

# THE SOCIO-ECONOMIC IMPACT OF **COVID-19** ON BUSINESS ENTERPRISES IN UGANDA: EVIDENCE FROM MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

Abridged Report June 2022





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## Executive summary

This policy briefing note is part of a broader study designed to provide country-specific evidence for Uganda on the immediate, medium- and long-term impacts of the COVID-19 pandemic and related mitigation measures and policy responses on Micro, Small, and Medium-sized Enterprises (MSMEs). It is the first wave of a planned panel study aimed at tracking how MSME situations evolve during COVID-19 and in post-COVID-19 periods. The note analyzed COVID-19 effects on enterprise operations and performance, business recovery, effects on employment in the MSME sector, and business enterprise resilience.

The effect of COVID-19 on Ugandan MSMEs is enormous across the different episodes of COVID-19 analyzed. The survey shows significant permanent business closure due to direct and indirect COVID-19-related factors. COVID-19 episodes also resulted in intermittent business closure of complete and partial nature. At the onset of COVID-19, complete business closure rate was higher (67%) than the partial business closure rate (11%). By the end of the second COVID-19 lockdown, businesses had not regained their pre-COVID-19 conditions, and the second lockdown reversed the progress of business and/or economic activity recovery. Enterprise performance has been weakened throughout the COVID-19 episodes—with the most severe effects felt in the hospitality and education sectors as well as in micro and small enterprises. Overall, 41% of jobs were lost in the MSMEs under the study. Results suggest a higher vulnerability of female and young workers in the MSME job market. The overall business resilience index is low (60), below the threshold for robust business resilience (>75).

Key policy considerations include; addressing the cost of doing business during economic shocks; strengthening structures for better organization and coordination of MSMEs; gender-responsive social protection policy responses to support job and income security of women and youth; targeting support interventions towards business survival; and building business resilience—by improving adaptive ability; leveraging knowledge and information, as well as external business resources for enterprise growth and development; MSME planning and preparedness capability; and innovation and diversification capability.

## Introduction

The COVID-19 pandemic and its containment measures have had substantial global, continental, and regional impacts. The macroeconomic environment, including the business environment, drastically changed because of the pandemic, and this has affected Micro, Small and Medium sized Enterprises (MSMEs). At the macroeconomic level, for example, around the onset of COVID-19 (April 2020) in Uganda, the Uganda Revenue Authority reported a collection of only 970 billion shillings in tax revenue, and this was less than three-quarters of the regular monthly tax revenue collection, hence creating a sizeable fiscal gap. Both Foreign Direct Investments and remittances declined—the central bank projected that by 2020/21, the value of remittance would decline by 80% from the peak of USD 1.3 billion registered in 2018/19.

MSMEs and households are bound to be severely affected by the above macroeconomic and business environment changes. In particular, COVID-19 containment measures have far-reaching implications on MSME operations. Yet, MSMEs constitute a significant source of jobs – employing about 8.5 million people (UNCDF, 2020), income, and economic empowerment for women, given that it drives a high level of women’s economic participation. Indeed, the pandemic created distortions that strongly affect gender relations, norms, and practices.

The onset of the COVID-19 pandemic coincided with the Government of Uganda’s process of finalizing its third medium-term development strategy—the 2020/21–2024/25 National Development Plan (NDP III). Of great interest among the NDP III strategies is the need to strengthen Uganda’s MSMEs under the Private Sector Development programme, which includes the promotion of effective private investment and/or development of the MSMEs, to ensure that the private sector drives economic growth.

The emphasis on MSMEs is because the sector plays a significant role in the economy in terms of employment and income or source of livelihood that drives economic growth (with over 20% contribution to GDP) (Republic of Uganda, 2015). It constitutes at least 90% of Uganda’s private sector, with a substantial contribution to manufacturing output (at least 80%). Accordingly, any distortion in the MSME space (e.g., because of the COVID-19 pandemic) has far-reaching effects on the entire economy. Thus, MSMEs should be the primary targets of government interventions to catalyze Uganda’s post-COVID-19 economic recovery. It is therefore paramount to understand how the MSME situation evolves during the pandemic through post-pandemic periods. Considering this, there is a need to generate country-specific evidence-based research insights on the immediate, short-, medium- and long-term impacts of the pandemic and related mitigation measures and policy responses.

Against the above background, this study documents the extent to which the pandemic and related mitigation measures affected MSMEs; how operations and performance of MSMEs evolved in different episodes of COVID-19; the coping mechanisms by MSMEs and their recovery prospects; the extent to which MSMEs benefited from some of the policy responses, such as stimulus package; and the preferred support needed by MSMEs for business continuity during and in post-COVID-19 periods. The study also analyzes the level of business resilience among MSMEs in Uganda, given that enterprise or business resilience is fundamental for enabling business survival and recovery from shocks, such as the COVID-19 pandemic.

In this abridged version of the survey report (briefing note), the key findings covered COVID-19 effects on enterprise operations and performance, business recovery, employment in the MSME sector, and business enterprise resilience.

## Study approach

The study is designed to, among others, examine structural changes in MSME operations over time. Therefore, the approach undertaken is to build a panel dataset of the MSMEs that will be useful in understanding evolving situations in the MSME business environment during and in post-COVID-19 periods.

