

## The plight of Micro Small and Medium Enterprises amidst COVID-19: A post lockdown analysis based on Business Climate Survey

### Executive Summary

*The COVID-19 outbreak and the subsequent containment measures have had devastating effects on Uganda's businesses resulting in the economy's general slowdown. Despite the macro-level impacts, evidence at a micro-level, especially regarding the post lockdown period, generally remains anecdotal. More specifically, that relating to schools—the most prominent formal private-sector employer in Uganda and worst affected by the school closures—is lacking, notwithstanding the phased re-opening of schools that started in October 2020. In this special Business Climate Index Issue, we examine the pandemic's impact on MSMEs and private schools in Uganda, considering the lockdown and post lockdown period and schools' re-opening.*

*Results indicate that the emergence of the COVID-19 pandemic and the subsequent measures to contain its spread negatively affected business operations in all sectors of the economy, albeit with different magnitude. After the lockdown, businesses faced severe liquidity constraints while re-opening. In this case, female owned businesses in the services sector reported a much dire financial situation. In addition, access to credit remains a challenge as financial institutions remain pessimistic about the future business environment. Nonetheless, employment in businesses showed signs of recovery, albeit sluggishly, with much slower employment recovery in the services sector.*

*Regarding the education sector, the low turn-up of learners upon re-opening and delays in school fees payment has resulted in the contraction of revenues for private schools, leading to increased indebtedness and depletion of savings. Consequently, private schools have experienced challenges in accessing supplies due to the high cost while teachers have registered salary cuts. Notably, most schools were unable to implement online teaching as their learners lacked the required gadgets.*

*Based on the findings, there is a need to provide emergence loans to businesses, including private schools, to lessen the financial constraints, paying particular attention to female-owned businesses. Schools can also be offered in-kind support—such as providing food items to offset the high cost of supplies. The government can also buy equity in some strategic but struggling private schools, which these schools can re-require as they recover.*

### Introduction

The outbreak of Corona Virus Disease in 2019 (COVID-19) has had an unprecedented social-economic impact on the global economy. As a result of the pandemic and subsequent containment measures, businesses activities have slowed down, leading to loss of livelihoods for several people. According to World Bank, COVID-19 and its containment measures pushed 40 to 60 million people into extreme poverty due to losses of livelihoods that resulted from disruptions in business operations.<sup>1</sup>

Like many other countries, Uganda adopted stringent measures to curb the spread of the virus such as; closure of learning institutions, transport restrictions, border closures, and a complete lockdown of the entire country for a considerable duration. These measures have had far-reaching impacts on Uganda's economy. For instance, the border closures resulted into supply chain disruptions, making inputs, especially in the manufacturing sector, inaccessible and/or more expensive (Lakuma *et al.* 2020). This uncertainty in input supply resulted in severe job losses as enterprises down-sized their workforce as one of the coping mechanisms to the risks presented

by COVID-19 (*ibid*). Furthermore, the nationwide closure of learning institutions resulted in a severe decline in demand for agricultural food products consumed by an estimated 15 million learners daily. This affected the incomes of poor households whose primary source of livelihood is agriculture.<sup>2</sup> The closure of schools also presented additional challenges. These were unable to sustain salaries for their teachers, especially private schools whose only source of income is school fees.

Nonetheless, with the easing of some of the COVID-19 restrictions in June 2020, there have been signs of economic recovery in the country. Bank of Uganda’s monetary policy statement for August 2020 indicated that the economy was steadily recovering due to relaxing the lockdown measures.<sup>3</sup> The phased re-opening of schools that started with candidate classes reporting back to school and later the sub-candidate classes is also expected to revive the ailing education sector and other sectors linked to it. However, businesses and schools are experiencing numerous challenges to cope with the effects of the pandemic.

Therefore, this study examined the effect of COVID-19 at a micro level focusing on Micro Small and Medium Enterprises (MSMEs) and private secondary schools. The study assessed the business situation during the lockdown, post-lockdown and schools’ situation before closure and after re-opening.

