

UGANDA'S ECONOMIC RESPONSE TO COVID-19

The case for immediate household relief

POLICY BRIEF BY MAX WALTER
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In Brief

This policy brief recommends that social protection should be at the centre of Uganda's socio-economic strategy in responding to the impacts of COVID-19.

The paper recommends that the government explore the several channels to ensure that vulnerable populations are cushioned from a potential livelihoods disaster following the lockdown due to COVID-19.

It discusses

- (1) why household relief is needed now,
- (2) how the most vulnerable can be targeted,
- (3) how they can be protected,
- (4) how much this will cost, and
- (5) how the government might pay for it.

The Government of Uganda's rapid and decisive action to put the country on lockdown to contain the virus is commendable and necessary in order to avert a public health disaster. In addition to this, bold and rapid action will be needed to avoid an unintended socio-economic disaster. This paper explores options for delivering effective household relief during the lockdown, complementing the government's existing efforts such as food distribution.

The Need for Urgent Action

The COVID-19 pandemic is already wreaking havoc across the global economy, and a comprehensive policy response will be needed to manage and bounce back from the sustained effects of that shock on Uganda's economy. The Ministry of Finance, Planning and Economic Development (MoFPED) has forecast economic growth in the current financial year to [drop](#) from 6% to as low as 4.6%. Even these estimates seem optimistic when compared to other countries' forecasts. In the worst case scenario, in which the virus spreads rapidly among the population, an estimated additional 2.6 million Ugandans could be pushed into poverty, the tourism sector will be severely affected, and exports and imports will [decline sharply](#). Uganda's balance of payments deficit is expected to widen by [almost 13%](#). A bold and carefully designed economic stimulus package will be needed to counter this shock. Countries around the world are launching broader economic responses: India announced a [US\\$ 23 billion stimulus package](#), which includes in-kind and cash transfers to low-income households and wage support for low-income workers. Nigeria introduced a [US\\$ 2.7 billion](#) stimulus to boost manufacturing and other critical sectors of its economy, while Rwanda's central bank announced a [US\\$ 50 million package](#) to sustain commercial lending to the private sector. Uganda will have to follow suit.

But there is an even more urgent need that needs to be tackled immediately: providing relief to vulnerable households during the lockdown. The current lockdown is all-encompassing: the entire nation has been instructed to stay at home for 14 days (until April 13th). All public transport and private vehicles are no longer allowed on the streets. All economic activities except those relating to the selling of food items and those offering 'essential' services such as healthcare, electricity, water and funeral services are [closed](#).

The lockdown has immediate and far reaching economic implications for large sections of the population, especially those that engage in informal activities and rely on everyday income to secure basic needs of food, water, medicines, and basic services. Unless an immediate plan is devised and rapidly rolled out, the state may be unable to enforce the lockdown for people who are unable to meet basic needs. There is also the risk that the well-intended lockdown can be a recipe for social anarchy as people struggle for survival and in which the objective to curb the spread of the Coronavirus could be lost.

Looking at what has happened in other countries, the total lockdown may be eased slightly, **but the situation after April 13th will be far from business-as-usual**. This lockdown is necessary as the country teeters precariously on the edge of a public health catastrophe of unprecedented scale and gravity. In high income countries, a strict lockdown will likely be in place for much of 2020, until [cheap and effective antibody tests are developed](#) which can allow governments to determine who has already survived the virus and are immune. People who are immune could then return to normal life, while those who aren't would have to stay in lockdown. All lockdowns can end when a vaccine is available, but this is unlikely to be approved and widely distributed before the end of 2021. The ability of the Ugandan government to support vulnerable citizens for potentially the next two years will depend crucially on the availability of donor financing for these efforts.

Why Protection Now?

