



SMALL BUSINESS RECOVERY FUND QUARTERLY PROGRESS REPORT DEC 31, 2023



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Abbreviations

SBRF	Small Business Recovery Fund
BoU	Bank of Uganda
GoU	Government of Uganda
FIA	Financial Institutions Act
MOA	Memorandum of Agreement
MoFPED	Ministry of Finance, Planning and Economic Development
PFI	Participating Financial Institutions
UGX	Uganda Shillings
MSMEs	Micro, Small and Medium Enterprises
UMA	Uganda Manufacturers Association

1 Background

The Covid-19 pandemic's global outbreak forced countries to implement lockdown measures to curb its spread. These restrictions triggered a sharp economic contraction, heavily impacting Micro, Small, and Medium Enterprises (MSMEs). Notably, MSMEs constitute 90% of Uganda's private sector, acting as the economy's driving force.

The pandemic's impact on MSMEs was threefold:

- **Supply Shock:** Lockdowns and movement restrictions caused a shortage of raw materials and labour. Additionally, disrupted supply chains led to a lack of essential intermediate goods.
- **Demand Shock:** Covid-19 control measures hindered access to goods and services, and falling personal incomes suppressed overall demand, especially for non-essential items and services.
- **Financial Shock:** Reduced spending and consumption due to shrinking disposable incomes resulted in severe liquidity challenges for MSMEs, further exacerbated by the loss of demand and revenue.

The Government's Response: The Covid-19 Recovery Fund

In recognition of the vital role MSMEs play, the Ugandan Government established the Covid-19 Recovery Fund in 2021. This stimulus package aims to support financially distressed MSMEs with viable recovery prospects.

The scheme operates as a public-private partnership between the Government of Uganda (GoU) and Supervised Financial Institutions (SFIs). These SFIs, collectively known as Participating Financial Institutions (PFIs), include commercial banks, micro-deposit-taking institutions (MDIs), and credit institutions (CIs). A Memorandum of Agreement (MoA) governs the scheme's operations, with the Bank of Uganda (BoU) acting as the Fund Administrator.

2 The role of the BoU

- a) Manage the Fund on behalf of the Government of Uganda (GoU).
- b) Receive and process reimbursement claims from the PFIs within 14 working days upon receipt of all the necessary information about the claims from the PFIs.
- c) Maintain records on GoU contributions remitted to the escrow account held at BoU, eligible borrowers, total loan amounts extended to the borrowers, the GoU contribution refinanced to the PFIs, and the loan repayments from the PFIs in respect of each eligible borrower.
- d) Provide quarterly progress reports to the Ministry of Finance, Planning and Economic Development (MoFPED) on the performance of the Fund.

- e) Ensure accountability of the Fund through periodic internal and external audits.
- f) Advise the Government on the non-performing loans under the Fund and those that are due for write-off as shall be guided by the Auditor General.
- g) Undertake marketing of the Fund.

3 The role of MoFPED

- a) Disburse the Government of Uganda contribution to the escrow account held at BoU.
- b) Provide funding to meet the Fund's operational expenses, including marketing and audit fees.
- c) Undertake annual monitoring of the Fund to evaluate performance.
- d) Review the quarterly reports from BoU and provide feedback where necessary.
- e) Review and table non-performing loans to Parliament for write-off.

4 Fund Capitalisation

On October 22, 2021, BoU received UGX 100 billion from the GoU, denoted as SBRF, to facilitate the provision of loans to small businesses that suffered financial distress from the Covid-19 pandemic. The PFIs are required to match the GoU contribution with an additional UGX 100 billion to bring the total pool of loanable funds to UGX 200 billion. Therefore, for every loan disbursed to a borrower, a PFI contributes 50 per cent of the loan in line with the risk-sharing mechanism prescribed under the SBRF MoA.

