

When the Going gets Tough

Effects of the COVID-19 Pandemic on Informal Entrepreneurs in Uganda

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Key points

- Informal business operations declined sharply during the lockdown.
- Female-owned businesses were hit harder and were more uncertain when to reopen.
- Since restrictions have been lifted, profits are slowly picking up.
- Yet, the long-term effects and speed of recovery are still uncertain.

Policy recommendation

- Economic recovery will depend on supporting demand in the economy. Expanding cash transfers can have a double dividend and provide a much needed demand stimulus, for the informal sector.

Uganda has been implementing one of the strictest lockdowns in the world. As of this writing (August 7th, 2020) the country recorded 1,223 cases, and only five COVID-19 related deaths. While the measures have contributed to the successful reining in of the virus, particularly when comparing it to the number of cases in neighbouring countries, the restrictions have hit people and businesses hard.

COVID-19 and lockdown measures in Uganda

Uganda's President Yoweri Museveni ordered schools and places of worship to close as early as March 18th—three days before the first case of COVID-19 was recorded in the country. Following the first case, measures were tightened with a stay home lockdown enacted on March 22nd. The lockdown was initially planned for a period of 31 days, but later extended by another 21 days.

The first measures were lifted on May 5th, 2020 when factories, hardware shops and restaurants could reopen—the latter for take away only. Since May 18th, the lockdown has been eased further with additional shops allowed to open.

Measures in Uganda were stricter than in neighbouring countries

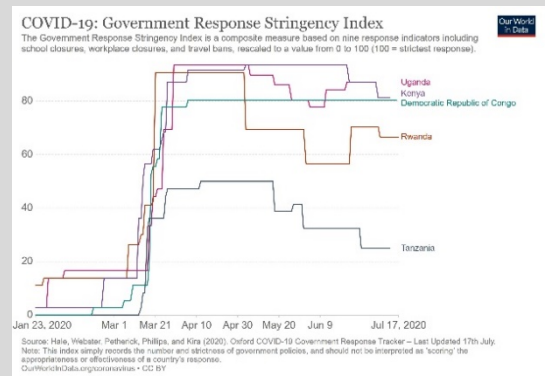


Fig. 1: Regional comparison of measures

Most businesses closed during the lockdown with females more unsure when to re-open

In line with the restrictions, 81% of the businesses in our sample, which covers 336 micro and small enterprises ranging from manufacturing, retail and wholesale trade to transport and other service businesses in Kampala, were closed during the lockdown. Since mid-May, operations have been picking up again, with more sectors reopening. Yet, many are still unsure if and when they will reopen. This is

particularly a problem in service sectors with a high concentration of close-contact businesses to which restrictions still apply. An example is hair and beauty—a sector with a high concentration of female-owned enterprises. More generally, we see that female-owned businesses are struggling more with the effects of the lockdown with many still unsure if and when to reopen. This insecurity is not driven by a higher burden of caretaking responsibilities of female entrepreneurs but mostly due to the restrictions and regulations in the sectors in which these women operate.

Many female-owned businesses are still closed

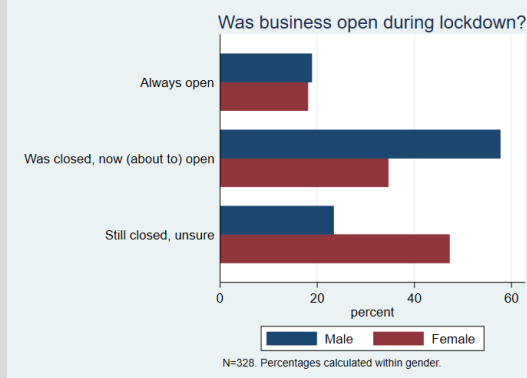


Fig. 2: Status of informal business operations

Profits dropped drastically

Business profits decreased by 93%, from more than 200 USD per month before the lockdown, to just 15 USD per month during the lockdown. Since lockdown measures were eased and businesses opened up again, we see a positive trend. Yet, we are far from recovery. Profits have not even reached half of their pre-lockdown levels. The trends are positive for both men and women. Yet, the gender gap remains. In absolute terms, as shown in Figure 3, it appears much smaller. However, this is only because overall profit levels are close to zero.

Profits show a positive trend, yet the gender gap remains

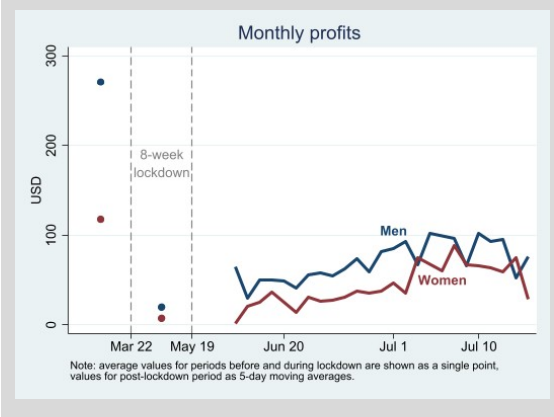


Fig. 3: Evolution of business profits

So did overall household incomes

The lockdown measures made it more difficult for people to pursue work, resulting in drastic income cuts for many households. The average monthly household income during the lockdown was only 71 USD, an 82% reduction compared to just over 400 USD before. Forty-six percent of respondents reported no household income at all during the lockdown period. One to two months after the lockdown, the average monthly household income is still 78% lower than before.

