



# **BUSINESS HEALTH INDEX (BHI) REPORT**

**Quarter 3, 2024**

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# Executive Summary:

The Business Health Index (BHI) for Q3 2024 highlights a slight improvement in Uganda's private sector business health, with the overall index rising marginally from 46.33 in Q2 to 46.60 in Q3 2024. Despite this improvement, the index remains below the critical threshold of 50, indicating continued challenges in the business environment. Improved enterprise production, job growth in key service sectors, and better profitability outcomes drove the observed gains.

UDB-funded enterprises demonstrated stronger resilience, recording a BHI of 48.71 in Q3 2024, compared to 45.03 for non-UDB-funded enterprises. Although profitability for UDB-funded enterprises declined slightly due to falling sales revenues, production levels improved significantly. On the other hand, non-UDB-funded enterprises saw marginal profitability gains, primarily attributed to reduced overall production costs.

Looking ahead, the Business Health Outlook Index remained optimistic, though it declined slightly from 62.84 in Q2 to 61.55 in Q3 2024, still above the critical threshold of 50. Businesses anticipate an improvement in production and profitability in Q4 2024, particularly in the agriculture and manufacturing sectors. UDB-funded enterprises showed higher optimism, with an outlook index of 62.49, compared to 60.89 for non-UDB-funded enterprises.

Key challenges persist, with 58% of businesses citing the high cost of financing as a significant barrier, down from 65% in Q2 2024. Utility costs, particularly energy and water, continued to impact 47% and 42% of businesses, respectively, while 59% of companies reported insufficient demand as a critical issue, reflecting broader economic constraints. Transport costs, affected by high fuel prices and poor infrastructure, hindered 40% of businesses.

By sector, agro-processing experienced a notable recovery, with its index increasing from 43.46 in Q2 to 56.26 in Q3 2024, driven by improved access to low-cost, locally sourced raw materials. However, the manufacturing sector faced a further decline, with its index falling to 43.19 in Q3 2024, reflecting raw material costs and production challenges. The education sector showed substantial gains, with its index rising from 42.46 in Q2 to 54.18 in Q3 2024, supported by improved tuition revenues. In contrast, the tourism and health sectors saw declines, partly due to constrained demand.

While the private sector shows signs of resilience and optimism, sustaining recovery will require addressing persistent challenges, particularly financing costs, utility expenses, demand constraints, and transport inefficiencies. Strategic interventions in these areas are essential to improve business health and support economic growth in the upcoming quarters.

## 1.0 Introduction

This report presents insights from the Q3 2024 Business Health Survey (BHS), capturing the current health and future expectations of Uganda's private sector enterprises. The data collected informs the Business Health Index (BHI), a critical measure of business performance, sentiment, confidence, and resilience across various sectors.

The BHI reflects the views of business owners and managers on critical areas such as production, sales, profitability, inputs, and job growth. A higher BHI indicates a robust and vibrant business environment

with increased investments and economic stability, while a decline signals challenges such as constrained profitability and limited enterprise growth.

The Q3 2024 analysis highlights persistent constraints, including high financing costs, poor infrastructure, fluctuating raw material prices, and insufficient demand. Notably, 81% of respondents cited significant.

## 2.0 Data and Methods

The Uganda Business Health Index (BHI) for Q3 2024 is derived from survey data collected in October 2024. This survey targeted 399 enterprises, including 140 UDB-funded enterprises and 259 non-UDB-funded enterprises, representing small and medium-sized enterprises (SMEs) and large-scale businesses. A stratified random sampling approach was employed to ensure broad representation across Uganda's vital economic sectors and varying company sizes.

The survey captured data from critical sectors such as agriculture, agro-processing, manufacturing, tourism and hospitality, human capital development (encompassing education and health), wholesale trade, and other services, which include creative industries, transport, and financial services.

As part of UDB's quarterly assessments, this survey provides an in-depth analysis of perceived business health conditions and future expectations. The Business Health Index (BHI) report for Q3 2024 closely examined the marginal changes in these perceptions relative to Q2 2024, focusing on the direction of change rather than the magnitude. Additionally, the report assessed business health expectations for Q4 2024 compared to Q3 2024.

