Uganda’s Economic Recovery Post COVID-19

Author: Ms. Cadreen Barungi Kabahizi
Editor: Mr. Twesiime Jordan McGurran

Uganda’s Road to Economic Recovery: Post COVID-19
Cadreen Barungi Kabahizi
APC PB002

Published by Africa Policy Centre in July 2020
© Africa Policy Centre 2020

Copyright© Africa Policy Centre (APC)

The Africa Policy Centre at Uganda Christian University is a Christian-inspired Policy Think Tank established in 2016. The goal of the Africa Policy Centre is to build a community of policy researchers and political thinkers who are wisely engaging public policy and political thought within two broad frameworks: the Christian and biblical framework emerging from the broad and multifaceted Christian tradition as well as indigenous and local perspectives, especially from the multiple ethnic and civilizational traditions and communities in our particular context on the Africa continent. Through our work, we investigate policy issues, political thought and theory, and theological understanding on a wide range of questions, issues, and topics. Our work rests on the foundations of dignity for all people, the necessity of virtue for a flourishing society, and the aim for the common good. We seek to serve the nations in Uganda, the communities in East Africa, the African continent, and the rest of the world.

Disclaimer: The views expressed in this publication are those of the authors and do not necessarily represent the views of Africa Policy Centre or its management.

Any inquiries can be addressed in writing to the Executive Director on the following address:

Africa Policy Centre
Uganda Christian University
P.O Box 04, Mukono, Uganda
Tel: +256787061826
Email: africapolicycentre.ucu@gmail.com / apc@ucu.ac.ug
Web: https://africapolicycentre.org/

The Africa Policy Centre at Uganda Christian University is a Policy Think Tank established in 2016
Executive Summary

Like the rest of the world, Uganda is suffering its share of economic disruption because of the coronavirus pandemic. Some lockdown policies, used as safety measures meant to curb the spread of the coronavirus, are still in place after four months. As a result, schools are closed, churches are closed, bars are closed, many people have lost their jobs, and many small business owners are struggling to get back on their feet, and even the big institutions such as universities are struggling to remain afloat. A great deal of uncertainty still hangs around the business and work sectors in the country.

The gradual easing of lockdown measures may take an unpredictable pattern with possible spikes of reinfections warranting the reinstating of the lockdown measures. As Uganda grapples with the slowing down of its economy, the policy measures implemented may make or break Uganda’s recovery process. In this paper, we examine measures that can be taken to recover the losses Uganda has suffered and to get the economy back on track. These policy measures may also help pave the way forward for higher economic growth thus delivering Uganda into the middle-income category in the near future.
Background

Whether or not there will be an ‘after’ of COVID-19 is still a matter of great uncertainty in the world. The best we can hope for is coming to see COVID-19 as yet another virus that the human race will learn to manage and live with. That does not mean that the virus will not have left a trail of catastrophes in its wake. COVID-19 has indeed disrupted the economies of the world, causing shifts and turns in many of the ‘old’ ways of doing things. The recovery of the world’s economies is one aspect that many countries are already working on and planning on to try to harness their comparative advantages to recover from the economic losses that COVID-19 has brought about.

The African Union categorizes the COVID-19 disruptions into two: exogenous shocks emanating from the trade disruptions between Africa and other continents due to lockdown restrictions and reduced demand and, endogenous shocks emanating from the effects of the lockdown restrictions on the African economy [1].

The international travel and trade restrictions put in place by many countries provide avenue for the exogenous shocks being experienced by African countries. Many African countries are currently import based economies; they rely on imports not only for consumption goods but also for raw materials for production. This has made continued production during the lockdown very expensive and in some cases much slower.

The Great Lockdown, as it is called by the IMF, has been used as the main way to curtail the spread of the COVID-19 virus [2]. However, this solution, which is meant to save as many human lives as possible, is the main cause of the economic downturn that has resulted from business closures, spiking of unemployment, and the stalling of work in non-essential sectors.