The research evidence generated in the current study, through a nationally representative MSME survey, is the first wave of the panel dataset. To implement the survey, we used a nationally representative sample of MSMEs in Uganda, based on a national business registry, as the sampling frame that yielded a total sample of 1,536 enterprises. We conducted data collection electronically in the last quarter of 2021, using a Computer-Assisted Personal Interview (CAPI) software. Three key sectors were covered in the survey (manufacturing, hospitality/tourism, and education – pre-primary and primary levels).

Following the national MSME policy for Uganda, we used the policy definition that captures the component of employment to measure the size of enterprises, as shown in Table 1.

**Table 1: MSME classification using policy definition**

|                  | Micro       | Small  | Medium   |
|------------------|-------------|--------|----------|
| No. of employees | Less than 5 | 5 - 49 | 50 - 100 |

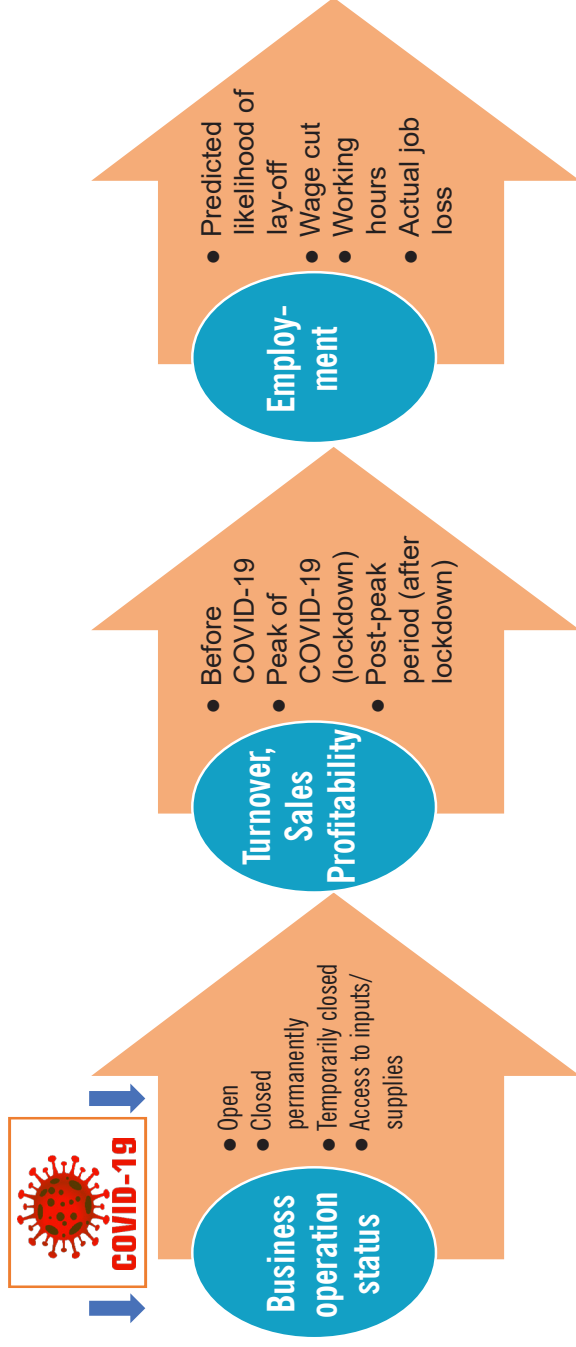
Source: compiled using the MSME policy, Uganda (Republic of Uganda, 2015).

The analysis follows the framework of the business pulse (World Bank, 2020; Apedo-Amah et al., 2020). We used the business pulse to unmask the impacts of COVID-19 on business enterprises, using tools that check the pulse of businesses to measure the effects of COVID-19 on critical business dimensions (*ibid*).

As shown in Figure 1, the dimensions which represent channels of COVID-19 impact on the business enterprises (MSMEs) are; enterprise operation; enterprise performance; and employment shocks in MSMEs. Other dimensions include; liquidity and insolvency of enterprises, firm's responses to the pandemic; enterprise expectations and uncertainty, and enterprise support (received and preferred public support mechanisms).

Lastly, we used key business resilience attributes (Tibay et al., 2018) based on a set of 26 individual-level resilience indicators to measure business enterprise resilience (EPRC, 2022). Resilience score (index) was computed using quartile ranking (scores). The quartile ranking segments the distribution of the resilience scores (index), ordered from low level to high level, in four equal parts ( $\leq 25 - 100$ ). Enterprises that exhibit a high (or robust) level of resilience are associated with a score that lies in the last segment or highest quartile, with quartile scores greater than 75.

Figure 1: Analytical framework, based on the business pulse



Source: Author's construct using business pulse dimensions adopted from World Bank (2020).