## Methods

The study employed a quantitative survey design where general businesses, particularly MSMEs and private schools, were interviewed using separate questionnaires. The survey of general businesses was based on EPRC’s business climate index (BCI) frame, which follows a panel of firms drawn from the Census of Business Establishment (COBE) 2011 conducted by the Uganda Bureau of Statistics (UBoS) and first tracked by EPRC in 2012. This survey followed 177 businesses spread across 22 districts from four regions (central, north, east and west). Sample weights are applied to these businesses to provide insights for the general businesses in the country.

The businesses were asked questions concerning business risk associated with COVID-19 and subsequent containment measures (such as lockdown) and recovery path after the lockdown. More specifically, the questions were designed to capture information for the period before COVID-19, during the lockdown, and after the lockdown. Major indicators examined include; business operations, access to inputs, access to credit, and employment. Also, the survey enlisted information about business characteristics such as sector and gender of the owners, which enabled disaggregation of the impact of COVID-19.

The study randomly selected two private secondary schools (one in urban and the other in peri-urban area) from each of the BCI 22 districts. These were asked questions about the period before the closure and after re-opening. Questions thought to enlist information regarding schools’ experience while re-opening on issues such as; changes in enrolment, staffing levels and staff remuneration, access to supplies and credit. In addition, the survey accessed schools’ ability to undertake online teaching and learners’ preparedness to attend online classes.

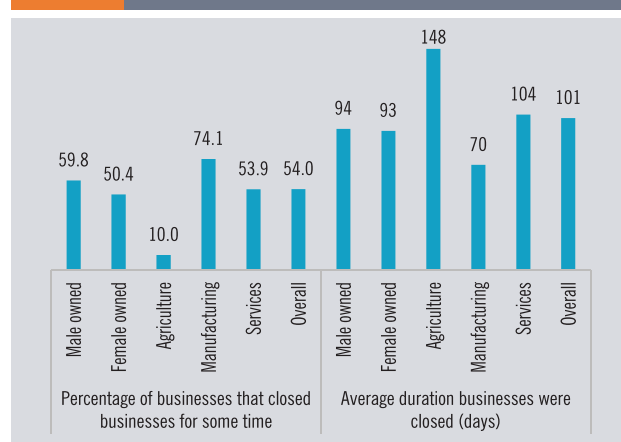
## Key Findings

### Impact of COVID-19 on MSMEs

#### Businesses lost a significant number of days due to COVID-19.

Considering the percentage of businesses that closed operations and the number of days businesses were closed, results in Figure 1 reveal that overall, five in ten (54 percent) business enterprises closed operations for some time. For those that closed, the average duration of closure was 101 days (3 months, 10 days). In this regard, businesses in agriculture sector were more resilient with only 10 percent reporting having closed for some time, compared to services (54 percent) and manufacturing (74 percent). Indeed, unlike the services and manufacturing sectors, the agricultural sector was not directly affected by the Government instituted lockdown measures to contain the virus. Except for the ban on weekly mobile agricultural markets, no further restrictions were imposed on the sector. However, out of those that closed, businesses in agriculture had the highest duration, close to 5 months (148 days), while manufacturing had the least duration (70 days). The businesses that closed operations in agriculture are mainly engaged in processing. The observed high duration of business closure for agricultural processors could have emanated from the restriction on movements brought about by curfews. Regarding gender, no significant difference is observed in the duration of closure between male and female owned enterprises, albeit a higher percentage of male owned businesses reporting having closed premises for some time.

