The Effect Of Covid-19 Pandemic On Access To Credit From Financial Institutions In Uganda

by

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Abstract

Rationalizing the COVID-19 international public health crisis, this paper assesses the effect of COVID-19 pandemic on access to credit from financial institutions in Uganda. The lockdown affected access to credit from financial institutions by all regions, sectors, yet businesses plays a remarkable role towards the economic growth and development of the economy. The study used a cross-sectional descriptive design and results revealed that there was no significant difference between the average proportional of access to credit and the average proportional of no access to credit in different regions as indicated by a p-value (0.0624), no significant mean difference between the proportional of large enterprises and SMEs that had access to credit and the proportional of large enterprises and SMEs that had no access to credit during the COVID-19 at 5% level (P-value=0.5542, Mean difference=9.75%) and no significant difference between the proportional of sectors that had access to credit and the proportional of sectors that had no access to credit during the COVID-19 period in Uganda at 5% level (P-value=0.2794, mean difference=6.5%). The study recommended that there is need to extend financial support to eastern region, manufacturing and services sector and BoU to encourage financial institutions to extend more credit to small, medium, and micro enterprises.

Keywords: *COVID-19, Credit access, Financial Institutions, Large enterprises, SMEs, Service sectors, and Uganda*

Introduction

A total loan of 5.9 trillion Uganda shillings was granted credit relief in April-June. As of July 4.8, trillion was dedicated for credit relief in all financial institutions equivalent to 31.2% of total loans and acceptance rate from the banks was 98.3% followed with 893, 018 approved applicants. Bank of Uganda (BOU) authorized the financial supervised institutions to restructure individual and corporate loans induced COVID-19 lockdown and its effects on small, medium and big businesses (Sunday, 2020). BOU approved loan repayment holidays from April-June 2020 with

Non-Functioning Loans (NFLs) stand at 5.8 % and expected to increase since many businesses are in distress (Sunday, 2020) and unable for routine loan serving has affected banks' assert quality. There is limited access to loans due to pandemic misconceptions by borrowers in terms of eligibility (Monitor, 2020a; Softpower, 2020) this continues to poses challenges related to restructuring loans (Kamoga, 2020; Monitor, 2020c; Mpanga, 2020).

Access to credit from financial institutions by all regions, sectors, yet businesses plays a remarkable role towards the economic growth and development of the economy in Uganda. For instance, it supports the continued operation of businesses and also supports access to inputs by different sectors in the Country. However, when COVID-19 emerged in March 2020, it constrained the continued operation of businesses and some key sectors due to the tight COVID measures which resulted into limited access to credit from the financial institutions due to restrictions on the activities of businesses and limited transportation services. In response to this problem, Bank of Uganda (BoU) set up measures with a purpose of supporting the continued access to credit. The measures put in place included; reducing the Central Bank Rate (CBR) by 1% to make it 8% and providing liquidity support to the financial institutions (Karugaba, 2020). Therefore, this study examines the effect of the outbreak of COVID-19 on access to credit in; the regions of Uganda, SMEs, and sectors of the economy in Uganda.

Objectives

General objective

The purpose of the study is to examine the effect of COVID-19 pandemic on access to credit from financial institutions in Uganda

Specific objectives

I. To examine whether there was an average difference between the proportional of access to credit and the proportional of no access to credit in different regions of Uganda during the period of COVID

II. To establish if there was a mean difference between the proportional of large enterprises and SMEs that had access to credit and the proportional large enterprises and SMEs that had no access to credit during the COVID period in Uganda.

III. To examine whether there was an average difference between the proportional of sectors that had access to credit and the proportional of sectors that had no access to credit during the COVID period in Uganda

Hypotheses (Alternative hypotheses)

Ha1: There is a significant mean difference between the proportional of access to credit and the proportional of no access to credit in different regions of Uganda during the period of COVID-19 ($\mu_1 \neq \mu_2$)

Ha2: There is a significant mean difference between the proportional of large enterprises and SMEs that had access to credit and the proportional of large enterprises and SMEs that had no access to credit during the COVID-19 period in Uganda ($\mu_1 \neq \mu_2$)

Ha3: There is a significant average difference between the proportional of sectors that had access to credit and the proportional of sectors that had no access to credit during the COVID period in Uganda ($\mu_1 \neq \mu_2$)