## Key findings

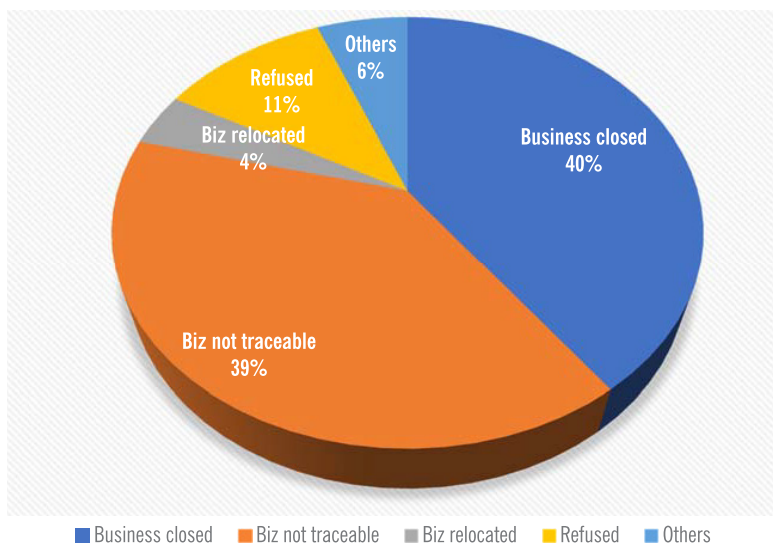
### The effect on enterprise operations

The operations of most enterprises were severely interrupted by COVID-19 and its containment measures. The interruption of operations was mainly manifested in business relocation, unreachability due to locations that cannot be traced, and confirmed business closure.

### Permanent business closure

One way through which COVID interrupted business operations was exhibited by enterprises being unavailable<sup>1</sup>. As shown in Figure 2, the majority of such enterprises were closed (40%) and could not be traced (39%). There is a high likelihood that the enterprises that could not be traced had also closed. This implies that about 79% of the enterprises unavailable for the survey potentially closed business permanently.

Figure 2: Establishments that were not available for the survey

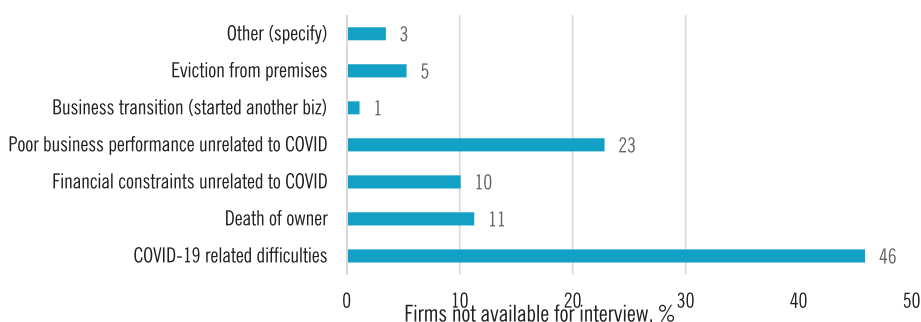


Source: Computed using the 2021 MSME survey data.

<sup>1</sup> Weighted observation of close to 6,800 enterprises. These are enterprises that were sampled from the business registry but were unavailable for the survey.

Almost half of the enterprises that closed business attributed this to COVID-19-related difficulties (Figure 3). The reasons for business closure were direct and indirect COVID-19 factors. The direct COVID-19 factors are those that were specified by the sources (i.e., the 46%); and the indirect COVID-19 factors include eviction from business premises and death of business owners, which altogether amount to 16% (Figure 3). Combined, the direct and indirect COVID-19-related factors account for more than 60% of complete permanent business closures. Transition into other businesses was also majorly triggered by COVID-19 and related restrictions.

**Figure 3: Reasons for permanent business closure**



Source: Computed using the 2021 MSME survey data.

### Intermittent closure of enterprises due to COVID-19

Intermittent interruptions in operations were characterized by sporadic business closures from the onset of COVID-19 in Uganda in the first half of 2020 when the government instituted the first COVID-19 total lockdown through the post-first lockdown to the second lockdown periods. The closure was either of a complete nature (both premises and operations closed) or partial (only premises closed). Results in Table 2 show that during the first COVID-19 lockdown period, most enterprises (78%) encountered intermittent closure—constituted by 67% complete closure rate, and a partial closure rate of 11%. On average, the enterprises experienced 106 days of complete business closure in the same period. Meanwhile, on average, those that partially closed did it for 94 days. Therefore, complete closure affected most of the enterprises in this period. The most affected enterprises due to complete closure were those in the education sector, followed by hospitality.

In the period immediately after the first COVID-19 lockdown (July–December 2020), the rate of complete business closure reduced to 33%, and the partial business closure rate reduced to 6%. There was a reduction in the complete business closure rate in the January–May 2021 period. In the second COVID-19 lockdown period (June–August 2021), business (economic activity) recovery reversed—both complete and partial business closure rates rose. Similarly, MSMEs in education and hospitality were the worst affected. The key driver of complete and partial business closure was the government order that restricted several business operations. Other important factors include a decline in demand and sales, and difficulty in accessing inputs, thus leading to the inability to sustain the business.