Household income dropped to almost zero

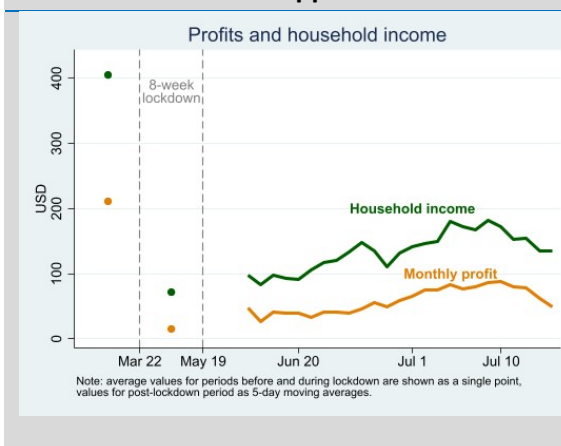


Fig. 4: Evolution of household income

About 22% of the respondents in our sample compensated for the income loss by resorting to and reinforcing pre-existing, home-gardening, farming and livestock activities, which also implied returning to the countryside for a few days or weeks during the lockdown. Furthermore, 71% of the respondents also depleted savings while others borrowed (7%) or delayed loan payments (5%). No respondent reported selling assets to compensate for the shortfall in income. While that might be good news, implying that productive capacity has not yet been affected, the bounce-back potential of these businesses is still compromised due to the depletion of savings and because businesses are undercapitalized in general.

Business operations did not change and so far there is no evidence of a push for digitalization

While one of the hopes associated with the COVID-19 pandemic is that it will boost digitalization, we do not see significant shifts in business operations in our sample in support of this hypothesis. Entrepreneurs have moved some of their operations to their homes. They report collecting more orders over the phone and expanding deliveries. Yet, we do not see a strong shift towards more electronic, mobile or e-commerce payments.

Despite the drastic effects, most support the government lockdown measures

As we saw, the lockdown led to a complete loss of incomes for many. The stay-home directives made it more difficult to access and afford food and to care for family members. Levels of stress and anxiety have been rising during the period. Sixty-six percent of the respondents in our sample reported to have suffered from increased stress, anxiety, sadness and sleep difficulties during the lockdown. Yet, despite the drastic incursion on public life, the government measures have met broad agreement. Eighty

percent of respondents consider the actions taken were at least somewhat justified.

We do not find any systematic pattern explaining the agreement with the government response. Support for the government's actions is not determined by how hard business have been hit by the lockdown. Almost half of the respondents (42%) in our sample have benefited from the government-organised food distribution during the lockdown. Yet, we do not have any indication of clientelism—i.e. we do not find those receiving food aids to be supportive of the government measures.

Public support for the strict lockdown

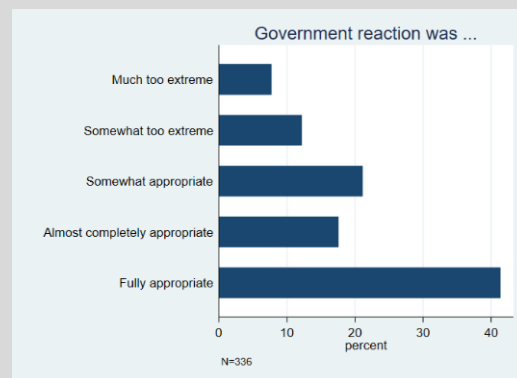


Fig. 5: Perceptions of government response

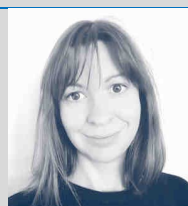
Stimulating demand will be key to economic recovery

The food distribution plans are already a starting point. Yet the post-lockdown recovery will be determined by how quickly demand will pick up. Expanding cash transfers—a measure which many governments in the region have been considering—will not only help to limit damages to household welfare but can provide an important demand stimulus for the informal sector.

Study description

This study is a follow-up to the research project "Performance and Dynamics of Micro and Small Enterprises in Developing Countries" funded by the KfW Development Bank and the "Volkswagen Vorab" Programme of the Lower Saxony Ministry for Science and Culture. Tabea Lakemann also greatly acknowledges support from the RéUsSITE Project (Research Support Special Initiative on Training and Job Creation). The project is a multi-year study that followed just over 500 micro and small enterprises in Kampala from 2012 to 2018. The sample covers enterprises from a broad range of sectors across 21 randomly selected zones of Kampala-Uganda's capital. The data presented here were collected in a phone survey conducted with the owners of a subset of these micro and small enterprises. The phone survey took place over a five-week period from June 16th to July 19th, 2020. Of the target sample of 472 entrepreneurs, we had a response rate of 71%.

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