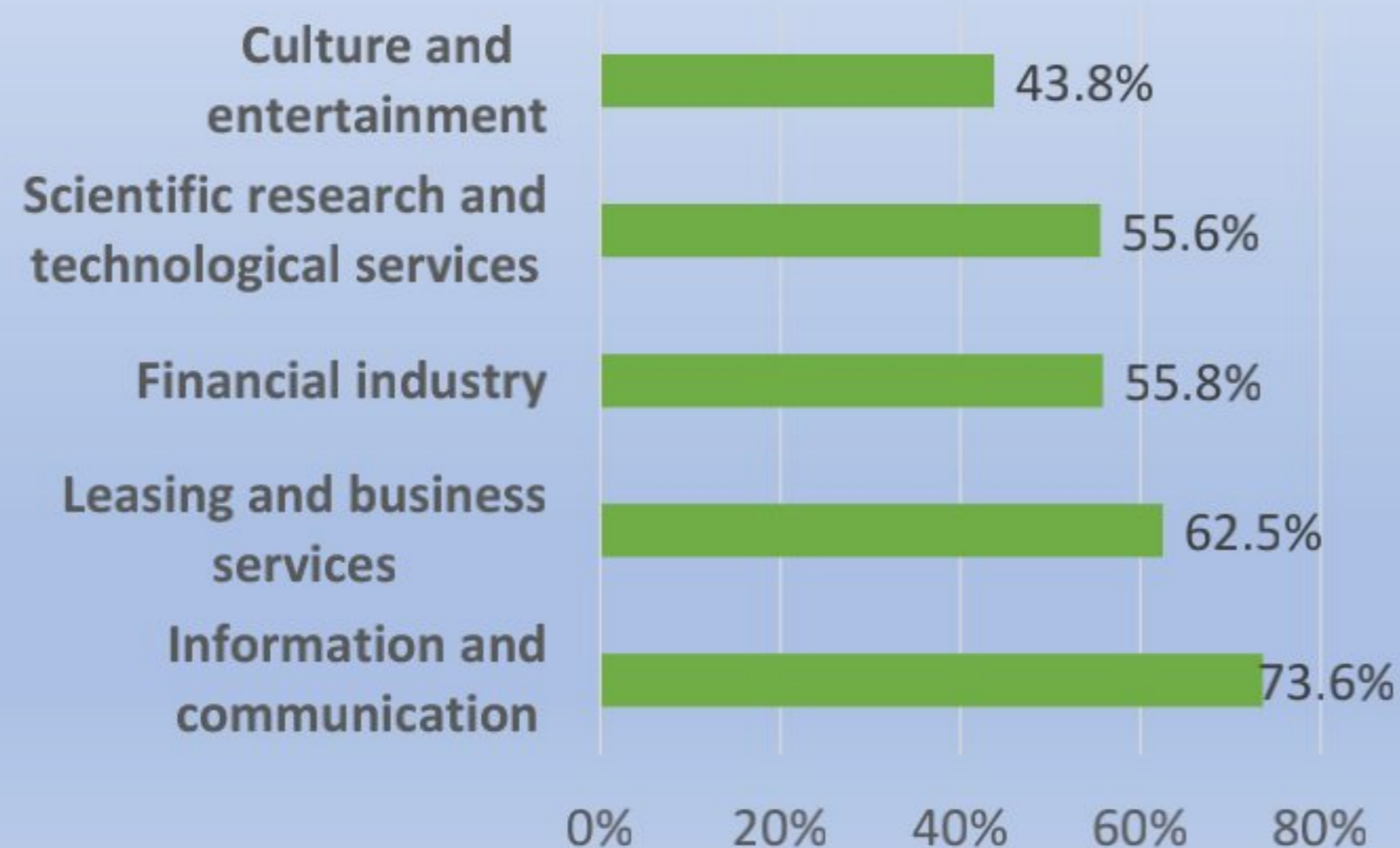
Impact on export-oriented companies



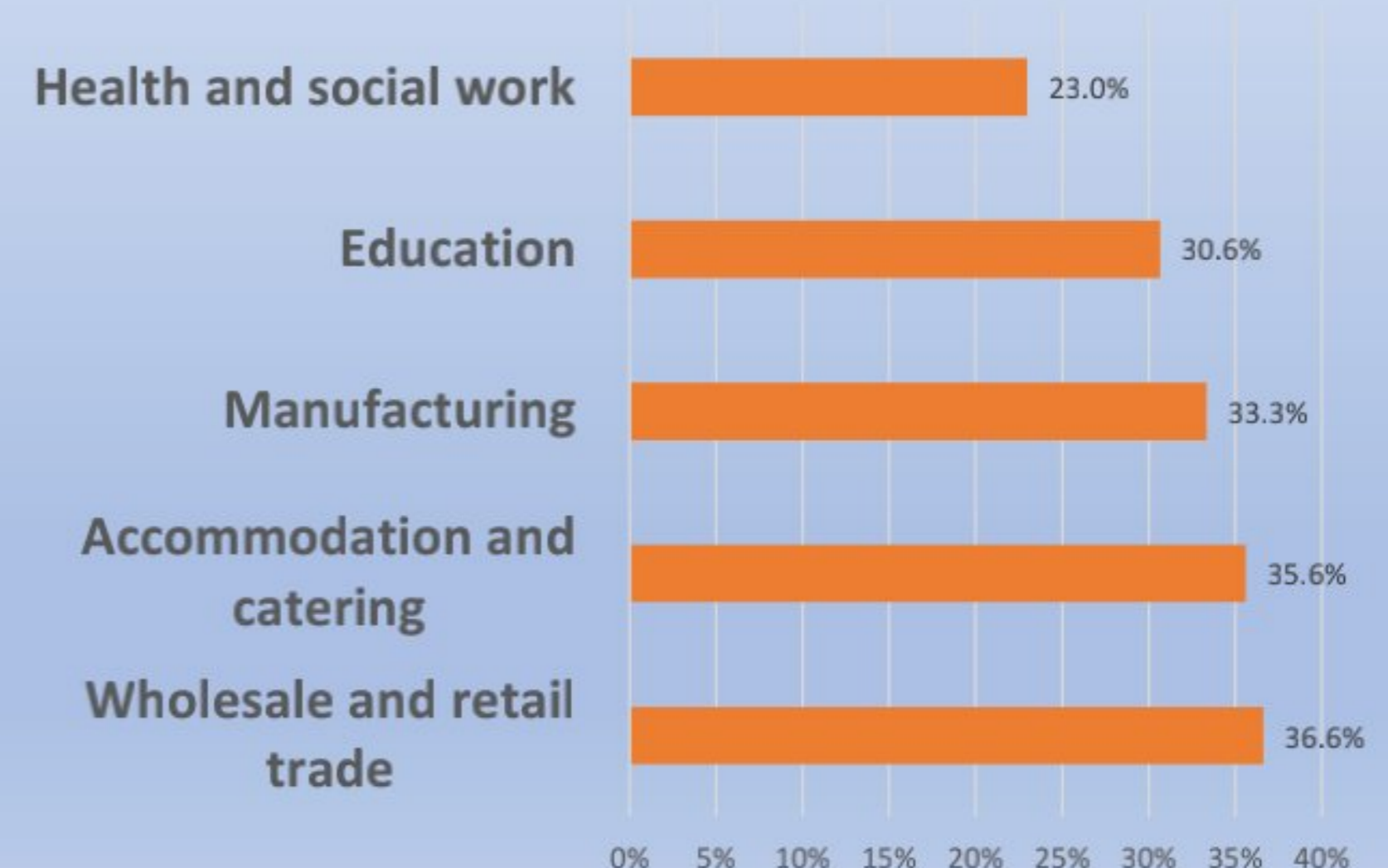
The information and communication sector itself leads with 74% percent of the companies in this sector relying on online and digital solutions. It is followed by leasing and business services (62%), financial industry (56%), scientific research and technological services (56%) and culture and entertainment (44%). These industries benefit from the nature of their products and services that can be produced and easily delivered in the digital form. The bottom five users often do not have the same type of products and services (for example, manufacturing). But it is somewhat surprising that two sectors with a huge digital potential, education and health and social work, also report low uptake of digital solutions (23% and 30%, respectively).