**Table 2: Intermittent business closure by COVID-19 episode**

| Jan-Jun 20 (1st Lockdown period), % |                 |                            |                             |              |
|-------------------------------------|-----------------|----------------------------|-----------------------------|--------------|
|                                     | Obs. (weighted) | Partial (avg. days closed) | Complete (avg. days closed) | Didn't close |
| All                                 | 125,684         | 10.5 (94)                  | 67.3 (106)                  | 22.1         |
| Manufacturing                       | 17,831          | 7.7 (75)                   | 51.2 (108)                  | 41.1         |
| Hospitality/<br>Tourism             | 59,025          | 12.4 (92)                  | 53.7 (103)                  | 34.0         |
| Education                           | 48,828          | 9.4 (104)                  | 89.8 (109)                  | 0.9          |
| Jul-Dec 20, %                       |                 |                            |                             |              |
|                                     | Obs. (weighted) | Partial (avg. days closed) | Complete (avg. days closed) | Didn't close |
| All                                 | 125,722         | 6.1 (151)                  | 32.8 (152)                  | 61.1         |
| Manufacturing                       | 17,831          | 1.2 (102)                  | 9.0 (162)                   | 90.0         |
| Hospitality/<br>Tourism             | 59,063          | 6.6 (139)                  | 11.3 (151)                  | 82.1         |
| Education                           | 48,828          | 7.3 (167)                  | 67.5 (151)                  | 25.2         |
| Jan-May 21, %                       |                 |                            |                             |              |
|                                     | Obs. (weighted) | Partial (avg. days closed) | Complete (avg. days closed) | Didn't close |
| All                                 | 125,724         | 6.2 (124)                  | 27.2 (120)                  | 66.7         |
| Manufacturing                       | 17,831          | 0.6 (88)                   | 6.1 (136)                   | 93.3         |
| Hospitality/<br>Tourism             | 59,065          | 6.6 (125)                  | 6.4 (122)                   | 87.0         |
| Education                           | 48,828          | 7.7 (125)                  | 59.9 (119)                  | 32.4         |

| June-Aug 2021 (2nd lockdown), % |                 |                            |                             |              |
|---------------------------------|-----------------|----------------------------|-----------------------------|--------------|
|                                 | Obs. (weighted) | Partial (avg. days closed) | Complete (avg. days closed) | Didn't close |
| All                             | 125,724         | 6.4 (70)                   | 45.2 (84)                   | 48.4         |
| Manufacturing                   | 17,831          | 1.8 (40)                   | 10.1 (73)                   | 88.1         |
| Hospitality/<br>Tourism         | 59,065          | 7.6 (54)                   | 17.4 (60)                   | 75.0         |
| Education                       | 48,828          | 6.5 (97)                   | 91.8 (90)                   | 1.7          |

Source: Computed using the 2021 MSME survey data

### Business recovery of MSMEs that had complete closure in the first lockdown

As part of the analysis of business recovery, the study tracked MSMEs that experienced complete business closure in the first COVID-19 lockdown.

The results show that half of the MSMEs that experienced complete closure in the first COVID-19 lockdown fully recovered and opened premises as well as business operations between July and December 2020 (Table 3). The recovery rate increased to 58% from January to May 2021. We observed the fastest recovery in manufacturing, followed by hospitality. Medium-sized enterprises also experienced a higher recovery rate compared to small and micro-sized enterprises. Expectedly, education was the worst affected since most schools remained closed throughout the COVID-19 episodes under review, except for a handful of schools that invested in e-learning technologies. However, in the second lockdown, there was a reversal in the progress of business or economic activity recovery, whereby only 34% of the enterprises were observed to be fully operational, and the majority (63%) of them again encountered complete closure.

**Table 3: Recovery rates of MSMEs that closed completely in the first lockdown**

| Jul-Dec 2020, %                |                 |         |          |              |
|--------------------------------|-----------------|---------|----------|--------------|
|                                | Obs. (weighted) | Partial | Complete | Didn't close |
| All                            | 84,636          | 3.4     | 46.6     | 50.0         |
| Manufacturing                  | 9,110           | 1.5     | 16.5     | 82.0         |
| Hospitality/<br>Tourism        | 31,680          | 5.3     | 20.1     | 74.6         |
| Education                      | 43,836          | 2.5     | 72.0     | 25.5         |
| Jan - May 2021, %              |                 |         |          |              |
|                                | Obs. (weighted) | Partial | Complete | Didn't close |
| All                            | 84,636          | 3.8     | 38.5     | 57.7         |
| Manufacturing                  | 9,120           | 1.0     | 11.8     | 87.1         |
| Hospitality/<br>Tourism        | 31,680          | 5.3     | 11.9     | 82.9         |
| Education                      | 43,836          | 3.4     | 63.3     | 33.3         |
| Jun-Aug 2021, % (2nd lockdown) |                 |         |          |              |
|                                | Obs. (weighted) | Partial | Complete | Didn't close |
| All                            | 84,636          | 3.7     | 62.7     | 33.7         |
| Manufacturing                  | 9,120           | 3.0     | 18.1     | 79.0         |
| Hospitality/<br>Tourism        | 31,680          | 5.0     | 30.2     | 64.8         |
| Education                      | 43,836          | 2.9     | 95.4     | 1.7          |

Source: Computed using the 2021 MSME survey data

### Effect on enterprise performance

The effect of COVID-19 on MSMEs also manifests in changes in business performance. Key business performance metrics such as sales revenue, business turnover, prices, and profitability are captured.

