HUMAN RIGHTS AND PEACE CENTRE

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# Uganda's Covid-19 Economic Stimulus Package: Did it Deliver The Stimulus?


***Left:** Soroti Fruit Factory based in Arapai Ward in Soroti City west received Shs. 2.35bn as stimulus package. The purpose of the stimulus package according Uganda Development Bank officials was to create and maintain jobs as well generating significant value output. Unfortunately, the story in Soroti is different, farmers have lost out and have no knowledge of the whereabouts of the 2.35 billion shillings met to help their firms survive the pandemic.*

***Right:** Oranges going to waste in Gweri Sub-county Soroti district, as farmers cannot find market for their products. The fruit factory in the region, in spite being supported during COVID-19 under the stimulus package, it cannot take up 50% of the fruits produced in the region.*

As the world continues to be ravaged the by Covid-19 pandemic, besides the horrendous loss of lives, there has been unprecedented adverse effects on the social and economic welfare of communities in Uganda and the world over. Businesses have collapsed, manufacturing reduced, and at the height of the pandemic in 2020 and 2021, air, road and sea transport were all paralyzed. Hundreds lost jobs while millions, who survived the pandemic, have been plunged into abject poverty.

It should be noted that the above consequences of the pandemic were envisaged by the Government of Uganda, multilateral agencies, academicians and finance agencies quite early at the start of the pandemic. For example, as soon as the country was put on high alert at the end of March 2020 when the country announced its first Covid – 19 victim, the Ugandan Minister of Finance, Planning and Economic Development (MFPED Matia Kasaija), noted that the pandemic would affect the country's revenue generation with a shortfall amounting to Shs288.3 billion in the Financial Year (FY) 2019/20 and Shs350 billion in the FY 2020/21 due to a reduction in economic activity. The minister further observed that Shs. 513.26 billion of revenue would be lost by close of June 2020 and economic growth would diminish from 6% to about between 4.6% and 5.1% under the worst-case scenario in the FY2019/20.

In May 2020, the Budget Monitoring and Accountability Unit (BMAU) under the MFPED that is responsible for monitoring and tracking effective implementation of government projects, in its Briefing Paper 3/20 on the socioeconomic impact of COVID-19 pandemic on the urban poor in Uganda observed that "about 23% of the urban poor are at risk of losing 100% of their daily income hence creating financial instability."

The BMAU projected that people who were employed in the informal sector in urban areas would be more likely to "bear the most severe economic and social repercussions and are at high risk of slipping into poverty."

The United Nations Capital Development Fund (UNCDF), a United Nations financing entity for the Least Developed Countries, in collaboration with The College of Business and Management Sciences (CoBAMS) of Makerere University, and in partnership with Uganda Revenue Authority and the Ministry of Trade, Industry and Cooparatives did a survey on the Impact of COVID-19 on Ugandan Micro, Small and Medium Enterprises (MSME) and in their May 2020 findings noted that "85% of all businesses are going to be in financial distress after three months of lockdown measures" and "about 50% of informal businesses will be out of business or fall below the poverty line after just one month."

The survey showed that "declining incomes will send about 50% of informal businesses below the poverty line or into closure, especially in manufacturing (46%) hospitality (43%) and trading and services (41%)." It also noted that;-

> *"Over 75% of employees projected to lose their jobs permanently are from the service sector. This is highly expected since most of the services in Uganda involve face-to-face interaction, which contravenes the social distancing requirement. We also note that over 80% of workers predicted to permanently lose their jobs are from Kampala, whereas in other regions there might not be permanent lay-off,".*

The Economic Policy Research Centre (EPRC) in its special issue on how COVID-19 pandemic was impacting on Ugandan businesses, published in May 2020, two months into the first lockdown, estimated that if COVID-19 pandemic persisted for the next six months, more than 3.8 million workers would lose their jobs temporarily while 0.6 million (625,957) would lose their employment permanently."

Several recommendations and suggestions were made to the government of Uganda as early as May 2020, to mitigate the challenges that would be brought about by Covid-19 pandemic. For example, the BMAU recommended that government should "design programs to support the stimulation of small and micro enterprises that have suffered decline during the pandemic." It further proposed that the MFPED needed to provide additional resources to the Microfinance Support Center (MSC) to "enable eligible traders in the informal sector revamp their businesses", based on criteria that was agreed upon.