Use of online and digital solutions

Top five users



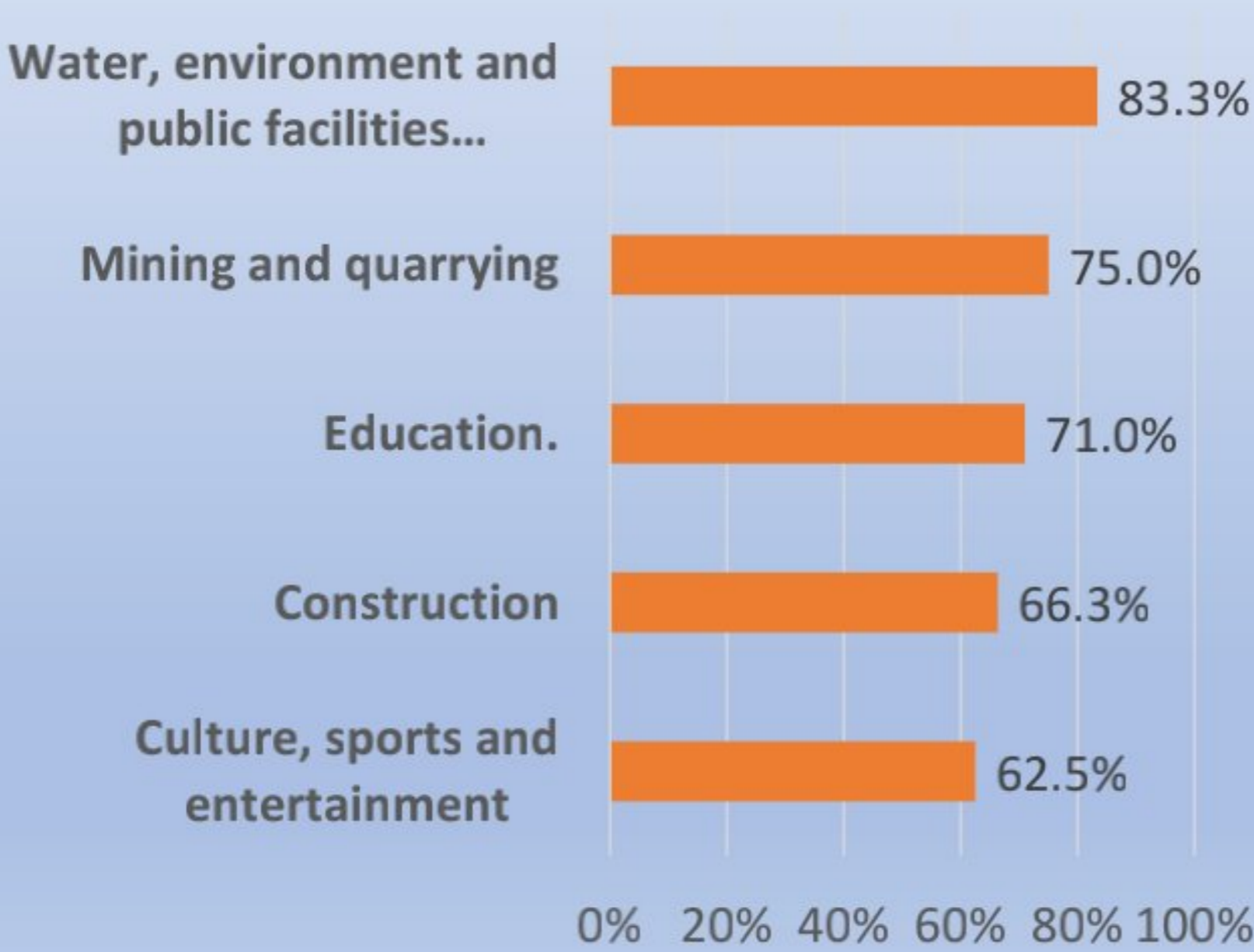
Bottom five users



The most pessimistic are capital intensive sectors, such as water, environment and public facilities management (83.3 percent), mining and quarrying (75.0%) and some labour intensive, such as construction. Social services (education, culture, sports and entertainment) also feel much anxiety. Less capital intensive and more science and technology-based industries feel more optimistic. This concerns scientific research and technological services (55.6%), information and information technology services (47.2%) and the financial industry (41.9 %).

