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Research Paper

Effect of Covid-19 on the Economic and Social Growth In Uganda

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ABSTRACT
The COVID-19 pandemic has had a disproportionate impact on 85% of all businesses in Uganda. A recent survey by the Economic Policy Research Center (EPRC, 2020), indicates that micro and small businesses which employ most of the urban poor, who have experienced the most severe effects compared to the medium and large-scale businesses. This paper aimed at understand the actual and possible economic and social impacts of COVID-19 in Uganda. The paper used secondary sources and results indicated reduced consumption levels, reduced labour participation rates, increased mortality rates, disrupted normal way of life, reduced domestic trade, disrupted public investment for projects, reduced movements, reduced income due to closure of the airport, poverty, collapse of small businesses, unemployment, reduced local revenue, depreciation of currency, inflationary pressures, reduced economic activities, interruption of inflow in raw materials and increased public debt.
KEY WORDS: *Covid-19, Economic, Social, Government Interventions and Uganda.*

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I. BACKGROUND

In 2019 December, the entire world was strike by coronavirus Pandemic, which twisted into a global pandemic. So far (by 1st November 2020), the virus had claimed 45,678,440 confirmed cases, including deaths of a total of 1,189,945 described coronavirus cases; and a recovery of 33,556,292 cases (Worldometer, 2020b). In Uganda Coronavirus cases by 21st November 2020, 12,495, claimed deaths 111 and 7,503 recovered cases (Worldometer, 2020a). Although numerous facets have been printed about coronavirus (COVID-19), there is still a lot we do not know and hence need to comprehend the influence of the Coronavirus Pandemic, particularly on Uganda's economy and welfare of the people; and how to best design intervention measures that will fit in hence addressing the challenges caused by the Novel COVID-19 pandemic. This paper therefore focused on effect of COVID-19 on the economic growth in Uganda and the possible measures to alleviative its effects. The main objective of this paper is to understand the actual and possible economic and social impacts of COVID-19 in Uganda. It is anticipated that this will make a combined planning and support the blueprint of an inclusive custom-made economic rejoinder to the Pandemic (Authority, 2020).

Effect of COVID-19 Coronavirus Pandemic on the economy

The lock down that was implemented by the government to curb down the disease has disrupted the normal way of life of people that has a big effect on the economic activities of the country, that is to say, limited movements of people due to fear to contract the disease has disrupted the production and supply chain of commodities. This has led to scarcity of certain goods against high demand leading to increase in the prices of commodities hence inflation that is likely to affect the economic growth of the country (Sekanjako, 2020).

The pandemic has caused high rates of sickness and mortality rates among the people and this has taken up health care resources and reduce people's incomes though spending on such health issues and others lost jobs either temporarily or permanently while adhering to health measures such as lockdown. This has reduced people's savings ability thus low investments and affecting the economic development.

More to that, the be behavioral effects from fear of infection has led to reduced labour force participation in economic activities due to closed places of employment, disruption of trade, business travels, reduced shipping and cargo services among other things. This has ultimately led to increase in poverty levels in the country due reduced economic activities thus affecting the economic growth of the country (UNDP, 2020).

Additionally, the COVID-19 effects on the economic growth can be manifested in reduced consumption levels, reduced investment levels. low government expenditure and unfavorable terms of trade that is later likely to affect the national income levels of the country in terms of low Gross Domestic Product (GDP), Gross National Product (GNP) etc. which are key indicators of economic growth in the country.

Reduced domestic trade activities during the period of the pandemic. During the shutdown times, a number of economic activities such as market places, transport sector, small scale business among others. Leading to low revenue collections by the government which may hinder government's ability to invest in developmental activities such as infrastructural development, communication developments among others that may improve on the economic well-being of people which later will affect the economic growth of the country (Reliefweb, 2020).

The pandemic has negatively affected the services Sector and hospitality industries in the way they have been hit given that they need easy customer movement to make money. Tourism, for example is a major revenue stream for many developing countries. In Uganda, tourism is a major forex earner contributing about 7.7% of the country's GDP and employing about 700,000 people; This has affected the revenue base of the country and also reducing the incomes of the people employed in those sectors thus affecting their investment ability that may lead to increased poverty levels among local people (Agency, 2020; Mawerere, 2020).

The closure of schools has resulted into economic costs to the society such as decline in family incomes leading to low consumption levels, low savings, an and low investment levels and these are key measures of economic growth to a country.

Reduced investment and increased joblessness: The pandemic has led to a slow-down in investment, leading to job losses. Consequently, joblessness comes with its related disadvantages such as low production, reduced purchasing power, poverty among others resulting into low economic growth.

