The Impact of the Covid-19 Pandemic (Coronavirus) on Small and Medium Enterprises (SMEs) in Kampala Central Division, Uganda

Kizito Emmanuel Nyeko¹, Ngui Kwang Sing² and Voon Mung Ling*³

¹,²,³School of Business, Faculty of Business, Design and Arts, Swinburne University of Technology Sarawak Campus, No 1. Jalan Simpang Tiga, 93350 Kuching

*Corresponding author: mvoon@swinburne.edu.my

Abstract

Whilst acknowledging the importance of the Ugandan Government’s Covid-19 containment plan to curb the spread of the virus so as to safeguard the public health, the researchers are of the view that there are certain unexplored socioeconomic impacts and outcomes of the said response measures on the Enterprises in Uganda. This is premised on the shutdown of numerous sectors with severe adverse effects on the nation’s informal, hybrid and formal economies. Therefore, the aim of this study is to establish the impact of the Covid-19 pandemic (Coronavirus) on Small and Medium Enterprises (SMEs) in Uganda. 30 Small and Medium Enterprises (SMEs) found in the Business Register of Uganda Registration Services Bureau (URSB), operating in the Central division of Kampala the Capital City of the Republic of Uganda, were identified and interviewed via telephone. The findings reveal that the COVID 19 pandemic (Coronavirus) took a massive toll on all sectors in the Ugandan economy; in particular, Small and Medium Enterprises (SMEs) bore the greatest brunt of the unprecedented business disruptions, leaving many of them on the brink of insolvency despite gradual opening of the economy. The existing literature encompasses mainly studies that investigate short-term, medium-term and long-term impacts, and the current pandemic crisis is still ongoing with renewed lockdowns in spite of vaccinations. This paper presents an empirical study with theoretical and practical contributions to the body of knowledge on how this pandemic has adversely affected the Small and Medium Enterprises (SMEs).

Keywords: COVID-19 Pandemic, Small and Medium Enterprises (SMEs), Uganda

Introduction

The first outbreak of the coronavirus disease 2019 (COVID-19) was reported in December 2019 in Wuhan City, China. By the end of the first quarter of 2020, the virus had spread to many regions across the globe, and the World Health Organisation (WHO) declared this disease a Public Health Emergency of International Concern (Sahu, 2020, WHO, 2020). The disease seemed to hold no bar and continued its relentless march to all corners of the earth at an alarming rate, with 629,370,889 confirmed infections and 6,578,245 deaths as of 7 November, 2022. Though the number of virus infections was initially insignificant in the continent of Africa, the number of cases is now increasing rapidly. The first case of COVID-19 infection in the Africa Continent was recorded on February 14, 2020; since then, the disease has spread unabatedly, registering
12,681,884 infections and 257,942 deaths as of November 7, 2022. Within the Sub-Saharan Region, Ethiopia and Kenya have clocked up the greatest numbers of confirmed cases, with 494,086 and 339,788 respectively; this is followed by Uganda (169,473), Rwanda (132,584), Democratic Republic of Congo (93,219), Burundi (50,517), Tanzania (40,054), and South Sudan (18,325) (WHO, 2022).

These enterprises play a strategic role that can contribute enormously to the economic fortunes and prosperity of the African nations (Guma, 2015; Yazdanfar & Öhman, 2015). However, previous studies of the SME performances in Uganda focused on numerous specific determinants, namely age and gender (Olutayo, Kinyatta, Baliruno, & Kibirige, 2015), cash flow (Mutesigensi, Marus, & Ebong, 2017), contract enforcement (Ntayi et al., 2013) and financial management practices (Turyahweba, Sunday, & Ssekajugo, 2013). None of the studies looked into the impact of the Covid-19 Pandemic (Coronavirus) on Small and Medium Enterprises in low-income developing nations. Therefore, this study seeks to bridge this gap by utilising relevant theories to ascertain the damaging consequences of the complete shutdown of numerous sectors on the informal, hybrid and formal economies. The findings reveal these harmful effects of the pandemic: all sectors in the economy were badly affected, especially the Small and Medium Enterprises (SMEs) whose businesses have been so severely disrupted to the edge of closing down, even with the gradual opening of the economy.