Business community sentiments

Top five most concerned sectors

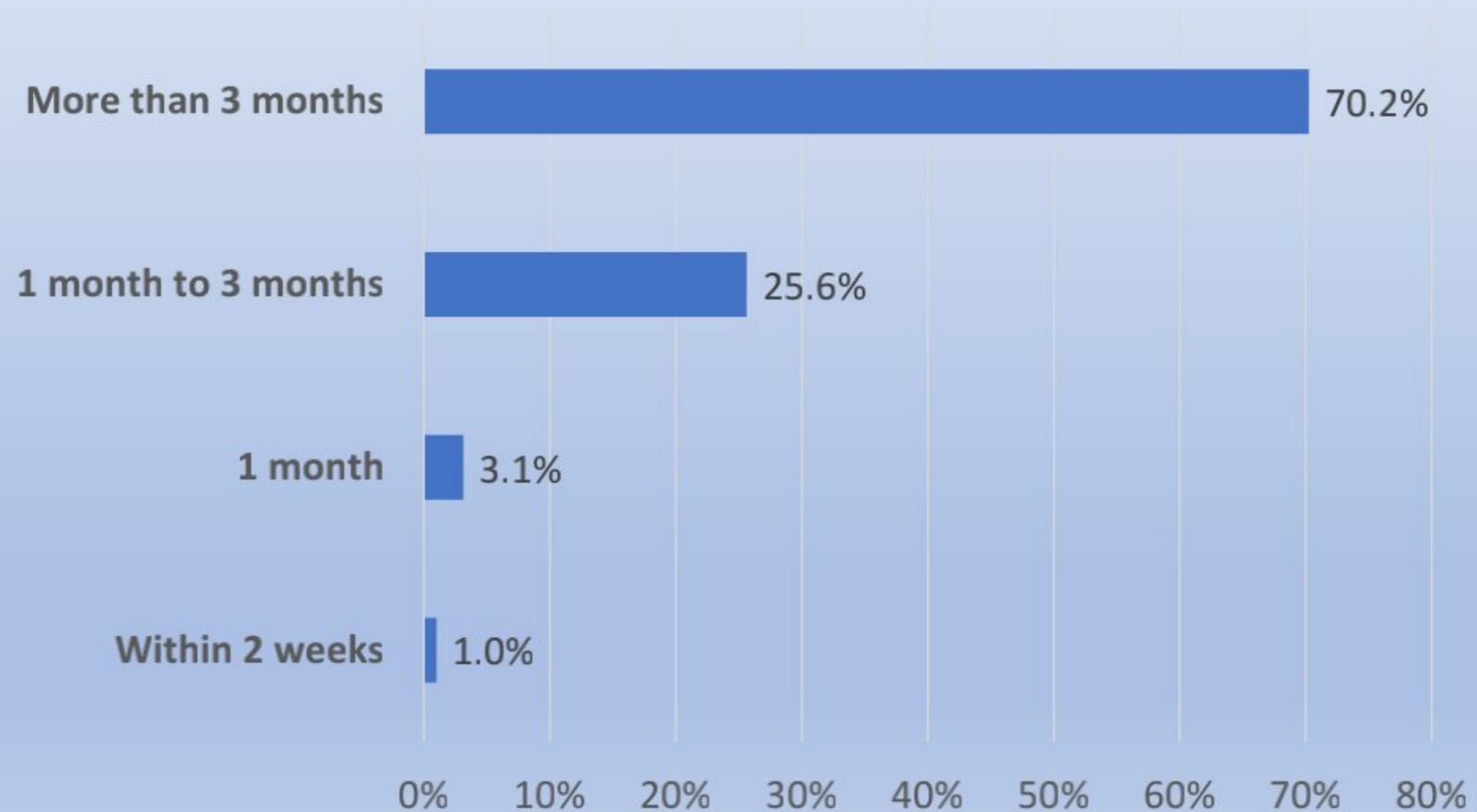


Top five most hopeful sectors



The concerns of Ugandan companies are reflected in their expectations about how long it will take their business to recover assuming a three-month duration of the restriction measures associated with COVID-19. 70 percent of the respondent businesses estimate their recovery time of more than three months. Only 4.1 percent believe that it will take one month or less whereas the remaining 25.6 percent envisage a recovery period of one to three months.