Locking down a largely hand-to-mouth economy like Uganda's is a challenging proposition. It will only work, without disastrous effects on socio-economic wellbeing and public order, if an effective social protection package is rolled out immediately. In particular, millions of informal sector workers and micro-entrepreneurs - from taxi conductors to market vendors to industrial day labourers - are sitting at home having had their revenue sources turned off overnight. And their children are at home too, not being fed at school. Lockdowns and containment measures will only be respected [if people can meet their basic needs while doing so](#). Of course this situation is not unique to Uganda - [this article](#) makes the important point that millions of people across the continent "are unable to survive without some form of daily trade and don't have the luxury of bank savings, credit cards and online commerce to be able to stay indoors or "social distance" for extended periods".

It is impossible to get a rapid response exactly right without overthinking it and missing the boat altogether. [In the words of Dr. Mike Ryan](#), Executive Director of the World Health Organisation's Health Emergency Programme, "Speed trumps perfection. Perfection is the enemy of good when it comes to emergency responses".

The Ugandan Government recognises the urgency of providing social protection, or some form of it, to vulnerable sections of the population. In his communication of the lockdown orders on 30th March 2020, the Head of State indicated that the government

would provide food relief to vulnerable workers such as taxi operators, whose daily activities would be affected by the lockdown. The implementation of this programme itself requires deeper thought and this policy brief attempts to offer some suggestions. In addition, the vulnerable communities in question will continue to have other essential needs including water, firewood, briquettes and charcoal for cooking, and medicines.

Who Needs Protection?

Many countries with high levels of formal employment are targeting those who recently lost their jobs due to the pandemic-induced economic slowdown (e.g. through conditional cash transfers) - or those at risk of losing their jobs (e.g. through wage subsidies to SMEs). But this will not work in a highly informal economy where the distinction between being employed and unemployed is blurry.

According to the Centre for Budget and Tax Policy, [7 million Ugandans need social protection](#). The Centre's report argues that the groups most affected by the economic disruption caused by the pandemic are workers in the informal sector (4 million people), the elderly (2 million), private sector employees (800,000), and low-level civil servants (150,000).

Workers in the informal sector are a particularly important group. First, in contrast to formal employees in the private sector or the civil service, their incomes are variable and uncertain on a daily basis. During a complete lockdown that lasts a few weeks, most formal employees are likely to be able to rely on their last salary payment to an extent, or better, continue receiving their salary for the time being. However, informal sector workers are either microentrepreneurs (e.g. market vendors or boda riders) whose revenue streams have already run dry due to the lockdown, or day labourers (e.g. construction workers or housekeepers) whose salaries can equally be turned off overnight without legal recourse, or who are paid only for days worked but can already no longer get to their place of work because of movement restrictions. Further, these informal sector workers often provide for several dependants, including elderly people. When their income streams run dry, so do those of many elderly people.

We therefore zero in on informal sector workers, here. Our estimates of the total number of informal workers are considerably higher than those of the Centre for Budget and Tax Policy, which are based on projections using 2014 data. Last year, CDA [looked at](#)

at the latest available UBOS data from the 2016-17 National Household Surveys. That study found that there are about 9.1 million employed people in the economy, excluding subsistence farmers. Of the 9.1 million employed, [UBOS](#) estimates that 85% are in informal employment. This implies that there are roughly 7.7 million informally employed people (85% of 9.1M) in Uganda - much higher than the estimate of 4 million cited above.

Household relief efforts can be difficult to target, especially in the informal economy, because little is known about who is vulnerable and who is not, how many people there are, and so on. In a rapid response scenario, the government will need to resort to imperfect targeting criteria, such as residence in certain neighbourhoods or membership in certain trade unions, and distribution channels such as mobile money operators, Local Councils, and/or associations. There is also a high risk of the relief being used as a form of political patronage.

The World Bank has a [guidance document on targeting the most vulnerable](#). Some strategies include geographic targeting of at-risk areas, categorical targeting (targeting single-parent households, children, elderly people, people with disabilities, and so forth), and poverty-based targeting in which measures of changes in welfare as a result of shocks complement easily identifiable welfare measures, such as housing location and quality and assets.

