

BANK OF UGANDA



SMALL BUSINESS RECOVERY FUND QUARTERLY PROGRESS REPORT JUNE 30, 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 negatively impacted both the supply side (production of goods and services) and the demand side of the economy (consumption and investment). Micro, Small and Medium Enterprises (MSMEs) were disproportionately affected by the COVID-19 pandemic due to their being labour intensive, possession of very thin liquidity reserves and their lack of assets to use as collateral to access quick credit. The quarantine and lockdown measures imposed by the Government of Uganda on 18th March 2020, and the 18th June 2021 led to a decrease in demand, supply chain disruptions, raw material shortages, transportation challenges and cash flow disruptions. Bank of Uganda (BoU), the Uganda Bankers' Association (UBA) together with the Private Sector Foundation of Uganda (PSFU) were at the forefront of working with the Government of Uganda through the Ministry of Finance, Planning and Economic Development (MoFPED) in designing and implementing a stimulus package for the MSMEs. The stimulus package was aimed at resolving the liquidity challenges that MSMEs faced as a result of the pandemic and related measures. The package included tax deferrals, payment of domestic arrears, lowering the Central Bank Rate (CBR), loan restructuring and recapitalizing the Uganda Development Bank, among others. However, the reality was that many MSMEs failed to benefit from the stimulus package due to various reasons. Therefore, the Small Business Recovery Fund (SBRF) was established in 2021 to facilitate the provision of loans to small businesses that suffered financial distress arising from the effects of the COVID-19 pandemic but were unable to benefit from the already existing interventions mentioned above. The scheme operates as a public-private partnership between the Government of Uganda (GoU) and supervised financial institutions, collectively referred to as the Participating Financial Institutions (PFIs) that include Commercial banks, Micro deposit-taking institutions (MDIs) and Credit Institutions (CIs). The scheme's operations are governed by a Memorandum of Agreement (MoA) where Bank of Uganda (BoU) is the Fund Administrator.

2 The role of the BoU

- a) Manage the fund on behalf of the 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 MoFPED on the performance of the fund.

- e) Ensure accountability of the fund through periodic internal and external audits of the fund.
- 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 Bank of Uganda.
- b) Provide funding to meet the operational expenses of the Fund which include 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 as a Fund denoted as SBRF to facilitate the provision of loans to small businesses that suffered financial distress arising from the effects of 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 under the SBRF -MoA.

5 Performance of the Fund as at June 30, 2023

The performance of the Fund has slightly improved compared to the initial years. This has been a result of an aggressive marketing strategy being employed 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 access SBRF under the Block Allocation arrangement.

In addition to the above amendments, the PFIs are allowed to appraise and disburse loans to the intended beneficiaries and thereafter claim reimbursement from BoU for the 50 per cent GoU contribution. This enables a shorter turnaround time for loan processing and approval. This has further contributed to the uptake of SBRF.

5.1 Cumulative Performance as at June 30, 2023

As at June 30, 2023, BoU had received **1,129** applications worth **UGX 14.67 billion** from eight (8) PFIs. Out of these, 1,019 applications with a total loan value of **UGX 12.63 billion** were approved with the corresponding GoU contribution of **UGX 6.31 billion**. Disbursements totalling **UGX 10.49 billion** were made to **899 eligible projects** as at June 30, 2023. Below is the summary of the performance as at June 30, 2023.

Table 1: Cumulative Performance for the quarter ended June 30, 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	889	8,130,600,000	818	7,171,100,000	735	5,977,700,000
Pride Microfinance	126	1,966,700,000	102	1,674,700,000	101	1,664,700,000
PostBank (U) Ltd	61	1,686,500,000	52	1,331,500,000	27	718,500,000
Finance Trust Bank	27	1,587,000,000	25	1,311,400,000	23	1,212,000,000
Housing Finance Bank	10	283,000,000	7	188,000,000	-	-
Diamond Trust Bank	9	649,000,000	9	649,000,000	9	649,000,000
Centenary Bank	4	124,000,000	3	64,000,000	1	24,000,000
DFCU Bank	3	240,000,000	3	240,000,000	3	240,000,000
TOTAL	1,129	14,666,800,000	1,019	12,629,700,000	899	10,485,900,000

Source: Bank of Uganda [SBRF data]

From the table above, 1,019 applications accounting for 90 per cent of the applications received with a total value of UGX 12.63 billion were approved as at June 30, 2023. Of these, 899 applications accounting for 88 per cent with a total value of UGX 10.49 billion were disbursed to the respective PFIs for the loans extended to eligible small businesses.