During the data collection process, respondents (business owners and managers) were asked to evaluate their businesses' performance in the current quarter relative to the previous quarter. This included assessing key indicators such as production, sales, profitability, job growth, and raw material availability. Additionally, they were requested to provide their expectations for the upcoming quarter, shedding light on anticipated trends in production, sales, profitability, inputs, and enterprise job growth. These questions allowed for a detailed analysis of current conditions and future sentiments in the business environment.

The survey also sought to identify critical constraints affecting business performance. Respondents were asked to report whether specific challenges, such as high financing costs, utility expenses (water and energy), labor costs, transport costs, and insufficient demand, had impacted their operations during Q3 2024. In addition, respondents were encouraged to share any additional constraints they faced, enabling a broader understanding of the challenges influencing Uganda's business landscape.





## 2.1 Calculation and Interpretation of the Business Health Index (BHI)

The Business Health Index (BHI) is calculated using five key indicators: raw materials availability, production, sales, profitability, and enterprise-driven job growth. Respondents rated their perceptions on a Likert scale: "higher," "same," "lower," or "improve," "same," and "worsen" for each indicator.

**Figure 1: The five components of the Business Health Index (BHI).**



*Source: Author's construct based on the key components of the Business Health Conditions*

Sub-indices are computed from responses on sub-variables within each Business Health Component, using weights: 0 for negative current performance and outlook, 0.5 for neutral of unchanged stance, and 1 for positive current performance and outlook. The component indices are then formed by averaging these sub-indices, and the overall Business Health Index (BHI) is calculated by averaging the component indices.

The current Business Health condition reflects the perceived performance of businesses relative to the preceding quarter. An index exceeding 50 indicates a relatively better performance perceived by business owners and managers compared to the previous quarter. A value of 50

signifies a perceived similar performance across periods or quarters, while a value below 50 reflects a perceived decline in performance for the current quarter compared to the previous one.

The expected Business Health performance analysis projects future outcomes for the subsequent quarter. An index above 50 suggests positive expectations or optimism for the upcoming quarter, a value of 50 indicates a neutral outlook with no anticipated change, and a value below 50 indicates negative expectations or pessimism for the next quarter compared to the just-ended quarter.



## 3.0 Key Findings and Insights on Business Health Performance in Uganda

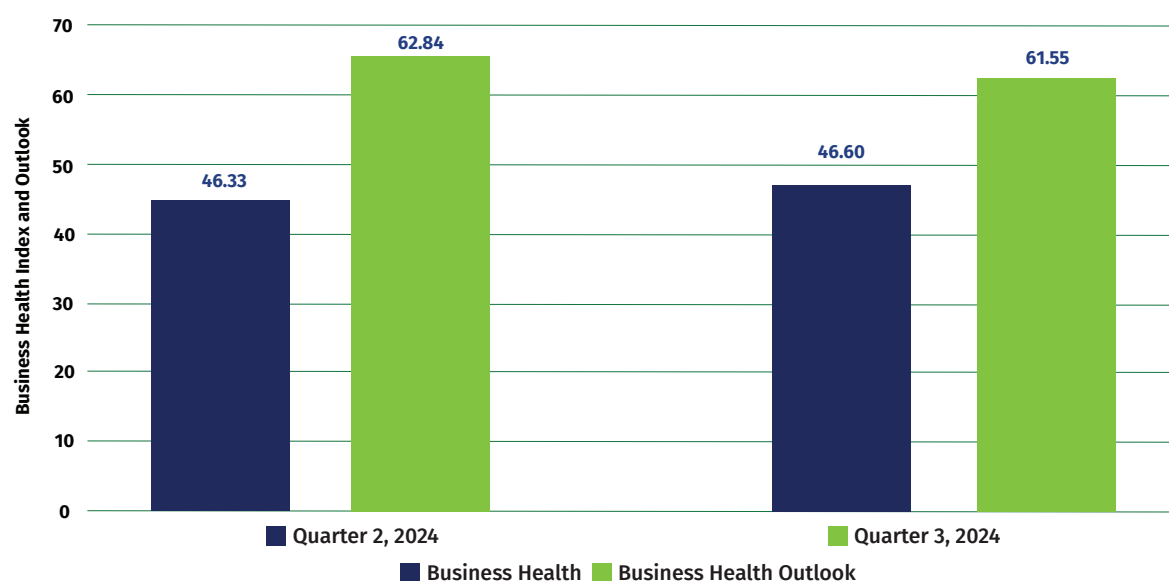
### 3.1 Overall Business Health Index (BHI)