5 Performance of the Fund as of December 31, 2023

The cumulative performance of the Fund has slightly improved compared to the initial years. This is due to the scaling up of awareness campaigns by BoU and the amendments made to the SBRF MoA. The areas that were amended include:

- a) Increased the maximum annual turnover from UGX 100 million to UGX 300 million.
- b) Reduced the minimum number of employees from 5 to 2 employees.
- c) Increased the maximum amount to be borrowed from UGX 100 million to UGX 200 million.
- d) Allowed the borrowers to use part of the amount borrowed under SBRF to refinance the existing loans.
- e) Facilitating access by the micro-businesses with no collateral to SBRF under the Block Allocation arrangement.

In addition to the above amendments, the PFIs can appraise and disburse loans to the intended beneficiaries and then claim reimbursement from BoU for the 50 per cent GoU contribution. This enables a shorter turnaround time for loan processing and approval.

5.1 Cumulative Performance as of December 31, 2023

As of December 31, 2023, BoU had accumulated **2,344** applications worth **UGX 38.14 billion** from eight (8) PFIs. Out of these, 1,724 (74 per cent of applications received) with a total loan value of **UGX 22.49 billion** were approved, while disbursements totalling **UGX 18.43 billion** were made to **1,459 eligible projects** over the same period. The disbursed loans represent 85 per cent of the loans approved at BoU as of December 31, 2023. As of December 31, 2023, cumulative recoveries amounted to UGX 2.62 billion. Below is the cumulative performance summary as of December 31, 2023.

Table 1: Cumulative Performance as of December 31, 2023,

PFI	No. of applications received	Cumulative value of applications received	No. of Approved loans	Cumm. Value of approved loans	No. of applications disbursed	Cumm. Value of Loans Disbursed
Opportunity Bank	1810	18,562,150,000	1406	13,203,300,000	1214	11,391,500,000
PostBank (U) Ltd	307	12,215,500,000	151	4,642,500,000	88	2,891,500,000
Pride Microfinance	146	2,224,600,000	116	1,845,500,000	115	1,835,500,000
Housing Finance Bank	32	2,061,500,000	7	188,000,000	1	188,000,000
Finance Trust Bank	31	1,931,500,000	29	1,655,900,000	28	1,212,000,000
Diamond Trust Bank	10	649,000,000	9	649,000,000	9	649,000,000
Centenary Bank	5	254,000,000	3	64,000,000	1	24,000,000
DFCU Bank	3	240,000,000	3	240,000,000	3	240,000,000
TOTAL	2,344	38,138,250,000	1,724	22,488,200,000	1,459	18,431,500,000

Source: Bank of Uganda [SBRF data]

5.3 Quarterly Performance for the period October to December 2023

During the quarter that ended December 31, 2023, **542** new applications worth **UGX 9.6 billion** were received by BoU, with Opportunity Bank submitting the biggest number of applications, 83 per cent of total new applications. There was a 19 per cent decrease in loan applications compared to the previous quarter. The decrease is attributed to low uptake by the PFIs, who still consider the lending criteria under the scheme very restrictive and unfavourable. **UGX 748.5 million** was approved in the quarter, corresponding to 54 beneficiaries, while **UGX 2.44 billion**, with a corresponding GoU contribution of **UGX 1.22 billion**, was disbursed in the quarter ended December 31, 2023, to 94 beneficiaries. However, the Fund registered a cumulative increase of UGX 2.44 billion in loan amount

disbursed, from UGX 16.00 billion as of September 30, 2023, to **UGX 18.43 billion** disbursed as of December 31, 2023.

The beneficiaries in the central region received more funding in the quarter, accounting for 66 per cent of the funds disbursed. Regarding the enterprises funded during the quarter, 70 per cent of funds disbursed went towards facilitating working capital for trade and commerce, followed by construction/real estate at 20 per cent. Loan repayments by the PFIs in the quarter amounted to **UGX 318.8 million**.

