EPRC ECONOMIC POLICY RESEARCH CENTRE 30 YEARS ANNIVERSARY

Smartson Ainomugisha and Rehema Kahunde

FACT SHEET

September, 2024

Why the low uptake of the Small Business Recovery Fund?

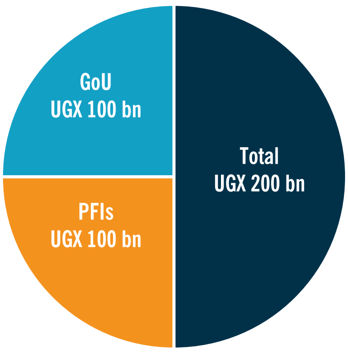
Background

The Small Business Recovery Fund (SBRF) was established in October 2021 as a public-private partnership between the Government of Uganda (GoU) and Participating Financial Institutions (PFIs) to provide credit to small businesses that were financially distressed by the COVID–19 pandemic but demonstrated potential for recovery.

The Government allocated UGX 100 billion to the fund while PFIs were required to match the GoU's contribution with an additional UGX 100 billion, totaling to UGX 200 billion.

Out of the UGX 200 billion, only UGX 16 billion had been disbursed by September 30th, 2023, representing 8 % disbursement after a period of close to 2 years.

Figure 1: SBRF Funding by GoU and PFIs



Why the low uptake of SBRF?

Most PFIs are not promoting the fund.

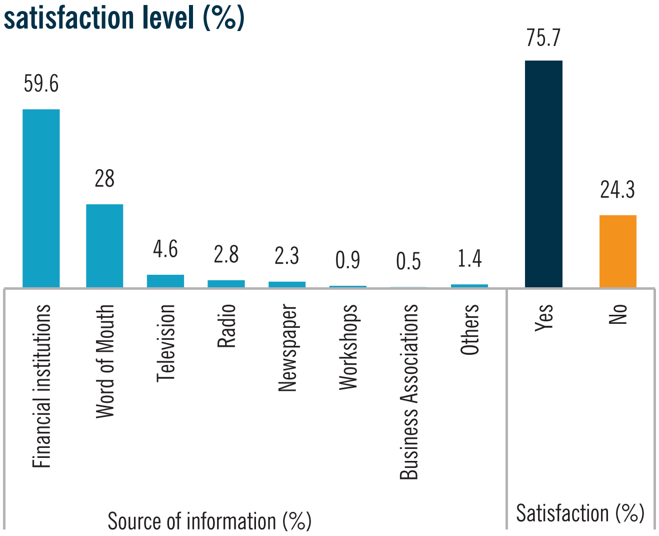
- 5 out of the 8 PFIs have received and disbursed less than 30 loans in a period of close to 2 years as shown in Table 1 (Finance Trust Bank, Housing Finance Bank, Diamond Trust Bank, Centenary Bank, and DFCU Bank), yet a larger share of beneficiaries learns about SBRF from financial institutions (Figure 2).
- Post Bank Uganda's disbursal of less than a quarter of its loans (20.6%) may be attributed to liquidity challenges.

Table 1: SBRF Loans received and disbursed by PFIs as of September 30th, 2023.

PFI	No. of applications received	No. of loans disbursed	Percent disbursed (%)
Opportunity Bank	1,360	1,162	85.4
Post Bank Uganda Ltd	247	51	20.6
Pride Microfinance	140	115	82.1
Finance Trust Bank	27	23	85.2
Housing Finance Bank	10	1	10.0
Diamond Trust Bank	10	9	90.0
Centenary Bank	5	1	20.0
DFCU Bank	3	3	100.0
Grand Total	**1,802**	**1,365**	**75.7**

Source: Author's computations using SBRF administrative data from Bank of Uganda

Figure 2: How beneficiaries learnt about SBRF and satisfaction level (%)

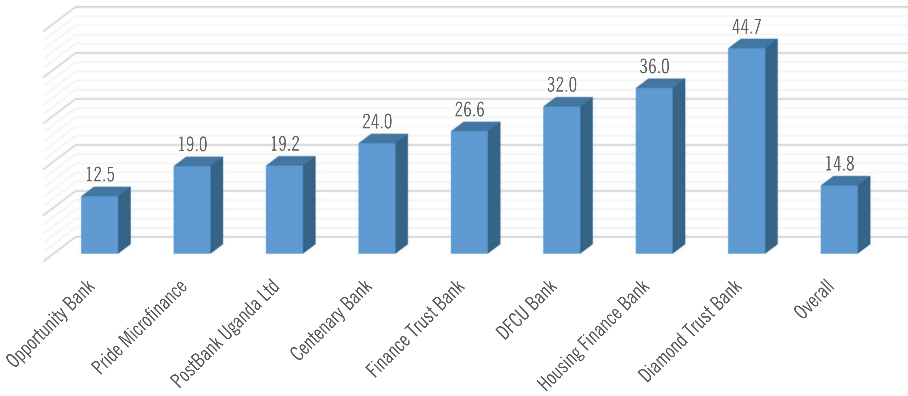


Source: EPRC SBRF survey data (2023)

Short loan repayment period.

