Towards Sustainable Development

POLICY BRIEF

Issue No. 174, February 2024

What does the low uptake of the Small Business Recovery Fund mean for women enterprises in Uganda?

Executive Statement

In 2021, Uganda established the Small Business Recovery Fund (SBRF) to support micro and small businesses adversely affected by the COVID-19 pandemic. However, the fund has experienced low uptake, particularly among women-owned enterprises, highlighting persistent challenges in accessing capital and resources for business recovery and growth. A recent survey by the Economic Policy Research Center (EPRC) identified several barriers faced by women entrepreneurs in accessing SBRF loans, including stringent collateral requirements, limited access to banking services, and disparities in loan amounts. We propose policy actions to address these issues, including increasing awareness among women about the block allocation arrangement, building the capacity of women's enterprises to be credit worthy, and consistently addressing the gender gaps that hinder women from owning property, among others.

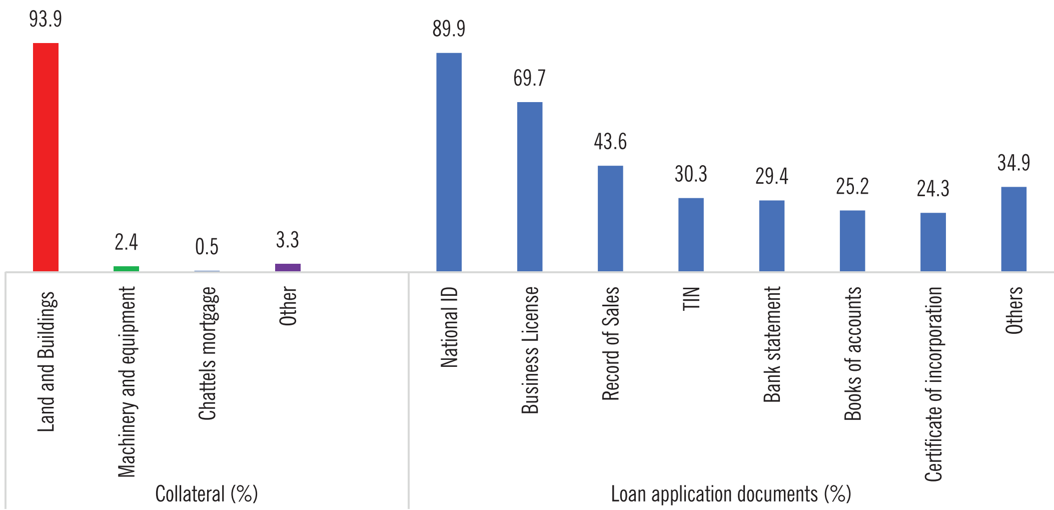
Introduction

The government of Uganda established the Small Business Recovery Fund (SBRF) in November 2021 to facilitate the recovery of micro and small businesses that were financially distressed by the COVID-19 pandemic. According to the Memorandum of Agreement (MoA) that governs the operations of the fund, the government allocated UGX 100 billion to the fund and participating financial institutions (PFIs)[1] allocated an equivalent UGX 100 billion to bring the total pool of loanable funds to UGX 200 billion. The Bank of Uganda (BoU) administers the fund and the participating financial institutions (PFIs) appraise the business that is applying for credit relief and disburses the loan at a 10% interest rate. Despite its good intentions, the fund has however registered low uptake, with only 17% of the funds having been disbursed by September 2023 (BoU, 2023). In addition, only 3%, 11%, and 14% of the beneficiaries were from the North, East, and Western regions respectively, and the majority (72%) were from Kampala (ibid).

According to the administrative data from BOU, only 3 in every 10 SBRF beneficiaries were women-owned enterprises, yet women dominate micro businesses as owners as well as workers (EPRC 2022). This discrepancy paints a stark picture of a gender gap in accessing these funds and also underscores the persistent challenges faced by women entrepreneurs in accessing capital and resources necessary for business growth and sustainability. Even with the amendments to the MoA, such as allowing MSME borrowers to use the funds for refinancing existing loans, increasing the maximum amount that can be borrowed from 100 million to 200 million, and facilitating access to the fund by micro businesses with no collateral using the block allocation,

1 Opportunity bank, pride Microfinance, Post Bank, Finance Trust Bank, Housing Finance Bank, Diamond Trust Bank, Centenary Bank and DFCU bank.

