

CIVIL SOCIETY STATEMENT ON THE MANAGEMENT OF THE STIMULUS PACKAGE



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“The Stimulus Package has not addressed the fiscal needs of the MSMEs and thus should be reviewed.”

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We the undersigned Civil Society Organizations (CSOs) and representatives from the Private Sector wish to express our concerns on the disbursement and management of the funds allocated to the Stimulus Package by the Government of Uganda.

We wish to note that the COVID-19 pandemic has disrupted supply chains and exacerbated existing vulnerabilities especially in Low Income Countries like Uganda.

According to Ministry of Health, as of April 2021, Uganda has registered over 40,751 cases with 341 deaths. In a bid to curb the spread of COVID-19, the Government of Uganda put in place a number of measures including restrictions on transport and closure of non-essential businesses among others. This has greatly affected the country's economy and livelihoods as lives were lost and unemployment rates spiked. Micro, Small and Medium Enterprises (MSMEs) who comprise of over 90% of Uganda's Private Sector were hit most by the pandemic through the supply, demand and financial shocks.

Due to the aforementioned measures, Uganda has faced a multi-layered crisis comprising of a health burden, domestic economic disruptions, capital flow reversals, and disruption of value chains which led to reduced demand and supply of goods and services and weaker commodity prices. With Uganda's GDP growth rate declining to 2.9% in FY 2019/20 from 5.7% that was realized the previous Financial Year, the need to resuscitate the economy has become pressing now more than ever.

As a way of cushioning MSMEs from the impacts of the pandemic, in April 2020 Government of Uganda put in place the economic Stimulus Package with an objective of supporting MSMEs and other business Enterprises that were hit hard by the pandemic and were struggling with major cash flow challenges.

It is key to note that the government did not start up new programmes for this purpose aforementioned but rather looked at the already existing programmes and recapitalized them with the objective of offsetting the economic impacts that came as a result of the COVID-19

pandemic. These programmes that were capitalized to serve the objective of offsetting the COVID-19 economic impacts have come to be known as the Stimulus Packages. The objectives of the various economic Stimulus Packages among others include the following;

- ***To support the COVID-19 Health related expenditures and support scientists and innovators engaged in various COVID-19 interventions.***
- ***Restoring household incomes and safe guarding jobs and livelihoods through enhancing the provision of improved agricultural inputs using National Agricultural Advisory Services (NAADS), e-Voucher System***
- ***Providing emergency social protection by offering relief aid in response to the COVID -19 crisis, natural disasters and roll out of the Social Assistance Grant for the Elderly (SAGE) to persons aged 80 years and above, while also including the elderly aged 65 years in 15 pilot districts.***
- ***Re-igniting business activity through:***
 - ✓ Providing credit through Savings and Credit Cooperative Societies (SACCOs) and Micro Finance Institutions to support MSMEs.
 - ✓ Increase access to credit at Uganda Development Bank (UDB) to offer low interest financing to manufacturing, agribusiness and other private sector firms.
 - ✓ Establish Microfinance Recovery Fund, targeting small & medium sized enterprises, Expedite the payment of arrears owed by Government to Private Sector firms. Accelerate the development of industrial and business parks.
- ***Provision of tax relief to businesses through deferring payment of Pay As You Earn (PAYE), Corporation Income tax /Presumptive tax for corporations and SMEs in the most affected sectors e.g. Tourism, manufacturing, horticulture and floriculture and also waive Interest on tax arrears.***

Government of Uganda through the Ministry of Finance allocated 2.6 trillion Uganda shillings as a direct subsidy to entrepreneurs. The economic stimulus packages were to be accessed in form of loans and grants through three major institutions which include; Uganda Development Bank (UDB), Uganda Development Corporation (UDC) and Microfinance Support Centre to support MSMEs that were out of business or needed to keep afloat.

However, we would wish to express our concerns over the manner in which the Stimulus Packages have been managed by the designated institutions.

It is now 13 months since the Government of Uganda issued the Stimulus Packages to rebuild businesses and the economy from the pandemic driven crisis. It is however disturbing to note that these Packages have not yet reached the intended beneficiaries especially the micro and small Enterprises.

The UDB Fund

Of the 1 trillion Uganda Shillings that had been committed by the Ministry of Finance, Planning and Economic Development Uganda Development Bank received a disbursement of 455 billion in mid-August 2020. It is critical to note these funds were secured under a loan (1.9 trillion UGX) from the IMF in May 2020. The funds were meant to support projects engaged in primary agriculture, agro-industrialization, manufacturing, Tourism and Hospitality, Infrastructure and Health Services. In January 2021, the Uganda Development Bank stated that it disbursed up to Shs242 billion to vital sectors of the country. Shs 192 billion was disbursed to struggling businesses in primary agriculture, agro-industrialization and manufacturing with the largest share of the approved funds being disbursed to the Kampala metropolitan area.

However, according to a Call for Applications issued by Uganda Development Bank (UDB) earlier this year, the

Bank is not lending out money below sums of 100m to enterprises. This remains way above the money MSMEs would regularly borrow. Other stringent conditions put in place by UDB that have curtailed access to these funds include; - the demand for feasibility studies or business plans, need to provide a copy of each of the last 2 years audited/draft accounts (from Institute of Certified Public Accountants of Uganda/Bank of Uganda listed audit firms); security for the proposed loan, including current valuations of the assets all of which MSMEs can hardly conform to. This is in addition to the fact that the bank has explicitly stated that these funds are not meant to support MSMEs or struggling businesses, but are rather meant for the Bank's recapitalization.