Close to 90% of the enterprises reported a reduction in sales revenue in the first COVID-19 lockdown period compared to the previous six months, with an average reduction of 68% (Table 4a). The reduction in sales revenue affected all enterprises in all sectors. However, the most affected were hospitality, education, and small and micro-level enterprises compared to medium enterprises. The average revenue reduction was the highest in the education



sector (75%) and small enterprises (71%) in the first lockdown period, and these two were consistently the most affected in terms of sales revenue reduction even in the second lockdown period (Table 4a). Business turnover has also been consistently low<sup>2</sup>. We observe similar results for the profitability of the enterprises, although the extent of profitability reduction is more remarkable. Overall, about 92% of the enterprises encountered a reduction in profitability in the first lockdown period, with an average reduction in profits of 71% (Table 4b). Although 92% of the firms in the education sector also reported a reduction in profitability, the average reduction in profit level was as high as 81% - the highest magnitude compared to the rest of the sectors (Table 6c). Accordingly, the education sector, as expected, was also the worst affected in terms of profitability decline. In the second lockdown, no firm in the education sector experienced an increase in profitability, implying that they continued experiencing the reduced profitability level registered in the previous periods or had a further reduction in profits.

The low or reduced profitability of the enterprises is evident given the upsurge in the cost of inputs or supplies<sup>3</sup>. The increase in input costs was not accompanied by an increase in the prices of goods charged by the MSMEs. Generally, the prices charged by the enterprises remained the same, although some enterprises experienced price reductions due to low demand. The combination of high input (supplies) costs and constant or reduced prices inevitably lowered profitability.

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<sup>2</sup> Results not reported (see EPRC, 2022).

<sup>3</sup> Results not reported here (see EPRC, 2022).

**Table 4a: Sales/revenue**

| Changes in sales/revenue, % of firms (avg. % change): compared to the previous 6 months |                    |            |                  |           |            |                  |           |              |                  |           |            |           |
|-----------------------------------------------------------------------------------------|--------------------|------------|------------------|-----------|------------|------------------|-----------|--------------|------------------|-----------|------------|-----------|
|                                                                                         | Obs.<br>(weighted) | Jan-Jun 20 |                  |           | Jul-Dec 20 |                  |           | Jan-May 2021 |                  |           | Jun-Aug 21 |           |
|                                                                                         |                    | Reduced    | Remained<br>same | Increased | Reduced    | Remained<br>same | Increased | Reduced      | Remained<br>same | Increased | Reduced    | Increased |
| All                                                                                     | 125,429            | 88.9 (68)  | 9.4              | 1.7 (43)  | 27.2 (61)  | 46.2             | 26.6 (74) | 14.0 (69)    | 68.2             | 17.8 (30) | 33.9 (60)  | 8.9 (26)  |
| Manufacturing                                                                           | 17,831             | 84.7 (57)  | 10.5             | 4.8       | 8.8 (54)   | 60.2             | 40.0      | 7.8 (43)     | 70.2             | 22.0      | 26.6 (39)  | 17.2      |
| Hospitality/<br>Tourism                                                                 | 58,770             | 91.7 (66)  | 7.8              | 0.5       | 15.8 (64)  | 47.3             | 37.0      | 7.4 (70)     | 69.1             | 23.5      | 32.2 (45)  | 13.4      |
| Education                                                                               | 48,828             | 87.1 (75)  | 10.8             | 2.1       | 47.6 (76)  | 39.9             | 12.5      | 24.3 (72)    | 66.3             | 9.4       | 38.6 (80)  | 0.5       |

Source: Computed using the 2021 MSME survey data

**Table 4b: Changes in profitability**

| Changes in profits, % of firms (avg. % change): compared to previous 6 months |                    |            |                  |           |            |                  |           |              |                  |           |            |           |
|-------------------------------------------------------------------------------|--------------------|------------|------------------|-----------|------------|------------------|-----------|--------------|------------------|-----------|------------|-----------|
|                                                                               | Obs.<br>(weighted) | Jan-Jun 20 |                  |           | Jul-Dec 20 |                  |           | Jan-May 2021 |                  |           | Jun-Aug 21 |           |
|                                                                               |                    | Reduced    | Remained<br>same | Increased | Reduced    | Remained<br>same | Increased | Reduced      | Remained<br>same | Increased | Reduced    | Increased |
| All                                                                           | 125,429            | 91.9 (71)  | 6.2              | 2.0 (46)  | 25.8 (75)  | 51.0             | 23.2 (27) | 13.5 (65)    | 68.6             | 18.0 (31) | 29.4 (54)  | 8.2 (27)  |
| Manufacturing                                                                 | 17,831             | 84.3 (57)  | 11.9             | 3.8       | 10.4 (57)  | 60.5             | 29.2 (31) | 5.5 (35)     | 73.1             | 21.5 (33) | 29.9 (39)  | 14.4 (22) |
| Hospitality/<br>Tourism                                                       | 58,770             | 94.1 (68)  | 4.4              | 1.4       | 17.3 (67)  | 50.8             | 32.0 (27) | 10.0 (64)    | 65.4             | 24.7 (30) | 27.8 (43)  | 13.1 (28) |
| Education                                                                     | 48,828             | 91.9 (81)  | 6.1              | 2.0       | 41.6 (80)  | 47.9             | 10.5 (26) | 20.7 (69)    | 70.9             | 8.3 (34)  | 31.2 (71)  | 0.0       |
| Micro                                                                         | 65,837             | 89.6 (67)  | 7.1              | 3.3       | 21.1 (66)  | 50.7             | 28.2 (26) | 13.60 (57)   | 64.5             | 21.9 (29) | 28.6 (41)  | 13.0 (24) |
| Small                                                                         | 59,034             | 94.4 (75)  | 5.0              | 0.6       | 31.2 (81)  | 51.2             | 17.6 (30) | 13.3 (75)    | 73.5             | 13.2 (35) | 30.2 (68)  | 2.8 (41)  |
| Medium                                                                        | 558                | 85.9 (65)  | 14.2             | 0.0       | 6.2 (66)   | 62.0             | 32.2 (16) | 18.2 (49)    | 45.0             | 36.8 (20) | 45.4 (75)  | 12.0 (25) |