The OECD Economic Outlook also predicts that the world is now facing its most severe recession in nearly a century, even without the end in sight at this point. Note, in the figure below, the sharp dip in the global GDP in the first quarter of 2020:

Source: OECD Economic Outlook, 2020
World over, the World Bank estimates that 40-60 million people will be pushed back into extreme poverty [3] - living on or below $1.90 a day - as it is the low-income earners who are suffering most from the lockdowns implemented in the majority of the countries. Sub-Saharan countries are estimated to be hit hardest followed by countries in South Asia [3].

While all the countries are implementing coping strategies, some countries are already implementing recovery policies in a bid to revive their economies and hopefully restore a sense of normalcy.

Below is a figure showing the impact of the lockdown measures on an economy. In it we find the predicted repercussions of different lockdown measures enforced for different lengths of time. This shows us that the stricter the lockdown measures a country enforces, and the longer these measures remain in enforcement, the worse the economic impact the country faces.

Source: McKinsey & Company, 2020

According to the World Bank, Sub-Saharan Africa is now facing its first recession in 25 years. The economic growth of the region is projected to decline to between -2.1 and -5.1% from a healthy 2.4% in 2019 [4].

**Scenarios of Economic Recovery**

To predict economically recovery trends, policymakers have to look back at how recoveries recovered after previous crises. The most recent economic crisis was the Great Recession in 2008 which greatly affected the US and western Europe [5]. This, in effect, caused a shock in the US economy whose ripple effects were felt by many other economies around the world [5]. After this crisis, economies recovered in trends [6] shown in the scenarios below.
Several researchers predict several scenarios of economic recovery that different countries may face depending on their policies, length of the lockdown, and the effects of this lockdown on their economy.

**Scenario 1: A Steep but Short-Lived Downturn [7]**

In this case, countries face a steep downturn in economic gains, followed by a sure and steady v or z shaped recovery which rises to meet and continue on the baseline growth trend. The Z-shaped recovery is the most optimistic scenario [8] characterized by a downturn, followed by a sharp upturn triggered by an over-compensation in demand originally lost due to the lockdown. In this case, high economic gains in the recovery compensate for the losses made during the downturn.

![Z-Shaped Recovery](image)

Source: Fiscal and Monetary Policy at Brookings, 2020

The V-shaped scenario shows a sharp and steady recovery in the economy that brings the GDP back to the projected trend. This too is an optimistic view, assuming that the lockdown measures are lifted early enough to enable the recovery of economic activity. In this case, for example, a vaccine would be discovered and applied to the masses so that life would resume like in the old-normal, with no more preventative measures in place. Any preventative measures curb economic growth one way or another.

![V-Shaped Recovery](image)

Source: Fiscal and Monetary Policy at Brookings, 2020

**Scenario 2: Prolonged Pandemic and Delayed Rebound [7]**

In this case, the world delays to get a vaccine or treatment, lockdown measures remain fully or partially imposed for several more months. In this case, many effects of the COVID-19 on the economy take longer to get rectified. In general, a prolonged crisis mode would wreak greater havoc on the social and economic aspects of our societies [7]. The recovery trends in this scenario take U, swoosh, and W shapes as illustrated below:

The U-shaped recovery scenario envisages a slower recovery of the economy (the most probable scenario). In this case, the social distancing norms make the recovery of the
GDP last quite a bit longer than in the v-shaped scenario.

Nike Swoosh, borrowed from athletic apparel company Nike’s logo [8], predicts a sharp bounce-back of the economy, soon followed by a very slow gradual growth trend because of the hesitancy of the public to reinvest in the economy. The growth trend eventually meets the original baseline trend. This is very probable as well as there is still a lot of uncertainty about what the future could look like.

The W-shaped recovery is also a real probability, it shows an initial recovery after which due to a repeated surge in infections and deaths, the lockdown measures are re-imposed, and then the economy takes another dip after which it starts a slow recovery until it reaches the baseline growth trend.

