

A Rapid Assessment of the Effect of the COVID-19 Lockdown on Micro, Small and Medium Transport businesses in Uganda

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Executive Statement

Since the outbreak of the COVID-19 pandemic, Uganda has instituted two lockdowns—in March 2020 and June 2021. The second lockdown to contain the spread of COVID-19 has had far-reaching effects on a wide range of businesses. A rapid assessment was conducted to assess the lockdown effects on businesses in greater Kampala metropolitan, covering; market vendors, teachers, transport sector, fuel stations and households. The study results for businesses engaged in the transport sector show that contraction in economic activities due to the lockdown is associated with adverse effects of government tax revenue – for example, fuel tax revenue.

Introduction

Uganda adopted several containment measures to address Coronavirus (COVID-19) pandemic. Since the outbreak of the COVID-19 pandemic, Uganda has instituted two lockdowns—in March 2020 and June 2021, characterized by restrictions on public transport and a dusk to dawn curfew. The second wave has had more devastating public health consequences, with the number of recorded cases more than doubling during the two months of May and June 2021. Specifically, the number of reported cases increased from 50,721 at the beginning of May 2021 and reached 100,288 at the beginning of July 2021. In tandem, the COVID-19 related deaths increased more than six-fold from 350 at the beginning of May 2021 to more than 2100 by July 2021. The only viable hope of containing the pandemic is through massive vaccination of the population. However, due to the limited global availability of vaccines, a small proportion of Ugandans, like many other African countries, have received at least one COVID-19 jab. The number of Ugandans who received the COVID jab increased from 330,000 at the end of April 2021 to 672,000 by the end of May 2021 and had reached 1.376 million by the end of August 2021 as more vaccines became available.

Significant sectors of the economy, such as agricultural-related businesses, manufacturing, tourism, and education, have been devastated by the actions undertaken to contain the spread of the pandemic. The Bank of Uganda anticipates that GDP growth will fall below 4% in FY 2021/2022. For FY 2020/21, the tax revenue loss was UGX 2,375 billion or 11% of the targeted revenue occasioned by reduced economic activities (Uganda Revenue Authority, 2021).¹ Tax revenues are also projected to be affected further in FY 2021/22 if significant sections of the Ugandan economy remain closed due to the pandemic. Given the precarious situation the Ugandan economy finds itself, it is important to consider what else needs to be done to (i) support enterprises that have been affected by the pandemic;

(ii) rethink new ways and means of supporting the growth of the economy (especially the MSMEs, which are the largest contributor of GDP) under inevitable lockdowns with the relatively low rates of COVID-19 vaccination rates; (iii) safely reopen critical sectors of the economy.

Since August 2020, the Economic Policy Research Centre (EPRC) has been implementing a 3-year collaborative study on the Socio-Economic Impacts of COVID-19 on Business Enterprises in Uganda under the International Development Research Centre (IDRC) Canada supported COVID-19 Responses for Equity (CORE) Initiative Project. The broad objective of this study is to produce evidence to inform policies, measures, and strategies to mitigate socio-economic impacts of COVID-19 on the MSMEs, as well as interventions required to re-activate the resilience of the Ugandan economy in the post-COVID-19 era. During the second lockdown, EPRC conducted a rapid assessment of the lockdown effects on enterprises and livelihoods. The objective was to understand the effects of the first and second lockdown on economic activities. The survey was undertaken in July 2021 and covered fuel stations, retail outlets, market vendors, and other businesses in the Greater Kampala Metropolitan area (i.e. Kampala, Wakiso and Mukono districts).

Transport is both a source of employment and livelihood for a significant share of the Ugandan population. The 2019-2020 UNHS report shows that 6.9% of households report having an economic enterprise in the transport and storage sector—up from 5.1% in 2016/17 (UBoS, 2021). Furthermore, transport accounts for an increasing share of the household budgets in urban areas—9.8% in 2019/2020, up from 6.9% in 2016/17. In addition, the sector is an important source of employment for the youth (persons aged 18-30 years). This policy note focuses on businesses engaged in the transport businesses—fuel stations and Boda-Boda riders.