We are also concerned that the loan interest rates at which UDB is disbursing its loans is **14.5%** and not **12%**. This is not far from the commercial bank rates. In addition, engagements with the private sector including associations like the Federation of Small and Medium-sized Enterprises (FSMEs) which constitutes over 100,000 enterprises across the country have revealed that none of their members have accessed the money even after they applied for it. This leaves questions on whether there were any packages meant for MSMEs and whether the Government even had them in mind while designing these packages. It is therefore our concern that the modalities being used to select the beneficiaries have been largely skewed towards already established large players with limited focus on struggling smaller enterprises. This is not likely to lead to the much-desired economic recovery.

Recommendations and proposals for the UDB funds:

- ✓ *As the Government of Uganda is planning to recapitalize Uganda Development Bank, it should review and address the identified challenges i.e. the minimum loan sums; coupled with the high interest rates, and the intended*

beneficiaries.

- ✓ *UDB should review the stringent eligibility criteria being used to qualify and disburse the entrusted funds.*
- ✓ *UDB should also periodically publish the list of beneficiaries as part of the accountability process to the general public.*
- ✓ *UDB should negotiate the loan conditionalities with the Uganda Manufacturers Association (UMA) to allow UMA members access the Stimulus Package with favorable conditions as opposed to individual members.*

Ministry of Finance, Planning and Economic Development should develop a comprehensive COVID-19 Stimulus response plan taking into considerations the MSMEs who have been impacted by COVID-19.

- ✓ *Ministry of Finance, Planning and Economic Development and respective agencies like UDB, Microfinance Support Center and others should exhibit more transparency in the manner in which the Stimulus Package is designed for the benefit of vulnerable Ugandans impacted by COVID-19.*
- ✓ *The International Monetary Fund should not only stop at disbursing loans to developing countries like Uganda but should be able to hold Government of Uganda to account to its commitments made when requesting for the stimulus package.*

Emyooga Funds:

The Ministry of Finance through the Microfinance Support Centre disbursed Shs. 260 billion shillings to the Emyooga Programme. The funds were aimed to provide seed capital to organized special interest groups under the Youth Fund, Women Entrepreneurship Fund and the 'Emyooga' Talent Support Scheme. It is envisaged that the reinforcement of the Emyooga Funds would provide support to the most affected businesses including; boda-boda riders, salon operators, bars, nightclubs, women entrepreneurs, taxi operators among others. Regarding disbursements, the

initiative targets Ugandans that are organized in SACCOs of 15 Associations that are clustered under Parishes with each association having 7-30 members receiving Shs. 30 million. As of 12th February 2021, funds to a tune of (Shs.188 Billion) had been disbursed.

However, we are concerned that the SACCO leaders are yet to access the funds from the designated Financial Institutions despite claims that the funds had been disbursed. Findings from our research reveal that many of them are yet to be offered Certificates of Incorporation from the Ministry of Trade, and also a requirement that the Associations need to have saved a substantial amount of money. This coupled with other stringent requirements have curtailed access to the disbursed funds.

Recommendations and proposals

- ✔ *Government should fast track the accessibility of the Emyooga funds which are already disbursed on the SACCO accounts yet are not being accessed.*
- ✔ *Government through the Ministry of Trade should also look into the pace at which Certificates of Incorporation are being released to the Emyooga SACCOs.*
- ✔ *The government of Uganda should as an alternative disburse these funds to MSMEs through their associations such as Uganda Small Scale Industries' Association (USSIA) , Federation of Small and Medium Enterprises (FSME) , Uganda Women's Entrepreneurs Association Limited (UWEAL) which have structures and membership across the country.*
- ✔ *The government should put in place common user facilities for SACCOs that support their nature of businesses instead of offering such small loans to entrepreneurs which are not adequate for resuscitating their businesses and the economy at large.*

Uganda Development Corporation (UDC) Fund

Government has also allocated Shs. 100 billion to the UDC fund for public-private partnership investments to facilitate import substitution and export promotion strategy. Of this, Officials from the institution have disclosed that they have already disbursed Shs.50 billion to support the already ongoing projects e.g. expansion of the Soroti Fruit factory to which Shs. 8 billion was disbursed

Recommendations and proposals

The Uganda Development Corporation should prioritize investment in zonal common user facilities, rather than establishing processing facilities/factories to support start-up Micro Small and Medium Enterprises (MSMEs) in Agro-processing and value addition. Moreover, common user facilities will reduce on the cost of doing business as they are certified, and will build capacity of the informal traders in meeting standards as their produce will be required to be of standards.

Through Uganda Development Corporation, government should subsidize the cost of food-grade machinery and packaging materials such as glass and boxes to enable MSMEs meet quality both at processing and post-processing stages. Most importantly, a special fund to support MSMEs in meeting the cost of product certification should be set aside.

Conclusion

As the Government of Uganda takes steps to ensure immediate relief and long-term recovery during and post COVID-19, it is critical that it considers addressing the long-standing structural challenges and interrelated crises of inequalities and vulnerabilities, food insecurity and weak health systems. Regarding the stimulus package, the government should review and refocus the stimulus package on re-organizing the long-standing production and productivity challenges facing key actors like farmers, MSMEs among others.

Under the Agriculture E-Voucher system, the Stimulus

Package should be re-designed to prioritize supply of farm inputs to small scale farmers to cushion farmers from the effects of adverse weather, and to secure food supply chains in the post COVID-19 period and into the future. Local content should also be emphasized in government procurement of key products like food, hospital beds, Personal Protective Equipment (PPEs), office consumables in Government Ministries, Departments and Agencies (MDAs) among others. This measure will support creation of gainful employment in the domestic manufacturing sector, which will stimulate inclusive production and productivity for the much-desired economic recovery.

In its present design and management, the stimulus package has not addressed the fiscal needs of the MSMEs whom it is intended. Therefore, in order for the package to work in jumpstarting the ailing Uganda's economy, the Stimulus Package should be reviewed.

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