Figure 1 Closure of business operations during COVID

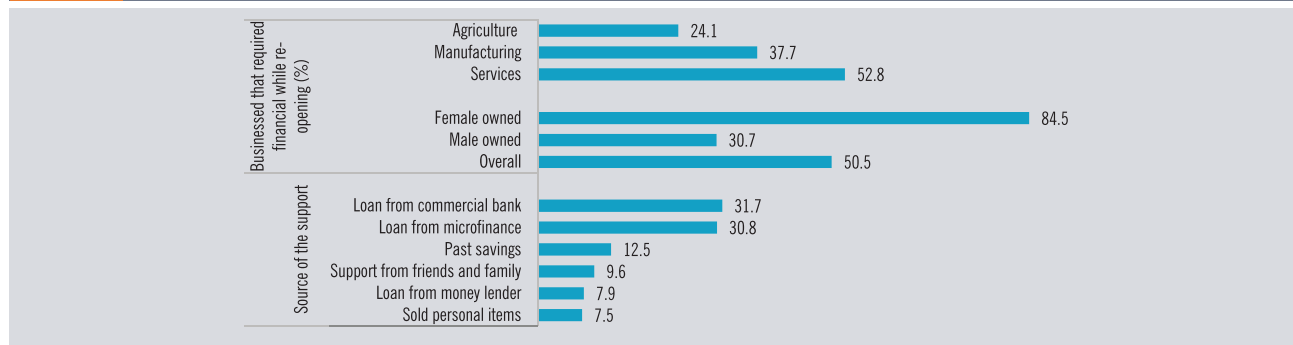


Source: EPRC Rapid Survey March 2021.

#### Female owned enterprises were in dire need of financial assistance at the time of re-opening, more so those in the services sector (Figure 2).

Due to loss of sales resulting from closure, half of the businesses required financial assistance to resume operations. Despite having closed for nearly the same duration (as earlier indicated), a significantly higher percentage of female-owned (84.5 percent) businesses reported a need for financial support to re-open compared to male-owned (30.7 percent). This alludes to cash flow challenges female-owned businesses experience, which results in low savings. Businesses in the services sector were more in need of financial support compared to manufacturing and agriculture. This is possibly due to the severe decline in sales and business activity in the services sector due to prolonged closure during the lockdown (Lakuma *et al.* 2020). Figure

**Figure 2** Financial support and its source while re-opening business, %



Source: EPRC Rapid Survey March 2021.

2 also shows that loans from commercial banks were the most common finance source used by the businesses while re-opening. These results corroborate Sserunjogi *et al.* (2020).<sup>4</sup> Commercial banks have broader geographical outreach, greater capacity to adopt technological innovation and greater ability to mobilise financing for on-lending.

**Relaxation of COVID-19 containment measures slightly eased access to inputs, but access to credit remains a challenge for businesses.** The lockdown resulted in a decline in both access to inputs and access to credit. Succinctly, 87 percent of the firms reported that access to input become more challenging during lockdown compared to the period before (Figure 3). These results concur with those of Lakuma *et al.* (2020), who reported that the increased difficulties in access to inputs by businesses were primarily due to disruption in the local supply chains (due to transport restrictions) and global supply chains (especially for manufacturing firms) due to the closure of factories abroad. In the same vein, 85 percent of the firms report access to credit becoming more problematic in the same reference periods. According to businesses surveyed, barriers to accessing credit are attributed mainly to the banks’ fear of default due to low sales on the side of borrowers, difficulties in accessing guarantors and loan officers, and transport restrictions, making it difficult to access banks.

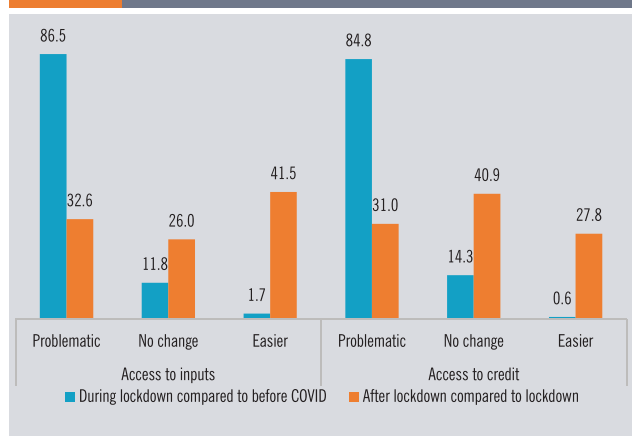
Remarkably, lifting of the lockdown and relaxation of containment measures such as the extension of curfew hours, allowing public and private transport to operate slightly eased access to inputs. More