- The average loan repayment period of 14.8 months is short (Figure 3), a disincentive to borrowers from sectors that require patient capital, such as manufacturing.

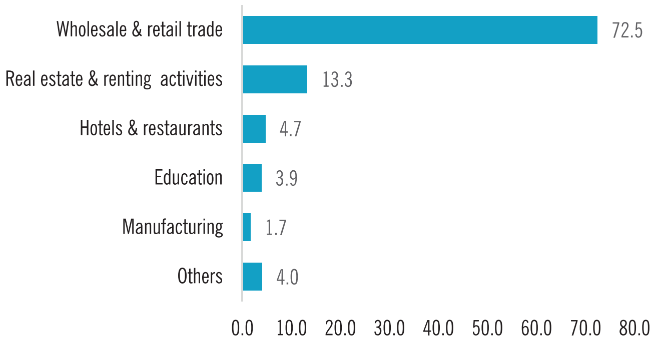
Figure 3: Average loan repayment period for PFIs (months)



Source: Author's computations using SBRF administrative data from Bank of Uganda

- Opportunity Bank has the shortest loan repayment period of 12.5 months, followed by Pride Microfinance (19.0 months).
- The largest share of SBRF beneficiaries is in wholesale and retail trade (72.5%) that borrow for additional working capital because they can buy and sell goods to pay back the loan in a shorter period (Figure 4).

Figure 4: Sectors that have benefited from the SBRF loan (%)

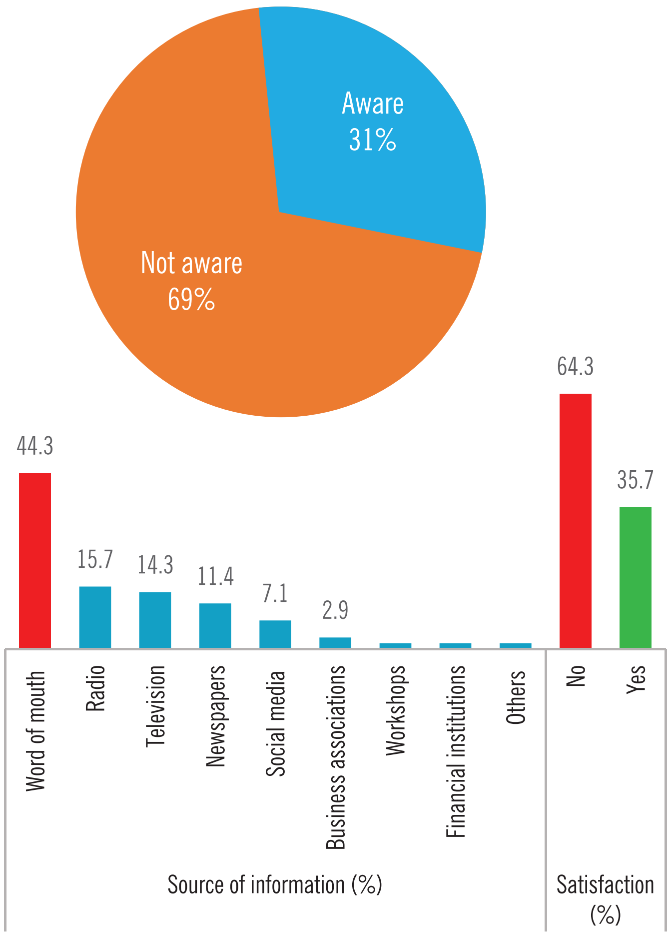


Source: Author's computations using SBRF administrative data from Bank of Uganda

Low awareness about SBRF.