According to a policy brief submitted by the OECD (2008), the definition of Small and Medium Enterprise (SMEs) varies from country to country, depending on the national statistical systems of the number of people employed, annual sales and total assets. In the Ugandan context, with the guidance of the Ministry of Trade, Industries and Cooperatives (MoTIC), Small and Medium Enterprises (SMEs) are broadly categorised in this manner: micro-entities are those that employ one to four people with a turnover of up to 10 million Uganda Shillings; small entities are those that employ 5–49 people with a turnover between 10 to 100 million Uganda Shillings; and medium entities are those that employ 50-100 people with a turnover of between 100 and 360 million Uganda Shillings (MoFPED, 2017). Here is the big question-- what is the impact of the Covid-19 pandemic (Coronavirus) on the Small and Medium Enterprises (SMEs) in Uganda as the Government of Uganda introduced the Covid-19 response measures causing disruptions to the business environment?

**The Ugandan Scenario**

In Uganda, Small and Medium Enterprises (SMEs) are viewed as mainstay engines of the national economy as they provide employment to the young adults, as well as linking larger firms to their customer base of goods and services through the supply chains. These economic and business activities have the multiplying effects of boosting the aggregate demand and subsequent economic growth and developments (AFD, 2020; ECA & IEC, 2020). Just like in other nations, the Ugandan commercial enterprises are established in various types of ownership structures: sole proprietorship, partnerships, limited liability and family businesses (Caroline & Jakob, 2018; Olema, 2020).

In light of the swift transmission and devastating impact of the Covid-19 pandemic across the globe, the Government of Uganda took serious proactive initial Covid-19 preventive measures, even before the nation had registered any infection cases and deaths. On March 18, 2020 during a
presidential address, His Excellency Yoweri Kaguta Museveni, the President of the Republic of Uganda, announced a list of Covid-19 curbing measures for immediate implementation. These initial measures included the immediate closure of all levels of education institutions, suspension of in-person religious assemblies, and banning of all public rallies and cultural gatherings. Additionally, curfews and self-funded quarantines for all individuals coming into the country were enforced (Daily Monitor, 2020).

With the pandemic unfolding in the country, the Government developed a series of standard operating procedures (SOPs) to guide the operation of institutions, businesses and other entities that were deemed essential, such as banks and finance companies, refuse collection operators, utility service providers, and health facilities managers. The staff members of these essential establishments were provided with special identification documents to facilitate movements in the midst of strict lockdowns and curfews (UMC, 2020). With all these restrictions, the economic activities decreased drastically and the national economy fell into a deep recession characterised by increased poverty among the general population (BoU, 2020).

The lockdown and other Covid-19 related containment plans have brought financial difficulties to these enterprises as the costs of running business spiked and the revenue dropped to the lowest levels ever recorded. According to previous research carried out before the pandemic, approximately half of Ugandan enterprises are not operational after thirty-six calendar months (Inachee, 2013). This implies that under pandemic economic, with reduced investment and consumption, more businesses would be rendered inoperative resulting in increased levels of unemployment. To this end, this study seeks to understand the impact of the Covid-19 pandemic on small and medium enterprises in Kampala central division, Uganda.

Literature Review

Some researchers classify Coronavirus as a zoonotic disease; it originates from animals and is capable of spreading to human beings, causing widespread infections in the general population (Alessa, Alotaibie, Elmoez, & Alhamad, 2012). As such, it was declared a public health emergency of international concern by the World Health Organization (WHO), the preventive measures of which drastically change how human beings interact with one another (Spina, Marrazzo, Migliari, Stucchi, Sforza, & Fumagalli, 2020). As many Small and Medium Enterprises (SMEs) source their inputs or goods from China, the border closures of the Middle Kingdom, the country name fondly referred to by the mainland Chinese, caused shortages of raw materials in the local market; on top of that, the ban on the domestic transportation negatively affected the local supply chains and business bottom lines (AU, 2020). Thus, these enterprises were forced to recalibrate their operations, modify business models, and adapt to the existing service value chains (Puriwat et al., 2021; Gbandi & Amissah, 2014).