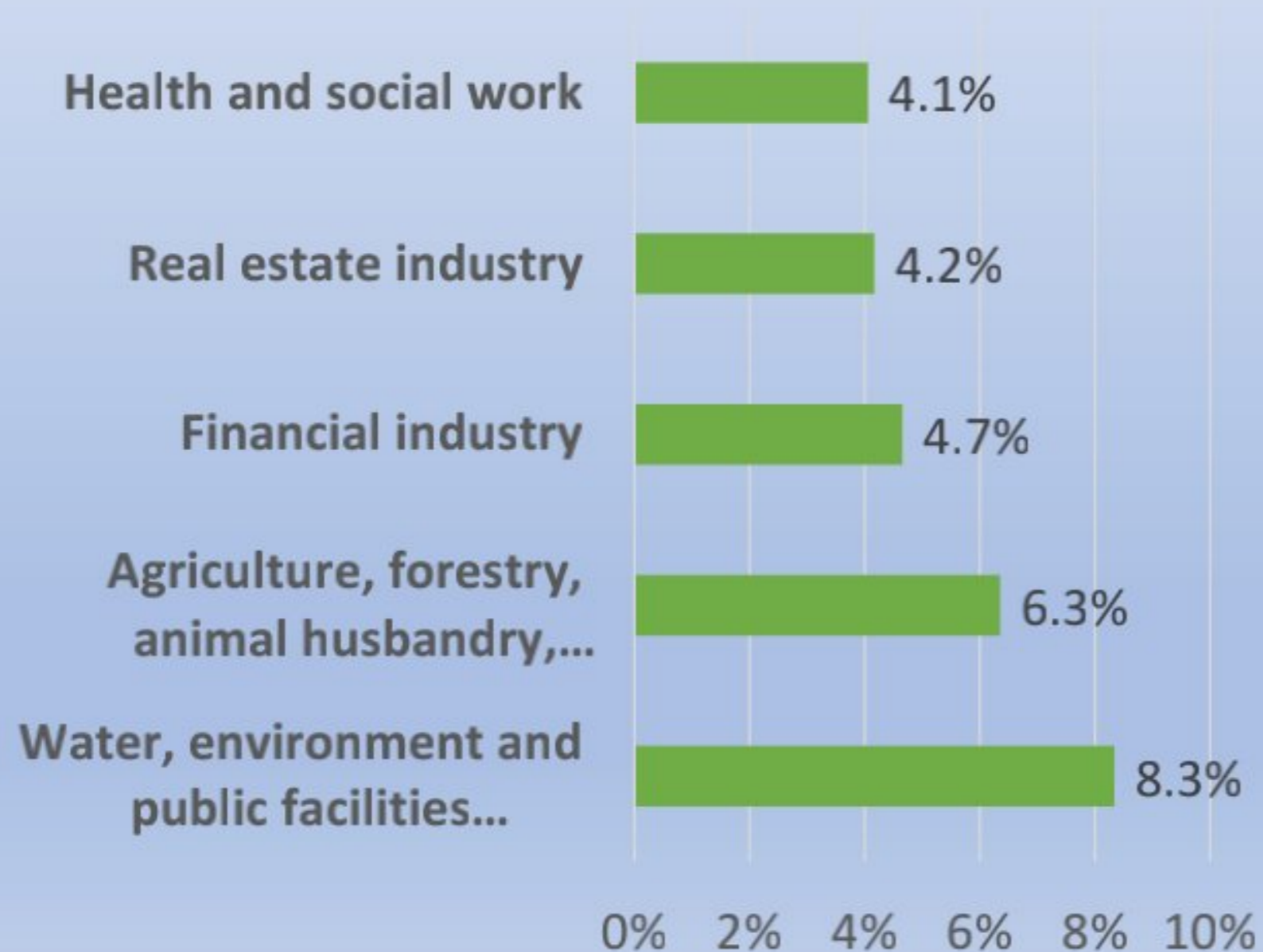
Expected period of recovery



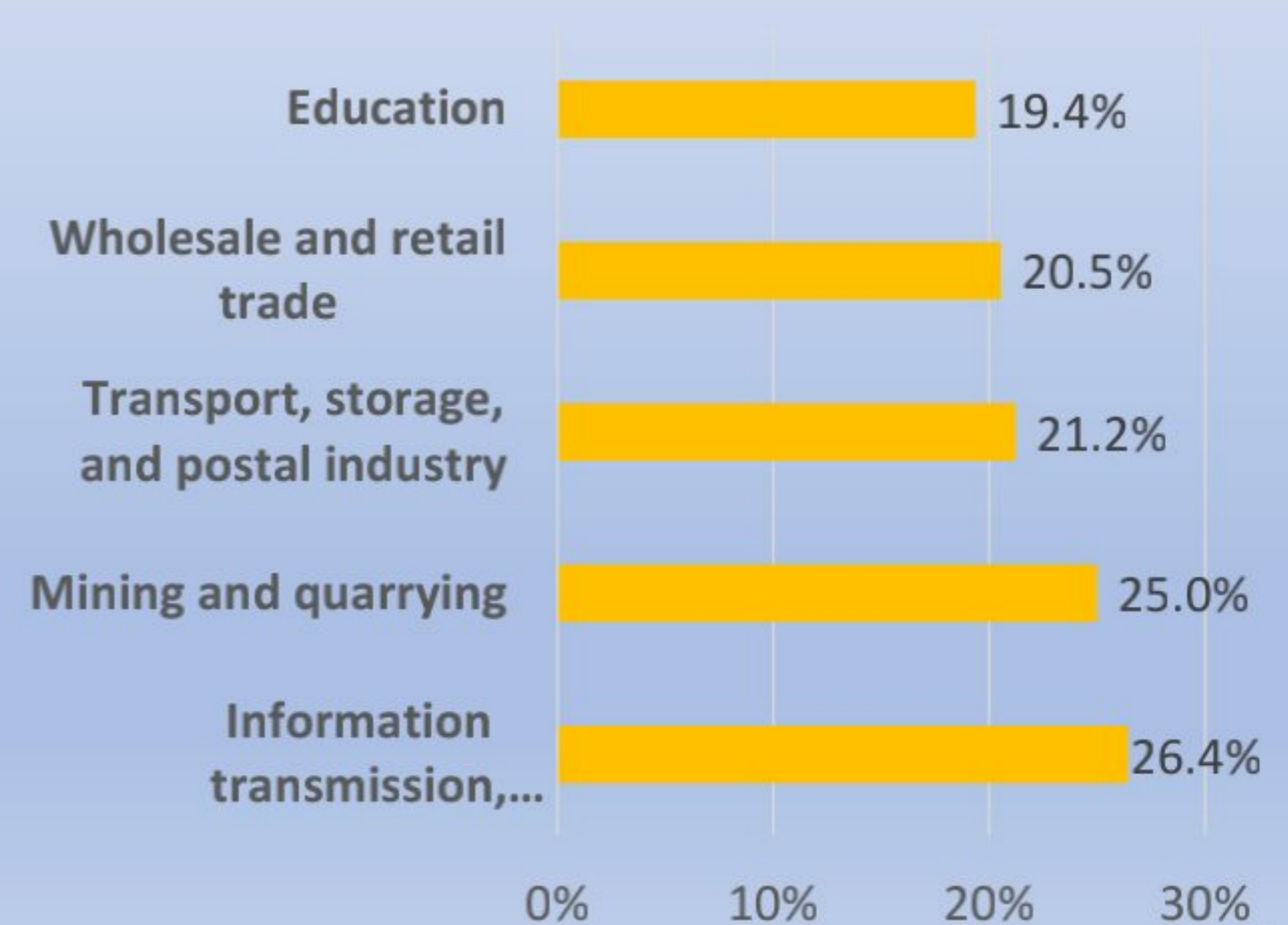
The sectors with the highest percentage of companies expecting to recover within one month include water, environment and public facilities management (8.3%), agriculture (6.3%), financial industry (4.7%), real estate industry (4.2%), health and social work (4.1%). Even in those industries the expectation of a speedy recover within one month is shared by just 5.5% of companies. Among the companies expecting to recover within a period of one to three months, information and software companies are most optimistic (26.4%). About 20% of companies hope to recover within the same period in mining and quarrying; transport; wholesale and retail trade; and education.