[GiveDirectly](#) is working with Civil Society Organisations and mobile network operators (MNOs) to identify vulnerable individuals and enroll them remotely to receive an initial three-month basic income of USD 25 USD in rural areas and USD 50 in urban areas. The work with MNOs involves analysis in partnership with data scientists to identify poor individuals at scale based on poverty analysis. With government and donor buy-in, this could be expanded to reach hundreds of thousands of Ugandans with buy-in government and large donor buy-in.

The government is already working with Local Councils (LCs) in identifying households for the ongoing food distribution efforts (discussed below). However, this presents some risks. LC leaders are likely to identify those that identify with the local council authority in the area - for instance through some form of registration. But most informal sector workers (e.g. those working in salons, car-wash, tax conductors, vendors, etc.), do not necessarily register with local authorities. Further, LC leaders are often trapped in local level politics and may be prone to politicising the distribution of goods.

Involving Community Based Organisations, religious organisations, and NGOs to support the distribution efforts could help act as a check on local politicians while also contributing to the effectiveness of the response.

How Can We Provide Protection?

We briefly explore four channels through which protection to households that depend on incomes from the informal economy can be delivered:

1. Increasing household purchasing power (e.g. cash transfers);
2. Decreasing the cost of essential goods and services (e.g. rent, utilities, food, soap, cooking fuels);
3. Distributing essential goods and services for free; and
4. Maintaining the flow of essential goods.

Increasing household purchasing power

The most straightforward way of supporting people whose revenue streams have been turned off overnight is to give them cash. According to the [International Labour Organisation](#), “cash disbursements to low- and middle-income groups is an effective response to ensure continued consumption, as these households have a high propensity to use a large portion of transfers on goods and basic necessities, and this has an income multiplier effect... As macro-economic stabilisers, cash transfers are particularly effective, since they can take effect with less delay than other discretionary fiscal measures. They have an inbuilt counter-cyclical impact that can act as automatic stabiliser.”

At the time of writing, cash transfer programmes are the [most widely used instruments](#) to counter the pandemic’s socio-economic fallout worldwide. Numerous countries have started distributing cash or vouchers to the most vulnerable low-income households affected by the COVID-19 crisis:

- The Indian state of Uttar Pradesh will make [direct online payments](#) to poor and daily wage workers - such as vegetable vendors, construction workers, rickshaw pullers, auto rickshaw drivers, and temporary staff at shops - who lose work due to the COVID-19 impact.

- The Islamic Republic of Iran is planning to support around 3 million lower-income families with no permanent jobs with [cash transfers](#) of up to 6 million rails (USD 400) in four stages.
- Brazil is [distributing](#) R\$ 600 vouchers (approx. USD 112) to informal workers, self-employed and vulnerable families that aren't covered by the country's other cash transfer programs.
- Colombia has introduced a one-off payment [of COP 160,000](#) (approx. USD 108) for informal workers, covering 3 million households
- Morocco has [promised monthly payments](#) of USD 120 to families whose main provider has lost their job in the informal sector.

The government should consider repeated monthly transfers targeted at the poorest urban households for the duration of the lockdown.

Decreasing the cost of goods and services

Additional measures to reduce the cost of nutrition, fuel, utilities and rent might also be necessary. Price controls of staple goods and services may be an option for preventing speculation and thereby maintaining the purchasing power of low-income households. Service providers (including the utilities) may need to be supported by the government to enable them to continue providing their services. Finally, rent accounts for a very high proportion of low-income households' monthly expenses. A national rent moratorium - a temporary suspension of rent payments - is being called for in many countries including [the United States](#). If enacted for the duration of the lockdown, this would act as an immediate transfer of resources to vulnerable households from landlords, who are very unlikely to be vulnerable due to their ability to earn passive incomes. Some examples of existing efforts around the world are:

- In Indonesia, the government provided extra funding for the [Affordable Food Program](#) to help 15 million low-income households buy staple foods.
- In El Salvador, the government has provided a [waiver for utility bills](#) (water, internet, electricity, telephone) for three months for those tested positive for COVID-19.
- Guinea has announced it will [freeze](#) rent prices and the prices of pharmaceuticals and basic necessities until December 2020.

