



SMALL BUSINESS RECOVERY FUND PROGRESS REPORT SEPTEMBER 30, 2022

BANK OF UGANDA

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Abbreviations

SBRF	Small Business Recovery Fund
BoU	Bank 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

1 BACKGROUND

The Small Business Recovery Fund (SBRF) was established in 2021 as a partnership between the Government of Uganda (GoU) and Participating Financial Institutions (PFIs), i.e., commercial banks, micro deposit-taking institutions (MDIs) and credit institutions (CIs). The key objective of the fund is to facilitate the provision of loans to small businesses that suffered financial distress from the effects of COVID – 19 pandemic and have the potential for recovery once availed financial support. The fund operations are governed by a Memorandum of Agreement (MoA) signed in November 2021.

2 THE ROLE OF THE BANK OF UGANDA

- a) Manage the fund on behalf of the GoU.
- b) Receive and process reimbursement claims from the Participating Financial Institutions (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 Bank of Uganda (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 the Ministry of Finance, Planning and Economic Development (MoFPED) on the fund's performance.
- e) Ensure accountability of the fund through periodic internal and external audits of the fund.
- f) Advise 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 IMPLEMENTATION OF THE SBRF

After the launch of the fund in November 2021, it was noted that there was low uptake of the fund by the PFIs. BoU organised a workshop for the PFIs in March 2022 to discuss ways of improving the uptake of the fund.

During the Workshop, the following issues were raised:

- a) The need to review the eligibility criteria in the SBRF MoA concerning annual sales and asset turnover as the current parameter of UGX 10 million – UGX 100 million is restrictive to many small businesses.
- b) The benchmark of the number of employees ranging between 5-49 stipulated in Section 3 (iii) of the SBRF MoA 2021 does not fit the definition of small businesses. The majority of small business owners are sole proprietors and use family labour, which is difficult to appraise for eligibility under the current terms.
- c) The minimum loan period of 6 months stipulated in the SBRF MoA excludes some of the borrowers who might need the funds for a shorter period.
- d) The majority of the small businesses already had loans that were non-performing due to the effects of the COVID-19 pandemic. The PFIs argued that if these businesses were to be assisted, the SBRF funds should be used to help pay off these loans.

To address the above concerns and increase the uptake of the scheme, some amendments to the SBRF-MoA have been approved and cleared by the Solicitor General. These include the following:

- a) Revising employment levels from the minimum of 5 persons to 2 persons
- b) Increasing the maximum annual turnover from UGX 100 million to UGX 300 million
- c) Increasing the maximum loan amount from UGX 100 million to UGX 200 million
- d) Allowing the borrowers to use the fund to service their existing loans

The MoA has since been amended to include the above changes.

4 FUND CAPITALISATION

In October 2021, the BoU received UGX 100 billion from the GoU for capitalising the SBRF. The PFIs are required to match the GoU contribution with 50 per cent in line with the MoA.

5 CUMULATIVE PERFORMANCE AS AT SEPTEMBER 30, 2022

As at September 30, 2022, the BoU had received 506 applications worth UGX 7.15 billion from nine (9) PFIs. Of these, 489 applications with a total loan value of UGX 5.79 billion were approved with a GoU contribution of UGX 2.89 billion. Disbursements totalling UGX 4.84 billion were made to 398 eligible projects as at September 30, 2022. Among the applications received, 33 applications worth UGX 576 million were ineligible for financing under the SBRF. Below is the summary of the performance as at September 30, 2022.