In Uganda, Small and Medium enterprises constitute the backbone of the national economy employing more than 2.5million people, which translates to approximately 90 percent of those employed in the private sector (The Independent, 2020). As such, damage done to this sector has a far-reaching implication on the welfare and wellbeing of the people (Olema, 2020; Caroline & Jakob, 2018). Furthermore, the downturn of Small and Medium enterprises will most definitely alter the economic projections for growth and development (EPRC, 2020; Sunday, Tamwesigire, Turyahebwa, Siraje, & Byamukama, 2021).
Across the globe, virtually every nation enforced a set of Standard Operating Procedures (SoPS) in order to contain the disease (Craven, Liu, Mysore, & Wilson, 2020; Omar, Ishak, & Jusoh, 2020), which to a certain extent, was a success. However, this medical achievement was attained at the expense of the medium to long-term effects on the economy. These include cash flow issues, business closures, worker retrenchment, termination of employment contracts, and immediate suspension of future investments (Craven et al., 2020; Smith-Bingham & Hariharan, 2020; Wahyudi, 2014). All these are the highlights of Uganda’s struggles of having an economy with a large informal sector, on which the majority of the population rely, and they are on the brink of poverty (Lakuma & Nathan, 2020; Amha, 2015).

Like many other countries in the world, Uganda’s economy is slowing down in the aftermath of the pandemic with reducing demand for its exports. As such foreign earnings have been dropping due to a decrease in exports of products, dwindling number of tourist from abroad, limited foreign monetary remittances, as well as reduced agriculture and foreign direct investment (BoU, 2019). Compared to the export earnings of the second quarter 2020, the third quarter figures declined by US$31 million or 8%; while imports declined by US$108 million or 15% (Soft Power News, 2020). Consequently, in an effort to revive the economies, governments across the world are introducing stimulus packages consisting of financial and non-financial aids to enterprises (OECD, 2020). As such, the government of Uganda, through the Minister of Finance Planning and Economic Development approved Uganda Shillings 45.5 trillion national ‘Covid-19 budget’ for the Financial Year 2020/2021 (New Vision, 2020) with an increase of Uganda Shillings 6 trillion compared with the previous year’s approved national budget.

According to the Bank of Uganda (2020), the pandemic-induced economic downturn had resulted in reduced domestic revenue collections; with the Uganda Revenue Authority (URA) registering a shortfall of Uganda Shillings 858.1 billion in the first quarter of the Financial Year 2020. The MoFPED subsequently projected an expected shortfall of Uganda Shillings 270 billion in the remaining quarters of the year. According to the IMF (2020), the shortfalls in domestic revenue collections were expected due to the contraction of economic activities as enterprises experienced reduced business turnover, temporarily closing or going out of business totally. With all these predicaments, IMF issued a revised conservative economic growth estimate figures for Uganda of between US$0.86 billion and US$1.77 billion.

**Theoretical Underpinning**

A closer examination of literature reveals various theories put forward to explain the performance of Small and Medium Enterprises (SMEs) in their ecosystems, namely Resource-Based View (RBV) of the firm as advocated by Wernerfelt (1984) and Barney (2001, 1999, 1996, 1991a, 1991b); Knowledge-Based View (KBV) by Grant (1996); and Dynamic Capabilities Theory by Teece et al. (1997) and Winter (2003). The researchers, using these theories, try to explain the performance of Small and Medium Enterprises (SMEs) irrespective of their limitations in Table 1.
Table 1: Theoretical underpinning

<table>
<thead>
<tr>
<th>Theory</th>
<th>Details about content</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Based View</td>
<td>The theory links utilisation of resources owned by a business to the creation of competitive advantage</td>
<td>Possesses no organisational implication. It implies incalculable regress. The definition of resource is vague.</td>
</tr>
<tr>
<td>Knowledge Based View</td>
<td>This theory regards knowledge as the greatest of the firm’s assets.</td>
<td>There is no general agreement on its reason for existence. This theory does not list asset bases, the businesses they operate in and their tenets</td>
</tr>
<tr>
<td>Dynamic Capabilities</td>
<td>This theory details as how the attainment of business outcomes is obtained by being agile in responsiveness to internal and external environmental changes.</td>
<td>These particular objectives do not engage in the management of day to day business. Instead they frame, assimilate or rearrange useful competencies</td>
</tr>
</tbody>
</table>

Source: Kizito Emmanuel (2016)

Methodology

This study has adopted a qualitative research design. According to Mendenhall, Beaver, and Beaver (2012), a qualitative research sample comprises a subset of measurements selected from the population of individuals being evaluated. Utilising a simple random probability sampling technique, fifty Small and Medium Enterprises (SMEs) operating in the Central division of Kampala City, Uganda, were selected from the Business Register of Uganda Registration Services Bureau (URSB). Their respective informed consent was implied and not expressed. They could participate in or withdraw from the study at any stage they wished.