Decreasing the cost of goods and services is also not without difficulties, but there are ways around these. For example, electricity and water could be made free or cheap up to a maximum consumption amount (though it is unclear whether the technology is in place to be able to enable this). One challenge with these is that in informal settlements, electricity is frequently stolen or bought through informal middlemen, and water is bought informally from boreholes or collected from wells. This is more difficult to regulate, but not impossible. For example, police or military could be deployed to oversee these transactions temporarily (not without its own risks of course). The government could also complement existing water sources by deploying water tankers in urban areas. Regulating the cost of fuel is easy but non-discriminatory - rich people would get subsidised just as much as poor people. Regulating the cost of food can be an effectively targeted measure if the focus is on basic foods. Higher-income households buy very little of these foods, whereas for poor households they represent a high proportion of spending. If the lockdown persists beyond two weeks, it will be important to ensure the subsidised food basket encourages sufficient dietary diversity and coverage of micro-nutritional needs.

Regulating the cost of goods and services is also only effective if people can still access them. In addition, the regulation must be implementable, which can be difficult for informal exchanges.

Distributing essential goods and services for free

Cash transfers and price regulation only work if people are still able to access goods and services. During a countrywide lockdown, it becomes very difficult to access goods and services. It is most efficient to try to keep existing markets functioning, since they can rely on their existing vendor relationships and distribution mechanisms. However, if existing markets are not functioning well, government intervention in the actual distribution of certain basic goods and services may be the best option.

Again, several countries are taking action in this regard:

- With schools closed, there is a need to find other mechanisms to provide food assistance to replace free school meals. India's Kerala has started [delivering lunches](#) to over 300,000 children in rural child care centres that have not been closed.

- In Jamaica, the Ministry of Education will [distribute food](#) to students in the Programme of Advancement Through Health and Education (PATH) over the two weeks they are out of school at specific distribution points.
- Ghana has announced that it will [pay the water bills](#) of all Ghanaians for three months.

The free distribution of goods and services is possible as long as people are accessible in their homes and the distribution can be done in an orderly fashion. The arrival of a vehicle carrying in-kind aid, for example, often causes a chaotic rush. To ensure social distancing does not break down, the delivery of in-kind aid has to be strictly organised and order enforced. In some settings it may be more effective to set up pick-up points in spacious places and then regulate the flow of people from homes to those pick-up points.

The government [has begun](#) to distribute food in some neighbourhoods, and the Prime Minister has [announced](#) the intention to distribute 6 kg of maize flour and 3 kg of beans per head to 1.2 million people in Greater Kampala, and food distribution. In a recent address to the nation, President Museveni has clarified that the food distribution will take place in people's homes - people have to stay at home where the food will find them to ensure that Social Distancing is not broken.

Maintaining the flow of essential goods and services

While household purchasing power has received an immediate downward shock due to the lockdown, **the prices of basic goods have shot up due to panic buying.** While this is a short-term shock, there may also be a sustained price hike due to global as well as local supply chain disruptions. For example, the price of maize flour in Kampala has already [shot up](#) from UGX 1,600 per kg to UGX 2,500 in the space of 4 weeks. While cargo vehicles and boda bodas carrying deliveries are still allowed to move, trade has still slowed down as many businesses along agricultural and other supply chains have been forced to close or downscale their operations.

During the lockdown, it will be vital to find ways to keep supply chains for basic supplies active. In order to do this while maintaining discipline in the COVID-19 containment efforts, strict operating procedures will need to be implemented for the supply chains in question. Where activities in these supply chains contradict the

movement bans put in place, special exemptions will need to be issued and implemented under close oversight. It may also be useful for the government to subsidise essential businesses in order to keep their operations running.

Finding smart ways to reduce the risk of movement instead of outright banning it would help maintain access to essential goods and services. For example, public transport could be kept running but with reduced passenger loads and free distribution of masks at bus stops. The government might also consider lifting the curfew to spread economic activity throughout the day in order to reduce crowding in markets, rather than having it condensed into a few hours.

