

BANK OF UGANDA



SMALL BUSINESS RECOVERY FUND QUARTERLY PROGRESS REPORT SEPT 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

In response to the global spread of Covid-19, at the end of March 2020, Government of Uganda implemented lockdown measures to slow down the spread of the pandemic. These measures negatively impacted both the supply side (production of goods and services) and the demand side (consumption and investment). The Micro, Small and Medium Enterprises (MSMEs) were adversely impacted by the effects of the Covid-19 pandemic yet they constitute 90 per cent of the private sector which drives Uganda's economy. According to the Uganda Investment Authority, they are directly linked to over 80 per cent of manufactured output. With the already existing challenges they face such as access to working capital and the high cost of doing business, MSMEs were disproportionately affected by the Covid-19 pandemic resulting from the lockdown measures. Several interventions were instituted to address some of these challenges, and these included the Bank of Uganda (BoU) Covid-19 Relief Measures for the Supervised Financial Institutions, a stimulus package by the Government of Uganda that included tax deferrals, payment of domestic arrears, recapitalizing the Uganda Development Bank among others. However, MSMEs did not benefit much from these interventions largely due to their inherent risks like lack of collateral, being highly informal with no records as well as high illiteracy levels among others. 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 could show prospects for recovery. 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 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 September 30, 2023

The performance of the Fund has slightly improved compared to the initial years. This is due to an increase in sensitisation by BoU as well as 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.

5.1 Cumulative Performance as at September 30, 2023

As at September 30, 2023, BoU had received **1,802** applications worth **UGX 28.64 billion** from eight (8) PFIs. Out of these, 1,420 applications with a total loan value of **UGX 17.61 billion** were approved while disbursements totalling **UGX 16.00 billion** were made to **1,365 eligible projects** over the same period. Below is the summary of the performance as at September 30, 2023.

Table 1: Cumulative Performance as at September 30, 2023,

<i>PFI</i>	<i>No. of applications received</i>	<i>Value of applications received (Ugx)</i>	<i>No. of Approved loans</i>	<i>Value of approved loans (Ugx)</i>	<i>No. of applications Disbursed</i>	<i>Value of Loans Disbursed (Ugx)</i>
<i>Opportunity Bank</i>	1,360	13,959,800,000	1,168	10,246,800,000	1,162	10,477,500,000
<i>PostBank (U) Ltd</i>	247	9,427,500,000	90	3,086,500,000	51	1,450,500,000
<i>Pride Microfinance</i>	140	2,137,500,000	116	1,845,500,000	115	1,835,500,000
<i>Finance Trust Bank</i>	27	1,587,000,000	25	1,311,400,000	23	1,212,000,000
<i>Housing Finance Bank</i>	10	283,000,000	7	188,000,000	1	107,000,000
<i>Diamond Trust Bank</i>	10	749,000,000	9	649,000,000	9	649,000,000
<i>Centenary Bank</i>	5	254,000,000	2	40,000,000	1	24,000,000
<i>DFCU Bank</i>	3	240,000,000	3	240,000,000	3	240,000,000
TOTAL	1,802	28,637,800,000	1,420	17,607,200,000	1,365	15,995,500,000

Source: Bank of Uganda [SBRF data]

From the table above, 1,420 applications accounting for 78.80 per cent of the applications received with a total value of UGX 17.61 billion were approved as at September 30, 2023. Of these, 1,365 applications accounting for 96 per cent of the approved applications with a total value of UGX 16 billion were disbursed to the respective PFIs for the loans extended to eligible small businesses.

5.3 Quarterly Performance for the Period July to September 2023

During the quarter ended September 30, 2023, **673** new applications worth **UGX 13.97 billion** were received by BoU for reimbursement, representing a 60 per cent increase in loan applications compared to the previous quarter. The disbursements also increased by **UGX 5.51 billion** from **UGX 10.49 billion** cumulatively disbursed as at June 30, 2023, to **UGX 16.00 billion** as at September 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 stakeholders like the Federation of Small and Medium Enterprises (FSMEs) and the Kampala City Traders Association (KACITA). In addition, BoU has automated the loan application process which

has improved the turnaround time for loan processing. We are optimistic that the in-house loan application and processing tool coupled with continuous awareness, will lead to a shorter turnaround time in loan processing but also lead to an increase in uptake of the Fund.

Cumulatively, BoU had received a total of **UGX 2.3 billion** in loan recoveries from the PFIs as at September 30, 2023.