Eventually, only thirty Small and Medium Enterprises (SMEs) responded. Interview questions were dispatched to every respondent via the WhatsApp platform, twenty-four hours prior to the telephone interview, so that the respondents were better prepared for the interview sessions that would last 30 minutes. Interview questions are contained in Box 1. The study follows the content analysis procedure used by Sutton and Austin (2015). This method enables the researchers to assign coding to the subject data, and categorise them under themes so as to facilitate data compilation and information retrieval.

The recorded answers were transcribed with each of them given a code, and the coded data were investigated for any relationships between them. The final framework containing various themes was developed by the researcher as shown in Table 2, each of which summarises an impact of the Covid-19 pandemic (Coronavirus) on Small and Medium Enterprises (SMEs) in Uganda. Based on the interview data, the themes of impact can be identified as the following: (i) onset of the Covid-19 and initial measures; (ii) challenges during the enforcement period of the Covid-19 measures; (iii) major challenges of Reopening; and (iv) possible remedies. The data from the interview transcripts were streamed into the four thematic clusters, with identified respondents to reflect particular points of interest.
Table 2: Interview guide

<table>
<thead>
<tr>
<th>Information</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographics</td>
<td>1) Gender</td>
</tr>
<tr>
<td></td>
<td>2) What is the type of ownership for your business?</td>
</tr>
<tr>
<td></td>
<td>3) What is the main sector of your business?</td>
</tr>
<tr>
<td>Covid-19 (Corona-virus impact)</td>
<td>4) Do you think the COVID-19 response measures have affected your business?</td>
</tr>
<tr>
<td></td>
<td>5) How is the workplace morale?</td>
</tr>
<tr>
<td></td>
<td>6) What challenges did you face during the total lockdown of the economy?</td>
</tr>
<tr>
<td></td>
<td>7) What challenges are you facing with the partial lifting of the lockdown?</td>
</tr>
<tr>
<td></td>
<td>8) How much did COVID-19 impact on your SMEs’ financial position?</td>
</tr>
<tr>
<td></td>
<td>9) Did the SME access any financial stimulus packages?</td>
</tr>
<tr>
<td></td>
<td>10) How have you optimised your SME value chain?</td>
</tr>
<tr>
<td></td>
<td>11) What are your aspirations for the future?</td>
</tr>
<tr>
<td></td>
<td>12) What financial and non-financial strategies is your SME utilising?</td>
</tr>
<tr>
<td></td>
<td>13) In your opinion, what the government interventions remedy the above challenges?</td>
</tr>
</tbody>
</table>

Source: Author (2022)

Findings

To explore the impact of COVID-19 on Small and Medium Enterprises (SMEs) in Central division of Kampala, a survey was conducted on representatives of 30 enterprises; 60% of the respondents are male, and 40% female (Table 3). Overall, the majority of enterprises have employees ranging from 1 to 5, and this group represents half of the respondents; those enterprises that have 21 or more employees make up 13.4% ((Table T1)). Here is a breakdown of ownership types for Small and Medium Enterprises (SMEs): about 36.6% of them are family business; 30% sole proprietorship; and 13.4% limited companies. The sector inquiry findings ((Table T1)) show that the majority respondents belong to the wholesale and retail representing 60%; it is closely trailed by accommodation, food & beverages services making up 16.6%. Surprisingly, Agro processing industry and construction and carpentry come in with the smallest figures, representing 3.4%.

Table 3: Demographic Profile of Respondents (N= 30)

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency (n)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Female</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Number of SME employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-5</td>
<td>15</td>
<td>50</td>
</tr>
<tr>
<td>6-10</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>11-15</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>16-20</td>
<td>2</td>
<td>6.6</td>
</tr>
<tr>
<td>21 and above</td>
<td>4</td>
<td>13.4</td>
</tr>
<tr>
<td>Ownership type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sole proprietorship</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>Partnership</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Limited Liability</td>
<td>4</td>
<td>13.4</td>
</tr>
<tr>
<td>Family business</td>
<td>11</td>
<td>36.6</td>
</tr>
<tr>
<td>SME Ownership type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture and Agro processing</td>
<td>53</td>
<td>43.8</td>
</tr>
</tbody>
</table>
Table 4: Thematic framework

Thematic areas of the study

Onset of Covid 19 pandemic (Corona-virus) and initial measures

i. Closure of business premises
ii. Loss of customers
iii. Loss of sales
iv. Movement Control Orders
v. Liquidity issues
vi. Exposed employee inefficiencies