specifically, 42 percent of the businesses reported that access to inputs had improved after lockdown than the period for lockdown. On the contrary, a higher percentage of the firms (41 percent) reported that easing containment measures had not changed much as far as access to credit is concerned (Figure 3). This suggests that lending institutions are still pessimistic about the ability of businesses to service loans. This, however, has adverse implications on economic recovery as businesses are faced with financial constraints.

**There has been a sluggish recovery of employment upon lifting of lockdown.** COVID-19 and imposition of lockdown resulted in a sharp contraction in employment across all sectors, especially the service sector. Based on the sample of firms surveyed, total employment reduced from 3,094 in the quarter October-December 2019 to 1,746 in the quarter April-June 2020 (Figure 4), representing 44 percent decline. Employment in the services sector reduced by about 61 percent during lockdown while manufacturing and agriculture sectors reduced by 27 percent and 43 percent respectively. Nonetheless, the easing of the containment measures, especially lifting the lockdown, has resulted in a sluggish employment response. In this regard, employment numbers increased from 1,746 in June 2020 to 2,078 by February 2021, representing an average monthly growth rate of 2.4 percent. Based on the firms surveyed, there was a decline of about 33 percent in the current employment level than the pre-COVID-19 employment levels (as of December 2019).

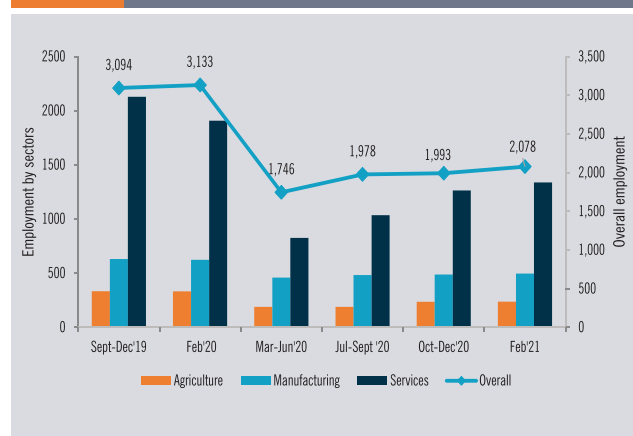
Given the above estimated monthly average employment recovery rate of 2.4 percent, it would take about 32 months (2 years and 8

**Figure 3** Changes in access to inputs and credit during and after lockdown



Source: EPRC Rapid Survey March 2021.

**Figure 4** Trends in employment for the surveyed businesses



Source: EPRC Rapid Survey March 2021.

months) effective July 2020 for these businesses to reinstate their pre-COVID-19 employment level. Notably, employment recovery was much slower in the services sector compared to agriculture and manufacturing. This alludes to the pandemic’s disproportionate impact, with the services sector most affected (Lakuma *et al.* 2020).<sup>5</sup>