Table 2: Quarterly Performance Compared

Portfolio Classification (cumulative)	30-Sep-23	30-Jun-23	Change	% Change
	UGX	UGX	UGX	
Number of loan applications received	1,802	1,129	673	59.61%
Value of loan applications received (UGX)	28,637,800,000	14,666,800,000	13,971,000,000	95.26%
Number of approved loans	1,420	1,019	400	39.25%
Value of approved loans (UGX)	17,607,200,000	12,203,700,000	5,403,500,000	44.28%
Number of loans disbursed	1,365	899	466	51.84%
Total value of loans disbursed (UGX)	15,995,500,000	10,485,900,000	5,509,600,000	52.54%
GoU contribution of loans disbursed (UGX)	7,997,750,000	5,242,950,000	2,754,800,000	52.54%
Recoveries	2,299,168,443	2,299,168,443	0	0.00%

Source: BoU-SBRF data

6 Enterprises Financed

Since the operationalisation of the SBRF in January 2022, a total of 1,365 small businesses across the country have been supported. The beneficiaries are categorised into four main sectors including trade and commerce which utilised **UGX 10.70 billion** accounting for 67%, the construction sector utilised **UGX 2.65 billion** an equivalent of 17%, the service/hospitality sector utilised **UGX 1.22 billion** representing 7% and education sector had UGX 1.43 billion accounting for 9% 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 3 and graph 1 below highlights the uptake of SBRF per sector as at September 30, 2023.

Table 3: Uptake of SBRF per sector as at September 30, 2023

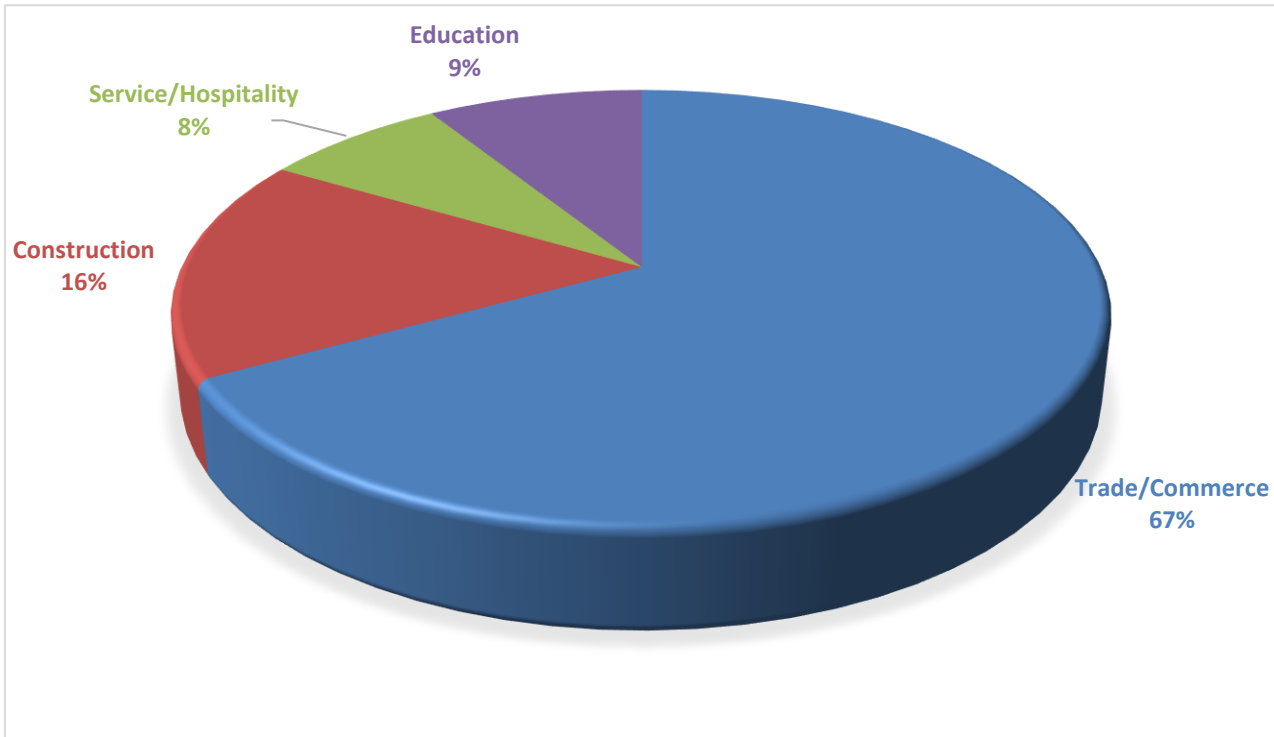
Sector	No. of Beneficiaries	Amount disbursed (UGX)	% amount per sector
Trade & commerce	972	10,698,800,000	67%
Construction	261	2,654,800,000	17%
Education sector	63	1,425,900,000	9%
Service sector (Hospitality)	69	1,216,000,000	7%