Markets are the crucial tail-end of the food supply chains across the country, but they are also one of the riskiest settings for the spread of a virus. Keeping markets operating will be important to ensure food reaches households. [Kampala Capital City Authority](#) has already closed Kalerwe Market and a section of Nakawa Market due to poor public health practices after prolonged negotiations. To keep markets open, they will need to be [reconfigured](#) - [this article](#) provides several ideas on how this could be done.

All of this presents a tricky triple challenge of administration, logistics, and law enforcement. Its success will depend on the mobilisation of a highly competent, motivated, and empowered delivery team.

How Much Will It Cost?

Fiscal anti-crisis packages ranging, for example, from 0.4% of GDP (Malaysia) to 6% of GDP (Kazakhstan) have been announced. Social protection measures form a subset of these packages.

The [Centre for Budget and Tax Policy](#) has suggested that **the government should provide a cash transfer of UGX 50,000 to 4 million informal workers for 4 months**, to a total tune of UGX 800 billion. Our suggestion differs a little from this. Right now, the urgent need is to get people through the lockdown period. Therefore, we suggest a one-off, one-month support package to be mobilised within days. As mentioned at the start of the article, additional economic stimulus interventions will be needed after the initial

radical lockdown, but these may look quite different from the immediate household relief discussed here.

For the sake of argument, a monthly relief package worth UGX 50,000 for 7.7 million informal workers (using our estimates) would cost UGX 385 billion, or about 0.36% of GDP (per month). For comparison, President Kenyatta [has directed](#) the Kenyan National Treasury to avail KSH 10 million, or about UGX 355 billion, for immediate economic relief efforts. However, this is only about 0.10% of Kenya's GDP. As a proportion of GDP, the UGX 385 billion relief package would be at about the same level as the FCFA 50 million (0.35% of GDP) that Senegal [has set aside](#) for food aid as a response to the economic shock induced by the pandemic. In reality, the number of people reached in Uganda could be much, much smaller than 7.7 million - due both to more effective targeting of the most vulnerable and to the difficulty of reaching that many people.

How Can We Pay For It?

