

PRESS STATEMENT

FOR IMMEDIATE RELEASE

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

02 September 2020, KAMPALA DISTRICT, UGANDA– Today, the Initiative for Social and Economic Rights (ISER) launched its research entitled “*UGANDA’S COVID-19 ECONOMIC STIMULUS PACKAGE: WILL IT DELIVER?*” The research spotlights gaps in the implementation of COVID19 economic stimulus package that was rolled out by the government to mitigate the economic impact of the COVID pandemic and institution of containment measures.

Six months ago, the Uganda government initiated a lockdown to curb COVID 19. Without prior warning, entire sectors like tourism, education, entertainment, salons were shut down. 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, especially those producing essential commodities, were still operating. Even with progressive opening of the lockdown, businesses continue to suffer the negative impacts of the pandemic. Micro, Small and Medium Enterprises (MSMEs), 90 percent of the entire private sector, are extremely vulnerable to the recent emergencies due to low cash reserves and limited access to affordable investment finance. The World Bank’s Uganda Economic Outlook projects that an additional 2.6 million people will live below the poverty line.

The government has mobilized from International Financial Institutions (IFIs): the World Bank, International Monetary Fund(IMF), African Development Bank (ADB)and the European Union domestic resources to stimulate the economy. Government of Uganda allocated approximately UGX 1 trillion 277 Billion towards the recapitalization of Uganda Development Bank (UDB), Uganda Development Corporation(UDC), and Microfinance Support Centre (MSC) to improve the availability of investment finance and the cash-flows of MSMEs and other manufacturing firms. The stimulus package seeks to restore household incomes, re-ignite business activity through; the provision of access to credit to support Micro Small and Medium Enterprises (MSMEs), amongst others.¹

Despite these measures, ISER’s research found the government’s stimulus package will not reach those who need it the most.

“The rigorous credit approval processes and high 100million minimum lending thresholds set by Uganda Development Bank (UDB) discourage many MSMEs. They 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. 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”, said Ms. Salima Namusobya, ISER’s Executive Director.

¹ Budget Speech 2020 / 2021 available at <http://statehouse.go.ug/sites/default/files/attachments/press-releases/fy -2020-21-budget-speech.pdf>

The research found legal registration requirements by UDB make credit inaccessible to most MSMEs, a greater percentage of which are unregistered and operate informally and yet these businesses are the backbone of economic growth in Uganda. “Reliance on land titles as collateral excludes many otherwise creditworthy small-scale borrowers whose firms’ capital stock consists of movable assets such as machinery, equipment, or receivables as opposed to fixed assets, such as land or buildings,” noted Ms. Elizabeth Atori

ISER’s research found that Emyooga Initiative by the Microfinance Support Centre that targets the informal sector limits membership to persons who are 35 (youth) and does not cater to other business owners that are not in that demographic. The Emyooga initiative targets Ugandans from defined clusters and aims to provide each cluster with shs30 million as seed capital. Each constituency, apart from Wakiso district, is entitled to Shs560m. The research found there have been reports of corruption amongst District leaders that ask for kickbacks while processing on the Emyooga funds, causing locals to lose trust in such SACCOs.

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,” noted ISER’s Program Manager, Ms. Allana Kembabazi “This has resulted in exclusion of intended beneficiaries and made monitoring by civil society and other actors difficult.”

The dissemination of information for eligibility criteria and application processes for the economic stimulus was left to the various implementing Financial Institutions. “Institutions like UDC only uploaded the information on their websites which 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 use the internet,” noted ISER’s Elizabeth Atori.

Consultation 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,” said Ms. Namusobya.

The organisation urges the government to: ensure access to relevant information by the most in need and promote transparency and accountability; ensure meaningful participation of intended beneficiaries before, during and after implementation of the stimulus package; and set and apply objective, transparent criteria for determining eligibility for economic stimulus packages.

ISER calls upon participating development institutions to put in place more flexible arrangements for credit access that include smaller businesses and informal sector that would otherwise not benefit under the existing criteria. ISER urges the adoption of 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



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credit by SMEs.

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