Scenario 3: Worst Case Scenario

In the worst-case scenario, the pandemic permanently alters the levels of a country’s
economic growth. In this case, we see an increase in distress and suspicion, many business failures, and a severe decline in demand. The recovery in this grim scenario would look like the L-shaped recovery case below.

The L-shaped, called U-shape by other researchers [6], is a pessimistic scenario that shows a permanent dip in the growth trend. In this case, the GDP growth rate never returns to the original baseline. This is a real possibility as was the case for several countries after the great recession. In this case, there would be a total shift in which things are done through the policies implemented. In this case, different policy reforms would result in different economic outcomes:

The Organization for Economic Cooperation and Development (OECD) at this time predicts global economic recovery will take either the Nike Swoosh or W-shaped recovery trend as shown in the figure below.

However, until the world gets a vaccine and/or a highly effective treatment for the coronavirus, even this rate of recovery is uncertain. Getting a vaccine is, however, a realistic expectation given that scientists are doing everything they can to get the coronavirus vaccine.
A Perspective on Uganda

With over 1,313 cases COVID-19 cases and 9 deaths registered by the Ugandan Ministry of Health on 12\textsuperscript{th} August 2020 [9], Uganda is still among the least affected countries in the world. However, this has not left Uganda unscathed by the effects of the Great Lockdown. With the first case registered on 22\textsuperscript{nd} March 2020, the lockdown measures which started on 20\textsuperscript{th} March 2020, have now lasted over four months. As a result of these safety measures, many people lost their jobs and businesses generally suffered reduced demand and higher costs of operations due to restricted movements. Getting raw materials for manufacturers also became more complicated and any small businesses faced closure[10]. In addition to these economic losses, the number of domestic violence cases greatly increased [11] and the number of school dropouts is expected to increase because of the rise in teenage pregnancies, child marriages, and lack of tuition fees due to job and business losses.

Some of these measures have been gradually eased and now some people are starting to return to their formal employment and the majority of the businesses have reopened. However, the economic losses have not left Ugandans unscathed. Like the rest of the world, Uganda’s tourism, hospitality, and entertainment industries have been hit very hard and the most vulnerable workers are the low skilled and informal workers [10]. Generally, it is expected that more people have slipped back to living below the poverty line\textsuperscript{1} and the general standard of living as measured in daily expenditures in Uganda has decreased slightly [3]. It is expected that the investment levels by entrepreneurs will continue to fall until the general uncertainty has passed.

For several sectors in Uganda, a survey done by Economic Policy Research Centre, a think tank located in Kampala Uganda found that majority of the small businesses were suffering very much and were either on the brink of closure or predicted they would close if the lockdown went on for three or more months. The majority of these businesses suffered a reduction in demand and an increase in the costs of running their business which was due to the travel restrictions and several other restrictions put in place during the lockdown [10]. The reductions in employment as shown have been as shown in the figure below:

![Overall Change in Workforce](image)

Source: Economic Policy Research Centre, 2020

\textsuperscript{1} This categorizes people living in extreme poverty. The World Bank draws the international extreme poverty line at living on $1.90 per day, so people living in extreme poverty generally live on $1.90 or less per day.
In addition to losses in employment capacities, the figure below shows the main concerns that businesses in Uganda are facing:

**Major Concerns for Businesses**

![Concerns for Businesses](image)

Source: Economic Policy Research Center, 2020

With regards to employment, many of employees who had been receiving salaries normally had their salaries halted as employers struggled to cut costs in a bid to stay afloat. Below is a figure showing the lockdown affected employees’ salaries:

**Compensation of Employees in the Event of Temporary Closure of the Business**

![Compensation of Employees](image)

Source: Economic Research Policy Centre, 2020

All is not grim though, Ugandans have turned to manufacturing to close the gap on demands for imports. Goods such as hand sanitizers, facemasks and face shields, several cosmetics, and other new products on the Ugandan market that are predominantly locally manufactured. This is a step in the right direction for the economy. Upscaling Uganda’s industrial sector and reducing imports will greatly
boost Uganda’s economy in the short and long run. This growth in the manufacturing sector will provide employment opportunities to the people, reducing the already-very-high levels of unemployment in the country. As of 2019, only 47.5% (9 million people) of Uganda’s working population (19.1 million) were employed [12]. Industrialization will also increase Uganda’s export base, a step in the right direction for Uganda.