Grand Total	1,365	15,995,500,000	100.00%
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Source: Bank of Uganda-SBRF data

With funding from the SBRF, about 17,444 jobs have been safeguarded across the above sectors with the potential to create new job opportunities.

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

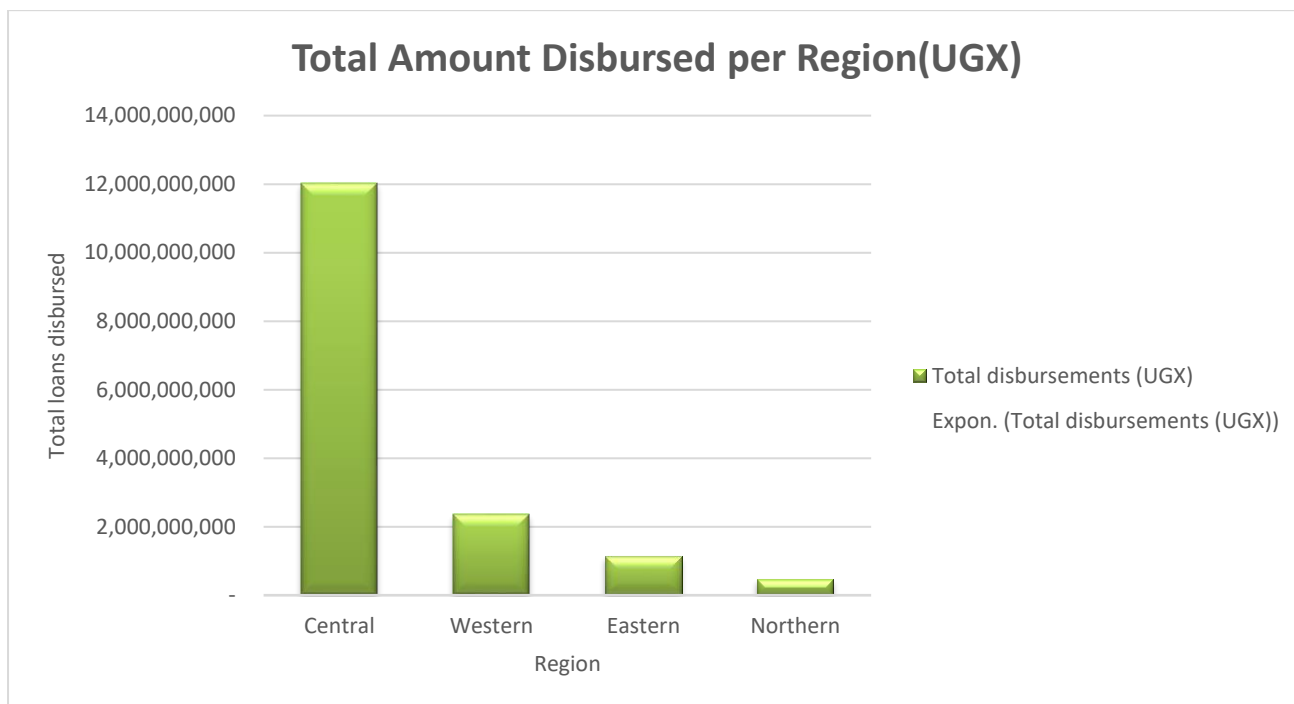


Source: Bank of Uganda-SBRF data

7 Regional Uptake

The Central region still dominated the uptake with **UGX 12.04 billion** extended to 1,010 beneficiaries accounting for 74 per cent of the total number of beneficiaries as at September 30, 2023. This was followed by the Western region utilising **UGX 2.36 billion** with 201 beneficiaries while the Eastern and Northern regions utilised **UGX 1.14 billion** with 115 beneficiaries and **UGX 458.50 million** with 39 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 communities in these regions to increase uptake. Figure 2 below shows the uptake of SBRF per region as at September 30, 2023.