Challenges during total enforcement of Covid 19 pandemic (Corona-virus) measures

i. Complexity in debt collection
ii. Cost of implementing Government enforced Standard Operating Procedures (SOPS)
iii. Feelings about future (Anxiety, Optimism, Scared, Worry, Uncertainty)
iv. Limited working hours
v. Reduced customer traffic
vi. High cost of goods and services
vii. Risk of bankruptcy

Major Challenges of Reopening

i. Cash flow deficit due to high overheads
ii. Raw material shortages
iii. Labour Shortages
iv. Demand Reduction
v. Contract breach risk
vi. Logistics issues

Possible remedies

i. Engaging in manufacture of Covid 19 Pandemic (Corona-virus) related products (e.g. face masks, face shields, sanitizer)
ii. Reinvesting retained earnings into the business
iii. Adoption of e-business platforms to reach customers
iv. Access to Government Credit facility for Small and Medium Enterprises (SMEs)
v. Access to soft loans from SACCOS and associations
vi. Tax payment deferrals or waivers, for example, for Corporate income tax and Pay As You Earn (PAYE)
vii. Hasten turnaround time for payment of arrears to the private sector entities by the Government
viii. Funds appropriation to Uganda Development Corporation (UDC) for utilisation in nations’ import substitution and export promotion strategy

Source: Author (2022)

Theme 1: Onset of Covid 19 pandemic (Corona-virus) and Initial Measures
When asked about the impact of the onset of Covid-19 and initial measures on Small and Medium Enterprises (SMEs), respondents overwhelmingly reported Closure of business premises, Loss of customers, Loss of sales, Movement Control Orders, Liquidity issues and Exposed employee inefficiencies.
“The announcement of the initial measures got me in a bad way. I had taken a loan and imported items worth 80% of revenue. My consignment got stuck in customs and I have lost business revenue” (CC1).

“I have lost deals locally and internationally. The borders were closed for more than seven months my business premises were closed, customers were lost, orders could not be taken and deliveries could not be made so agro pesticides expired and had to be thrown away. I have been left with debts as I lost money and I am still paying debts. Things are tough but let me keep trying with my last savings to escape bankruptcy” (AAPE2).

These presidential directive of lockdown with immediate effect exposed employee inefficiencies and liquidity issues. “My business was beset by difficulty in debt collection. Debtors took advantage of my trust and failed to clear bill within the agreed credit period which left me in trouble with my creditors as I lost sales and customers” (NFM4).

“I have forfeited earnings as my business is locked. I have used to make Uganda Shillings 100million to less than Uganda Shillings 30million” (NFM2). “Look at this shopping mall. Imagine 40 shops shut down for 7 months. I don’t want to take about the money lost and livelihoods ruined” (FS2).

“From the look of things, with the mass exodus from Uganda of foreign companies like, Shoprite retail stores one of Africa’s largest retailers and Telecommunications provider AFRICELL and the Government simply looks on. I am one of many businesses destined for closure unless interventions are made” (NMF15).

Theme 2: Challenges during total enforcement of Covid 19 pandemic (Corona-virus) measures
In regard to challenges faced following the partial lifting of the lockdown, the respondents presented challenges they had encountered. This includes difficulty in debt collection, costly operating procedures set by the Government, feelings about future (anxiety, optimism, scared, worry, uncertainty), limited working hours, reduced customer traffic, high cost of goods, and services, and risk of bankruptcy.

AFBS 8 “there are mixed feeling in our employees and various clients due to the fear of contracting the virus. Life is precious rather than risk each other’s lives people they decided to keep away. This has resulted in reduced customer traffic and increased cost of goods and services due to costly operating procedures set by the Government”. WRT 11 further lamented “limited working hours and high operation costs have further complicated business operations”.

Operating procedures set by the Government are challenging, “We are all expected to wear a face mask, wash hands regularly, avoid touching our soft parts (eyes, nose and mouth) and maintain a social distance of at least 2meters apart, however, many people are not following these directives due to the cost and inconveniences involved yet we are on the brink of bankruptcy” (WRT9).

Theme 3: Major Challenges of Reopening
Major challenges of reopening include cash flow deficit due to high overheads, raw material shortages, labour shortages, demand reduction, contract breach risk, logistics issues, and problems in predicting future business direction.

Logistics challenges are still a major challenge that is impacting the reopening enterprises. NFM1 asserted that “after the lockdown in and reopening of China we are still experiencing
significant logistics problems especially for me in the non-food manufacturing sector”. This is further collaborated by WRT2 “Due to COVID-19, we have struggled to get new suppliers as our key suppliers are usually from overseas most especially Mainland China”.