Source: Computed using the 2021 MSME survey data

### Effect on employment in the MSME sector

The MSMEs under the study employed 8 people on average and a total of 1.03 million people (Table 5) before the onset of the COVID-19 pandemic. Most jobs created by the MSMEs were in the education sector (0.59 million)—employing 12 people on average, followed by hospitality and tourism (0.26 million) and manufacturing (0.18 million). The MSMEs employ a larger share of females (55%) than males, and the majority (close to 70%) of MSME employees are youth, implying MSMEs are key drivers of job creation for women and young people.

### Job losses by COVID-19 episode

The adverse effect of COVID-19 and related restrictions on employment was felt through the loss of jobs and wage cuts. The results in Table 5 illustrate significant job losses across sectors and gender. Overall, jobs in the MSMEs under the study reduced from 1,026,000 to 601,000, representing a share of 41% or 425,000 jobs lost. Of these, 241,000 jobs were lost between the period before COVID-19 and the end of the first COVID-19 lockdown, and 184,000 jobs were lost between the first lockdown (from the end of the first lockdown period) and the second lockdown. Except for manufacturing, which had a job gain of about 4,000 between the periods at the end of the second lockdown, the rest of the sectors experienced consistent job losses.

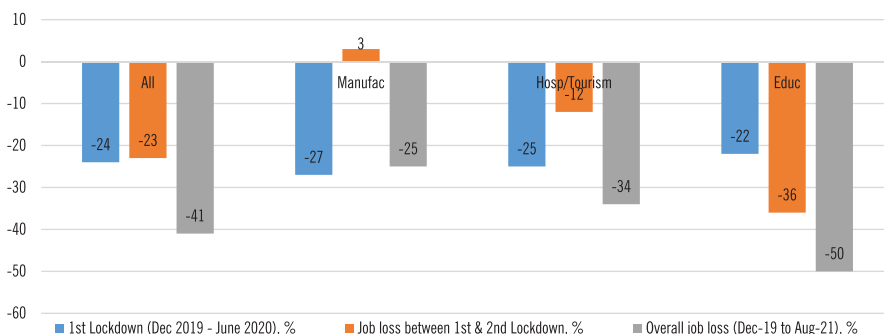
**Table 5: Total employment by sector and COVID-19 episode (000' employed)**

|                                     | All   | Manufacturing | Hospitality | Education | Male | Female | Youth |
|-------------------------------------|-------|---------------|-------------|-----------|------|--------|-------|
| Before COVID-19 (Dec 2019)          | 1,026 | 179           | 263         | 585       | 457  | 569    | 685   |
| 1st Lockdown                        | 785   | 131           | 196         | 457       | 352  | 433    | 505   |
| 2nd Lockdown                        | 601   | 135           | 173         | 292       | 275  | 326    | 386   |
| Job loss (Dec 2019 - June 2020)     | 241   | 48            | 67          | 128       | 105  | 136    | 180   |
| Job loss between 1st & 2nd Lockdown | 184   | -4            | 23          | 165       | 77   | 107    | 119   |
| Overall job loss (Dec-19 to Aug-21) | 425   | 44            | 90          | 293       | 182  | 243    | 299   |

Source: Computed using the 2021 MSME survey data

In terms of shares of jobs lost by sector and the COVID-19 episode (Figure 4), the overall job loss was 41%; job loss associated with the first lockdown was 24%; and job loss between the first and second lockdown was 23%. Education sector had the largest share (50%), followed by hospitality (34%). Most people employed in schools were laid off due to school closure (particularly private schools were hit hardest), and tourism or hospitality because of the low sharp decline in tourist arrivals, complete closure of bars and restaurants, and low demand for hotel services.