Expected recovery period by industry

Top five to recover within one-month

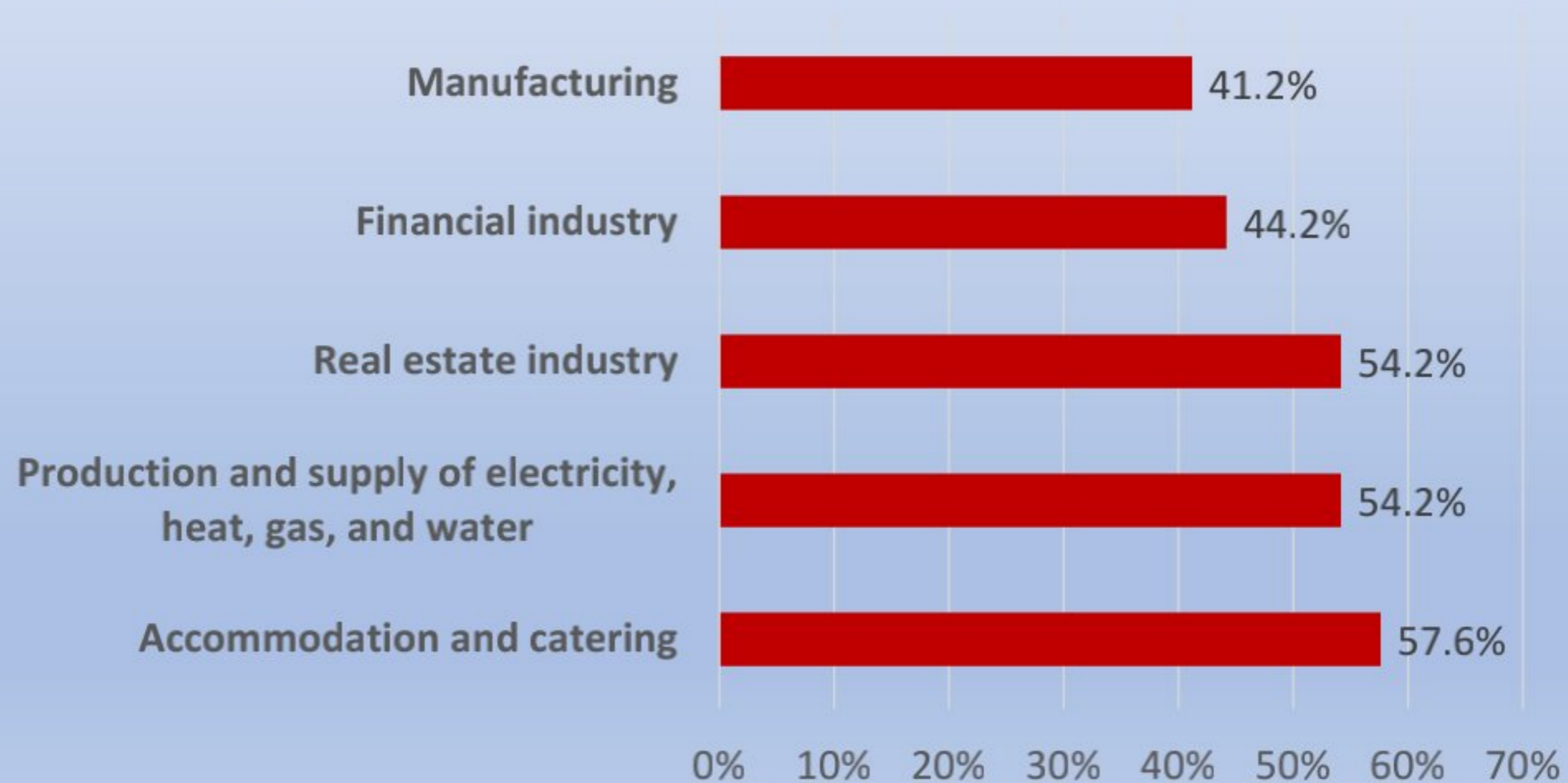


Top five to recover between 1 and 3 months



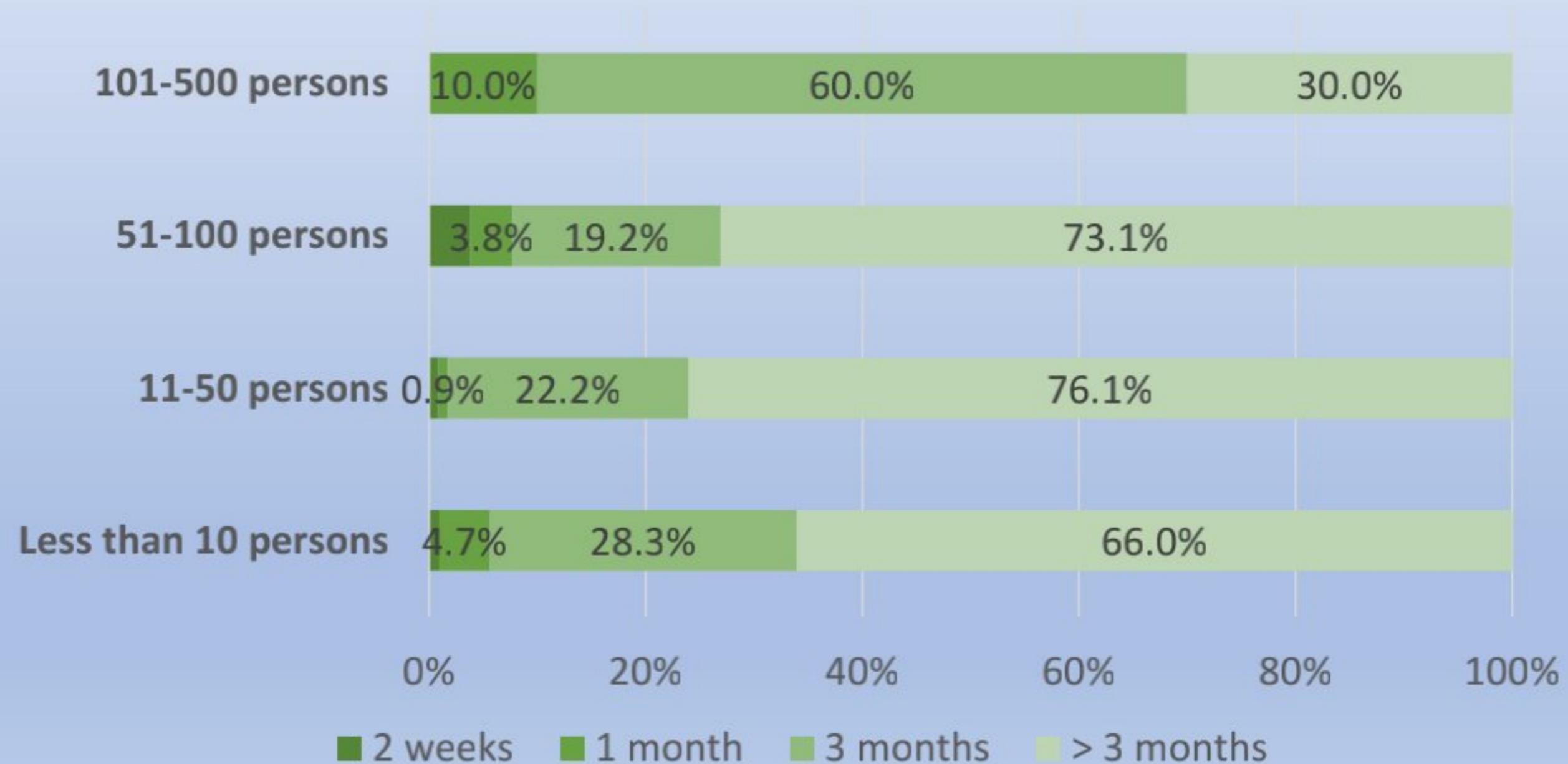
A number of sectors anticipate a longer recovery period of over three months. Particularly concerned with longer-term consequences of COVID-19 are accommodation and catering where 58% of respondents are preparing for a long recovery; production and supply of electricity, heat, gas, and water (54%); real estate industry (54%), financial industry (44%); and manufacturing (41%). The tourism industry, which started slowing down in January and all but stopped in early February, does not expect to recover until over a year from now, bringing the full recovery to the second quarter of 2021.