Effect on the industrial sector especially the Ugandan manufacturing section that depend mostly on import raw materials as inputs to their production of goods. For example, SMEs which constitute 13 percent of Uganda's economy deal mostly with China to supply them with raw materials. But due to the coronavirus pandemic the importation of such inputs was disrupted and where possible it became costly leading to high costs productions hence low profits to support more production activities that has negatively affected manufacturing activity and the industrial sector at large.

Poverty and food insecurity effects: While social distancing is necessary to help limit the spread of COVID-19, it may have implications on poverty and food security. The agricultural value chain is affected differently by this pandemic. Planting and harvesting may not be significantly negatively affected especially because the pandemic has coincided with a good rainy season. Nonetheless, agriculture is negatively affected in aspects like supply chain disruption for inputs and produce; and lockdown effects of transportation of factors of production like labour, especially to plantation agriculture; among others. The urban areas will be affected, especially in terms of inadequate food deliveries which ultimately heightens food insecurity, health risks and wellbeing. Poverty effects are also worsened by the lack of production, joblessness and lack of incomes due to the lockdown effects. Ministry of Finance Planning and Economic Development (MoFPED) estimates the additional population to fall back into poverty between 780,000 to 2.6 million (ERRC, 2020).

Negative effect on the implementation of public investment projects; especially for those which have a great deal of import components, particularly in the transport and energy sectors. The effects will also be witnessed from those projects that necessitate a big number of labourers to be undertaken. This is because such projects can't take place during these pandemic infected times.

Loss of lives especially the able-bodied people who are major financial contributors to their families can affect the economic growth of the county. That is to say, there is a direct economic impact from lives lost in an outbreak. Families and loved ones lose that income and their in-kind contributions to household income such as childcare. This means many of people that to die are no longer primary providers for their families leading to a financial gap in those family that may later affect their financial stability which later affects the country's economic growth through reduced consumption levels, savings levels that later affects the investments levels of the country.

The Aviation industry has been negatively affected whose effects have further affected economic growth of the country, that is, the airlines business has been negatively affected by the reduced movements and shutting down of borders whose negative actions affect all sectors of the economy such as the health sector, manufacturing, retail and other services, trade and transportation, education, and others. These in turn translate into reduced income both through the supply side (reduced production drives up prices for consumers) and the demand side (reduced demand from consumers hurts business owners and their employees) all of these affect the economic growth of the country (Nabatanzi, 2020).

The COVID-19 pandemic has had a disproportionate impact on 85% of all businesses in the country. A recent survey by the Economic Policy Research Center (EPRC, 2020), indicates that micro and small businesses which employ most of the urban poor, who have experienced the most severe effects compared to the medium and large-scale businesses. This may be due to the fact that 47% of informal. business in Kampala alone sell directly to individuals or households. This has further worsened pre-existing credit constraints on most of the businesses. This may lead many micro and small business owners to fail to meet their loan obligations and may face rising interest rates and crippled businesses thus reducing on the production levels of the country.

More to that, due to many affected economic activities in the country there is likely hood of increased levels of an employment in the country that later will affect the economic growth of the country through increased poverty levels among the people to take up more developmental activities such as investments that may led to economic growth.

Reduced revenue collection due to the pandemic. Uganda's revenue bases have been affected in terms of Consumption taxes, Direct taxes, Trade taxes, and Non tax revenues as MoFPED analyzed that there is likely to be a revenue shortfall of Uganda shillings. 82.4 billion for the remaining period of FY 2019/20; and possibly a shortfall of Ug shillings. 187.6 billion in FY 2020/21, assuming slight coronavirus effects. The effects on taxation can also be analyzed through the expenditure approach through: subdued domestic demand, subdued final consumption expenditure, subdued capital formation, and unfavorable external balance of goods and services. Most importantly, revenue losses could lead to unsustainable debt for the country all of which affects economic growth.

Depreciation of the Uganda shilling in the long run that may lead to discouragement of investors to the country thus leading to low economic activities in the county that may later affect economic growth due to likely increase in Non-Performing Loans, especially in the most affected services, which will ultimately affect the Banking Sector negatively affecting the private sector growth.

There is likely to be inflationary pressures due to supply side shortages (especially for food and pharmaceuticals among others) and the exchange rate depreciation that later may affect economic growth.

Due to reduced economic activities in the country probably because of less movement of people, there will be reduced utilization of the country's natural resources as factories stay idle and labour (people) stay at their respective homes leading to low production hence high demand of the few goods leading to high prices hence low consumption, saving, and investment affecting economic growth.

likely negative impacts on the international trade in terms of balance of payments and terms of trade (Imports- payments and exports -receipts) for instance the negative impact on imports due to lockdown measure interrupted the inflow of raw materials that disrupted the production activities of industries leading to scarcity of goods thus high demand against less supply. While the negative impact on exports due to lockdown measures has led to reduced government revenue collections hence interrupting the operation of government economic activities hence low economic growth.