The GoU instituted several measures that affected MSMEs. Concerning enterprises involved in the transport business, the government prohibit all

movements of private cars. All public passenger vehicles (i.e. taxis, buses etc.) were suspended. Only lorries, trucks, pick-ups and other delivery goods vehicles were allowed to continue to operate but restricted to only the persons carried. During the first lockdown, delivery vehicles were limited to only three persons, and during the second lockdown, the number of permitted persons was reduced to two. Boda-Bodas were allowed to carry and deliver goods without passengers. Furthermore, they had a shorter operation timeline as their curfew started at 5:00 pm compared to 7:00 pm for the wider public.

Approach used in the rapid assessment

Ten communities/Local Council 1(LC1) in which major markets in Kampala Metropolitan are located were selected for the rapid assessment survey. In Kampala district, four divisions were selected, namely Kawempe, Lubaga, Central Division, and Nakawa. In Mukono and Wakiso three (3) communities—where the largest markets are located—were selected. Accordingly, a total of 51 respondents (03 females and 48 males) were interviewed using a semi-structured questionnaire. Data was collected through face-to-face interviews with boda-boda riders, special hire (truck) operators and fuel attendants and managers. During the rapid community survey, the research team used the LC system to trace taxi and special hire drivers within their respective communities.² Both quantitative and qualitative data was captured and used in reporting findings in this policy note. For example, we conducted a simulation of the potential fuel tax revenue implication of the second lockdown, based on changes in day and night shift fuel volumes and the current fuel tax regime parameter of UGX 100 per litre of fuel.

Table 1 Sample sizes by category of survey respondents

Category of respondent	Sample sizes		
	Total	Men	Women
Operators of fuel and gas stations (5 managers & other staff)	10	07	03
Transport operators (20 boda-boda riders; 11 truck drivers; 4 special hire drivers; 3 Taxi drivers; 2 Tukutuku riders; and a pick-up driver)	41	41	00
All respondents	51	48	03

Lockdown effects on transport operators

Individuals in the transport sector experienced a much severe income shock as a result of COVID-19 lockdown. Whereas the boda-bodas were allowed to carry cargo, the riders indicated that the restrictions in public transport resulted in a decline in both traders and customers as most people buy food items from nearby markets where they can walk, thus a decline in incomes. Furthermore, the number of orders one gets depends on the networks and relationship with traders since they (traders) tend to use the ones (riders) they trust. Some customers send their boda-bodas directly to come to pick their goods. Furthermore, there has been an increase in boda-bodas on the markets precincts since all the other stages do not have customers. Worse still, the customers are also willing to offer less money since they are also not working. The situation is even worse for taxi operators who completely stopped operations. As shown in Table

2, the average daily incomes for boda-bodas reduced by two-thirds, while that for special hire and taxi drivers reduced by 69 percent and 90 percent, respectively.

Table 2 Average daily earnings of transport operators

	Before the lockdown (UGX)	During the second lockdown (UGX)	Percentage reduction
Boda boda	36,000	11,900	66.9
Special hire	120,000	37,000	69.2
Taxi drivers	30,000	3,000	90.0

*Note: Monetary values are rounded to hundreds
Source: Survey data, July 2021.

Due to income shocks, transport operators are experiencing challenges meeting their bills (such as rent), servicing loans, and accessing food items. Those who had accumulated savings have depleted them to maintain their motorcycles and purchase food items at home. In addition, boda-boda riders who were servicing bank loans or had acquired motorcycles on loan cannot make payments, yet interest is accumulating. Some of them have contracted more debts to pay bills. Those who were contributing to saving groups are unable to meet their obligations.

“Government instituted lockdown with good intentions of curtailing the spread of COVID-19 but did not have any plan for people like us who were completely stopped from working. Some of us did not have any secondary source of income and had not accumulated any savings since we were still recovering from the first lockdown. In fact am worried whether I will resume working since the boss may sell the car like many others are doing” -KII with taxi driver, July 2021].

“The lockdown got me when I had just acquired the motorcycle on loan. I deposited all my savings with the seller. Currently am unable to make installment payments as per the agreement. But I discussed with the seller and he accepted to extend the payment period” -KII with boda-boda rider, July 2021].