In 2019, Uganda’s economy performed quite well with a growth rate of 5.5-6% for FY2019/20 [13]. The economy was projected to grow by an annual rate of 6% from 2020-2024 [13]. The likelihood of this projection coming to pass without a hitch is now a thing of the past.

Uganda has suffered a combination of several disasters since the beginning of 2020: desert locusts, migrating from the Arab desert and entering Uganda from the horn of Africa, heavy rains that caused flooding in Kasese and the overflooding of Lake Victoria [14], and, of course, the COVID-19 pandemic [15]. Managing these crises with minimal loss is still a matter people in Uganda are contending with.

On June 29th 2020, the World Bank approved $300 million for a project to boost Uganda’s budget for COVID-19 management and socio-economic recovery [16]. This will be used in cushioning Ugandans from the economic shock and should aid in rebuilding Uganda’s economy.

Whereas many countries were able to support their businesses and vulnerable people financially through cash grants [17]–[19], Uganda has not yet implemented such a policy. Instead, loans have been made available to businesses through the Uganda Development Bank which should provide loans at favourable interest rates. The interest rates in Uganda remain very high, at 18.8% as of May 2020 [20]. This is disheartening for any economy striving to recover from an all-time low in the economy.

In the 19th Presidential address made on 21st July 2020, the President of Uganda, Yoweri Kaguta Museveni, relieved yet more lockdown measures, leaving the international airport at Entebbe, schools, churches, and bars closed. The rest of the restrictions related to stopping public transport, the closing of workplaces, restricting social gatherings, etc. continue to be lifted, a gradual process that is expected to allow the economy to start recovering. Along with the lifting of restrictions, the president made the following directives:

- He urged that shops sell Ugandan products and urged Ugandans to buy Ugandan products. This goes along with promoting industrialization in Uganda;
- He urged that Ugandans to delve into the fishing of Nile Perch and to export their swim bladders, a special ingredient for aphrodisiacs in China, this is an enterprise which has the potential to earn Uganda billions of dollars [21];
- Ugandans should also export powdered milk, maize feeds for animals, and processed juice from these well-established industries;
- He also urged Ugandan sugar factories to make processed sugar that could be used in the manufacturing of soft drinks.

These and more directives and policies could greatly support Uganda in her economic recovery.
UNDP has set guidelines for economic recovery through the following pillars: firstly, protecting health services and systems; secondly, protecting jobs and small-medium enterprises, and the most vulnerable productive actors; thirdly, macroeconomic responses and multi-lateral collaboration; and fourthly, social cohesion and community resilience [19]. Uganda’s solutions should be tailored to address the needs of Ugandans and should lie within the bigger pre-existing goals and strategies for development like the National Development Plan III whose main aim is to deliver Uganda into middle-income status.

**Policy Recommendations**

Policy recommendations take three main categories: dealing with the immediate problem by strengthening the health sector; supporting the vulnerable people and businesses; and strengthening the economy to boost recovery.

1. **Strengthening the Health Sector**

Securing the health of the people is the priority of the Ugandan Government as it is for other governments. Tackling recovery and curbing the further spread of coronavirus are currently the main ways to manage the pandemic. Researchers in Uganda, like many other parts of the world, are trying to develop a vaccine for the coronavirus [22], and if this can be found in ample time, the time of crisis will be considerably shortened.