Literature Review

Interventions On Access To Credit

Greater efforts and innovations by microfinance institutions are required to effectively respond to the emerging community needs to support people to remain resilient and be adaptable to the effects of the pandemic. All supervised financial institution granted credit relief of loans to their clients worth Shs5.9 trillion as measure to mitigate the impact of COVID-19 on credit accessibility. Financial institutions especially banks re-scheduled loan repayments for customers whose and business have been impacted by the coronavirus pandemic (Kasemiire, 2020). Financial institutions also adjusted their operational hours in line with the COVID-19 Presidential directives aimed at ensuring the safety of its staff, customers and other stakeholders aimed enhancing credit access services. Bank of Uganda (BoU) in its Monetary Policy Statement for April 2020 noted a deterioration in macroeconomic conditions and adopted measures that are aimed at ensuring continued access to credit also reduced the Central Bank Rate by 1% percentage point to 7% percent down from 8% and provision of liquidity assistance for financial institutions that need it (Patrico, 2020), to ensure adequate access to loans and normal functioning of the financial markets, according to the monetary policy statement for April 2020 (Monitor, 2020a; Sunday, 2020; UN, 2020).

The population that encountered challenges to access credit due to closure of some financial institutions digital banking channels such as mobile banking platforms, ATM machines, mobile banking apps, financial agents across the country among others aiming helping people to access credit effectively. According to Kajoba (2020) the head of FINCA Uganda Mr. Robert Kakande one of the prominent financial institutions claimed that they decided to develop a number of products including self-managed group loans, personal development loans, small enterprise and agriculture loans products will enable people to access credit better in this time of COVID-19.

More to that, BOU as the regulator of all financial institutions restricts the Supervised Financial Institutions (SFIs') ability to restructure loans because they use depositors' funds to extend loans and BOU has a duty to protect those funds from being continually made available to borrowers who are not in a good financial position to pay. These restrictions are also meant to ensure that SFIs maintain adequate capital levels as an overall financial stability and depositor protection measure that will enable continuous accessibility of credit to the people (Monitor, 2020a). The BOU has ensured that the contingency plans by financial institutions guarantee the safety of customers and staff through counited supervision of the financial institution's operations (Monitor, 2020a).

Methodology

The study used a cross-sectional descriptive design since it was investigating the effect of COVID-19 on access to credit during the period of COVID-19 in Uganda. The study used only quantitative approaches (Higgins, 2001) which involved presenting the findings in numeric form and using empirical tests. The study was guided by only secondary data (Johnston, 2017) that was obtained from the Rapid Business Climate Index (BCI) survey and Economic Policy Research Centre (EPRC) in 2020. The study used independent sample t-test (Gerald, 2018) to test whether the mean difference significantly existed among different variables at 5% level. The analysis was conducted using STATA version 14 (Hamilton, 2012).

Findings From The Study

The findings presented in this section are in light with the specific objectives of the study and they give answers to the study hypotheses.

The Effect Of Covid-19 Pandemic On Access To Credit In Different Regions In Uganda

Different regions in Uganda have different levels of demand for credit from financial institutions because of varying levels of economic activities. The stringent COVID-19 measures such as restrictions in movements and closure of businesses could have affected in one way or the other the accessibility level to credit in different regions in Uganda. Thus, this study presents a comparative analysis to ascertain whether the level of accessibility to credit was significantly different across different regions in Uganda. The findings are presented below using an independent t-test at 5% level.

Table 1: Independent t-test examining whether there was mean difference between the proportional of access to credit and the proportional of no access to credit in different regions of Uganda during the period of COVID-19

Two-sample t test with equal variances

Variable	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf.	Interval]
Credit~s	5	21.4	7.03278	15.72578	1.873871	40.92613
No_cre~s	5	57.4	15.07515	33.70905	15.54469	99.25531
combined	10	39.4	9.873871	31.22392	17.06375	61.73625
diff		-36	16.6349		-74.36016	2.360155

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    diff = mean(Credit_Access) - mean(No_credit_access)           t =  -2.1641
Ho: diff = 0                                     degrees of freedom =        8

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.0312         Pr(|T| > |t|) = 0.0624          Pr(T > t) = 0.9688
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Source: Author's own Computations based on BCI survey and ECPRC (2020)

Considering a two tailed test, the study revealed that there was no significant difference between the average proportional of access to credit and the average proportional of no access to credit in different regions in Uganda as indicated by a p-value (0.0624) which is greater than the 0.05 level of significance. This implies that the percentage of access to credit was significantly the same as that which had no access to credit from financial institutions in different regions of Uganda during the COVID-19 period. The findings may also imply that although there were tight measures that could have limited access to credit from financial institutions, the evidence shows that the average percentage level of access to credit in Kampala, central, western, eastern and northern region was almost the same as that with no access to credit. However, the average percentage level of access to credit is observed to be slightly below the percentage level of no access to credit in different regions. Thus, this is an indicator that there was no deviation between access to credit and no access to credit in different regions during COVID times in Uganda.