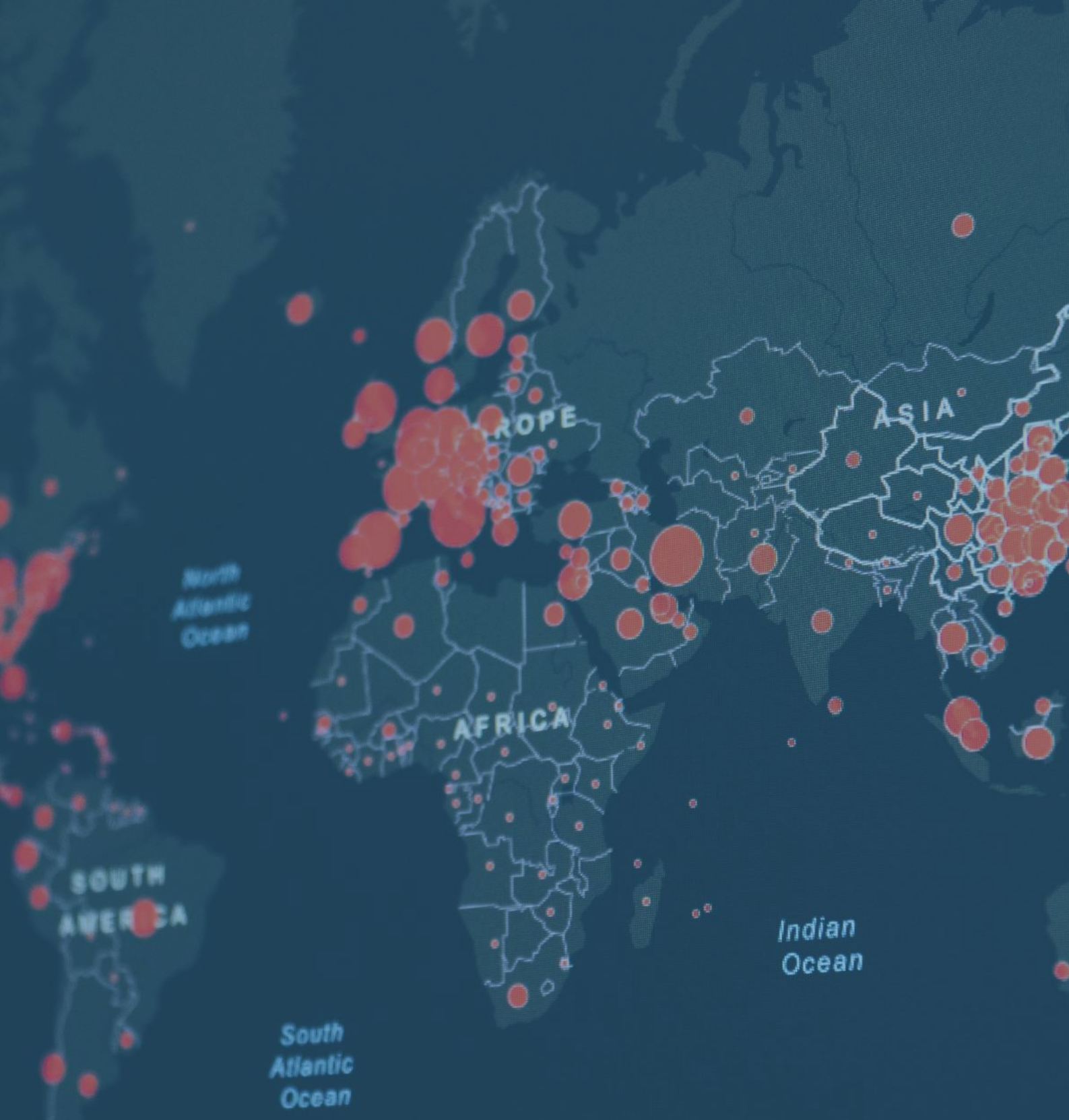
Multiple channels for financing a household relief package should be explored, and many precedents have been set by other countries. Morocco has set up a USD 1 billion [relief fund](#) that can receive tax-deductible voluntary contributions from public and private entities. [Part of Jamaica's response](#) will be financed through [asset divestment](#). Ethiopia has applied for and received a USD 82.6 million [grant and loan package from the World Bank](#) to help manage the health and economic impacts of COVID-19.

Rwanda has become the first country to tap into the IMF's [Rapid Credit Facility](#) to finance its COVID-19 response. Aimed at helping low-income countries address urgent balance-of-payments needs and quickly countering shocks, credit disbursed under the IMF facility is "zero interest rate, has a grace period of 5½ years, and a final maturity of 10 years". The IMF [has just approved](#) a USD 109.4 million loan to Rwanda that will "support the authorities' efforts by backstopping the decline in international reserves and providing financing to the budget for increased spending aimed at containing the epidemic and mitigating its economic impact". Rwanda's plans for the loan include some direct support to households, though the details of this are not publicly available yet.

The Government of Uganda has already requested a supplementary budget of UGX 284 billion (USD 75 million) to fight the COVID-19 outbreak and its effects. Uganda's Ministry of Finance, Planning and Economic Development (MoFPED) is also [preparing](#) to

approach the World Bank and IMF for credit. MoFPED's application will likely be aimed at managing the broader balance of payments impact of the COVID-19 shock and to finance a larger economic stimulus programme. It should also include a well thought-out, bold, and immediate relief package to help households that depend on incomes from the informal sector, get through the lockdown.

In closing, the key message of this policy brief is this: **immediate household relief should be at the forefront of the Government of Uganda's socio-economic response to COVID-19.** It is hoped that the range of ideas and examples shared in this paper are of use to the policymakers working hard to design and implement an effective response, to those advising the government, to those helping finance the government's efforts, and to those holding the government accountable.



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