“During this lockdown, I ran short of money to cater for my family. I discussed with my wife and we brainstormed on what to do. Since we had two mattresses, we decided to use the bed and one mattress as collateral to acquire a loan from my friend to buy food items and pay rent” -KII with boda-boda rider, July 2021].

Inability to get food from villages and monitor projects in the villages. Unlike the first lockdown, the second lockdown came with a ban on inter-district travel, making it difficult for some boda-bodas to (i) get food from the villages; and (ii) monitor the small projects they were implementing in the villages to complement their income.

I had a poultry project at home in Katende, Mpigi district where my wife stays. I stay in Bulenga and used to go and check on the project and take feeds every weekend. When they banned inter-district travels, I could not take feeds and other inputs, also monitor the project. Even if they can buy the inputs from there, my wife cannot properly manage the project. Currently I am told some have died” -KII with boda boda rider, July 2021.

“Some boba-boda riders get orders late (close to 5:00pm) and because they want the money, they decide to risk and take up the orders. However, they end up being caught by curfew. Remember curfew for boba-bodas is 5:00pm and yet it is 7:00pm for others” – KII with Boda-boda rider, July 2021.

Issues with security and curfew: Security officers harass the boba-boda riders when they have no cargo yet they can be coming to pick orders from the market. In addition, the moment it reaches 5 pm, security officers start arresting them even when they are going home. They ask for money to release their motorcycles.

Coping strategies by transport operators

Most of the coping strategies adopted by transport operators, mainly boba-boda riders and taxi drivers, are associated with adverse welfare implications. On the one hand, there was a depletion of assets. As a way of surviving, boba-boda riders and taxi drivers whose daily income has greatly diminished have resorted to selling household assets (such as electronics - TVs and Hoofers, beds, tables etc.) to survive. On the other hand, there are nutrition and food insecurity concerns. Due to a decline in income, most families have reduced both the amount of food eaten and the frequency of meals. They have switched to cheaper food items - mainly posho and beans.

“In the first lockdown, I sold my 6x6 bed. This time, when the second lockdown was announced, I immediately ordered for selling of my goats in the village and I stocked food items. Along the way, I have also sold my TV and a Table” -KII with Boda-boda rider, July 2021.

“When the first lockdown was instituted, I used the savings I had to start a piggery project. By the time of the second lockdown, the project was doing fairly well and enabling me to survive. I plan to expand this project after the current lockdown” -KII with boba-boda rider, July 2021.

“When the lockdown was instituted, I tried to switch to selling mukene using my motorcycle but later I realized that it would only be profitable if I was able to get the Mukene from the landing site myself, but existing restrictions could not allow that. I therefore abandoned the business and opted for selling some perishable food stuff as I wait for orders, but this also not moving well due to low demand” -KII with boba-boda rider, July 2021.

Nonetheless, some transport operators who had accumulated some savings have switched to other businesses. Some boba-boda riders diversified into other sources of livelihood such as livestock projects, businesses, especially market stalls selling food items, bricklaying etc. However, some of these businesses are on a very small scale, some of which are still struggling. For instance, selected boba-boda riders indicated that;

Lessons learnt and plans

The lockdown has enabled transport operators to realize the importance of saving and diversification of income sources. Both taxi drivers and boba-bodas agree that diversification of income sources is critical for their survival in income shocks in the transport sector. In this regard, most of them plan to establish alternative sources of livelihood immediately after the lockdown, such as small businesses dealing in food items and engaging in commercial agriculture since these are never closed. Specifically, KII indicated that;

“After the lockdown, if I happen to get back the taxi I was driving (there is a possibility of not getting it back because the boss may sell it), I will save for three months and then start a small business to be managed by my wife and I continue driving”-KII with taxi driver, July 2021.

“After the lockdown, I will open up a garage for motorcycles since I had already learnt how to repair motorcycles before the lockdown” -KII with taxi driver, July 2021.