Figure 1: SBRF loan application requirements (%)



Source: EPRC SBRF survey, 2023

these changes still do not address the gender gap in accessing these funds (EPRC, 2024). Also, the reforms do not overcome the persistent challenges faced by women entrepreneurs in accessing capital and resources necessary for business growth and sustainability.

The brief therefore highlights key reasons for the low uptake of the SBRF fund by women-owned businesses in Uganda using administrative data from the Bank of Uganda and data from a survey titled "Assessment of the Small Business Recovery Fund in Uganda" conducted by the Economic Policy Research Center (EPRC). The survey took place in November 2023 in the districts of Kampala, Wakiso, and Mukono.

Key observations

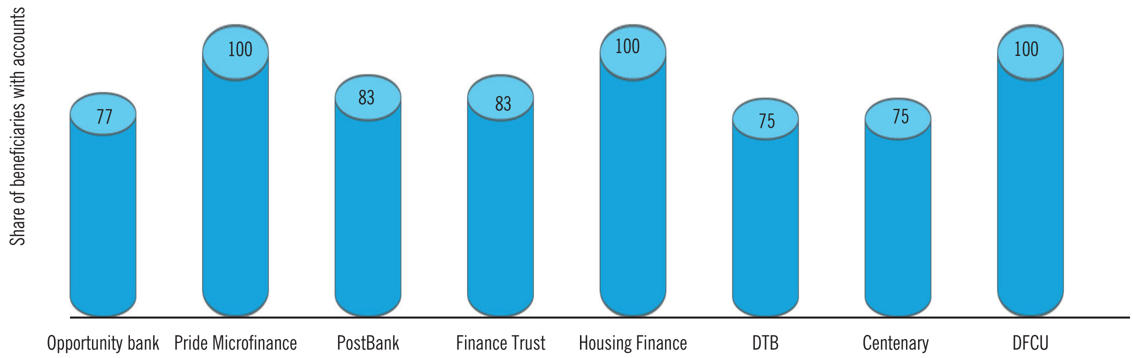
Stringent collateral requirements by PFIs exclude most women-owned businesses from accessing SBRF. As Figure 1 shows, land and buildings make up the largest share of collateral asked from borrowers by PFIs (93.8 percent). This preference for land and property as collateral disproportionately affects women-owned businesses, as they often lack access to such assets. Women entrepreneurs, particularly those operating micro and small enterprises, may not have property titles or land deeds to pledge as collateral (MGLSD, 2022). Additionally, the requirements for accessing SBRF loans besides collateral that include business licenses, records of sales, books of accounts, and bank statements further compound the challenges faced by women. These prerequisites further place women entrepreneurs at a distinct disadvantage, as most Ugandan women entrepreneurs are also informal and do not have financial statements and records (UBOS, 2022; Guloba et al., 2017). Similar studies attest to the finding that these women face challenges in accessing these funds due to their lack of collateral security that is required by the financial institutions and also because of their poor record keeping that could have been used to show their business performance and capability for loan repayment (Abebe & Kegne, 2023, Andriamahery & Qamruzzaman, 2022, Kavuma et al., 2018).

"Me as a woman, when I go there they will ask me for a land title, I don't have those things they ask for…." (KII, 2023)

Participating Financial Institutions lending to their existing clients is a barrier to women-owned businesses. As Figure 2 shows, over 75 percent of the SBRF beneficiaries had accounts in the financial institutions they accessed the funds from. This approach, known as "mining on existing portfolios," further marginalizes women who are already underrepresented among the existing client base of PFIs. According to the 2023 Afro Barometer Survey and the reports from the Minister of Gender, Labor and Social Development[2], only 17% of women in Uganda have voluntarily opened bank accounts. In tandem with the above, Kimaku (2023) reveals that women are actually more likely to have mobile money accounts than bank accounts. However, since banks are lending to their existing clients, this further throws women entrepreneurs out of the potential lending portfolio.