Table 2: Quarterly Performance Compared Dec 2023 & Sept 2023

Portfolio Classification (cumulative)	31-Dec-23	30-Sep-23	Change
Number of loan applications received	542	673	131
Total value of loan applications received	9,600,450,000	13,971,000,000	4,370,550,000
Number of approved loans	54	400	346
Total value of approved loans	748,500,000	5,403,500,000	4,655,000,000
Number of loans disbursed	94	466	372
Total value of loans disbursed	2,436,000,000	5,509,600,000	3,073,600,000
GoU contribution of loans disbursed	1,218,000,000	2,754,800,000	1,536,800,000
Recoveries	318,814,915	2,299,168,443	1,980,353,528

Source: BoU-SBRF data

6 Enterprises Financed

Since the operationalisation of the SBRF in January 2022, 1,459 small businesses across the country have been supported. The beneficiaries are categorised into five main sub-sectors that include trade and commerce, which utilised **UGX 12.67 billion**, accounting for 68.7 per cent; the construction sector utilised **UGX 2.96 billion**, equivalent to 16.1 per cent; the education sector had **UGX 1.59 billion** accounting for 8.6 per cent; the service/hospitality sector utilised **UGX 1.16 billion** representing 6.3 per cent; and health utilised **UGX 50 million** accounting for 0.3 per cent of the total funds disbursed under the scheme. The businesses that have benefitted include hotels and lodges, transport, salons, bars, schools, carpentry, hardware operators, retail traders, and motor garage operators. Table 3 and Chart 1 below highlight the uptake of SBRF per sector as of December 31, 2023.

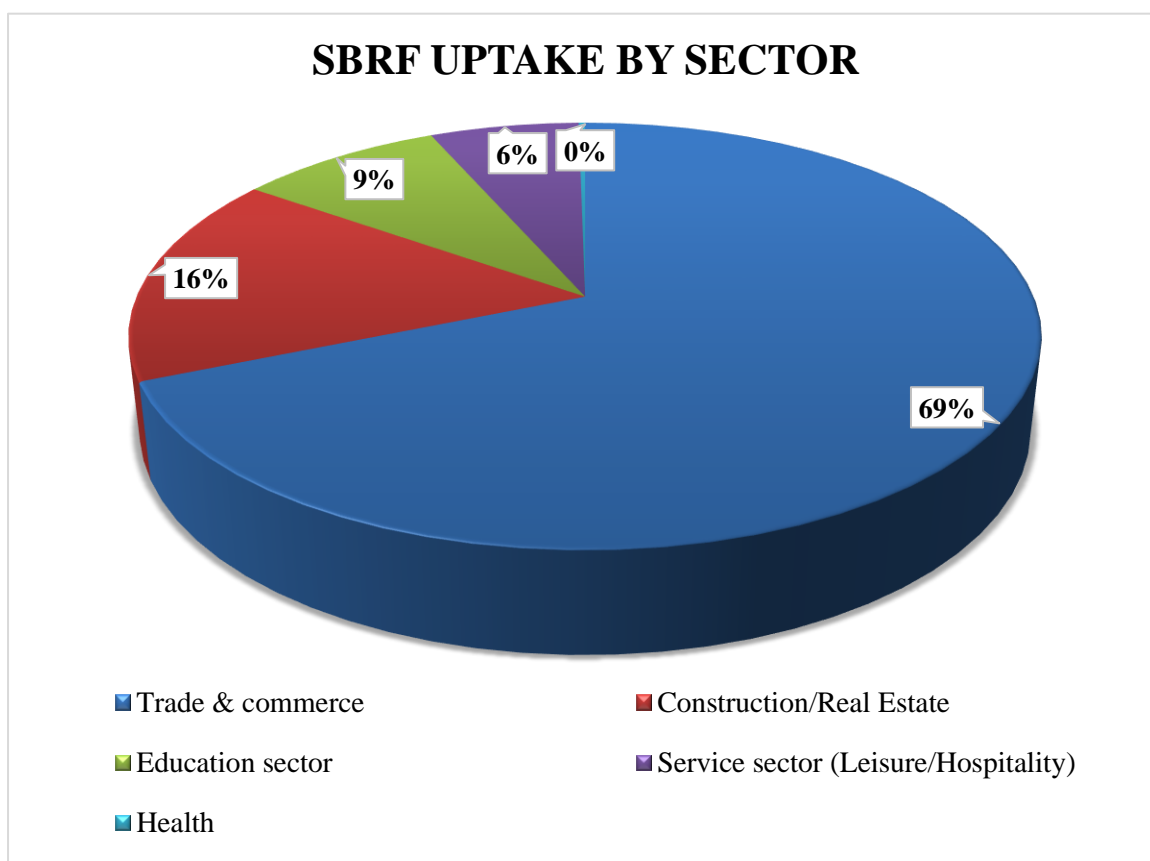
Table 3: Uptake of SBRF per sector as of December 31, 2023