A wide range of suggestions within the financial sector emerged during the COVID-19 which financial institutions are dealing with (holiday repayments to maximium of 12 months, credit reliefs granted for 12 months, consumer protection on credit relief, reduction of 1% on the interest to increase financial access, Supervision Financial Institutions-SFIs, credit status time on granting a repayment holiday remains unchanged & restructuring loan repayments or suspension for 12 months effective April) and continues to deal with in the future due to the effect of COVID-19 pandemic (BOU, 2020; Mpanga, 2020). The measures put in place by government of Uganda to avoid wide spread of the pandemic such as curfew, complete lockdown on 20th March 2020 disrupted the business continuity plans of financial services providers and their operational flexibility that posed a great threat to credit by many businesses and the continued operation of financial institutions that are considered as essential (Softpower, 2020; Sunday, 2020).

In order to curb the spread of the virus, cashless transactions are being encouraged through use digital/ E- transactions such as ATM, mobile banking and internet banking. These practices posed challenges to certain groups of people who lacked the technological skill, internet, and knowledge on how to get credit using these digital plat forms especially people from rural areas coupled with poor internet connections thus affecting effective access to credit (IMFBlog, 2020).

The effect of COVID-19 pandemic on access to credit by large enterprises and SMEs in Uganda

The study investigated whether the level of access to credit by large, medium, small, and micro enterprises was different from the level of no access to credit during the period of COVID-19 in Uganda. The findings are presented below using an independent t-test at 5% level.

Table 2: Independent sample t-test examining whether there is a mean difference between the proportional of large enterprises and SMEs that had access to credit and the proportional of large enterprises and SMEs that had no access to credit during the COVID-19 period in Uganda

Two-sample t test with equal variances

Variable	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf.	Interval]
Credit~s	4	40.25	14.36068	28.72136	-5.452097	85.9521
No_cre~s	4	30.5	6.00694	12.01388	11.38323	49.61677
combined	8	35.375	7.437688	21.03696	17.78766	52.96234
diff		9.75	15.56639		-28.33958	47.83958

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    diff = mean(Credit_Access) - mean(No_credit_access)          t =   0.6263
Ho: diff = 0                                     degrees of freedom =        6

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.7229         Pr(|T| > |t|) = 0.5542          Pr(T > t) = 0.2771
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Source: Author's own Computations based on BCI survey and ECPRC (2020)

The findings from the study show that there was no significant mean difference between the proportional of large enterprises and SMEs that had access to credit and the proportional of large enterprises and SMEs that had no access to credit during the COVID-19 period in Uganda at 5% level (P-value=0.5542, Mean difference=9.75%). The findings may imply that the percentage of large enterprises and SMEs that had access to credit and those that had no access to credit was significantly the same in COVID period. The findings may also imply that the outbreak of COVID-19 in Uganda did not generate disparity in the number of businesses that had access to credit and those that had no access to credit in Uganda.

The measures put in place such as curfew to prevent the spread of the pandemic forced financial institutions to adjust operating hours to 9.00am to 3.00pm and complete closure on weekdays resulting in significant negative effect on service delivery bearing in mind the effective banker-customer relationship depend on creditors and debtors where customers expect to receive money deposited with financial institutions on demand. Due to the time restrictions it was difficult for customers to access credit at any time of their need (Ouko, 2020; Patrico, 2020; Tyson, 2020).

Most financial institutions also closed most of their branches in most parts of the country on failure to meet the costs that increased with the pandemic demands thus making it difficult for people in those places to access credit as they used to before the COVID-19 pandemic thus affecting operations of business (Monitor, 2020b; UN, 2020). Agent Banking (AB) as the second innovation to mobile money banking too was affected by COVID-19, According to Uganda Bankers Association (UBA) money transactions from AB were 2.2 trillion shillings per month during COVID-19 the number of transactions have reduced by 27%-40% coupled with the drop in the number of active agents and the innovation is next to being watered down (Monitor, 2020b).

The pandemic and its related measures raised uncertainties among financial institutions especially borrowers (debtors) and their related comments especially businesses in sectors that have been hit hard by the Covid-19 economic effects such as; hospitality industry, education, transport and service sector. Thus, creating doubts among financial institutions to continue giving/lending out credit to people even when the measures are eased due to fear that their clients may not be in position to pay back. Hence making it difficult access credit in era of COVID -19 (Patrico, 2020; Sunday, 2020).

The Effect Of Covid-19 On Access To Credit In Different Sectors In Uganda

The study also made an investigation to establish whether there was average difference between the proportional of sectors that had access to credit and the proportional of sectors that had no access to credit during the COVID period in Uganda. The findings are presented below using an independent sample t-test at 5% level.