Uganda has been very fortunate in her health sector. Because of previous disease outbreaks such as Ebola, Cholera, and HIV/AIDS, Uganda’s health system was already resilient against health crises. This pandemic found leaders, doctors, and staff quite well prepared to handle the outbreak of the COVID-19. Safety procedures were put into place and adhered to in such a way that prevented a very steep rise in initial infections.

Going forward, the search for a vaccine and treatment is ongoing at Uganda’s main referral hospital, Mulago Hospital, and we can only hope things go well in this regard. And with the availability of coronavirus vaccines in the foreseeable future, there is hope that Uganda’s economic recovery will start sooner rather than later.

2. **Supporting Vulnerable People and Businesses**

Ideally, Uganda should have provided cash grants to vulnerable people every month to support their feeding and living costs during the lockdown. Uganda should also have relieved businesses with cash grants to help them stay afloat. However, the Government of Uganda (GoU) was not able to give people or businesses cash grants to relieve their financial strain during the pandemic because there was not enough cash in the Bank of Uganda’s reservoirs to manage such expenditures. Instead, the GoU called upon well-wishers to donate foodstuffs to those who were facing starvation. Many well-wishers- individuals and companies—came together and contributed enormous amounts of foodstuffs that were delivered to the doorsteps of vulnerable people. The President also directed that no pressure be exerted on tenants and creditors to pay rental fees and loans, this, however, did not mean that all rental and debt arrears were to be cancelled.
The GoU may not have been in the position to give cash grants to the vulnerable people and businesses because, as it stands, the economy is still developing and heavily in debt. Uganda’s debt stood at over Sh 48.91 trillion by the end of December 2019. Sh 2.84 trillion borrowed at the end of the financial year June 2020, and then Sh 8.73 trillion borrowed in June 2020 to boost the economy’s recovery during this recession [23].

The President, in his most recent address to the nation, directed that Uganda Development Bank provide loans to businesses at a low cost to boost their recovery.

Another crisis that was triggered by the lockdown in Uganda was the issue of domestic violence. Ugandans suffered a sharp rise in domestic violence cases from the moment the stay-at-home policy was implemented. Supporting family members who are suffering from domestic violence is also a vital issue to be considered. Several organizations, such as FIDA - The Uganda Association of Women Lawyers, CEDOVIP - Centre for Domestic Violence Prevention, International Justice Mission, and UN Women, have come together to provide support to women and children facing domestic violence, a problem that escalated during the lockdown [24].

Socio-emotional counselling is also very vital. The high levels of uncertainty among the people have the potential to cause unrest, increased crime, and possibly contribute to increased domestic violence. There is a need for positive communication to relieve the stress levels and fear in the public. Spreading hope about a potentially bright future would increase optimism in the people, restoring peace and harmony which in turn provides a good environment for creativity and innovation. Religious talks, televised or on radio, and through the newspapers have done well in comforting people. More of this is necessary to provide for the psychological needs of the people.

3. Strengthening the Economy to Boost Recovery

Strengthening the economy should be done in such a way that the Ugandan economy not only grows out of this dip but in a way that the economic gains can close historical gaps, ameliorate poverty, reduce inequality, improve infrastructure, increase industrialization, improve literacy rates, build up education quality, and progressively implement the pre-existing National Development Plan III.

Although so much loss has been incurred economically, some opportunities have been presented that has the potential to set Uganda on a better growth trajectory. After the country’s losses in GDP for the year 2020, it will take the collaboration of both the private sector and the Government sector to revive the economy.

a) A Focus on Industrialization

Growth in industry and manufacturing means growth in local production which translates into increased employment opportunities and a reduced need to import goods from abroad.

Increased industrialization is key to growing Uganda's export base. An ever-growing export base greatly boosts the economic growth of any country. Uganda’s industrial sector has enjoyed steady growth over the years, further growth would improve Uganda’s Balance of Payments and Balance of Trade through the increasing goods available for export.
Uganda has recently had interesting developments like the assembly plant of electric buses in Namanve [25] and a phone assembly factory called Simi Phones also located in Namanve [26]. These progressive investments have created jobs and encouragement for similar undertakings to be pursued.