5.2 Annual performance as at June 30, 2023, compared to June 30, 2022

The performance of the Fund has improved compared to the previous year with cumulative number of applications increasing from 305 as at June 30, 2022 to 1,129 in the year ended June 30, 2023. The value of the applications received increased by **UGX 9.91 billion**. Loan disbursements also increased by **UGX 8.77 billion** from UGX 1.71 billion of June 30, 2022, to UGX 10.49 billion. The increase was attributed to the amendment of the SBRF MoA which removed the restrictions to the uptake of the fund. These amendments together with the continuous sensitisations and engagements with PFIs, have yielded good results as exhibited in the quarter and annual performance. In addition, BoU has automated the loan application process which has improved the turnaround time for loan processing. We are optimistic that this, along with continuous awareness, will lead to an increase in uptake of the Fund going forward. Table 2 below indicates the performance of the Fund between financial year 2022 and financial year 2023.

Table 2: Cumulative Annual Performance Compared

Portfolio Classification (Cumulative)	Jun-23	Jun-22	Difference in performance
No. of Applications received	1,129	305	824
Value of applications received (UGX)	14,666,800,000	4,761,400,000	9,905,400,000
No. Of loans disbursed	899	122	777
Value of loans disbursed (UGX)	10,485,900,000	1,714,600,000	8,771,300,000

Source: BoU-SBRF data

5.3 Quarterly Performance for the Period April to June 2023

During the quarter ended June 30, 2023, **223** new applications worth **UGX 3.88 billion** were received by BoU for reimbursement, representing a 25 per cent increase in loan applications compared to the previous quarter. The disbursements also increased by **UGX 1.73 billion** from **UGX 8.76 million** as at March 31, 2023 to **UGX 10.49 billion** as at June 30, 2023. This increase is attributed to the amendments made to the SBRF MoA and the BoU marketing strategy which led to increased sensitisation among the business community through engagements with some of the stakeholders like the Federation of Small and Medium Enterprises (FSMEs) and the Kampala City Traders Association (KACITA). Loan recoveries amounting to **UGX 1.46 billion** were made in the quarter bringing cumulative recoveries to **UGX 2.30 billion**. The rest of the loans were still within their terms and were not yet due for repayment as at June 30, 202

Table 3: Quarterly Performance Compared

Portfolio Classification (cumulative)	30-June-23 UGX	31-March-23 UGX	Change UGX	Percentage change
Number of loan applications received	1,129	906	223	25%
Value of loan applications received (UGX)	14,666,800,000	10,790,900,000	3,875,900,000	39%
Number of approved loans	1,019	794	225	28%
Value of approved loans (UGX)	12,203,700,000	9,353,800,000	2,849,900,000	30%
Number of loans disbursed	899	774	125	16%
Total value of loans disbursed (UGX)	10,485,900,000	8,757,000,000	1,728,900,000	20%
GoU contribution of loans disbursed (UGX)	5,242,950,000	4,378,700,000	864,250,000	20%
Recoveries	2,299,168,443	839,387,983	1,459,780,460	174%