Table 3: Examining whether there is a mean difference between the proportional of sectors that had access to credit and the proportional of sectors that had no access to credit during the COVID period in Uganda

Two-sample t test with equal variances

Variable	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf.	Interval]
Credit~s	3	36.66667	4.255715	7.371115	18.3558	54.97753
No_cre~s	3	30	3.21455	5.567764	16.16891	43.83109
combined	6	33.33333	2.81267	6.889606	26.10314	40.56353
diff		6.666667	5.333333		-8.141041	21.47437

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    diff = mean(Credit_Access) - mean(No_credit_access)           t =   1.2500
Ho: diff = 0                                     degrees of freedom =        4

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.8603         Pr(|T| > |t|) = 0.2794          Pr(T > t) = 0.1397
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Source: Author's own Computations based on BCI survey and ECPRC (2020)

The findings from the study revealed that there was no significant difference between the proportional of sectors that had access to credit and the proportional of sectors that had no access to credit during the COVID period in Uganda at 5% level (P-value=0.2794, mean difference=6.5%). The findings indicate that the proportional of the sectors with access to credit was the same as the proportional of the sectors with no access to credit during COVID-19 in Uganda. The findings may also imply that there was no disparity in the level of accessibility to credit among sectors in Uganda and the level of no accessibility to credit during the period of COVID-19. However, it is noted that the proportional of sectors with access to credit was slightly above the proportional of sectors with no access to credit during the period of COVID-19 in Uganda.

Currently many people especially those interested in loans are un enable to access them due to increased unpredictability and decline in prices across many asset classes that could act as collateral are likely to increase market risk as well as counter party credit risk hence failure to access credit due to low value attached to the assets posed as security to get loans (UN, 2020). The implementation of Current Expected Credit Losses (CECL) due to COVID-19 economic effects has led to a possibility of less favorable economic position causing banks to lose allowances may negatively impact on their ability to avail credit to its customers accompanied with possibilities of borrowers to refinance at longer maturities to lock in lower interest rates. Under CECL, this could result in additional loss of allowances that may make it difficult to service their customer effectively as before hence affecting credit access from financial institutions effectively (Kamoga, 2020).

The impact of COVID-19 on financial institutions operations has affected their capital adequacy buffers due to a likely reduction in deposits from their customers as result of low economic activities operating in the economy. Thus, compelling financial intuitions to restrict the extent to which people can access credit from them thus affecting credit access (Kamoga, 2020). In addition to that many financial institutions have explained challenges of their liquidity buffers strained by the COVID-19 economic negative effects forcing them to set a side liquidity to handle pandemic related additional expenses thus reducing on the credit accessible to the public hence posing restrictions on effective access to credit from financial institutions (Softpower, 2020; UN, 2020).

Conclusions

Effect Of Covid-19 On Access To Credit In Different Regions In Uganda

The study revealed that the average proportion of access to credit between different regions was the same as the proportion of no access to credit during the COVID times. This indicates that the percentage of access to credit in all regions was the same as the percentage of no access to credit during the COVID times in Uganda. Therefore, the study concludes that the growth in COVID-19 in Uganda did not create disparity between access to credit and no access to credit from financial institutions in all regions in Uganda.

The Effect Of Covid-19 Pandemic On Access To Credit By Large Enterprises And Smes In Uganda

The study found out that there was no significant mean difference between the proportional of large enterprises and SMEs that had access to credit and the proportional of large enterprises and SMEs that had no access to credit during the COVID-19 period in Uganda. This implies that much as there were tight COVID measures during the lockdown, the findings revealed that the average number of large enterprises and SMEs that had access to credit were the same as those that had no access to credit. Thus, the study concludes that the outbreak of COVID-19 in Uganda did not create a disparity between the large enterprises and SMEs that had access to credit from financial institutions and those that didn't have access to credit.

The Effect Of Covid-19 On Access To Credit In Different Sectors In Uganda

The study findings revealed that there was no significant difference between the proportional of sectors that had access to credit and the proportional of sectors that had no access to credit during the COVID period in Uganda. This may imply that the average proportion of access to credit by services, manufacturing, and agricultural sector was the same as the mean percentage of no access to credit by the services, manufacturing, and agricultural sector during COVID-19 in Uganda. Thus the study concludes that the outbreak of COVID-19 in Uganda did not create differences/disparity between access to credit and no access to credit by services, manufacturing, and agricultural sector in Uganda.

The study recommends that there is need to extend financial support to eastern region in order to increase on the level of access to credit. Although the study found that the average proportion of access to credit between regions was the same as the proportion of no access to credit, eastern region was somehow affected in terms of access to credit as compared to other regions.

The manufacturing and services sector should be supported in order to get more access to credit from financial institutions. The study noted that the level of accessibility to credit by agricultural sector was slightly above that of manufacturing and services sector.

There is need by the government through BoU to encourage financial institutions to extend more credit to small, medium, and micro enterprises since their credit accessibility level during COVID times was slightly below that of large enterprises.

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