Sectors with the longest recovery time



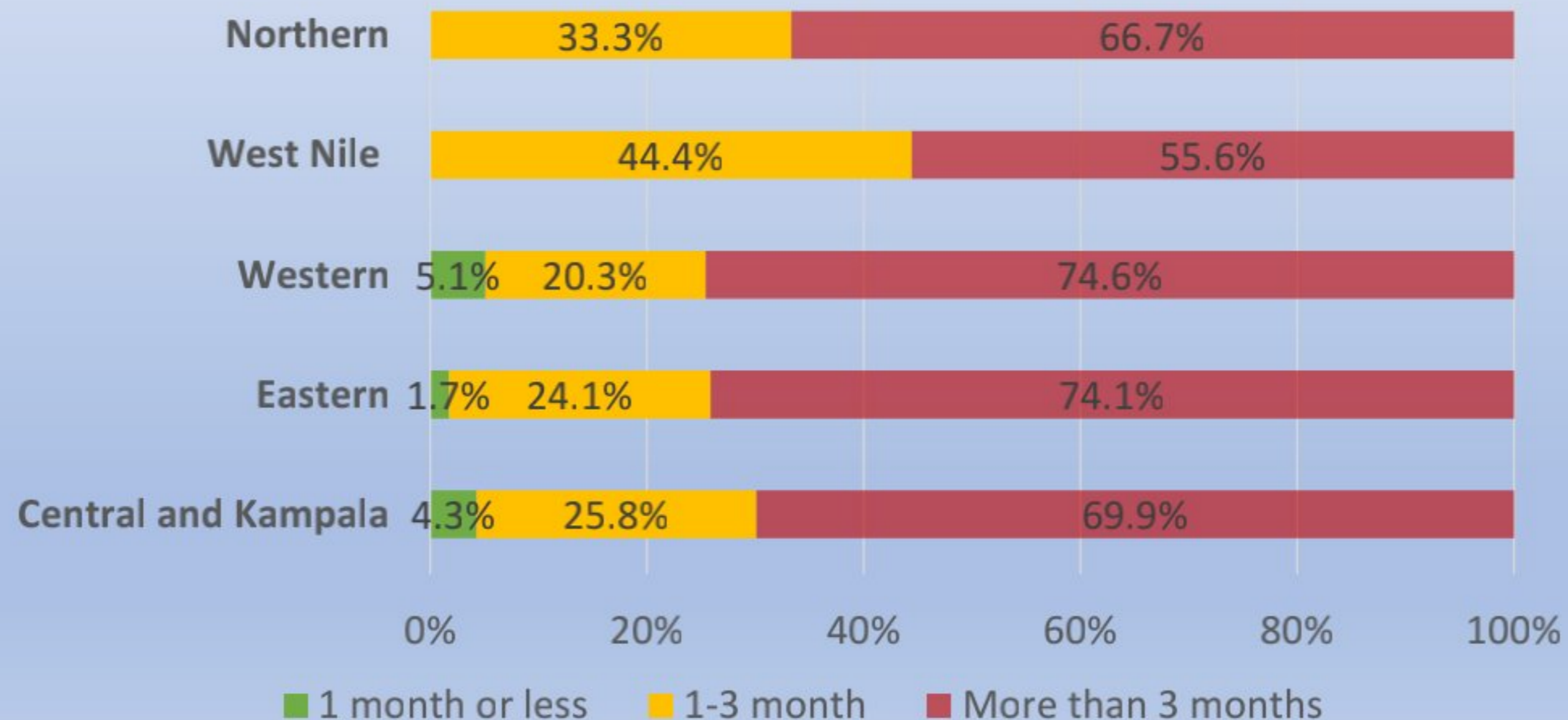
Larger companies employing over 100 persons expect a faster recovery as 70% of such companies hope to be fully back in business maximum in three months. This category also has the highest percentage of companies (10%) who expect to recover within one month, which reflects their higher resilience. The smaller companies envisage a longer recovery period. Thus, a recovery period of over three months is expected by 66% of companies with less than 10 employees, 76% of companies with 11-50 employees, 73% of companies with 51-100 workers and 30% of companies with 101-500 workers.