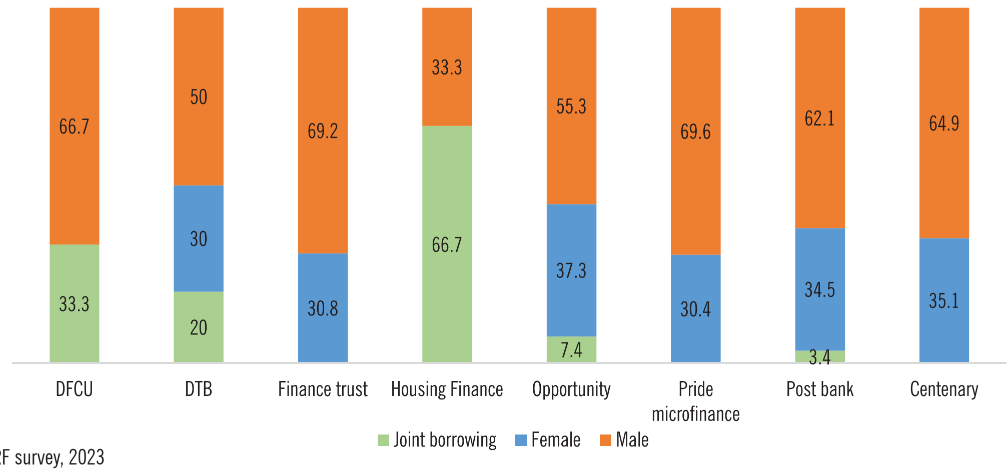
2 https://nilepost.co.ug/news/175862/only-7-ugandan-women-have-bank-accounts

Figure 2: SBRF beneficiaries with pre-existing accounts with the PFIs



Source: EPRC SBRF survey, 2023

Figure 3: Sex composition of the borrowers in each of the PFIs

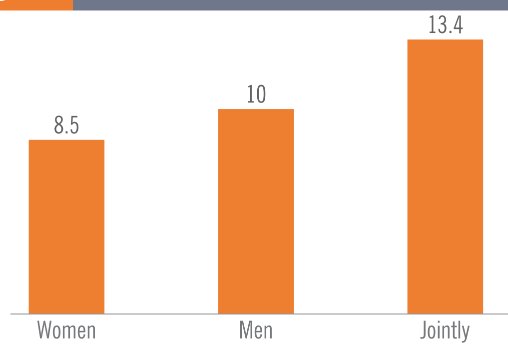


Source: EPRC SBRF survey, 2023

In addition, all PFIs had less than 40.0 percent of women-owned businesses as their beneficiaries, as shown in Figure 3 above, with Opportunity having the highest percentage of women borrowing at 37.3%. Women being the minority borrowers further highlights the pervasive gender gap in access to financial resources. However, this can be partly explained by various factors, such as women's tendency to borrow less than men[3] on average, a smaller percentage of women having bank accounts, among others.

Women borrowers receive smaller loan amounts. The median amount of borrowed money received by women-owned businesses was UGX 8.5 million, below that of men-owned businesses (UGX 10.0 million) as Figure 4 shows. BRAC (2019) and Basemera & Mpiima (2023) also confirm this finding, showing that lenders tend to offer women smaller loans in group settings, despite the presence of women who require larger loans to expand their businesses. This may be attributed to the perception of women-owned businesses by financial institutions to have low repayment capacity compared to their male-owned counterparts. Thus, women interested in larger loans for the purposes of expansion may end up not borrowing. Consequently, women-owned businesses may not recover or grow at the same pace as men-owned enterprises, if this continues to be the case.