Table 1: Cumulative Performance for the quarter ended September 30, 2022,

PFI	No. of applications received	Cumulative value of applications received	No. of Approved loans	Cumm. Value of approved loans	No. of Applic. Disbursed	Cumm. Value of Loans Disbursed
Opportunity Bank	369	2,361,700,000	341	2,157,700,000	264	1,644,200,000
Pride Microfinance	126	1,966,700,000	97	1,574,700,000	97	1,584,700,000
Finance Trust Bank	26	1,487,000,000	21	1,021,400,000	19	922,000,000
PostBank (U) Ltd	18	504,500,000	16	404,500,000	12	339,500,000
Housing Finance Bank	10	283,000,000	7	188,000,000	-	-
Diamond Trust Bank	4	209,000,000	4	209,000,000	4	209,000,000
Centenary Bank	3	64,000,000	-	-	-	-
DFCU Bank	3	240,000,000	3	240,000,000	2	140,000,000
Equity Bank	1	30,000,000	-	-	-	-
TOTAL	560	7,145,900,000	489	5,795,300,000	398	4,839,400,000

Source: Bank of Uganda - [SBRF data]

From the table above, 87 per cent of applications received have been approved, and of these, 81 per cent were disbursed to the respective PFIs. Given that these are working capital loans to stimulate the recovery of small businesses affected by COVID-19, the turnaround time for appraisal and approval of these loans is short.

A total of UGX 965.9 million was committed in respect of applications approved but pending reimbursement claims from the respective PFIs. Projects still under review at BoU accounted for UGX 782.5 million as at September 30, 2022.

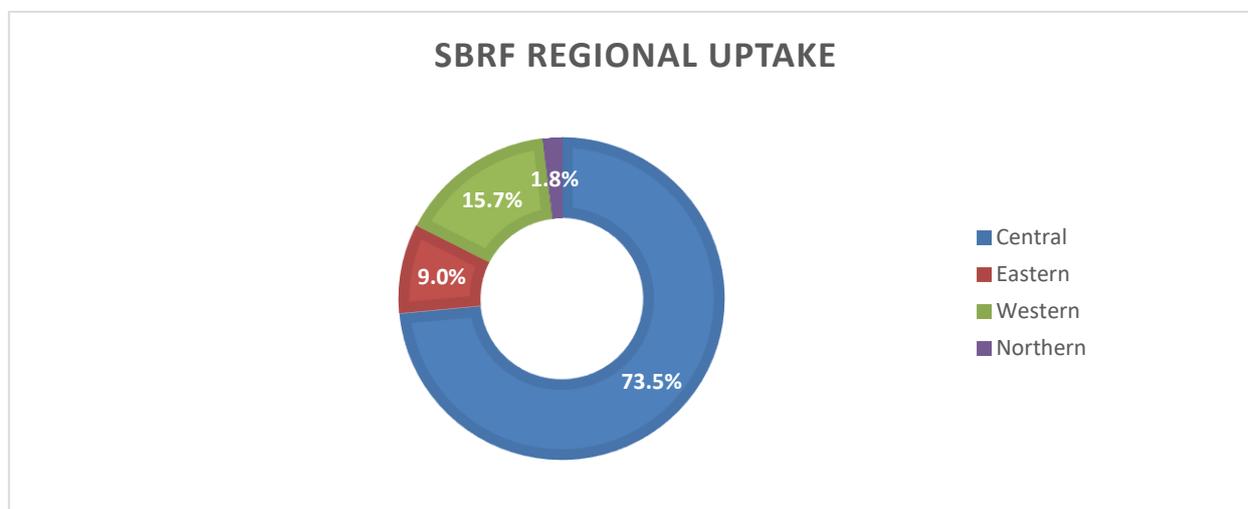
Table 2: Performance in the quarter ended September 30, 2022, compared to the previous quarter

Portfolio Classification	30-Jun-22	30-Sep-22	Change
	UGX	UGX	UGX (% change)
Number of loan Applications Received	305	560	255 (84)
Value of loan applications Received (UGX)	4,761,400,000	7,145,900,000	2,384,500,000 (50)
Number of Approved loans	190	489	299 (157)
Value of approved loans (UGX)	3,000,000,000	5,795,300,000	2,795,300,000 (93)
Number of Loans Disbursed	122	398	276 (226)
Total Value of Loan Disbursements (UGX)	857,300,000	4,839,400,000	3,982,100,000 (464)
GoU Contribution - Loan Disbursements	428,650,000	2,419,700,000	1,991,050,000(464)