Recovery by size of company



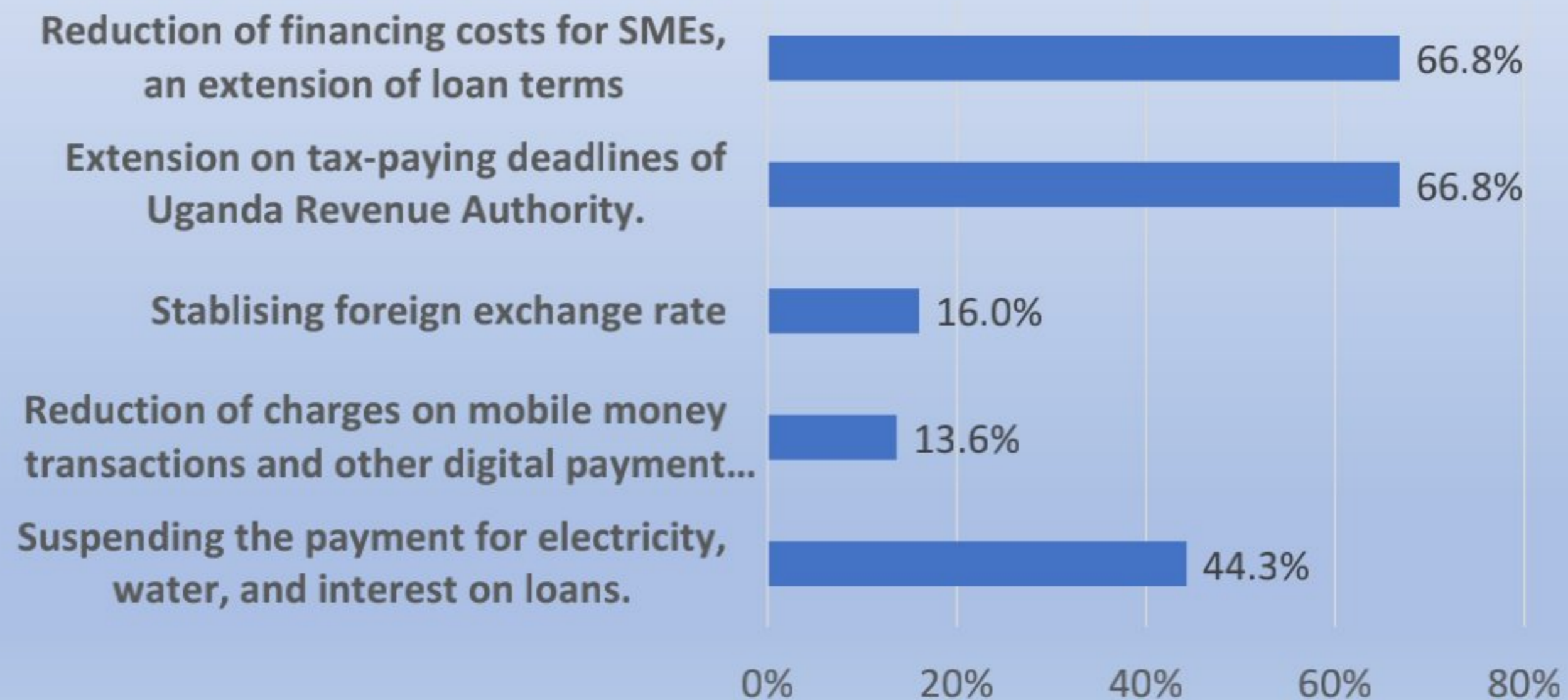
West Nile appears ahead of the other regions with 44.4% of the companies counting on a recovery within 3 months or sooner although the Central Region and Kampala combined have the highest number of companies which hope to recover within one month (4.3%). West Nile also has the smallest number of companies that would require more than three months to recover (56%). The largest number of companies with a longer period of recovery are located in the Western and Eastern regions (75 and 74%, respectively).

Recovery by region

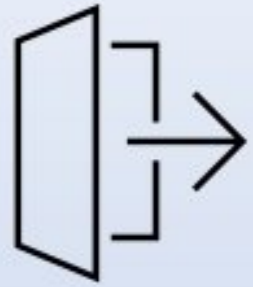


The two most appreciated measures are an extension of loans terms and reduction of financing costs for SMEs (67%) as well as an extension of tax payment deadlines to the URA (67%). Suspending payments for the utilities and loan interests is also viewed as an effective relief measure by 44% of the respondents. The other measures, such as stabilizing the foreign exchange rate and reducing charges on mobile money and digital transaction are considered less relevant.

Effectiveness of relief measures



Business voices



Businesses should be **put back into operation as soon as possible** subject to their compliance with health norms and regulations including disinfection arrangements and social distancing. The longer businesses stay inoperative, the greater the economic impact and the more difficult it becomes for them to resume their operations. The smaller companies which are the backbone of any economy are particularly concerned.



Uganda needs a **proper relief and economic stimulus package** that would define all government measures in support of businesses through an act of parliament. The relief package would set any reduction in utility fees or rental costs (should this become a matter for regulation), extension of the period for submitting tax returns or duration of tax holidays, wage entitlements of the staff, access to affordable capital, etc.



Businesses propose a **National Dialogue or Consultations** bringing together the business community from different types of businesses and different sectors to forge the way forward in a collaborative, participatory and transparent manner. The National Dialogue should involve relevant Ministries, Departments and Agencies (MDAs), taxation agencies, financial institutions to identify mutually acceptable solutions to the problems of Ugandan businesses.



Solutions should not be about short-term fixes but should look towards **business sustainability beyond the pandemic**. The government should look at this as an opportunity to prepare, for example, for the African Continental Free Trade Area (AfCFTA). Rescue packages should be linked to upgrading businesses, e.g. to add local value, to decrease reliance on imported inputs, to get standards certification, technology upgrade, etc. Finally, this should be an opportunity for the government to negotiate for loans/programmes to keep trade flowing through transport corridors.