Source: BoU-SBRF data

6 Enterprises Financed

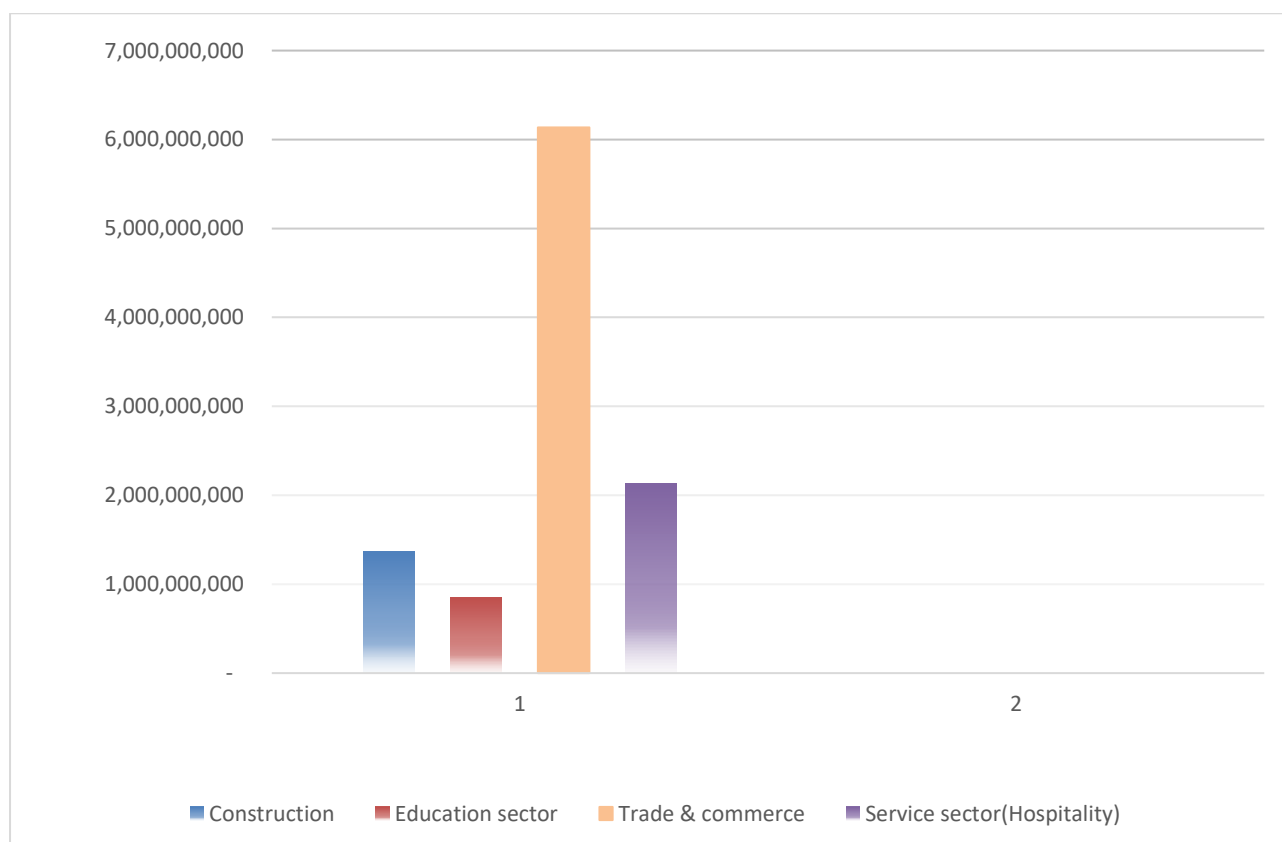
Since the operationalisation of the SBRF in January 2022, a total of 899 small businesses across the country have been supported. The beneficiaries are categorised into four main sectors including trade and commerce which utilised **UGX 6.14 billion** accounting for 59%, the service/ hospitality sector UGX 2.13 billion an equivalent of 20%, construction UGX 1.36 billion (13%) and education sector had UGX 851.50 million accounting for 8% of the total funds disbursed. The businesses that have benefitted include hotels and lodges, transport, salons, bars, schools, carpentry, hardware operators, retail traders, motor garage operators, among others. Table 4 and graph 1 below highlight the uptake of SBRF funds per sector as at June 30, 2023.

Table 4: Uptake of SBRF per sector as at June 30, 2023

Sector	No. of jobs	Amount disbursed per sector (UGX)	% amount per sector
Construction	2,945	1,362,800,000	13%
Education sector	1,812	851,500,000	8%
Trade & commerce	11,415	6,136,900,000	59%
Service sector (Hospitality)	340	2,134,700,000	20%
Grand Total	16,512	10,485,900,000	100%