Figure 2: Regional utilisation of SBRF as at September 30, 2023



Source: Bank of Uganda-SBRF data

8 Stakeholder Engagements and Publicity Activities

In line with our mandate, BoU participated in several publicity engagements across the country during the quarter ended September 30, 2023. These engagements aimed at sensitising the business community on the availability of affordable credit under the SBRF. Key among these engagements were, collaborative workshops with the MoFPED across the country, 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 Kampala City Trader’s Association (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 4: Stakeholder Engagements that were undertaken in the quarter ended September 30, 2023

	Region	Activity	Category	Date
1	Central	KFM Radio talk show	Radio Talk show	July 26, 2023
2	Central	Seeds of Gold Farm Clinic - Mukono	Exhibition	July 29, 2023
3	Central	Kisoboka Agricultural Expo	Exhibition	August 17 - 21, 2023
4	Central	CBS 89.2 FM- 10:00am Kalasa mayanzi	Radio Talkshow	September 8, 2023
5	Central	BBS Telefina - 10:30 am	TV-Show	September 8, 2023
6	Central	CBS 89.2 FM	Radio Talkshow	September 14, 2023
8	Central	CBS PEWOSA Agribusiness Fair 2023 - Buddu Ssaza Ground, Masaka	Exhibition	September 19 - 25, 2023
9	Central	Central Fronasa	Presentation	September 14, 2023
10	Central	PFI Workshop - Masaka Branch	Workshop	September 26, 2023
11	Central	Masaka - MoFPED Workshop	Workshop	September 18, 2023
16	Countrywide	Spark TV/Ddembe FM Early morning show	TV Show/Radio show	July 26, 2023
18	Countrywide	Source of the Nile Magazine	Print media	August 4-12, 2023
19	Countrywide	Microfinance Magazine	Print media	August 11, 2023
20	Eastern	Source of the Nile - Jinja Agricultural Show	Exhibition	August 4-12, 2023
22	Eastern	Eastern region Fronasa/PFIs/MoFPED engagements	Workshop	September, 2023
28	Northern	Uganda National Chamber of Commerce engagement	Presentation	August, 2023
30	Northern	GIZ Workshop for Capacity support to private sector dev't	Presentation	August, 2023
34	Northern	BoU- MoFPED Workshop	Workshop	September, 2023
38	Western	Fronasa engagements	Presentation	September 2023
40	Western	PFI /MoFPEDWorkshops	Workshop	September, 2023
47	West-Nilie	BoU - MoFPEED Workshop	Workshop	September 21, 2023

Source: Bank of Uganda – SBRF data

9 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 8 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 funding 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.

10 Recommendations

- 1) Remove the capping on sales turnover and asset turnover which is currently between UGX 10 million to UGX 300 million. The justification by the PFIs is that while many small businesses can meet all the other eligibility criteria, they are excluded because they fall outside these thresholds.
- 2) Allow agribusinesses that are not covered under ACF to benefit under the SBRF. Traders engaged in trading of agricultural produce other than grain, were affected by the closure of businesses and many still struggle yet the current eligibility criteria under SBRF does not accommodate them.
- 3) Remove the requirement for collateral and allow banks to use their lending policies with respect to collateral. Many of the SMEs do not have collateral to secure the loans but may have the potential to pay the loans and PFIs can lend against the borrower's cashflows, character and credit history of the borrower. Currently, only loans under the Block Allocation (up to UGX 20 million) are exempted from collateral requirement.
- 4) Extend the SBRF to cover post-pandemic businesses. The COVID-19 pandemic not only affected the existing businesses, but its ripple effects were and continue to be felt by businesses that were started after the opening of the economy in 2021. However, SBRF only covers the businesses that were in existence before the pandemic, locking out many other businesses.

11 Conclusion

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 16.00 billion** disbursed by BoU as at September 30, 2023, the uptake is improving as seen in the performance during the quarter with an increase of **UGX 5.51 billion** disbursed in the quarter. PFIs through their wide branch network, have been able to reach a total of **1,365 MSMEs** hence sustaining about **17,444 jobs**. Feedback from the engagements with the stakeholders has alluded to the need to further review the eligibility criteria that is still inhibitive to many SMEs. BoU has proposed some amendments for consideration to address some of these concerns by the SMEs. In addition, BoU will continue to carry out sensitisations across the country to create awareness and increase uptake of the Fund.

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.