Financial relief

Fiscal support

- **Introducing tax holidays.** The proposed duration of the tax holidays is from three months to half a year in 2020.
- **A blanket tax exemption for a minimum of 6 months** for certain industries, such as importers of medical supplies and equipment.
- **Reschedule the tax payment dates and introduce a grace period** of up to three months to allow companies to resume their operations. At the same time, waive fines for late filings of monthly returns declarations during the lockdown period and for a certain time afterwards.
- **Suspending NSSF payments for at least three months** (April-June 2020) to improve liquidity for employees and for employers (10 percent contribution).
- **Downward revision of tax rates**, especially the Value Added Tax (VAT) (by 2-4%) and the excise duty. Reduction of VAT for SMEs to 10 percent and a tax-free import of food processing machinery as well as removal of VAT on insurance/finance related services.

Financial support

- **Providing access to concessional government loans** at minimal or no interest rates with a two-year grace period for up to 30 percent of the company's total value, waiving the land collateral requirement. Cap loan interest rates for small businesses vary from no more than 0.5 percent per month (about 6 percent annual compound interest rate) to no more than 15 percent p.a. for the next three years.
- **Reducing government and commercial lending rates**, especially for MSMEs in value addition/manufacturing. Establish a specialized Small Business Recovery Fund to help small businesses secure money to re-inject into businesses at zero interest rate with at least one-year grace period.
- The government to **provide guarantees to postpone loan repayments** where applicable for businesses to recover. Introduce a moratorium on loan repayments for at least three months. The government should direct all commercial banks to waive off all loan interests for three months on all business loans.
- **5 to 10% reduction in the CBR** to reduce the burden on loans to prevent business collapse.

Employment protection and generation

- **Direct financial support to companies employing the youth.** Government projects should be open to the youth after the pandemic, especially the Operation Wealth Creation, Youth Livelihood Programme, NUSAF and the rest. All industries should be considered in this platform of the government support.
- The government should **waive the Pay as You Earn (PAYE) tax** on salaries during this time to reduce the employment costs on the employers and increase PAYE threshold to at least UGX 500,000.
- To generate community employment and revive the economy, the businesses suggest **increased support to the existing business community at the local level through Savings and Credit Cooperatives (SACCOs)**, such as long-term soft loans to SACCOs.
- A relief package for SMEs should include **a provision for covering at least 70 percent of salaries.**
- The ongoing government procurement contracts should not be stopped; at the same time, the government should **increase the volume of public procurement and make it available to domestic enterprises.** The going contracts with government agencies to be renegotiated since the prices of materials have skyrocketed.
- The Government should **pay all its suppliers outstanding bills** when the lockdown is lifted to help stimulate the economy through a trickle-down effect. All government domestic arrears should be paid as part of the relief package.
- Going forward, businesses propose measures to **promote local smallholder farmers, local markets and cooperatives** with a focus on low-input agriculture and less dependency on foreign companies.

Support to affordable inputs and operations

Easy access to inputs

- Suspend the Pre-Export Verification of Conformity to Standards Program (PVoC) after the lockdown to accelerate importation for local supply.
- Government should **subsidise prices of imported products** (raw materials) after the pandemic.
- **Support from Government to farmers with high quality inputs** such as veterinary medicines and fertilizer.
- The government should set up guidelines to **allow local manufactures continued access to imported raw materials** and resume full cargo movement within and between districts to the pre-COVID-19 levels in order to facilitate delivery of raw materials and finished goods to maintain the production cycle.

Lower costs of doing business

- The Resident District Commissioners (RDC) should be directed to be **accessible and responsive to business needs**. The process of allocating car stickers should be transparent and corruption-free.
- **Reduce utility costs** (some suggest for the government to slash utility costs for up to two years to allow for the recovery of both the households and commercial users).
- **Cap the maximum rental fees**. It is proposed that the rent for three months should be foregone by landlords of arcades and commercial centres. The would-be rental income for the landlords for the period can then be used towards offsetting rental tax. The tax can be spread over a period of three months.
- There is also a proposal **for a special law to regulate landlords and tenants**, which is business focused and not politically based.

Sustainable economic development and business resilience

- Measures to **reduce reliance on imported inputs and materials** including additional investments in manufacturing enterprises and government subsidies for machinery to enhance a strong industrial base in Uganda. Efforts should be made to transition to local raw materials where possible and focus on local value addition, particularly in manufacturing to reduce dependence on imported goods. The government should consider protecting the SMEs by emphasizing the local content even after the pandemic crisis.
- **Tax incentives to local startup companies** need to be more competitive than to foreign startup companies to enable national capacity. Small scale industry infrastructure, such as affordable access to high voltage power, premises, knowledge, machinery, supply chains and transport, needs a collective government strategy. Cooperatives and cluster businesses should be encouraged and prioritized with incentives and promotion. Small start-up companies (revenue below UGX 1bn) that align with the Buy Uganda, Build Uganda (BUBU) policy or are majorly export-oriented or are substituting import goods need sustainable tax breaks and lenient tax brackets.
- Creating a **special fund accessible by qualifying SMEs at the Uganda Development Bank** that is repayable but interest free. The objective of such a fund would be to support sustainability of ideas that are very important for the country's technology advancement, future job creation and economic development but cannot generate own sustainable growth in the short term. It is proposed that the government/URA creates a special category for such scientific research and technology companies.
- The national policy should focus on **reducing the barriers to acquisition of IT infrastructure** (hardware/software) with a minimum or no VAT/withholding tax. To improve access to information and data and stimulate development of the IT sector, it is proposed to remove the Over the Top (OTT) tax and VAT on software companies.
- Government should consider and adopt **policies that recognise, license and regulate online trading**. This is likely to become the preferred mode in the near future.

THANK YOU

For comments and feedback please contact



Unlocking Public and Private
Finance for the Poor

Mr. Joel Mundua
Lead Governance Specialist
joel.mundua@uncdf.org



MAKERERE UNIVERSITY

Assoc. Prof. Dr. Eria Hisali
Principal,
College of Business and Management Sciences
mhisali@gmail.com