Source: BoU-ACF data

In the quarter ended September 30, 2022, **255** new applications were received by BoU for reimbursement, representing 84 per cent increase in loan applications compared to the previous quarter. The disbursements also increased by **UGX 3.9 billion** to **UGX 4.8 billion** from **UGX 857 million** in the quarter ended September 30, 2022. The increase in uptake this quarter is attributed to the aggressive marketing by BoU to sensitise the business community about the available funds and the commitment by some of the partnering PFIs, specifically Opportunity Bank(U)Ltd, Pride Micro Finance Ltd, and Finance Trust Bank Ltd. With the amendments to the MoA, BoU is optimistic that the uptake will increase further.

Figure 1: Regional utilisation of SBRF as at September 30, 2022



Source: Bank of Uganda-SBRF data

From the chart above, most of the SBRF financing has gone to the central region (73.5 per cent) followed by the Western region (15.7 per cent). This is because most of the affected businesses are mainly in the central region while most upcountry small businesses especially in northern and eastern Uganda, are engaged in agri-business and can benefit under the Agricultural Credit Facility (ACF). This is, however, an indicator that there is a need to scale up awareness in the eastern and northern regions, where uptake is still very low.

6 PUBLICITY ENGAGEMENTS

Several public engagements have been undertaken to increase awareness and drive uptake of the SBRF since its launch in November 2021. The table below highlights the publicity engagements that were undertaken by September 30, 2022:

Table 3: Publicity Engagements for the quarter ended September

Region	Activity	Category	Date
Central	Annual financial inclusion forum	Workshop/Seminar	Jul-22
	Gombe-Kitaasa SACCO	Workshop	Aug-22
	Buganda Agricultural Expo	Exhibition,	Aug-22
	Yalta Youth Think Tank	Workshop	Aug-22
	Spark TV talk show	Television talk show	Aug-22
	Dembe FM	Radio talk show	Sep-22
	Seeds of gold farm clinic-Namulonge	Agric Show& Radio talk show	Sep-22
	New Faces New Voices Forum	Women Group	Sep-22
	Mityana Cultural &Trade Expo	Exhibition,	Sep-22
Eastern	Source of the Nile Agricultural Show	Exhibition	Aug-22
Western	Seeds of Gold Farm Clinic-Kabale	Agric Show& Radio talk show	Jul-22
	Mid-western trade fair exhibition	Exhibition	Aug-22
	FortPortal Tourism Expo	Exhibition	Aug-22
	Farmers magazine article	Publication	Sep-22

7 CHALLENGES

Some PFIs have not embraced the scheme due to the restrictive guidelines. These restrictions largely contributed to the poor uptake of the fund, with only 2.4 per cent of the fund having been utilised as of September 30, 2022.

Other challenges include:

- 1) Some PFIs have liquidity constraints and therefore are not able to match the 50% Government of Uganda contribution. They requested the Government to consider increasing its contribution to the Fund.
- 2) The cost of serving customers in this bracket was high, and yet the interest rate, which is capped at 10% per annum, is too low to cover these costs.
- 3) Although the fund 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 lacked collateral to access financing.

8 WAY FORWARD

Following the signing of the addendum to the SBRF on November 09, 2022, BoU issued a circular to all PFIs on the approved amendments to the SBRF-MoA. It is expected that these amendments, once applied, will motivate the PFIs to increase the uptake of the fund. In addition, BoU will continue to engage with the PFIs and encourage them to participate in the implementation of the fund. As fund administrator, BoU plans to continue with the countrywide sensitisation campaigns to inform the public of the fund and the new improved amendments, such as popularising the Block Allocation model under the fund, which will favour the small businesses that have no traditional collateral like land titles. As is the case under the ACF, the Block Allocation model allows the PFIs to consider alternative collateral requirements like group guarantees, borrower's credit history and cash flow to extend credit to them.