Taxi drivers and boba-bodas also acknowledged the importance of saving. Accordingly, some indicated that they would join Saving and Credit Cooperatives (SACCOs) or saving groups when the lockdown is eventually lifted to accumulate capital for investing in alternative sources of livelihood and deal with unforeseen eventualities. Minimizing wasteful expenditure will enable them to accumulate some savings. In this regard, they request the government to support their SACCOs and Saving Groups.

Effects of COVID-19 lockdowns on fuel stations

All fuel stations experienced a business slump. Due to the COVID-19 induced lockdown, business is at its lowest point in fuel stations. Station turnover and profitability are at the weakest points, and this is leading to shrinking liquidity. Most stations reported that they had not refilled their fuel tanks since the second lockdown began, unlike before, when they used to refill about two to three times a week. The macroeconomic implication of slump is the reduced stations’s ability to effectively pay tax (the potential tax revenue effects of the lockdown is discussed in the subsequent sub-section of the policy note).

Table 3 illustrates that due to the lockdown, all fuel and gas stations are experiencing a sharp decline in key business performance areas such as; traffic volume at the fuel stations (decline of 71%), turnover (decline of 73%), fuel volume (decline of 64%), and demand (74% reduction). In addition, the fuel stations reported that losses are setting in. All the fuel and gas stations reported a decline in profitability. The profitability reduction ranges between 50% and 70%, depending on the station.

Table 3 Changes in fuel station business performance before and during the second lockdown

Parameter	Fuel Stations affected, %	Percentage decline, (%)		
		Average	Min.	Max.
Traffic volume decline	100	71	40	90
Reduced fuel volume sold (litres)	100	64	50	90
Reduced turnover	100	73	60	90
Reduced demand	100	74	60	90
Profitability decline	100	56	50	70
Reduced fuel supply	40	29	0	50

Source: Author’s computation using data from a rapid survey of fuel & gas stations (July 2021)

Employee lay-off and welfare

Fuel stations reacted to the reduction in vehicle traffic by instituting several measures that directly impacted their employees. First, fuel stations reported implementing lay-offs. At least 70% of the fuel and gas stations surveyed reported laying off workers. The stations that did not lay-off workers introduced the working in shifts—where employees worked for fewer hours with correspondingly less pay. For stations that didn’t introduce shifts, some instituted salary cuts due to the reduced workload arising from a decline in traffic, client and sales volumes. The stations that introduced shifts as opposed to lay-offs reported relatively less severe impacts on employee welfare. Nonetheless, those that introduced working in shift (without laying-off) are big players in the industry (for example, stations operating under premium brands such as Shell and Total). Majority of the stations that laid-off workers are small stations without the backing of established brands.

Beyond lay-offs, the lockdowns were associated with a significant reduction in pay for fuel-station employees. Almost all employees have suffered salary cuts. The average decrease in salary is by 15%, and the cut in salary (for the stations that cut salary) ranges between 10% and 50% (Table 3). Furthermore, at least 70% of the surveyed stations reported instituting additional pay-related penalties, e.g. not paying employees who cannot make it to work due to travel and lockdown restrictions.

Close to 30% of employees have been laid-off due to the lockdown (Table 4). According to the Ministry of Energy and Mineral Development (2020), there are 1,030 licensed stations in Uganda, employing an estimated 14,000 workers before the lockdown. Due to the challenges presented by the lockdown, this reduced to an estimate of between 8,000 and 9,000 workers.

Table 4 Employment statistics in fuel and gas stations

Parameter	Statistics
Average staffing before lockdown	13
Staffing before lockdown (min.)	5
Staffing before lockdown (max.)	24
Average staffing during lockdown	8
Staffing during lockdown (min.)	3

Parameter	Statistics
Staffing during lockdown (max.)	21
Employees laid-off, %	30
Salary reduction, % (avg)	15.3
Least salary reduction, %	10
Highest salary reduction, %	50
Stations not paying staff not in a position to report to work, %	70
Licensed petroleum retail outlets in Uganda	1,030
Potential (estimated) countrywide jobs in licensed stations before lockdown, total	14,000
Estimated countrywide employment in licensed stations during the lockdown, total	8,240

Source: Author’s computation using fuel & gas stations rapid survey data (July 2021) and Ministry of Energy & Mineral Dev’t (2020).