Voices from business enterprises on how to deal with the consequences of the pandemic that were ripping apart MSMEs were well captured by UNCDF and CoBAMS in this survey. The business community proposed that in order the rescue smaller companies, the country needed "a proper relief and economic stimulus package that would define all government measures in support of businesses through an act of Parliament." MSME are the backbone of Uganda's economy.

It was also proposed that there needed to be a national dialogue or consultations that would bring together the business community from different types of businesses and sectors to forge a "way forward in a collaborative, participatory and transparent manner."

It was recommended that the national dialogue had to involve relevant ministries, departments and agencies (MDAs), taxation agencies and financial institutions to identify mutually acceptable solutions to the problems of Ugandan businesses and that these solutions would not be about "short-term fixes but should look towards business sustainability beyond the pandemic."

The UNCDF and CoBAMS further suggested that "rescue packages had to be linked to upgrading businesses such that they are able to add local value, decrease reliance on imported inputs, get standards certification and a technology upgrade. They also believed that this was going to be an "opportunity for the government to negotiate for loans/programmes to keep trade flowing through transport corridors."

EPRC, at that time, was of the view that there was also the "need to offer a fiscal stimulus package to support firms to address immediate liquidity challenges, reduce layoffs, and avoid firm closures and bankruptcies."

The research centre noted that the support had to be kept as simple as possible during the lock down, and that it would gradually evolve during the post lockdown phase by "taking into account new circumstances and firms' characteristics". It would also "target the most affected firms to preserve scarce fiscal resources and help to ensure that firms receive an adequate level of support in line with their immediate needs, given the short-term effect of the shock."

Given the above situation, various agencies and research institutions proposed necessary interventions to help the micro, small and medium enterprises, to survive the economic crisis.

The interventions were also supported by the international agencies which collectively and individually sought to cushion the country from the economic decline as envisaged by the MFPED. For example the World Bank, provided the government of Uganda US$300 million in form of budgetary support to help "mitigate the economic impact of the pandemic and protect the poor and vulnerable population." In May 2020, the government also received US$490 million from the International Monetary Fund (IMF) as part of the Rapid Credit Facility to help the government "strengthen the foreign exchange reserves position and finance the national budget." The support was aimed at "strengthening the crisis response and protecting the most vulnerable" and "fast tracking economic recovery and debt sustainability."

Government, in an effort to cushion and salvage various economic sectors from collapse took some measures in form of stimulus packages the way it deemed fit but disregarded proposals that had been presented. Stimulus packages are interventions methods by government to help the private sector to play its role in the economy. This was done through various agencies such as Uganda Development Bank (UDB) and MSC through which the packages were distributed.

The government committed shs1 Trillion "to support production, processing, and manufacturing of essential items for the country to be resilient amidst the supply chain disruptions, and to become self-sufficient and reduce reliance on imports especially of essential items that can be locally produced."

These funds were to be disbursed through the Uganda Development Bank, the country's national Development Finance Institution (DFI) mandated to accelerate socio-economic development in Uganda through sustainable financial interventions. By Mid-August 2020, the UDB had received Shs455.1 billion to support entities in production, processing and manufacturing. UDB statistics show that primary agriculture was allocated Shs 74,483,939,56, Agro-Industrialization Shs50,096,031,982, Manufacturing Shs67,731,433,830 which was the biggest share of the stimulus package while education services got the least.

Government also allocated shs260 billion for the Emyooga programme through the MSC to help transform household incomes and increase employment opportunities. According to the Auditor General, the government further disbursed shs56.8Bn to the MSC to increase the funds available for on-lending to different businesses.

Whereas billions of shillings were injected into the stimulus package, many questions remain unanswered. The flow of information on the matter was not a priority, the process to acquire the money was void of transparency and accountability remains opaque. More than shs200billion injected in the Emyooga programme as part of the stimulus package to help micro and small enterprises is still a subject of discussion as to whether the funds went to intended beneficiaries. The household transformation within 17 specialized groups which included boda boda riders, fishermen, and journalists remains invisible.