Source: Bank of Uganda-SBRF data

Figure 1: Loan amounts disbursed per sector as at June 30, 2023

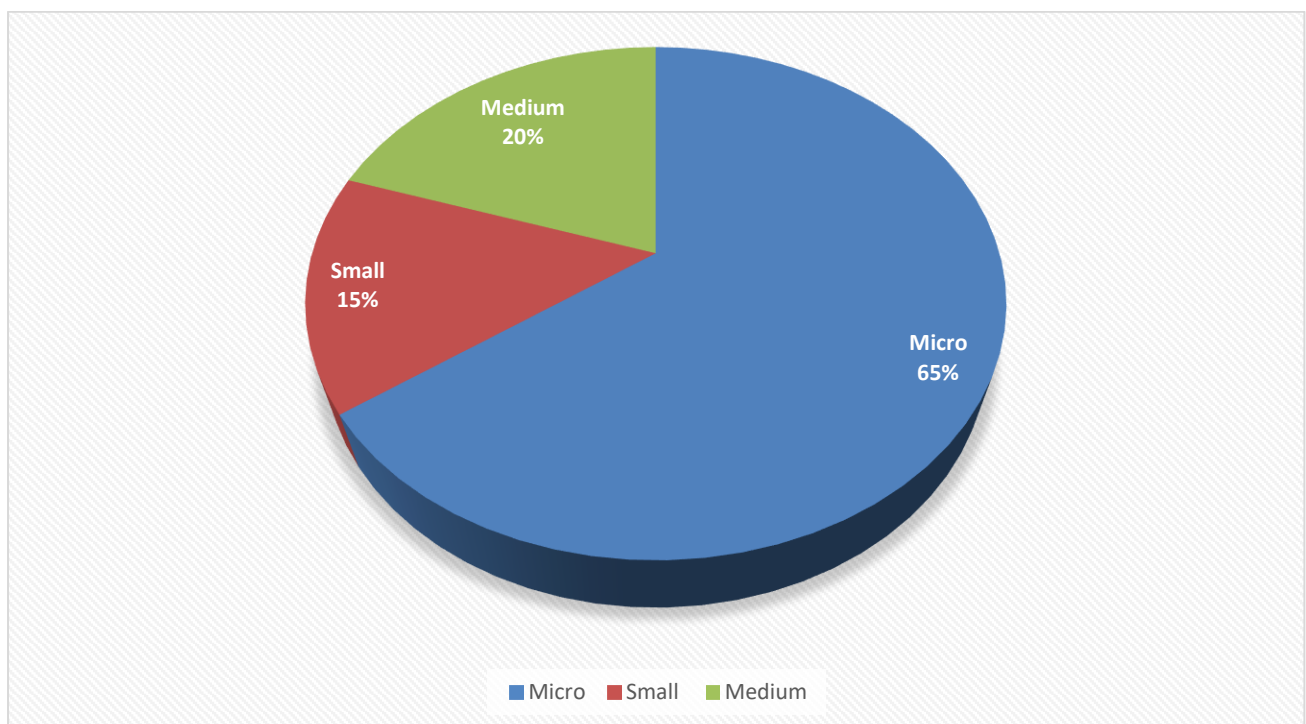


Source: Bank of Uganda-SBRF data

7 Uptake by Micro, Small and Medium Enterprises (MSMEs)

The beneficiaries under SBRF have been categorised under micro, small and medium enterprises. Micro enterprises had the highest number of beneficiaries (831) accounting for 92 per cent of the total number of beneficiaries with the corresponding total loan amount of **UGX 6.8 billion**. Loans in this category ranged from UGX 1 million to UGX 20 million and these are largely beneficiaries under the Block allocation arrangement. There were 43 beneficiaries accounting for 5 per cent of the number of beneficiaries and utilising **UGX 1.6 billion** while medium enterprises had 25 beneficiaries constituting 3 per cent of the beneficiaries and utilised **UGX 2.1 billion**. This utilisation is consistent with the objective of the SBRF which is to extend financial support to small businesses that were affected by the COVID-19 pandemic and constitute the majority of the business community in Uganda. Figure 2 below highlights utilisation per category.