Another benefit of industrialization is that it enables value addition which can transform Uganda’s economy by increasing our high-value exports a thousand-fold. Take the swim-bladder of the Nile Perch fish, commonly called the fish maw, China made a deal early this year to import this product which is highly sought after for the manufacture of aphrodisiacs. A kilogram of fish maw would go for about $1,000 and could earn Uganda $86,000,000 a year [27]. Fish maw has been sold for decades to Southeast Asian countries at a much lower cost but now has the potential to make billions of dollars for Uganda [21].

b) No/Low-cost Financing

Uganda’s lending interest rate has been very high for very many years [28] and was as high as 18.8% in May 2020 [20]. However, in a bid to boost private investments, accessibility to funds is key. Lowering the interest rates to very low or interest-free loans during this critical time would give borrowers a healthy chance to access credit.

Providing business grants is another way to boost private investments. The boosting of businesses with grants has been a great incentive used in countries that could afford to [18], [29]. Uganda has not done so yet but this can be done through debit deductions, debt cancellations, and outright grants for small businesses.

c) Boosting Innovation

Innovation⁡ is an asset to any country and would enable Uganda to find new ways to solve its problems. Uganda’s Research and Development sector is still under-financed [30], a predicament that needs to be rectified in an era in which the world is entering the fourth industrial revolution [31]. Because innovation enables patent creation, innovation would greatly boost growth and development in the country. Boosting innovation also allows Uganda to utilize her human capital, this, in turn, would reduce brain drain and encourage brain gain as well as spur economic growth.

d) Harnessing Renewable Energy and Implementing Climate-friendly Practices

‘Green recoveries’ as it is being called is the possibility of investing in climate-friendly initiatives to revive economies from the economic downturns caused by COVID-19 [32]. This could include several initiatives ranging from tree-planting and the banning of deforestation of natural forests to producing and distributing clean energy at affordable prices to reduce the use of biomass, such as charcoal, as an energy source.

Increasing Uganda’s Renewable energy capacity has the potential to support Uganda’s economic recovery through investing in large scale solar energy to provide electricity to fill in the gaps as currently, only 28% of Uganda’s population has access to hydro-electricity [33].

---

² Innovation in this sense is the creating of new ideas, new methods, and new designs- often to solve problems in communities. This allows for patent creation which spurs development and growth in an economy.
Also, supporting farmers to invest in climate-friendly agriculture which has the potential to greatly multiply yields. This would greatly boost farming yields and therefore, returns on farming.

**e) Reshaping Education**

To minimize the disruption that has inevitably hit Uganda’s education sector, emphasis, when schools resume, should not be placed on earning monetary profit but on recouping the learning losses suffered by the students. This can be done in several ways:

- Allowing school dropouts to re-enter schools; additionally pregnant teenagers and married teenagers should be allowed and encouraged to attend schools;
- Granting scholarships to as many vulnerable children as possible;
- Ensuring the continued spread of free educational materials to fill learning gaps. These materials could be used in Universal Primary Education schools which are renowned for offering very poor quality of education. This includes ensuring that the National Curriculum Development Centre material reaches the furthest and closest school;
- Partnering with internet providers to provide internet bundles for students at a very low cost;
- Embracing education technology tools to make teaching easier for teachers and more fun for students. These tools could help teachers increase their reach to students from far and wide;
- Experimenting with Artificial Intelligence tools to provide quality education to students in preparing them for an AI-empowered revolution.

All in all, the COVID-19 pandemic, though disruptive, provides Uganda with the thrust she needs to restructure her policies for a brighter future. COVID-19 has not only exposed cracks in the government system that must be addressed but has also allowed for insightful changes that should remedy the country’s losses and spur growth on a better trajectory.
References


Image Sources: cover page photo: macropolis.net