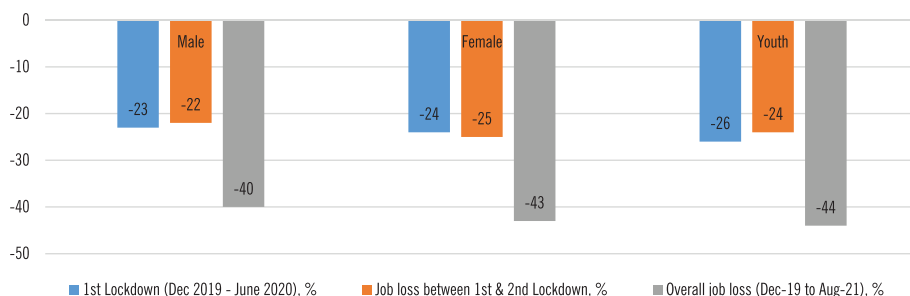
**Figure 4: Percentage changes in employed persons (jobs) by sector and COVID-19 episode, %**



Source: Computed using the 2021 MSME survey data

Further, a large share of jobs lost was among the youth employees – about 44% of the youth lost their jobs. This was an increase from a 26% job loss among the youth in the first COVID-19 lockdown. Job losses were also more prevalent among female workers (43%) compared to male workers (40%). A similar pattern is observed in all COVID-19 episodes, implying a high vulnerability level for the female and young workers in the MSME job market.

**Figure 5: Percentage changes in employed persons (jobs) by gender and COVID-19 episode**



Source: Computed using the 2021 MSME survey data

Besides job losses due to employee lay-offs, the enterprises also pursued a reduction in payroll due to COVID-19-related reasons. Overall, more than half (52%) of the enterprises pursued payroll reduction to ease the financial stress wreaked upon them by COVID-19 and related restrictions. Payroll reduction was more prevalent among education sector enterprises (schools) at 59%, compared to hospitality/tourism (50%) and manufacturing (38%). Payroll reduction was also more common among medium-sized enterprises (87%), followed by small-sized enterprises (60%) and micro-level enterprises (44%).

The reduction in payroll that occurred in the first COVID-19 lockdown led to a wage cut by 61% on average—full results are in the main survey report (EPRC, 2022). The firms that implemented further wage cuts in the second lockdown increased the magnitude of wage reduction to 73%, higher than the wage cut implemented in the previous COVID-19 episodes. At the onset of COVID-19, the wage cut for female employees was 62%, slightly higher than that of the male employees (60%). Also, the proportion of enterprises that cut wages for female employees (48%) was higher than those that cut wages for male employees (36%). However, the proportions equalized in the second lockdown period. The wage cut for youth employees was also relatively higher than for non-youth employees in the first and second COVID-19 lockdown periods.

### Resilience of Ugandan MSMEs

The results show that the overall resilience score/index is 60.01 (Table 6). This is below the threshold for high or strong business resilience. It signals an average level of resilience that is relatively weak for the MSMEs under the study. The weakest resilience is in the hospitality

(tourism) sector (resilience score/index of 59.75), followed by manufacturing. The resilience score for enterprises in all three sectors is below the threshold.

Micro-enterprises have the weakest level of business resilience (score/index of 54.08)<sup>4</sup>. We observed the highest level of resilience among medium-sized enterprises (score of 74.50)<sup>5</sup>, followed by small-sized enterprises (score/index of 64.15)<sup>6</sup>. The resilience scores for all three categories (micro, small, and medium enterprises) are also below the threshold. These results show that business resilience-building efforts are necessary for enterprises in all the sectors under the study, regardless of size. However, micro and small enterprises and those in hospitality/tourism may require more effort given the relatively weakest resilience score associated with them. The results show that relatively, the strongest resilience domain relates to enterprise leadership and management.

Overall, the weakest resilience domains for all enterprises (on average) are the order; of adaptive ability, ability to leverage knowledge and information, access to external resources, planning and preparedness, and innovation and diversification (Table 6). Specifically, the MSMEs have significant weaknesses in the following areas. First is the weak capacity to respond to changes—that

4 See EPRC (2022) for detailed results.

5 See EPRC (2022) for detailed results.

6 See EPRC (2022) for detailed results.

is, inability to harness technology to enable relevant changes in the product line or business operation, as well as lack of e-commerce readiness (i.e., weak adaptive ability). Second is the weak ability to leverage knowledge and information—e.g. low level of ability and awareness to access information regarding available aids such as government funding or stimulus package, and other information and knowledge relevant for business growth and development. The third is a low level of access to additional aids from third parties (i.e. low ability to leverage external resources). Fourth is weak planning and preparedness capability—e.g., lack of preparedness plans to be implemented in case of hazards (disaster preparedness), to counteract any hazards; and weak or no soft infrastructure to mitigate adverse effects of shocks, including lack of business insurance or a weak insurance policy. Fifth is weak innovation and diversification capability—inability to create additional business revenue sources; inability to diversify business portfolio or products; including the inability to produce or start dealing with new and sophisticated products.

The weak MSME resilience characterizes slow business recovery, and the substantial devastation that the MSMEs have suffered.