There is a significant rapid decline in demand for goods and services due to reduced aggregate demand for goods and services rather than stock up factors. AAP 6 argued “I have utilised Government Credit facilities stocked up on goods but to my surprise there is low demand and yet the overheads like rent, wages and taxes are rising. I still owe creditors arrears”.

Another issue identified is greater contract breach risk amongst enterprises in resuming full production and fulfilling orders. “Some orders placed before the breakdown are ready for collection only for clients to inform you that they went out of business. It’s a tragedy to see” (AGP9). AFBS3 stated that “a drop-in demand for our goods, suppliers are unable to fulfil our orders in a timely manner due to delays in the logistics system. All this created a backlog in orders from overseas”.

Problems in predicting future business direction with the lifting of movement restriction, curfews, and lockdowns, domestically and internationally which significantly slows down movement of goods and services, and restricts labour flow across the nation. FS1 asserted “All these new modes to business operations have resulted in confusion and anxiety among Small and Medium Enterprises (SMEs) owners to have the confidence to strategize and dive into the business whilst rejuvenated as normality returns”.

Theme 4: Possible remedies
These remedies, regarded as vital to the respondents, are a mixed list of interventions put forward by the Government of Uganda and the private sector players. These remedies include tax payment deferrals or wavers, access to government credit facility for Small and Medium Enterprises (SMEs), hastening of turnaround time for payment of arrears to the private sector entities by the Government, engaging in manufacture of Covid-19 pandemic (Corona-virus) related products (e.g. face masks, face shields, sanitiser), reinvesting retained earnings into the business, and adoption of e-business platforms to reach customers, for example, JUMIA ONLINE and GLOVO.

“Taxes have become taxes, Uganda Revenue Authority (URA) needs to grant us tax payment deferrals or wavers, excuse some of us with more than 5 employees from making NSSF monthly contributions for 4 months. This will enable us to meet other obligations like paying our suppliers and logistics service providers so that we can at least satisfy our clients with purchasing power for our goods/services in the agriculture and agro processing economy so that the business keeps afloat” (AAPE1).

To solve cash flow and liquidity issues, Small and Medium Enterprises (SMEs) need to be given access to interest-free or low-interest loans to meet their short-term, medium-term and long-term financial obligations such as rent, wages, utility bills, and hire purchase payments. “I have heard the Government talk about the Government Credit facility for Small and Medium Enterprises (SMEs) through Commercial banks, however, these banks use rigorous lending demands, including high minimum balances on an account, complex collateral requirements for loans, and lengthy loan acquisition procedures so I will not use this option but seek a soft loan from my Savings and Credit Cooperative Society (SACCOS)” (NFM1). “My food and beverages business serves 50 clients on a good day. Bankers look at me us not worth their trouble. I will take
The Government needs to hasten turnaround time for payment of arrears to the private sector entities and allocate appropriate funds to Uganda Development Corporation (UDC) to finance the nations’ import substitution and export promotion plan, which will benefit Small and Medium Enterprises (SMEs). “This will enable financial services providers like mine to significantly reduce the use stringent lending requirements for SMEs and Government expediting their arrears would unlock more liquidity for the intended beneficiaries resulting in normalization of their operations” (FS1).

Reinvesting enterprises’ retained earnings in the business to embrace e-business platforms (Jumia Online and Glovo) to reach customers and rake in more profits. “As I have been struggling due to the Covid 19 measures and having difficulty to secure affordable credit from financial institutions, it limited my potential to invest in my business. These e-business platforms have gotten new clients and now I am growing my business online and physically” (WRT10).

Discussion

Based on the findings of this study, the COVID-19 pandemic (Coronavirus) has impacted the business entities in both the supply and demand domains (OCED, 2020). From the viewpoint of supply, Small and Medium Enterprises (SMEs) faced a drop in the number of available workers due to the movement control orders such as restricted inter-district movement, and night curfews resulting in excess capacities of business Factors of Production (FoPs).

The rate of capacity utilisation varies depending on enterprise size; small enterprises reported 25-35% whilst large enterprises reported 40-50%. The same goes with the type business. In this study, among all the business sectors, the accommodation, food & beverages services sector was found to be the worst performer.