Possibility of business closure: Information reported from some stations indicate that due to the lockdown crisis, some stations are expected to close (especially small-scale stations). Some of them will attempt to avoid or evade taxes due to the downturn, which will be problematic.

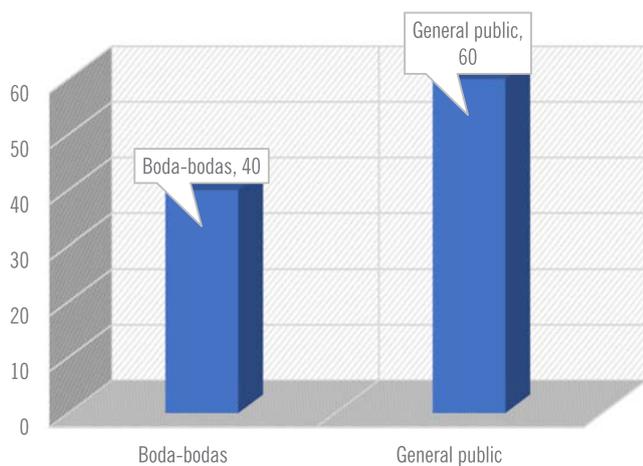
Other effects reported include extra operational costs due to the need to adhere to SOPs (masks, sanitizers, hand washing, etc.); high transport cost (cost of transportation has on average doubled); increased risk of contracting the virus by workers due to money (cash) handling; and on a positive note - increased hygiene level at fuel stations, majorly driven by the need to adhere to SOPs.

The negative effect of the new tax: As part of the FY 2021-2022 Budget, the Parliament approved an increase in the excise duty of petroleum products by UGX 100 per litre. The implementation of the new tax started on 1st July 2021, about 2 weeks after the commencement of the second lockdown. The survey team asked fuel dealers the likely impact of the new tax, if any, given other disruptions. It was reported that the tax was introduced at a “wrong time” – i.e., during a pandemic or lockdown, when businesses are experiencing a downturn. The tax has led to an increase in fuel prices, and this is negatively affecting demand. It was noted that higher taxes on fuel affects all value chains of businesses, given the indirect impact on transport costs.

What drove the variation in turnover?

They were reduced traffic volume due to vehicle and boda-boda movement restrictions and locking of private vehicle owners. As shown in Figure 1, the main clients for the fuel stations interviewed are the general public (mainly private vehicles) and boda-boda cyclists. However, these two categories of clients were among the most affected by the lockdown-related travel restrictions. This implied that the fuel stations experienced a sharp drop in demand as the usual clients vanished. Furthermore, the restricted duration of operations also affected turnover. The fuel stations that worked actively up to 9:00 pm before the lockdown had to curtail halt operations before 7:00 pm to fit within the curfew guidelines.

Figure 1 Main fuel station clients, % of stations



Source: Author's computation using data from a rapid survey of fuel & gas stations (July 2021)

There is a possible effect of lockdown on tax revenue generated from fuel. When conducting the rapid assessment in July 2021, most fuel stations were selling products sourced before the lockdown, given the logistical lag in delivering petroleum products. Nonetheless, the team estimated a back-of-the-envelope cost of lockdown to the government through reduced taxation of petroleum products. The estimate shows that the potential fuel tax revenue loss was to the tune of about UGX 42 billion, only within the lockdown period (June and July 2021) – Table 5. This is only from licensed fuel and gas stations. The loss is potentially higher than this estimated figure because significant fuel is sold elsewhere, outside licensed fuel and gas station settings. However, it should also be noted that actual revenue is possibly a little lower than the estimate due to significant non-compliance (cheating, adulteration, etc., by some fuel stations) and seasonality.