### The plight of private secondary schools amidst COVID-19 pandemic

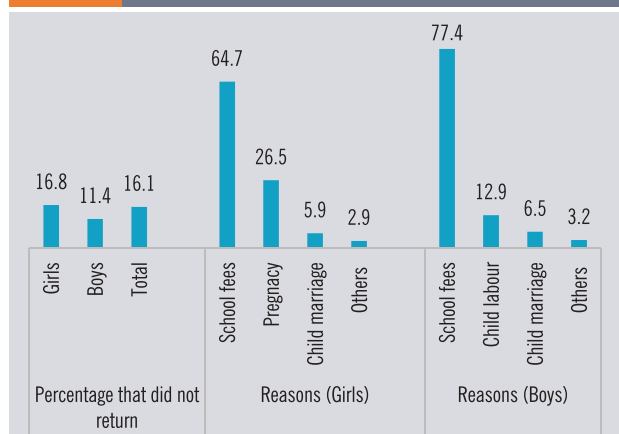
**Low learner turn-up upon re-opening resulted in the contraction of school revenues.** The negative impact of COVID-19 on household income spilled over to schools through some students’ failure to return to school upon re-opening—due to lack of school fees and delays in school fees payment. The results are presented in Figure 5. Results from the sample of schools surveyed show that about 16 percent of the students in candidate classes did not return immediately upon school re-opening in October 2020. This, according to evidence, was due to the inability to raise school fees for both female and male learners.

This alludes to the broad impact of COVID-19 on the various socioeconomic indicators such as income. Indeed, studies have showed that COVID-19 and subsequent containment measures resulted in a decline in household income and poverty (Mahmud & Riley 2021).<sup>6</sup> Remarkably, pregnancy was ranked second reason for failure to return to school by girls while child labour ranked second for boys. The study also notes that some students changed schools from expensive to relatively cheaper ones (captured in the option “others” in Figure 5). This, however, has adverse implications on the quality of education since the price of education in Uganda is highly correlated with the quality.

Notably, the percentage of female candidates that did not return upon re-opening is higher than that for male students by 6 percentage points. In addition, the results allude to the increased vulnerability of female learners to teenage pregnancy and early childhood marriage in the absence of protective systems at the community level. There is a need for increased engagement with adolescent girls in their communities as the pandemic rolls on and as the government prepares to fully re-open schools.

For schools, the decline in enrolment resulted in a decline in revenues that constrained the schools’ efficient operations in light of the pre-opening requirement of implementing Standard Operating Procedures (SOPs) instituted by the Government to curtail the spread of COVID-19.

**Figure 5** Candidates that did not return and reasons for not returning, %



Source: EPRC Rapid Survey March 2021.

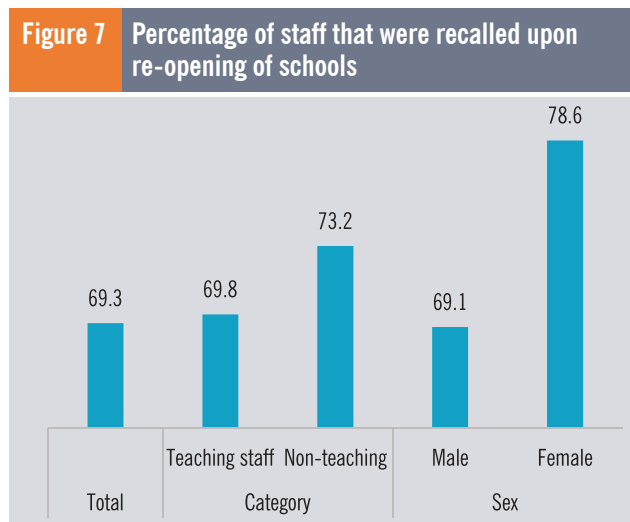
**Due to a decline in revenues, schools contracted more debts and depleted savings to resume operation.** About seven in every ten schools (71 percent) interviewed reported experiencing financial hardships and need of financial support while re-opening (Figure 6). As a result, most of them became more indebted to commercial banks by contracting new loans and/or acquiring overdrafts to resume operation. Indeed, the results indicate that six in every ten schools interviewed reported to have had debt before the pandemic outbreak. The increased indebtedness of schools implies recovery might take longer as they will have to deal with loan repayment for some time. Schools that had accumulated some savings before the pandemic also depleted them to meet operating costs and provide facilities required to implement the SOPs. This undermines investment in the expansion of schools and provision of better learning facilities (such as reading materials, information technology, and laboratory equipment), which has broad implications on human capital quality.