Increased poverty levels as the economy slows down in the country that is likely to affect economic growth. For instance, the economy has been slowed down by nearly half for the financial year 2019–2020 with further worries for FY2020/21. Hence a likelihood of rise in poverty levels during and after the COVID-19 pandemic leading to many people face a reduction in their income due to job and livelihood losses, reduced flow of remittances, loss of market and demand for domestic products that will later may lead to economic growth in the country.

Increased public debt as major shortfalls in revenue collection pushed the government into high levels of borrowing to cover its fiscal deficit for both FY2019/20 and FY2020/21. As a result, Uganda's debt servicing commitments will continue increasing, as rising external public loan financing requires high commitment fees, and non-concessional domestic borrowing attracts huge interests. thus, more funds will be allocated to interest payment and away from service delivery or development spending that could benefit people living in poverty hence low economic growth.

Positive effects

However, the coronavirus pandemic has not affected the economic growth in a negative way only but may seemingly have positive economic growth effects as well as presented below;

The pandemic has encouraged more use of technology which has led to introduction of more improved business strategies such as in E-commerce and other innovative businesses such as food delivery and ordering of other essentials online which has helped to boost the business sector during lockdown period.

More to that, improvement in mobile money platforms and E-banking among others which has boosted more the effective operation of the banking sector in the country thus economic growth

The pandemic will enhance more the Ugandan government to undertake and implement the import replacement strategy especially for the commodities that have a high import potential. This will help the country to manufacture a number of commodities that are affected by the slowed importation during the coronavirus episodes and also enjoy the benefits that are associated with it

Government interventions

The government of Uganda has embarked on a number of interventions to deal with the likely effects of Covid-19 on the economic growth of the country and these include the following:

Supervision of financial institutions by Bank of Uganda continue to operate effectively and exploitation of people by commercial banks.

The government has made sure that contingency plans that have been developed and proposed by financial institutions guarantee the safety of customers and staff therefore are to the benefit of customers.

The government has mediated in the foreign exchange market in order to discourage excess volatility that may from the global financial markets

Put in a mechanism to minimize the likelihood of sound business going into insolvency due to lack of credit by appealing to the commercial banks through the bank of Uganda to grant customers longer loan payment periods that will not affect the capital of their business.

Provide exceptional liquidity assistance for a period of one year to financial institutions supervised by Bank of Uganda (BoU) that may require it, waive limitations on restructuring of credit facilities at financial institutions that may be at risk of going into distress due to the COVID19 pandemic;

Continue to engage Mobile Network Operations (MNOs) and commercial banks through reduced fees on mobile money transactions and other digital payment charges in order to limit the use of cash and bank branch visit in order to increase daily transaction.

The government of Uganda embarked on providing and distributing relief food items such as maize flour, beans, rice, sugar and powdered milk to those whose daily survival depended on their daily earnings in urban centers for the period under the lock down as a safety net.

Pay as You Earn (PAYE) tax payments were temporarily deferred for qualifying businesses that were unable to weather the dramatic fall in demand and no interest or penalties were accumulated on these amounts during this period. This was intended to help businesses sustain their cash-flows to remain operational and not to lay off staff.

More to that was the delay (up to six months) in the payment of corporation tax was also allowed for qualifying companies and Small and Medium Enterprises (SMEs) with a turnover of less than Shillings 500 million per annum. In addition, relinquishment of interest on tax arrears for taxpayers who voluntarily complied with their tax obligations to help offset their tax liability obligations.

More so, as a way of providing an additional fiscal stimulus, government proposed to accelerate payment of outstanding Value Added Tax (VAT) refund dues to businesses and domestic arrears, with priority given to SMEs, cooperative societies and contractors who had supplied goods and services to government.

The government proposed to make investment finance available to support local manufacturing through additional liquidity injection into Uganda Development Bank. In addition, Business Development Services will be expanded, including establishment of industrial business shelters to help integrate SMEs in both the informal and formal economy into the country’s industrialization process to meet domestic demand and take advantage of the regional market. For the micro and small enterprises, a special SME recovery fund was designed for consideration by Government for Financing.

Through the Bank of Uganda (BoU) the government of Uganda is expected to continue implementing prudent monetary policy with measures to ensure that the financial sector remains resilient in the face of vulnerabilities from the economic disruption caused by COVID-19 Pandemic. These measures entail readiness to provide liquidity to the financial system for a period of up to one year if needed, ensuring that all financial institutions under its supervision have adequate capital buffers to operate effectively (BOU, 2020; Patrico, 2020).

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