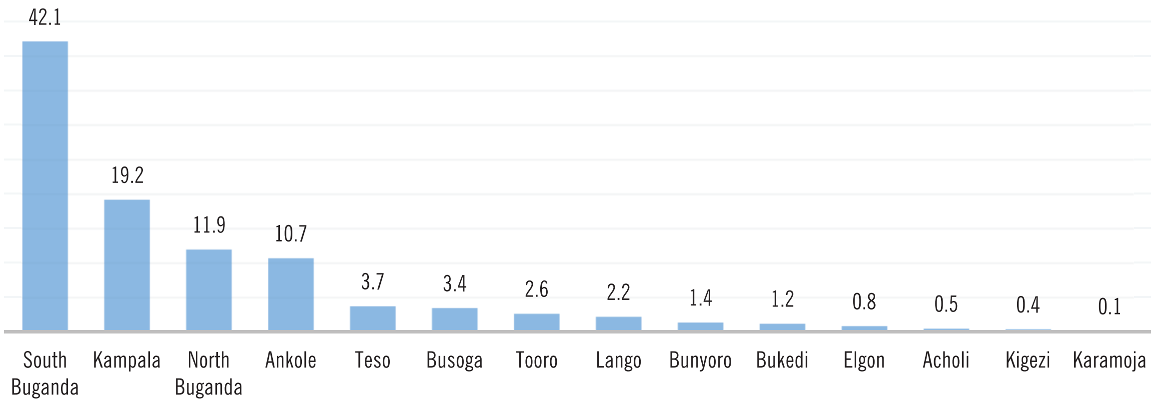
- Nearly 70 percent of the non-beneficiaries are not aware of SBRF. The 31% that are aware receive information mainly by word of mouth (44.3 percent) and are not satisfied with the information received (64.3 percent) because it is not clear and sufficient (Figure 5).
- The fund is little known about and taken up by businesses in most sub-regions of the country (Figure 6).
- The largest share of beneficiaries is from South Buganda, mainly Wakiso (42.1 percent), followed by Kampala (19.2 percent) and North Buganda, largely Mukono (11.9 percent).

Figure 5: Awareness about SBRF among non-beneficiaries



Source: EPRC SBRF survey data (2023)

Figure 6: SBRF beneficiaries by sub-region (%)

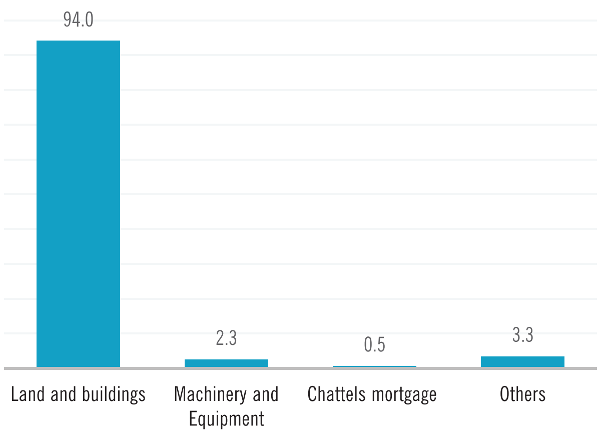


Source: Author's computations using SBRF administrative data from Bank of Uganda

The stringent collateral requirement by PFIs excludes potential beneficiaries.

- Most PFIs ask for land and buildings as collateral despite the existence of block allocation arrangement which hinders most businesses from accessing SBRF (Figure 7)

Figure 7: Collateral required by PFIs for SBRF loans (%)



Source: EPRC SBRF survey data (2023)

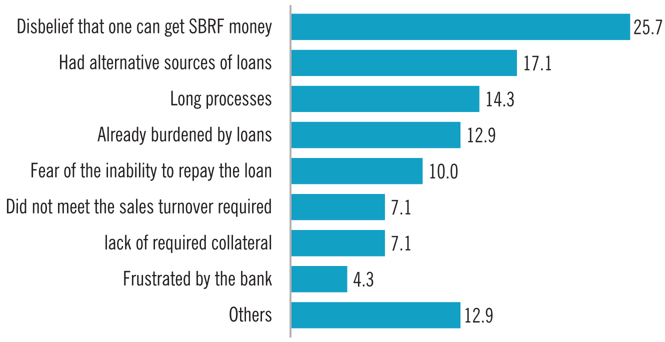
Disbelief that one can apply and get SBRF loan.

- Some businesspeople do not believe they can apply and get SBRF loan (Figure 8). This was also reported by one of the key informants "*…I don't believe that money is there, government seems to be playing on us…*" (A KII, Kampala, 2023).

How to increase uptake of the Small Business Recovery Fund?

Strengthen partnership with PFIs that have demonstrated commitment to SBRF. These include Opportunity Bank, Post Bank Uganda, and Pride Microfinance. Engaging in discussions with each of the PFIs would lead to a mutually beneficial agreement for both

Figure 8: Reasons for not applying for SBRF (% of cases)



Source: EPRC SBRF survey data (2023)

the government and PFIs. This would ultimately result in increased promotion of the fund and disbursements.

Increase the loan payment period. This will attract businesses from sectors that require patient capital, such as manufacturing.

Increase awareness of the fund. The fund should be publicized widely in other sub-regions and businesses supported to access the fund.

Increase promotion of the Block Allocation arrangement. This will enable women-owned and micro businesses that lack the most required collateral by banks (land and buildings) to access the fund. The PFIs should be encouraged to embrace the block allocation arrangement rather than rigidly focusing on land and buildings.

Instill confidence in the business community about availability and accessibility of the fund. The government should work with businesspeople that have already benefitted from SBRF to demystify the belief that SBRF is not available and inaccessible.

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.

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.eprcug.org

Learn more at:

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