**The adverse impacts of COVID-19 related to financial hardships experienced by schools affected the teaching staff.** Overall, the sampled schools re-opened with 69 percent of the original staff, implying 31 percent of the staff were not recalled upon re-opening. The percentage of non-teaching staff that were recalled was slightly higher than that of the teaching staff. Whereas this could be attributed to the fact that schools first re-opened with only candidate classes, it has adverse implications on the welfare of the teachers who were not recalled, as most schools indicated that these were not being paid. Notably, the percentage of female staff that was recalled was higher than that for men by 10 percentage points (Figure 7)..

**Figure 6** Financial support and its source while re-opening schools

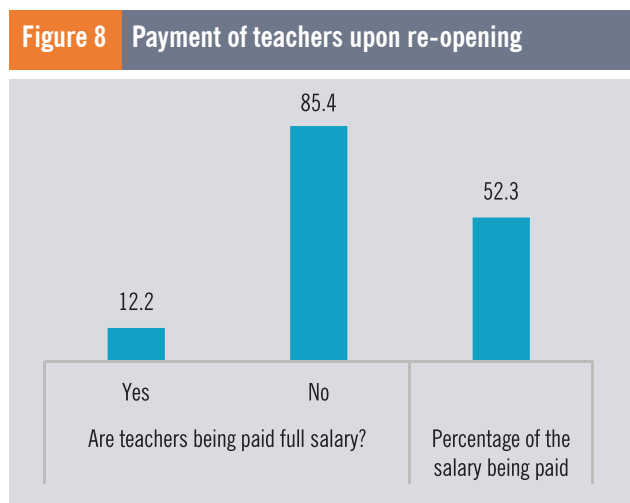


Source: EPRC Rapid Survey March 2021.

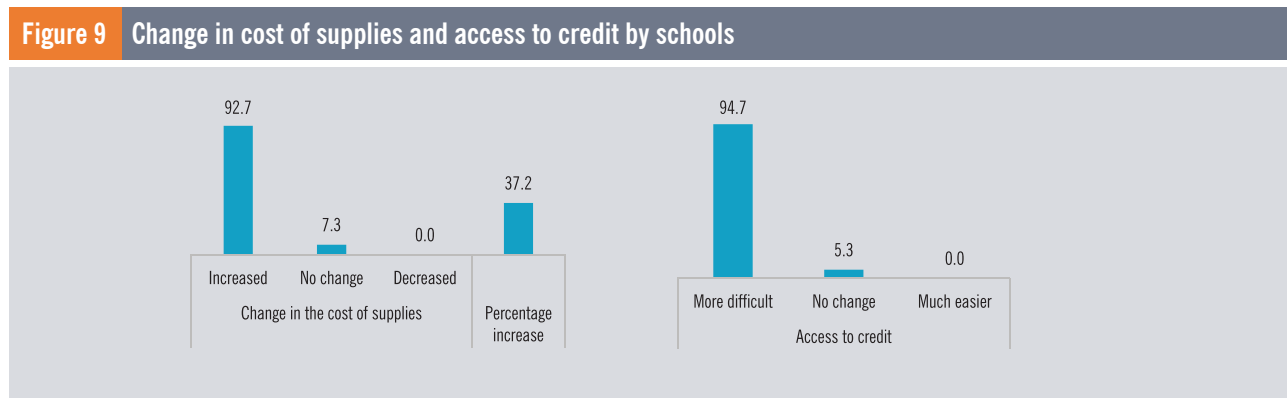


Source: EPRC Rapid Survey March 2021.

As earlier mentioned, most schools adopted salary reduction as one of the strategies to continue operating. Seventeen in every twenty schools (85%) surveyed reported not paying full salary for their teachers due to financial challenges (Figure 8). Some schools adopted working modalities for teachers’ remuneration, such as paying per term, per week or per lesson rather than the previous monthly payment. Overall, estimates show that schools were paying about 52 percent of teachers’ original salaries (Figure 8). Such low payments forced teachers to look for alternative sources of livelihood to supplement the wage. This, however, has implications



Source: EPRC Rapid Survey March 2021.