Figure 2: Loan amounts disbursed per category as at June 30, 2023



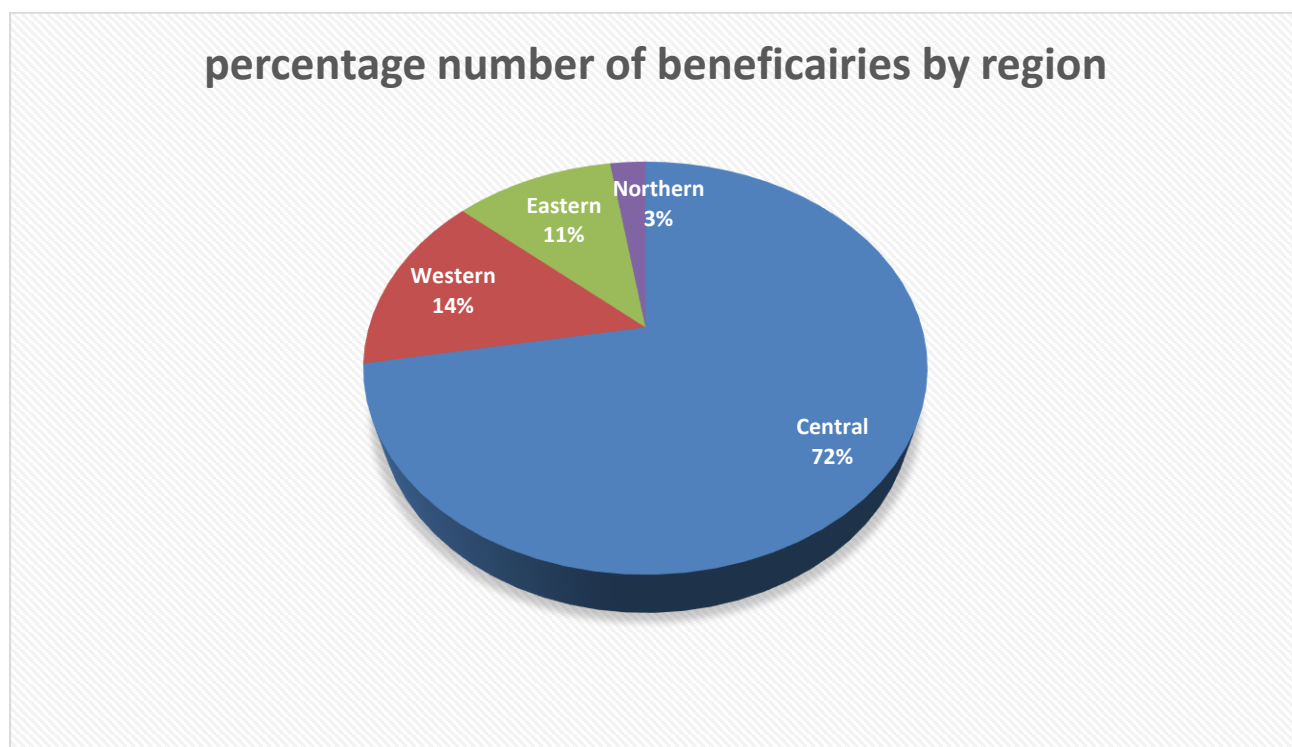
Source: Bank of Uganda-SBRF data

8 Regional Uptake

The Central region still dominated the uptake with **UGX 7.94 billion** extended to 649 beneficiaries accounting for 72.2 per cent of the total number of beneficiaries as at June 30, 2023. This was followed by the Western region utilising **UGX 1.50 billion** with 129 beneficiaries while the Eastern and Northern region utilised **UGX 826.50 million** with 99 beneficiaries and **UGX 219.00 million** with 22

beneficiaries respectively. Most of the business communities are concentrated in the central and western regions which explains the high uptake in those respective regions. The northern region is largely engaged in agri-business which is funded under the Agricultural Credit Facility (ACF). There is need to scale up uptake in the underserved regions and BoU will continue to engage the PFIs and the business community in these regions to increase uptake. Figure 3 below shows the uptake of SBRF per region as at June 30, 2023.