Table 5 Fuel tax revenue implication of the lockdown

Parameter	Value
Fuel volume before lockdown – day shift daily average (Liters)	3,500
Fuel volume – month (day shift)	105,000
Licensed fuel stations	1,030
Fuel volume - month: licensed stations	108,150,000
Fuel tax @ liter, UGX	200
Potential monthly tax revenue from licensed stations, UGX	21,630,000,000
Potential two-month tax revenue from licensed stations, UGX	43,260,000,000
Average fuel volume decline, %	64
Estimated tax revenue loss in lockdown period (2 months – day shift), UGX	27,686,400,000
Estimated revenue loss (day and night shift fuel volumes) - lockdown, UGX	41,529,600,000

Source: Author's computation using fuel & gas stations rapid survey data (July 2021) and Ministry of Energy & Mineral Dev't (2020).

Other challenges faced by fuel stations

- **Fuel smuggling:** This is affecting formal fuel businesses which have to compete with the fuel smugglers. The smugglers don't pay taxes, so they distort market prices by selling fuel at lower prices.
- **Stagnant fuel margin:** As reported by fuels stations, fuel margin has been constant for decades, affecting business growth at the fuel station level.
- **Pandemic dilemma for fuel stations**

We are in a serious dilemma because the lockdown can't allow people to move. However, our fuel business requires people to move. If people move, we have business, but the pandemic and the induced lockdown doesn't allow people to move freely.

Coping strategies

- **Cost minimization:** This has been implemented through staff lay-off, the introduction of shifts, and salary reduction.
- **Adherence to SOPs** (wearing masks, hand sanitizing)

Potential Issues of concern if lockdowns are extended

Issues of major concern in case the current lockdown is extended

The fuel businesses expressed significant concerns about reduced demand if the lockdown was ever extended beyond the 42 days (results are presented in Table 6). Half of the fuel stations mentioned reduced demand as the first major concern in lockdown extension, and the rest (50%) expressed reduced demand as a third primary concern. The key consideration here is that demand is already subdued currently, and further lockdown will worsen it. Another major concern was reduced ability to pay the cost, expressed by a third of the fuel stations. Other issues of major concern for the fuel stations if the lockdown is extended include; business closure (especially for small fuel stations – 25%), loan repayment challenges (20%), reduced productivity, and reduced fuel supply (reported by 43% of the stations as a second major concern).

Reduced demand, which stands out as the most significant issue of concern, will have far-reaching effects regarding reduced turnover, adverse effects on employment, further tax revenue decline, and generally contraction in economic activities.

Table 6 Major business concerns if the lockdown is extended

	1st major concern, %	2nd major concern, %	3rd major concern, %
Business closure	25	-	-
Loan repayment	20	20	-
Reduced demand	50	-	50
Reduced productivity	11.11	33.33	11.11
Reduced ability to pay costs	33.33	33.33	33.33
Reduced fuel supply to the station	-	42.86	-
Reduced fuel import	-	-	-

Source: Author's computation using data from a rapid survey of fuel & gas stations (July 2021)

Key lessons learnt from the lockdown

As reported by the fuel station respondents, there is a need to conduct some business sections digitally, e.g., LPG (gas). However, it is observed that it is almost impossible to operate the main business line (fuel such as petrol and diesel) in a digital mode due to the flammable and dangerous nature of such energy. Also, there is fear of going digital due to cyber insecurity – several respondents reported that digital business suffers from potential fraudulent digital activities.

7. Recommendations

- The government needs to work with chairpersons of different stages to establish a credible database for taxi drivers and Boda Boda riders. This can regularly be updated as new members come on board or exit the industry. This will make it easy for the government to reach these people in case of any assistance.
- Reduce landing cost of fuel, including tax. The new tax should have been introduced after the lockdown when businesses recover or normalize. It was suggested that the new fuel tax should be put on hold, particularly during the lockdown (i.e., there is a need for a tax holiday during the lockdown).
- Consider Fuel and Gas Station workers as “essential workers” since no activities can effectively be conducted in other sectors of the economy without efficient transport services (which require fuel).
- Improve fuel margin for fuel stations to foster business growth.

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Endnotes

- 1 Uganda Revenue Authority (2021) Annual Press Brief for the Period July 2020 to June 2021.
- 2 Some transport operators could not be traced directly since they were not operating during the lockdown and hence could not be accessed through their work places.

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