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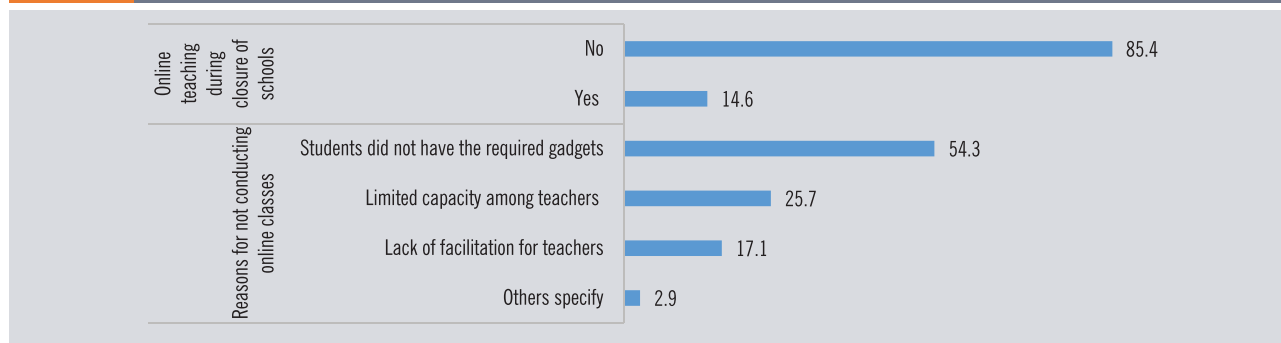
on their efficiency at school and, ultimately, the quality of learning. At individual level, the low wage has resulted in coping strategies such as reducing food consumption, which negatively affects their welfare.

**While re-opening, schools experienced challenges with accessing supplies and credit.** Out of the surveyed schools, 93 percent indicated that the cost of supplies increased upon re-opening compared to the period before schools were closed (Figure 9). More specifically, the cost of school supplies (food, stationery, and other scholastic materials) is estimated to be 37 percent higher compared to the period before closures. Indeed, the headline inflation in October 2020 was 1.5 percentage points higher compared to March 2020 (BoU 2021).<sup>7</sup> Besides cost of supplies, schools also reported challenges in accessing credit (95 percent of the schools). The survey revealed that a high degree of risk aversion by lenders is responsible for the difficulties in accessing credit. The lenders are not sure of some schools’ continuity, especially for schools without adequate collateral. In addition, loans contracted before the closure of schools have barred some schools from accessing new loans. Other challenges reported by schools after re-opening include; high rate of absenteeism, delays in school fees payment, difficulties in enforcement of SOPs, low morale among teachers, too much workload to be covered quickly, and high operational cost.

**Students in Uganda are less prepared for home-based learning.** Results from the survey show that only 14.6 percent of the schools (the majority of which are from urban areas) were able to undertake online teaching when schools were closed (Figure 10). For the schools that were unable to undertake online education, the main reason cited was lack of necessary gadgets (TV, radio, phones, tablets, computers, internet etc.) on the side of their learners (Figure 10). These findings corroborate the findings of the National Information Technology Survey of 2017/18, which showed that only 21.8 percent of Ugandan households owned a Television set, 5.9 percent had access to a computer at home, 10.8 percent owned a household telephone, and 10.8 percent had at least one member who had internet access (NITA-U 2018).<sup>8</sup> This alludes to the learning inequality arising from the “digital divide” in the country. Whereas the government of Uganda had proposals of addressing this gap by distributing radios and television sets, these have not been effectively implemented.



**Figure 10** Online teaching during the closure of schools, %



Source: EPRC Rapid Survey March 2021.