From the perspective demand, fear of infection, economic uncertainty, and job insecurity have resulted in a sudden drop in demand and reduced customer traffic, which in turn caused a decrease in the enterprises’ business revenue. With the business in the doldrums, the financial institutions are reluctant lend large sums of money to Small and Medium Enterprises (SMEs), which are badly needed to tide them over the difficult time.

All the respondents acknowledged that access to supplies via the logistics networks had impacted Small and Medium Enterprises (SMEs), though in different degrees, depending on their scope and scale of business. However, access to raw materials was not listed by respondents as critical as most of their inputs or finished products come from all-over the country and overseas, especially the People’s Republic of China. Nevertheless, due to this disruption to the supply chain, the business operating cost increased and the ease of doing business decreased. This finding is backed by previous studies that missing parts or raw materials can significantly delay the entire business process (Kremer, 1993). This logistic problem creates an opportunity that can be exploited by hastening the ongoing establishment of the African Continental Free Area (AfCFTA) to develop vital regional value chains and supply chains to ease trade whilst reducing the cost. With these facilities, in place, the African continent will be self-sufficient as resources will be utilised by the African Small and Medium Enterprises (SMEs) under the Value Addition Policy, which will stimulate the local economies as well as continental economic growth and development.
As the Government’s measures appear to focus primarily on reducing the strains of formal business entities, the authority could be leaving out the informal business sector with which many Small and Medium Enterprises are associated. The Uganda Commercial bank’s lending rates have been hovering around 21%, high by world average, for the last three decades since the early 1990s, despite previous policies aimed at lowering the rates (FSD Uganda, 2018). The Government continues to rely on banks to channel stimulus packages to the people at large including operators of Small and Medium Enterprises (SMEs); but the banks rarely apply the reduced rates based on the guidelines of the Central Bank in giving out loans to Small and Medium Enterprises (SMEs), which are regarded as high-risk non-performing borrowers; and hence SME owners have no choice by resort to borrowing from informal money lenders. This is quite a troubling concern and changes have to be made. According to the FSD Uganda (2018) survey, only 4% of Ugandan adults have access to formal lending channels, while 1% of the adult population use both formal and informal avenues to obtain credit facilities. The rest of people use other sources to borrow money, including family members, relatives and friends (Okurut, Schoombee & Servaas, 2004).

The results show many workers of 85% of the service-oriented enterprises were dismissed or told to work remotely from home; these are cost cutting measures to keep the business afloat, and partly to conform to the Government’s Movement Control Orders. The study has various theoretical and managerial implications for its intended audience, namely researchers, practitioners and policymakers. These findings about the impacts of the Covid-19 pandemic on Small and Medium Enterprises (SMEs) in Uganda contribute positively to the body of knowledge both from the theoretical and practical perspectives.

Secondly, it discovers the challenges encountered by these enterprises during the enforcement of Covid-19 measures. Thirdly, the study compiles information about the major obstacles and difficulties of the enterprises in preparing the business for reopening. Lastly, it explores a possible mix of interventions led by the Government of Uganda and the non-state actors.

Implications

The analysis of the research findings has generated novel insights into the operations of SMEs under very restrictive circumstances. The results of the study pertaining to these Enterprises (SMEs) can be evaluated and utilised by stakeholders, namely the Government of Uganda, financial institutions, SMEs and other interest groups. These results and findings are well supported by the Resource-Based View (RBV) of the firm as advanced by Wernerfelt (1984) and Barney (2001, 1999, 1996, 1991a, 1991b); Knowledge-Based View (KBV) by Grant (1996); and Dynamic Capabilities Theory by Teece et al. (1997) and Winter (2003).

Theoretically, this study has added valuable information to the existing literature, filling four important gaps. Firstly, it provides empirical evidence establishing the impact of the Covid-19 initial and subsequent preventive measures on enterprises. Secondly, it discovers the challenges encountered by these enterprises during the enforcement of Covid-19 measures. Thirdly, the study compiles information about the major obstacles and difficulties of the enterprises in preparing the business for reopening. Lastly, it explores a possible mix of interventions led by the Government of Uganda and the non-state actors.
In preparing for the reopening of economies, both Government agencies and the private sectors all over the world have independently, collectively, or collaboratively crafted a host of initiatives to support resumptions of businesses in their respective regions. This research is able to draw a list of policy and managerial implications based on the empirical evidence.

Firstly, the state and non-state actors can glean insights from this study about the effectiveness of intervention and the associated shortcomings. The policy makers must have a thorough understanding of the needs, goals, and activities of various interest groups prior to formulating any policy. This will result in forming functional support structures and incentive mechanisms, which will gain the trust of external industry stakeholders.