The Auditor General's office, in a Special Audit Report on Expenditure Relating to COVID-19 for the Financial Year 2020/2021 observed that "funds (seed capital) had been disbursed to 6,326 SACCOs as at end of June 2021; however, there were no memoranda of understanding between the MSC and the SACCOs to guide the utilization and accountability. Under the circumstances, there is no binding relationship with MSC."

The report also indicated that "Physical inspections carried out in Kayunga District revealed that a total of shs500,000,000 that was disbursed by various SACCOs was never supported by loan agreements, there was no evidence to support the existence of the borrowing associations. The beneficiaries could not be traced."

Besides, the Auditor General found out that 188 SACCOs across the country did not have addresses where they could be traced to ascertain their existence and to account for the money disbursed to them. These were majorly in the districts of Kabale, Kisoro, Kanungu, Arua, Pakwach, Zombo, Soroti, Ngora, Lira, Alebtong, Lwengo, Masaka among others. This is in addition to over Shs18 billion of Covid-19 related loans disbursed inappropriately without following proper procedures.

Over shs3 billion was disbursed to entities within Nakasero zone in a manner queried by the Auditor General. For example, the Auditor General noted that in one of the entities that got shs400 million.

"Loan appraisal was carried out at zonal office and forwarded to ED's office for exceptional approval. The loan application bypassed MSC management loans committee because of the exceptional approval made which lacked clear basis on file to justify decision. Zonal appraisal report purported that the company had previously borrowed shs200million from MSC and repaid it; which was false."

Entities from Nakasero zone that received Covid-19 related funding attracted audit queries for bypassing the legally approved procedures. The Auditor General noted on one of the entities that, "supporting tax clearance certificate was invalid when verified on the URA web portal. Loan offer letter issued by Ag. Ed was not signed by borrower. Loan bypassed management loans committee".

Furthermore, information about the expenditure and beneficiaries of the stimulus package channeled through UDB remain scanty in the public domain and the impact of the billions of shillings disbursed is invisible. Voices calling for transparency, accountability, accessibility and public participation in the management of the stimulus package were raised as far back as 2020 by the Civil Society Organizations and continue to be raised today.

For example, in September 2020, the Initiative for Social and Economic Rights (ISER), raised concerns about the implementation of COVID-19 economic stimulus package that was rolled out by the government to mitigate the economic impact of the COVID-19 pandemic and the institution of containment measures.

"Overall, the lack of transparency, limited participation, and clear accountability mechanisms remain key challenges in the utilization and disbursement of the economic stimulus package. Beyond the amount of money allocated for various purposes, the government did not publically disclose detailed specifications on the measures including costing and transparent eligibility criteria. This has made monitoring by civil society and other actors difficult. In June 2020, SMEs called upon the government to share a clear plan on how it intends to reinvigorate the economy through the proposed stimulus package. Although the government unveiled the proposed economic stimulus package and various measures to provide liquidity for private firms affected by the COVID-19-induced national lockdown, many information gaps still exist," ISER noted in their research report titled: "Uganda's Covid-19 Economic Stimulus Package: Will It Deliver?"

Lack of information on the criteria of accessing the funds was one of the issues highlighted by ISER. "The dissemination of information for eligibility criteria and application processes for the economic stimulus was left to the various implementing financial institutions most of which uploaded the same information on their website," the report noted.

Information on the criteria of getting the money and the beneficiaries, is highly guarded. On March 16 2021, according to the New Vision of March 17, 2021, the Acting Managing Director UDB, Dennis Ochieng, had to be arm twisted by Members of the Parliamentary Finance Committee to release the list of companies that had benefited from over shs440 billion stimulus package that the government had released. The Acting manager, according to New Vision, was unwilling to tell the Committee the beneficiaries until they threatened to cut the Bank's budget and he was quoted by the paper.

> *"He also presented to the legislators a list of beneficiaries of the funds after the committee threatened to cut their budget. This was after the officials had declined to name the beneficiaries. At first, the team presented a list of the beneficiaries without names of the companies and individuals, citing issues of confidentiality".*

> *"When the committee threatened to throw them out, Ochieng immediately signed a copy that had the names and gave it to the chairperson who also asked him to leave and come back another day".*

Members wondered why the beneficiaries want to hide yet they received public funds. "Why do you borrow Government funds when you don't want to be scrutinized. We appropriated this money for a purpose, why don't you want us to know what it has done?" The paper quoted Hon. Henry Musaasizi the then member of the Committee who asked questions of the team from UDB.