### Conclusion and recommendations

Despite the relaxation of COVID-19 containment measures especially lifting of the lockdown, the emergence of MSMEs from lockdown is much more challenging. On one hand, the majority of the businesses are experiencing liquidity challenges (more so female owned). On the other hand, access to credit is limited as financial institutions remain pessimistic about the businesses’ future. Employment recovery remains very sluggish as business sales have not fully recovered. Results suggest that recovery of employment is much slower in MSMEs in the services sector than in agriculture and manufacturing, alluding to the severity of the pandemic’s impact on the sector.

Like many other sectors, the education sector has not been spared by the COVID-19. The plight of schools is unique given that schools were closed for six months from March 2020 to October 2020, while the other businesses resumed operation upon lifting of the lockdown in June 2020. Due to the high dependence of private schools on school fees, the impact of COVID-19 on households has spilled over to schools through low revenues realised from school fees as some students did not return. In contrast, others were only able to make partial payment upon returning. This has resulted in increased indebtedness of schools and depletion of past savings, constraining business operations. Indeed, some schools are on the verge of losing their property to lenders or selling off to pay debts. Worse still, schools are increasingly finding it difficult to access credit—due to increased risk averseness of lenders and supplies—due to high costs. Due to financial constraints, private schools are operating with about 69 percent of the original staff and have reduced salaries by about 48 percent on average.

Based on the findings in this report, it is recommended that;

Provision of adequately targeted financial support to MSMEs by the Government is expedited. This could be informed of emergency loans. Notably, the mode and criteria of delivery should take into consideration the nature of MSMEs. For instance, this might require easing collateral requirements or embracing the use of movable collaterals as security for loans. Furthermore, given the dire need of financial support by female-owned enterprises, more support could be channelled through women’s Saving and Credit Cooperative Organisations (SACCOs).

Private schools require urgent attention as this helps to fill the education gap left by government schools. The ways to ease pressure on these schools and facilitate their recovery include; provision of soft loans targeting distressed schools; government buying equity in schools to alleviate short term liquidity constraints; and relieving schools the burden of recurrent expenses through the provision of in-kind support such as food items for a short duration.



## Endnotes

- 1 <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty>
- 2 [https://reliefweb.int/sites/reliefweb.int/files/resources/UGANDA\\_Food\\_Security\\_Outlook\\_June2020\\_final.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/UGANDA_Food_Security_Outlook_June2020_final.pdf)
- 3 [https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/MediaCenter/press\\_releases/2020/Aug/Monetary-Policy-Statement-August-2020.pdf](https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/MediaCenter/press_releases/2020/Aug/Monetary-Policy-Statement-August-2020.pdf)
- 4 Sserunjogi, B. (2020) Trends in Agricultural Lending. Agricultural Finance Yearbook 2020. Economic Policy Research Centre, Kampala, Uganda
- 5 Lakuma, C.P., Sunday, N., Sserunjogi, B., Kahunde, R., and Munyambonera, E. (2020), "How has the COVID-19 pandemic impacted Ugandan businesses? Results from a business climate survey", EPRC BCI Special Issue no.1
- 6 Mahmud, M., & Riley, E. (2021). Household response to an extreme shock: Evidence on the immediate impact of the Covid-19 lockdown on economic outcomes and well-being in rural Uganda. World Development, 140, 105318.
- 7 <https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html>
- 8 National Information Technology Survey 2017/18 Report

The Economic Policy Research Centre (EPRC) has been producing the Business Climate Index (BCI) for Uganda since June 2012. The BCI reflects Ugandan business managers' perceptions on the current and near-future (expected three months ahead) business conditions. The BCI is a perceptions indicator of economic activity and the general business environment in which businesses operate. The purpose of BCI is to forecast turning points in economic activity and provide critical information for policy makers both in Government and the Private Sector.

### About EPRC

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research – based knowledge and policy analysis.

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