Sector	Beneficiaries	Total Loan Amount disbursed	GOU Contribution - UGX	% amount per sector
Trade & commerce	1,058	12,669,000,000	6,334,500,000	68.74%
Construction/Real Estate	273	2,957,800,000	1,478,900,000	16.05%
Education sector	67	1,591,400,000	795,700,000	8.63%
Service sector (Leisure/Hospitality)	57	1,163,300,000	581,650,000	6.31%
Health	4	50,000,000	25,000,000	0.27%
Grand Total	1,459	18,431,500,000	9,215,750,000	1

Source: Bank of Uganda-SBRF data

With funding from the SBRF, about 17,632 jobs have potentially been safeguarded across the above sectors, possibly creating new job opportunities.

Figure 1: Loan amounts disbursed per sector as of December 31, 2023

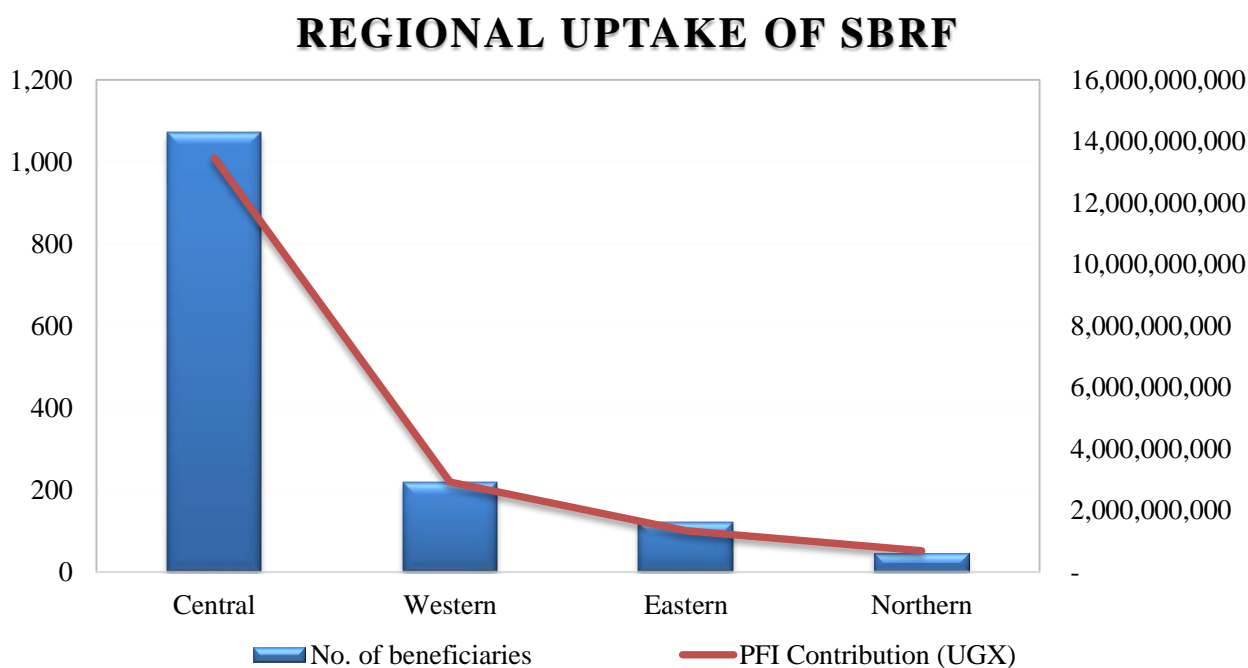


Source: Bank of Uganda-SBRF data

7 Regional Uptake of the SBRF

The central region still dominates uptake, with **UGX 13.47 billion** extended to 1,072 beneficiaries, accounting for 72.2 per cent of the total beneficiaries as of December 31, 2023. This was followed by the western region utilising **UGX 2.92 billion** with 219 beneficiaries, while the eastern and northern regions utilised **UGX 1.35 billion** with 122 beneficiaries and **UGX 693.50 million** with 46 beneficiaries, respectively. Most of the business communities are concentrated in the central region, which explains the high uptake in this region. The northern region primarily engages in agribusiness, funded by the Agricultural Credit Facility (ACF). There is a need to scale up uptake in the underserved regions, and BoU will continue to engage the PFIs and the business communities in these regions to increase uptake. Figure 2 below shows the uptake of SBRF per region as of December 31, 2023.

Figure 2: Regional utilisation of SBRF as of December 31, 2023



Source: Bank of Uganda-SBRF data

8 Stakeholder Engagements and Publicity Activities

The BoU has actively promoted the SBRF nationwide to raise awareness and encourage uptake. This includes informational workshops held across the country, such as in Arua district. In September and October 2023, BoU collaborated with the MoFPED for workshops throughout Uganda. Additionally, regional workshops were held: one in Mbarara (April 2023) targeting western and southwestern regions, in partnership with the Federation of SMEs and Mbarara City Traders Association (MBACITA), and another at the UMA Showground in the central region.

BoU's outreach further included a town hall meeting in Soroti with district leaders and businesses, participation in Lira City's International Cooperatives Day, the Uganda Manufacturers Trade Fair in Mbale City, and the East African Business Expo in Kampala (May 2023). BoU remains committed to public awareness campaigns to ensure all eligible beneficiaries can access the SBRF.

9 Challenges