According to New Vision, the team from UDB had appeared before the committee the week before and failed to present the list of beneficiaries. The list forcefully extracted from the Acting Manager of UDB, containing 74 beneficiaries, was published in the New Vision.

Surprisingly, after the publication, UDB posted on its website a statement saying "UDBL did not provide the list of borrowers to the media" and that "the list that was published represented all borrowers who applied for funding in form of loans from the bank, underwent the Bank's objective evaluation criteria and were eligible for funding in line with the Bank's credit policy. The approvals represent all approved loans in 2020 from January (Pre-COVID) while disbursements are loans disbursed in 2020 having been approved either prior to 2020 or in 2020."

In its statement UDB further stated that it had not "received any funding for bail out of struggling businesses or to be given out as packages or grants to businesses negatively impacted by the pandemic." Given that UDB disowned the information, to date no official public information is available on the beneficiaries.

Lack of transparency in managing the stimulus fund through UDB and other agencies was a matter of concern to the Parliamentary Taskforce on the National Covid-19 Response, especially when it came to the list of beneficiaries. The Taskforce that was set up by the Speaker of Parliament to coordinate parliamentary Covid-19 response with that of government noted in their report of August 2021 that there was lack of transparency in accessing the beneficiaries of the economic stimulus funds.

The Taskforce noted that the "intervention such as UDB re-capitalization, support to SACCOs through Microfinance Support Centre, Emyooga and the Youth Funds.... were well intentioned to boost the private sector, protect economic resilience, and provided certainty for business. However, they were affected by lack of transparent mechanism to ensure that resources trickle down to the intended beneficiaries."

The Taskforce recommended that government should through the MFPED submit to parliament "full accountability backed by an authentic list of beneficiaries of funds" appropriated to UDB. One and half years after the recommendation was made, the authentic list is still unavailable and nothing has been done about it.

The only available scanty information on the beneficiaries can be traced in the Auditor General's Special Audit Report On Expenditure Relating To Covid -19 For The Financial Year 2020/2021. The report reveals that "Ushs22.67Bn was spent on beneficiaries different from those approved by parliament. These included M/s Horyal Investments Holding Company, known as Atiak Sugar, which received shsa12bn and M/s Busoga Sugarcane that got shs10.67bn to specifically transport sugarcane from Busoga region to Atiak in northern Uganda.

Other beneficiaries included, Alfasan Uganda Limited (shs0.95), Mabale Growers Tea Factory (shs12.18bn), Mutuma Commercial Agency (shs2.5bn) Bukona Agro-processors Ltd (shs11.76bn) Soroti fruit factory (shs2.35bn), Kaaro Agro producers limited (shs3.07bn) Acholi Bur Pader Catholic Archdiocese (shs18bn) Yumbe Mango factory (shs11.9bn), Budadiri Arabica Coffee Limited (shs10bn) Molino (shs37.8bn), M/s Moroto Cement and Marble Factory (shs3.2Bn), M/S Kaaro Koffi Ltd (shs3,068,181,820).

Many of these beneficiaries received the funds as a form of shares UDB was taking over or where the bank already had interest already in.

Music and arts promoters also received "Covid-19 stimulus funds amounting to shs6.8Bn ... in two batches..., without clearly documented criteria." According to the Auditor General, the money was received through the Uganda National Cultural Centre. But there are no specific details about the music and art promoters that benefited.

Other countries such as Kenya took similar steps to rescue their economies by providing different economic packages to their citizens. President Uhuru, the then President of Kenya announced an eight economic stimulus programme amounting to 53.7 billion Kenya shillings targeting 13 economic areas. However, there were also issues of transparency in regard to distribution of the necessary packages.

## Is the impact felt?

The Parliamentary Task Force noted that the interventions by government were "well intentioned to boost the private sector, protect economic resilience and provide economic certainty." But was this achieved?

While appearing before the Parliamentary finance committee, Ocheing, the Acting UDB manager was reported to have told the Committee that "... as a result of UDB's intervention, jobs are being created and maintained, and significant output value being generated."

