Impact of COVID-19 on Key Economic Activities in Uganda and Suggested Policy Interventions

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1 Introduction

The first part of this presentation covers the diagnosis of the structure of Uganda's economy, based on the Gross Domestic Product (GDP) activity/production estimation approach, during the COVID-19 crisis since early March 2020. It provides the expected recovery period per activity and the reasons for the forecasted recovery time. The assumption of the recovery time for the economy are also given. The second part summarises suggested policy interventions Uganda Bureau of Statistics got from key stakeholders mainly private sector that could resuscitate the economy during and post COVID-19 period.

2 Assumptions

(a) The COVID-19 outbreak doesn't escalate in Uganda with minimal community transmission of the disease, i.e., registering an Infection Rate (R) less than 0.2, and all businesses resume operations in June 2020 onwards.

(b) The economy will be unlocked gradually in a phased manner beginning 6th May 2020 and full unlocking will be realised by end of June 2020.

(c) As an open economy, international cargo for most of the intermediate inputs and other essential products flows normally by June 2020.

(d) Final-goods industries that use the imported intermediate inputs don't suffer from any tariff increase on them for reasons of raising tax revenue or protectionism.

(e) Nontariff barriers in each activity (measured by quotas or some other restrictions on trade) are reduced with an aim of raising up the Output/import ratio compared to the present levels.

(f) Fiscal and monetary policies are strongly coordinated to restore the macroeconomic balance that has been occasioned by the global COVID-19 crisis.

Table 1: Impact of COVID-19 on Main Activities of the Real Economy

Activity/ Sub-sector	Impact	Recovery period	Reasons
Food crops growing	Moderate	Short term	• With favourable weather, food crop growing activities should improve after the COVID-19 lockdown following ease of marketing and increased access to inputs. Demand for food has been constrained during the lockdown especially in urban areas because of reduced incomes and regulated transportation.
Livestock farming	Moderate	Short term	• Prices and demand should return to the pre-lockdown/COVID-19 outbreak levels. Marketing challenges that resulted in reduction of livestock slaughter will be a short term effect on livestock rearing activities.
Fisheries	Moderate	Medium term	• Prices and demand should gradually pick up and return to the pre COVI-19 outbreak levels. Demand was severely affected by the limited export to world markets.

Activity/ Sub-sector	Impact	Recovery period	Reasons
Construction	High	Long term	• The revival of construction activities which are mainly private will be dependent on how quickly other economic activities, notably financial intermediation services, will pick up.
Retail (non-food items)	Severe	Medium to Long term	• Sales of essential items may recover quickly, while sales of non-essential items might take slightly longer to recover due to lower demand as a result of constrained purchasing power. • Fuel sales will return or surpass the previous levels very quickly due to held up travel demands and therefore a rapid pick up in transportation. • However, this will depend on the easing of the public and private passenger transportation business.
Wholesale (non-food items)	Severe	Medium to Long term	• This industry recovery will correspond to the retail trade above.
Transportation & Storage	Severe	Medium term	• Slowdown in the tourism sector will have knock-on effects on passenger traffic. Heightened risk aversion will prolong the recovery. • Cargo traffic is expected to pick up once businesses start resuming operations globally. However, low household consumption expenditure will delay the recovery.
Real Estate Activities	High	Medium term	• Real estate activities should revive within the medium term. Land transactions should pick up after the lifting of the sales suspension but in line with the recovery of the economy in general.
Agro processing (manufacture of)	Moderate	Short term	• Agro processing activities have been moderately affected. Milk processing was affected before the COVID-19 outbreak while meat