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**Table 6: MSME resilience index by sector**

|                                                   | All         |               |  | Manufacturing |               |  | Hospitality/Tourism |               |  | Education   |               |  |
|---------------------------------------------------|-------------|---------------|--|---------------|---------------|--|---------------------|---------------|--|-------------|---------------|--|
|                                                   | Score/Index | Quartile Rank |  | Score/Index   | Quartile Rank |  | Score/Index         | Quartile Rank |  | Score/Index | Quartile Rank |  |
| Overall score/Index (avg.)                        | 60.01       | 2.88          |  | 60.10         | 2.88          |  | 59.75               | 2.92          |  | 60.42       | 3.00          |  |
| Leadership & management capability                | 85.39       | 4.00          |  | 87.23         | 4.00          |  | 85.07               | 4.00          |  | 82.60       | 4.00          |  |
| Staff's core competence                           | 82.80       | 4.00          |  | 85.81         | 4.00          |  | 79.37               | 4.00          |  | 85.10       | 4.00          |  |
| Market sensitivity                                | 76.01       | 4.00          |  | 78.23         | 4.00          |  | 75.45               | 4.00          |  | 73.13       | 4.00          |  |
| Situational awareness                             | 67.94       | 3.33          |  | 67.79         | 3.33          |  | 66.25               | 3.33          |  | 72.19       | 3.33          |  |
| Planning & preparedness                           | 50.35       | 2.33          |  | 49.14         | 2.33          |  | 51.84               | 2.67          |  | 49.17       | 2.67          |  |
| Network robustness                                | 61.33       | 3.00          |  | 59.42         | 3.00          |  | 60.07               | 3.00          |  | 67.92       | 3.50          |  |
| Adaptive ability (including e-commerce readiness) | 46.79       | 2.14          |  | 46.65         | 2.14          |  | 47.41               | 2.14          |  | 45.58       | 2.14          |  |
| Innovation and diversification                    | 58.04       | 3.00          |  | 61.08         | 3.00          |  | 57.71               | 3.00          |  | 52.99       | 2.67          |  |
| Access to external resources                      | 49.35       | 2.00          |  | 47.98         | 2.00          |  | 48.80               | 2.00          |  | 53.23       | 3.00          |  |
| Ability to leverage knowledge and information     | 47.90       | 2.00          |  | 47.54         | 2.00          |  | 45.68               | 2.00          |  | 53.75       | 3.00          |  |
| Compliance and regulations                        | 80.76       | 4.00          |  | 79.20         | 4.00          |  | 81.54               | 4.00          |  | 81.93       | 4.00          |  |
| Reflective business model                         | 78.06       | 4.00          |  | 77.95         | 4.00          |  | 76.78               | 4.00          |  | 81.25       | 4.00          |  |

Source: Computed using the 2021 MSME survey data

### **Emerging issues and conclusion**

The MSME sector is a central driving force behind economic participation, including employment creation for the youth and women. If well supported or developed, it provides the opportunity to foster gender equality, livelihood, and recovery of the economy.

The effect of COVID-19 on Ugandan MSMEs is enormous. A considerable number of enterprises closed business permanently due to direct and indirect COVID-19-related factors. COVID-19 episodes are also characterized by intermittent business closure of complete and partial nature. By the end of the second COVID-19 lockdown, businesses had not regained their pre-COVID-19 conditions — the second lockdown reversed the progress of business or economic activity recovery. Enterprise performance has been weakened throughout the COVID-19 episodes, and the most brutal hits were enterprises in the hospitality (tourism) and education sectors and small and micro-level enterprises.

The employment effects of COVID-19 and related restrictions were felt through the loss of jobs and wage cuts. Overall, jobs in the MSMEs under the study were reduced by 41%, representing 425,000 jobs lost. Higher levels of job loss and wage cuts among youth and females suggest a relatively higher vulnerability of female and young workers in the MSME sector.

Pertaining to business enterprise resilience, the overall resilience score (index) is below the threshold for robust business resilience. The MSMEs are associated with an average level of relatively weak resilience.

### **Policy considerations**

The government should pay particular attention to the cost of doing business in a time of a shock like the COVID-19 pandemic. This is crucial for controlling inputs' costs and ensuring minimal supply chain disruptions. Address key factors that determine the cost of doing business, including transport cost, removing barriers to supply chains, utility cost, and the cost of implementing COVID-19 SOPs within the MSME business environment.

Strengthen structures for better organization and coordination of MSMEs. Effective coordination structures are essential for mobilizing MSMEs to support their survival and recovery during and in post-COVID-19 periods.

Consider gender-responsive social protection policy responses to support job and income security of women and youth, given the gender differential on impact regarding job losses and wage cuts.

During severe economic shock or crisis, focus on support interventions critical for ensuring or supporting business survival. For example, address MSME employee mobility issues by supporting them through staff movement permits; tackle MSME financial stress during the shock to promote business survival through interventions such as loan rescheduling.

Sensitize the business community and impart basic skills required to implement safety measures for COVID-19 prevention in workplaces.

Efforts toward business resilience building are necessary for enterprises in all three sectors, regardless of the size. However, micro and small enterprises and those in hospitality/tourism may require a higher level of effort and urgency. To build MSME resilience, put emphasis on – (a) Enhancing adaptive ability by increasing MSME capacity to respond to changes by building capacity to harness technology for business survival and development, including enhancement of e-commerce readiness. (b) Strengthening MSME's ability to leverage knowledge and information through investments in business information centres and awareness creation for business information necessary for business survival, growth, and development. (c) Increasing MSME's ability to leverage external resources for business growth and development. (d) Enhancing capability for planning and preparedness, including developing and scaling up innovative business insurance interventions tailored to MSMEs. (e) Establishing or strengthening initiatives that promote business innovations and diversification capability among MSMEs.

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