Figure 3: Regional utilisation of SBRF as at June 30, 2023



Source: Bank of Uganda-SBRF data

9 Stakeholder Engagements and Publicity Activities

In line with our mandate given by the SBRF MoA, BoU participated in 6 workshops across the country during the quarter ended June 30, 2023. These engagements aimed at sensitising the business community on the availability of affordable credit under the SBRF. Key among these engagements was a workshop with the business community in the western region that took place in Mbarara in April 2023. This workshop was held in collaboration with the Federation of SMEs and KACITA and it targeted the businesses in the western and south-western regions. This followed another successful workshop that had been carried out at the UMA showground in the Central region. Other engagements undertaken in the quarter included a town hall meeting held in Soroti with the district leadership and business community, taking part in the international cooperatives day that was held in Lira City,

participating in the Uganda Manufacturers Trade Fair in Mbale City and the East African Business Expo held in Kampala in May 2023 among others. Results of such engagements are progressively being realised as indicated in the increase in loan applications and disbursements during the quarter. BoU will continue to conduct public awareness campaigns to ensure that the fund is accessed by all the intended eligible beneficiaries. Below is a summary of some of the public awareness campaigns conducted.

Table 5: Summary of Stakeholder Engagements undertaken for the Quarter ended June 30, 2023

No.	Region	Activity	Category	Date
1	Central	Buganda Agricultural show	Workshop/Seminar	April 2023
2	Regional	SDG youth skilling in agribusiness	Workshops in Kamapal, Lira and Mbarara	April 2023
3	Eastern	UMA Eastern Agricultural exhibition	Exhibition	May 2023
4	Lira	International Cooperatives Day	Workshop and Symposium	May 2023
5	Mbarara	Seeds of Gold farm clinics	Exhibition, Masaka	May 2023
6	Eastern	BOU TownHall meeting, Soroti	Exhibition, Soroti	May 2023
7	Lira	Lira Adoption Farmer Group in Amolator	Farmer sensitization workshop	May 2023
8	Mbarara	Radio West& TV West	Radio & TV talk show	May 2023

Source: Bank of Uganda – SBRF data

Figure 4: Some of the participants during the BoU-FSMEs workshop in Mbarara district



Figure 5: BoU meeting the business community in western region during a BoU-FSME Workshop in Mbarara district



10 Challenges

While the uptake of the SBRF is progressively increasing as evidenced from the increase in applications and disbursements, absorption of the Fund is still low owing to constraints that include:

- 1) Only 7 PFIs out of the total 33 supervised financial institutions are actively lending SBRF funds. The PFIs have argued that the eligibility criteria is still prohibitive and desire that the Fund be opened up to allow beneficiaries whose turnover or total asset value is outside the current eligibility criteria.
- 2) The informality of MSMEs: Most of the micro, small and medium enterprises are informal with no formal registration and business records which makes it difficult for PFIs to assess their viability to access credit. In addition, the PFIs argue that the cost of serving customers in

this bracket is high and yet the interest rate which is capped at 10% per annum is too low to cover such costs.

- 3) Although the SBRF offers benefits of relatively low-interest rate and tenor for the beneficiaries, there is a risk of default thereby necessitating collateral. However, most small businesses lack collateral to access financing. The introduction of the Block Allocation model however has provided a solution to the micro borrowers who can now access SBRF funds without necessarily pledging registered collateral but can access by use of alternative collateral arrangements such as credit history, chattel mortgages and group guarantees among others.
- 4) Limited financial literacy. Most small businesses are unbankable due to lack of bank accounts and therefore have no record of savings. Most of them save with village savings and loan associations (VSLAs) and small cooperative groups which are not accredited to participate under the SBRF.

11 Conclusion and Way Forward

The implementation of the Credit Guarantee Scheme through the public-private partnership has demonstrated how GoU can leverage on private sector resources to provide credit to the vulnerable MSMEs who were disproportionately affected by the covid-19 pandemic. While the uptake of the Fund is still low owing to the challenges mentioned, with only UGX 10.49 billion disbursed by June 30, 2023, the uptake is improving as seen in the performance during the quarter. PFIs through their wide branch network, have been able to reach a total of 899 MSMEs hence sustaining about 16,512 jobs. BoU will continue to engage PFIs and other stakeholders on how to improve the uptake of SBRF.

To improve the turnaround time for loan processing, BoU has automated the submission, processing and disbursement of ACF and SBRF loans. We anticipate that the automation process will reduce the turnaround time compared to the manual process. This, coupled with more financial literacy training and targeted awareness campaigns by BoU, will further increase the uptake of the Fund as the impact is already demonstrated in the performance of this quarter.