Despite increasing applications and disbursements, the Small Business Recovery Fund (SBRF) faces challenges limiting its full utilisation. These include:

- 1) Limited participation by lenders: Only eight out of 33 financial institutions actively lend under the SBRF. They advocate revising eligibility criteria, particularly the annual turnover or total asset value requirements.
- 2) Informality of MSMEs: Many operate informally, lacking registration or proper records. This makes assessing their creditworthiness difficult for lenders. Additionally, lenders find the capped interest rate (10%) insufficient to cover the high costs of serving these clients.
- 3) Collateral requirements: Though the SBRF offers attractive interest rates and repayment terms, collateral remains a hurdle for many small businesses. The Block Allocation model offers some relief for micro-borrowers, allowing alternative arrangements like credit history, chattel mortgages, or group guarantees.
- 4) Low financial literacy: Many businesses lack bank accounts and savings history, making them unbankable for traditional lenders. Their reliance on village savings groups and small cooperatives further restricts their access to the SBRF, as these institutions are not accredited participants.

10 Recommendations

Proposals to improve access to the Small Business Recovery Fund (SBRF):

- 1) Revise eligibility criteria: PFIs suggest removing the cap on annual sales and asset turnover (currently between UGX 10 million and UGX 300 million) to include more qualifying small businesses.
- 2) Expand eligibility to agribusinesses: Allow agribusinesses outside the scope of the Agricultural Credit Facility (ACF) to access the SBRF. This would support businesses trading agricultural produce beyond grain, which were also impacted by the pandemic.

- 3) Support post-pandemic businesses: Extend the SBRF to cover businesses established after the economy re-opening in 2021. The pandemic's impact extends beyond pre-existing businesses; these newer ventures also require support.

11 Conclusion

Despite challenges limiting full utilisation (UGX 18.43 billion disbursed as of December 31, 2023), the SBRF has supported 1,459 small businesses, demonstrating the potential of public-private partnerships in supporting vulnerable MSMEs.

Feedback from stakeholders highlights the need to revise eligibility criteria to reach more businesses. The BoU proposes amendments and will continue nationwide awareness campaigns to improve uptake. Additionally, automation of loan processing for both SBRF and ACF is expected to reduce turnaround times.

An upcoming impact survey by the Economic Policy Research Centre will provide further insights into challenges and potential solutions. BoU aims to significantly improve the Fund's performance by addressing these and continuing outreach efforts.