Activity/ Sub-sector	Impact	Recovery period	Reasons
			processing has been a victim of the closure of weekly cattle markets.
Manufacturing (other)	Severe	Long term	• Imports of raw materials may take longer period to pick due to effect of COVID-19 in source countries, which may take time to recover as detailed below:
Drugs and pharmaceutical, and other chemical industries (manufacture of)	Moderate	Medium term	• With the normalization of inflows of active pharmaceutical ingredients and imports of machinery and spare parts. The supply chain disruptions shall be alleviated. These were affected by the lockdowns in the source countries.
Metals (manufacture of)	Moderate	Medium term	• The metal industry has strong forward linkages to many important activities such as: informal manufacturing, building and construction. Hence a slowdown in these activities will inevitably drive down the demand for basic metals and therefore their production
Cement (manufacture of)	Moderate	Medium term to Long term	• Cement production has a strong forward linkage to construction. Hence a slowdown in the construction activities will inevitably drive down the demand for cement and therefore its production
Furniture (manufacture of)	Moderate	Medium term	• The furniture manufacturing activities (which is mainly informal by SME) will be dependent on the revival of the aggregate demand in the economy.
Financial and insurance services	Moderate	Medium term	• The Non-Performing Assets (NPAs) may increase both in the fourth quarter of FY 2019/20 and first quarter of 2020/2021. The reduction of the NPA will depend on how fast the economy recovers following the COVID-19 outbreak and the lockdown.

Activity/ Sub-sector	Impact	Recovery period	Reasons
			• Also the recovery of private sector domestic credit uptake to pre COVID-19 levels will depend on the outcome of the monetary and fiscal measures that the government will initiate in the following weeks to jump start the economy. Domestic credit uptake which implicitly determines performance of financial services will directly be correlated to the recovery of the economy.
Accommodation and Food Service (Tourism)	Severe	Long term	• Even when the travel bans are lifted, both foreign tourist arrivals and domestic tourist movements are expected to remain very low because of heightened risk aversion, measures related to social distancing and lower disposable incomes. • Slowdown in the tourism sector will have knock-on effects on hospitality industry. Occupancy rates may remain very low until Q3 2020/2021 (Jan 2021). • In an effort to increase and improve the bottom lines, many businesses are expected to cut down travel and accommodation costs for their employees.
Art, Culture & Recreation (Tourism)	Severe	Long term	• This activity is expected to remain subdued because of persistence of risk aversion, social distancing and other precautionary measures aimed at averting second round COVID-19 outbreaks
Micro, Small, and Medium Enterprises (MSMEs)	Severe	Long term	• MSMEs are expected to experience severe liquidity problems due to limited purchasing power. • The strain in the banking system is expected to increase the credit gap for MSMEs.

Impact	Moderate	High	Severe
Recovery period	Short term (Up to 6 months)	Medium term (7-12 months)	Long term (more than 12 months)

Note: Source: Uganda Bureau of Statistics

Policy Interventions

Uganda Bureau of Statistics got a number of feedback particularly from the private sector on possible interventions Government could undertake to stimulate economic growth in the short – to medium term and consequently maximise social welfare (consumer surplus) in long term. The policy interventions are highlighted below.

1. Support crop and livestock farming activities by extending affordable credit facilities to organised rural households (women, youth, cooperative societies), providing improved farm inputs and quality extension services to households and commercial farmers, making available water for production, strengthening storage facilities and minimising post-harvest loses, storage and transportation to improve supply chain of food crops, cash crops and livestock products,
2. Need to support agro processing Industries to increase production of what is being imported that can be produced locally. For example; (a) with milk, the country can produce pasteurized milk and powdered milk to substitute the imported ones; (b) manufacture of animal and vegetable cooking oils; (c) textile manufacturing from cotton lint, (d) further processing of coffee, tea (for beverages), maize, cassava (for raw materials in manufacture of pharmaceuticals, and starch), Irish potatoes, sorghum, fish, to mention but a few.
3. Accelerated support to science and innovation hubs in the geographic regions using higher institutions of learning to research in areas of for chemical, electrical and electronic products given the abundance of raw materials, base and other metals in the country,

4. Provide tax incentives to SMEs and large enterprises for at least two years.
5. Avoid increasing import tariff of intermediate products, reduce the non-tariff barriers and the cost of doing business to promote final-goods industries relying on imported intermediate products

   Table 2 below provides a matrix of suggested cross sectoral and specific interventions from private sector, which Government should have a close look at to stimulate the economy.