Figure 4: Median loan amount disbursed (in million UGX)



Source: BoU SBRF dataset, as of June 2023

3 https://www.monitor.co.ug/uganda/business/finance/women-avoid-borrowing-more-than-men-report-3819196

Recent Policy Briefs

Uganda needs to increase domestic resources to finance gender equality and women's empowerment interventions
Issue No. 126 November, 2020

Uganda's performance towards tracking budget allocations for gender equality and women's empowerment
No. 125 November, 2020

"The burden of physical gender based violence in Uganda"
No. 121 May 2020

Emerging policy recommendations

Given the above shortcomings in the utilization of SBRF among women entrepreneurs, policymakers can consider the following policy areas.

1. Increase awareness about block allocation: Efforts should be made to raise awareness among women-owned businesses about the block allocation system, which allows businesses to access funds without stringent collateral requirements. Targeted educational campaigns and outreach programs can help familiarize women entrepreneurs with this alternative funding mechanism.
2. Build capacity of women-owned enterprises: Capacity-building initiatives should be implemented to enhance the creditworthiness of women-owned businesses. Training and support for formalization, record-keeping, and banking can help women meet the requirements for accessing SBRF loans, thereby overcoming barriers to financial inclusion.
3. Encourage women to open bank accounts: Addressing gender disparities in access to financial services is crucial for promoting financial inclusion and empowering women economically. Encouraging and facilitating women's access to banking services, including savings and credit facilities, should be a priority. This could involve initiatives such as promoting mobile banking, establishing women-friendly banking services, and providing financial literacy training.
4. Additionally, there is a need to address the gaps that discriminate against or limit women's ownership of property.

References

Abebe, A., Kegne, M. The role of microfinance institutions on women's entrepreneurship development. J Innov Entrep 12, 17 (2023). https://doi.org/10.1186/s13731-023-00285-0

Andriamahery, A., & Qamruzzaman, M. (2022). Do Access to Finance, Technical Know-How, and Financial Literacy Offer Women Empowerment Through Women's Entrepreneurial Development?. Frontiers in psychology, 12, 776844. https://doi.org/10.3389/fpsyg.2021.776844

Bank of Uganda. (2023). Small Business Recovery Fund quarterly report, September, 2023.

Basemera, N,. and Mpiima, D. M,. (2023). The impact of Microfinance on Women Borrower's Livelihoods: A case study of BRAC. International Journal for Multidisciplinary Research.

Economic Policy Research Centre. (2024). Assessment of the Small Business Recovery Fund in Uganda. *[Unpublished manuscript]*

Economic Policy Research Centre. (2022).The Socio-Economic impact of Covid-19 on Business Enterprises in Uganda. Evidence from Micro, Small and Medium-Sized Enterprises.

Guloba, M., Ssewanyana, S., Birabwa, E., (2017). Rural Women Entrepreneurship in Uganda. A synthesis Report on Policies, evidence and Stakeholders. Research series 134. Economic Policy Research Centre, 2017.

Kavuma, N S., Muhanguzi, F., Bogere, G., & Cunningham, K. (2018). Supporting Business Opportunities for Rural Women in East and Southern Africa: A case study of Uganda. ACODE Policy Research Series No. 87.

Kimathu, R,. (2023). Leveraging mobile money to drive financial inclusion of women. https://www.ericsson.com/en/blog/2023/3/leveraging-mobile-money-to-drive-financial-inclusion-of-women

Ministry of Gender Labour and Social Development. (2022). Generating growth opportunities and productivity for women enterprises in (GROW) Uganda – P17647: Resettlement Policy Framework, May 2022.

Uganda Bureau of Statistics (2021). The Uganda National Labour Force Survey 2021 – Main Report, Kampala, Uganda.

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.

Learn more at:

www.eprcug.org TWITTER:@EPRC_official www.facebook.com/EPRCUganda eprcug.org/blog

Address:
Economic Policy Research Centre
51, Pool Road, Makerere University Campus,
P. O. Box 7841 Kampala, Uganda
Tel: +256414541023/4 Fax: +256414541022
Email: eprc@eprcug.org, Website: www. eprc.or.ug