Secondly, state and non-state actors should have a good review of the various results generated from financial and non-financial intervention activities. For example, the global standard is for beneficiaries to provide proof of a concept, an enterprise’s legal existence, and a viable work-plan, the engagement of which will produce fruits for the intended beneficiaries.

Lastly, state and non-state actors should foster long-term relationships with enterprises and enterprise associations. Over time, they will be familiar with the enterprises’ goals and objectives. Such social networks will provide enterprises with access to financial and non-financial resources to attain the desired improvements and outcomes.

**Recommendations**

The Government of Uganda can further elevate the national entrepreneurial culture of “Buy Uganda Build Uganda” (BUBU) by promoting programmes that prioritise the local enterprises as preferred suppliers. Furthermore, Government agencies like Uganda Development Cooperation (UDC) and Uganda Development Bank (UDB) can identify and remove obstacles that hinder Small and Medium Enterprises (SME) from accessing and receiving financial and non-financial support available to them in the business ecosystem.

This study has observed many excellent practices in many other countries (OECD, 2020) of Banks and Financial Institutions in supporting enterprises through a combination of tailor-made interventions, which include access to flexible financial support from proactive dynamic financial institutions. This financial arrangement will help enterprises in many ways: solve the problems of Cash flow deficits due to high overheads, undertake Contract breach risk, overcome uncertainty of predicting future business direction, and engage in manufacturing of Covid-19 (Corona-virus) related products (e.g. face masks, face shields, sanitiser)

The Small and Medium Enterprises (SMEs) themselves can use the network of their Member Associations and contacts in pursuing Business Continuity Plans (BCP) to implement a robust post-crisis plan, and develop a stable supply chain with a strong customer base, as well as new markets whilst keeping their workforce in good health. Additionally, they can harness digital platforms and Information Communication Technology (ITC) for greater efficiencies of business processes to leverage organisational resources to achieve Competitive Advantage.

Cooperating partners such as Multilateral and Regional financial institutions should come together to support Small and Medium Enterprises (SMEs) through local financial institutions and the Government agencies. For example, Proparco is being financed under the Choose Africa Initiative. This initiative has 2.5 billion Euros that can be mobilised to finance African Small and Medium Enterprises (SMEs) for a 4-year project (AFD, 2020).
Limitations

Using the cross-sectional approach, this study can only provide a static perspective, and data fit at the time were collected. As such, the direction of causality cannot be properly and accurately determined. In retrospect, a longitudinal approach could have been chosen and the research team would probably be in a better footing to draw causal conclusions. Secondly, with the constraints of cost, time, and data integrity, the findings of this study are dependent on the respondents’ extent of understanding the questions, and their sincere answers. Lastly, the respondents are enterprises (SMEs) selected from a small geographic location in Central Division, Kampala.

Conclusion

In conclusion, the study reveals that the financial health and other non-financial aspects of these enterprises are very vulnerable to the adverse impacts of the Covid-19 pandemic (Coronavirus) due to numerous reasons. Firstly, being labour intensive industries, their operations are easily disrupted by the movement control orders in the form of lockdowns, curfews, quarantines and international border closures. Entrepreneurs need to be fully aware about the realities of this pandemic, and its impact on their businesses; they should equip themselves with knowledge on how to operate their businesses in this new economic environment, and exchange of information with the members of their associations, and Government agencies may be useful (Chua & Kamarulzaman, 2021).

Secondly, by nature of size, they have limited liquidity reserves, and hence very few financial options for capitalisation and operations; more often than not, they are unable to meet the banks’ lending criteria, and need tap the credit facilities from the Government agencies, Savings and Credit Cooperative Society (SACCOS), families, relatives and friends. The regulators need to address this shortcoming as soon as possible, so that Formal lending institutions may lend support to Small and Medium Enterprises (SMEs) with interest-free loans or credits at very low interest rates.

Lastly, these enterprises are not in any position to control all the factors of production, namely capital, land, labour and entrepreneurship; hence they cannot regulate and monitor their entire value chains at will so as to withstand the supply and demand disruptions, which will weaken their business eco-systems to meet the market demand, whilst dealing with business overheads of rent, salaries, taxes, and other general expenses.

Acknowledgement

The research team would like to thank the various individuals and enterprises affiliated to KACITA Uganda who have generously given their time and shared experiences for the purposes of this project.
References