Table 2: Interventions

No	Issue	Proposed Interventions
		Cross Sectoral Proposed Intervention
1.	**Loan and repayment burdens must be addressed**	Government through Bank of Uganda (BoU) recently issued guidelines regarding credit relief and restructuring measures to address the loan and repayment burden of borrowers namely: ● Increase statutory period for banks to declare non-performing assets **(NPAs) from 90 to 180 days** for the next 12 months ● Allow commercial banks to **restructure loans from 2 to 3 times:** ● No repossession should be allowed during the next three months from May 2020. Government through the regulator of microfinance institutions is to work on measures to support borrowers from those institutions.
2.	**Businesses need short-term support in terms of liquidity, access to credit and cut costs in operations**	● Pay all **Domestic arrears** and **outstanding VAT refunds** ● Capitalise **Uganda Development Bank (UDB)** to enable the UDB to mobilise more money by issuing its own instruments. This could be achieved by negotiating with multilateral lenders to restructure loan repayments by requesting for a two to three year moratorium on interest rate payments, which in turn is used to capitalise UDB. ● **Improve the Agriculture Credit Facility administration and transfer it to UDB and institute a framework to guarantee risks for 5 priority sectors** (agriculture, manufacturing, tourism, construction & Trade) at 50:50 level.

No	Issue	Proposed Interventions
		● **De-risk** Micro Small and Medium Enterprises & Households **borrowers through the promotion of production under Lead Firm Structures using the Value Chain approach** and linking financing to both horizontal and vertical chains. ● **Enact the NSSF (amendment bill) 2019** to increase the supply of long term financing for a cheap source of resources.
3.	**BUBU**	● **Government should locally source:** goods or services which are produced locally are still being sourced by some MDAs from outside Uganda. This needs to be stopped. Private sector can give this list once Ministry of Finance agrees to the proposal. Manufacturers should be mandated to meet the required standards.
4.	**BUBU guidelines amendment**	● The test of BUBU should be **"as where the goods are manufactured & not that who is supplying."** Necessary amendments to be done in BUBU policy to become more effective
Specific Proposed Interventions- Ugandan Tourism Industry		
5.	**Loss of market share to competitors**	● The industry appreciates the review of the **Gorilla Permit cancellation policy** by UWA. It however, would like to request the **no upward tariffs review is done this financial year.** ● Constitute and fund a s**ector-wide crisis management committee** that will lead the recovery efforts of the tourism industry, including private and public sector players, that meets periodically
6.	**Liquidity for SMEs**	● **To support tourism sector** support the tourism sector in Uganda, liquidity could be extended to the tourism businesses especially the SMEs that are likely to out of business for the next 7-12 months.
Specific Proposed Interventions- Ugandan Agriculture Industry		
7.	**Maintain market share and growth of agribusiness industry**	● Ministry of Finance, Planning and Economic Development is working on having a specific **Agribusiness fund to address this issue. Funds could be channelled through UDB** to be accessed for operations.
8.	**Food Security**	● Promote **Producer groups & cooperatives and an efficient Warehouse Receipt System.** ● Enhance value chain in the area of marketing and establish silos and buy excess essential food products
Specific Proposed Interventions- Ugandan Logistics Industry		
9.	**Export of products logistics challenge**	● **Recapitalise Uganda Air Cargo** to ensure foreign market expansion. OR better still mainstream Uganda Air Cargo into Uganda Airlines.
Specific Proposed Interventions- Ugandan Manufacturing Industry		

No	Issue	Proposed Interventions
10.	**Long term sustainability**	• Strategize in **enhancing capacity along the entire value chain** i.e. to locally produce and source raw materials, capital goods, intermediate goods and final products. **Lower taxes on products produced with locally sourced raw materials as an incentive to use local intermediated inputs**.