However, this is in contrast to what Ezekiel Eituno, a resident of Abia Village, Dokolo parish in Gweri Sub-county Soroti District, has experienced with his oranges.

"They told us that they are uplifting us from poverty but we are steadily being pushed down to poverty," Eituno told HURIPEC team in January 2023 in Soroti.

Asked as to whether he was aware that the Soroti Fruit Factory had received shs2.34 billion as stimulus package to help boost its capacity to buy fruits from farmers, Eituno told the team that it was news to him. "Where did they put that money? During Covid-19 I sold very few fruits to the factory, since then I have not sold to them," Eituno noted. He said, many orange farmers, including him, within the area have cut down oranges because of lack of the market. He said Kenyan traders are taking advantage of their desperate situation. "Those people, they determine the size of the sack of oranges and the price and you cannot negotiate," he explained. He said since the Covid-19 period, the situation has worsened.

In an interaction with Soroti Fruit Factory managers, the Executive Director, Soroti Fruit Factory, told HURIPEC that he was not aware of the stimulus package extended to the factory but "I know UDB as a shareholder has been extending support to factory." He admitted that the factory does not have the capacity to take more than 50% of the fruits grown in Teso region.

In Yumbe, farmers in May 2021, complained of failure by Yumbe Mango Factory to take up their fruits and had resorted to selling them to local markets. However, the technical people said they were still installing the machinery.

A study by EPRC on the social impact of Covid-19 on business enterprises released in September 2022 indicated that "some enterprises in the MSME space experienced permanent business closure because of COVID-19 and related restrictions. Direct and indirect COVID-19-related factors accounted for over 60% of the permanent business closures." Whether "significant output value" is generated as Ochieng stated, it remains to be seen.

According to the World Bank "the COVID-19 shock caused a sharp contraction of the economy to its slowest pace in three decades." The Bank shows that country's Gross Domestic Product contracted by 1.1 percent in 2020, and Household incomes fell when firms closed and jobs were lost, particularly in the urban informal sector. The Bank projected that the number of poor people is likely to increase by 2.6 million because this effect.

The economic stimulus package was meant to help MSMEs survive the economic effects of COVID-19, to save people from losing jobs, companies closing down and the national economy to stay afloat. Billions of shillings generated internally and externally were injected in the process. Two years down the road, the impact of the intervention is not felt. Well thought out recommendations by academicians, economic experts, researchers and Civil Society Organizations were all not considered. What happened?

Dr. Zahara Nampewo, the Deputy Principal, School of Law and former Director, Human rights and Peace Centre (HURIPEC) argues that the government, a duty bearer, failed on its obligation of protecting Ugandans from the interest of third parties. She says the International Convenant on Economic, Social and Cultural Rights, which was ratified by Uganda on the 21st of January 1987 mandates that the Government of Uganda protects its citizens from the actions of the third parties who may not necessarily be working for the interests of Ugandans.

She notes that "We saw Covid becoming a party, it became a feast, where many took advantage of the resources, exploited the vulnerability of different individuals, made use of the resources in inappropriate ways and we have not seen the government of Uganda coming in to call for accountability."

She says procurement procedures were flouted by the third parties as the government looked on without ensuring adequate protection of the rights of Ugandans from these agencies who were not necessarily working for the interest of the country but their own.

> *"The allocations that were made on the stimulus package, the way some individuals got on to the list and the vulnerable that were left out shows how government abdicated its responsibility for protecting Ugandans from abuse."*

She says these agencies like UDB were operating on behalf of government and further that the accountable institution to the citizens of Uganda is the government of Uganda not these entities.

## What needs to be done?

Dr. Nampewo is of the view that since the government failed on its first responsibility it should not fail on the second on offering Ugandans remedies and redress for the abuses by the third parties that caused these losses.

> *"The State must take appropriate steps to investigate acts of third parties that affected these businesses. It is important to have an investigative inquiry as to what happened. Besides, we need to have in place effective regulations and legislations that will ensure that in the future when we have crises like these, they are not taking us by surprise. It has to be clear that we are dealing with them following a set procedure."*

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MAKERERE UNIVERSITY

**Address & Contact Information**

Makerere University.
P.O.BOX 7062 Kampala, Uganda
+256 (0) 414 532954. huripec.law@mak.ac.ug