*Despite a slight improvement in Uganda's Business Health Index in Q3 2024, overall optimism weakened, reflecting ongoing challenges and cautious sentiment among business owners and managers.*

Despite the perceived deterioration in business health sentiments in Q3 2024, as indicated by the business health index of 46.60, below the critical mark of 50, the business health index slightly improved by 0.28 index points from 46.33 in Q2 2024. This improvement is attributed to improved production and profitability during the quarter, as evidenced by the rise in their respective indices from 42.25 to 44.62 and from 42.37 in Q2 2024 to 45.23 in Q3 2024. Despite the higher cost of raw materials during the quarter under review, a reduction in overall production costs contributed to the improvement in profitability.

Looking ahead, the business owners and managers remained optimistic despite the decline in the business health index from 62.84 in Q2 2024 to 61.55 in Q3 2024, which is above the threshold of 50. The anticipated increase in business confidence in the manufacturing and agriculture sectors, as demonstrated by the improvement in their business health outlook index from 63.27 to 64.37 and from 61.18 in Q2 2024 to 64.75 in Q3 2024, respectively, explains this optimism in business health.

**Figure 1: Business Health and Outlook, Q2 - Q3 2024**



Source: Computation Based on Business Health Survey Data, October 2024

## 3.2 Key Drivers of Businesses' Health in Uganda

### 3.2.1 Key Drivers of Business Health in Q3 2024

*Despite challenges in sales and raw materials, the Business Health Index showed a slight improvement due to improved production and reduced overall production costs.*

The business health index increased slightly from 46.33 in Q2 2024 to 46.60 in Q3 2024, below the threshold of 50, indicating that the deterioration in business health is reversing. Below are the critical drivers for this performance.

#### Raw Materials Availability

The raw materials availability index decreased slightly from 45.90 in Q2 2024 to 45.09, remaining below the threshold of 50, indicating that raw materials availability deteriorated further. The raw materials volume index decreased from 52.99 in Q2 2024 to 51.79 in Q3 2024, and the cost index declined from 38.81 to 38.39 over the same period. Relatedly, the Ministry of Trade, Industry, and Cooperatives Report 2024 highlights that the high costs incurred by material importers continue to affect the cost of production in the manufacturing sector.

#### Production by Enterprises

The production index increased from 42.25 in Q2 2024 to 44.62 in Q3 2024, signaling an improvement in enterprise production despite still being below the critical threshold of 50. Notably, the rise in the production cost index from 34.17 in Q2 to 39.22 in Q3 2024 indicates a relative improvement in production costs, meaning that while costs remain a challenge, they have become more manageable compared to the previous quarter. This aligns with the increase in capacity utilization, which rose from 45.31 to 48.82, suggesting that businesses were able to leverage better cost efficiencies to enhance production levels.

#### Sales by Enterprises

Business owners and managers perceived sales to have deteriorated further, as shown by the decline in the sales index from 49.18 in Q2 2024 to 47.96 in Q3 2024 due to the decrease in the sales volume index, which declined from 48.37 to 45.71 during the same period. As a result, the sales revenue index decreased from 47.15 in Q2 2024 to 46.01 in Q3 2024.

#### Profitability by Enterprises

In Q3 2024, the profitability index improved, rising from 42.37 in Q2 2024 to 45.23 in Q3 2024. This improvement was attributed to a reduction in the overall cost of production, which improved from 34.17 in Q2 2024 to 39.22 in Q3 2024.

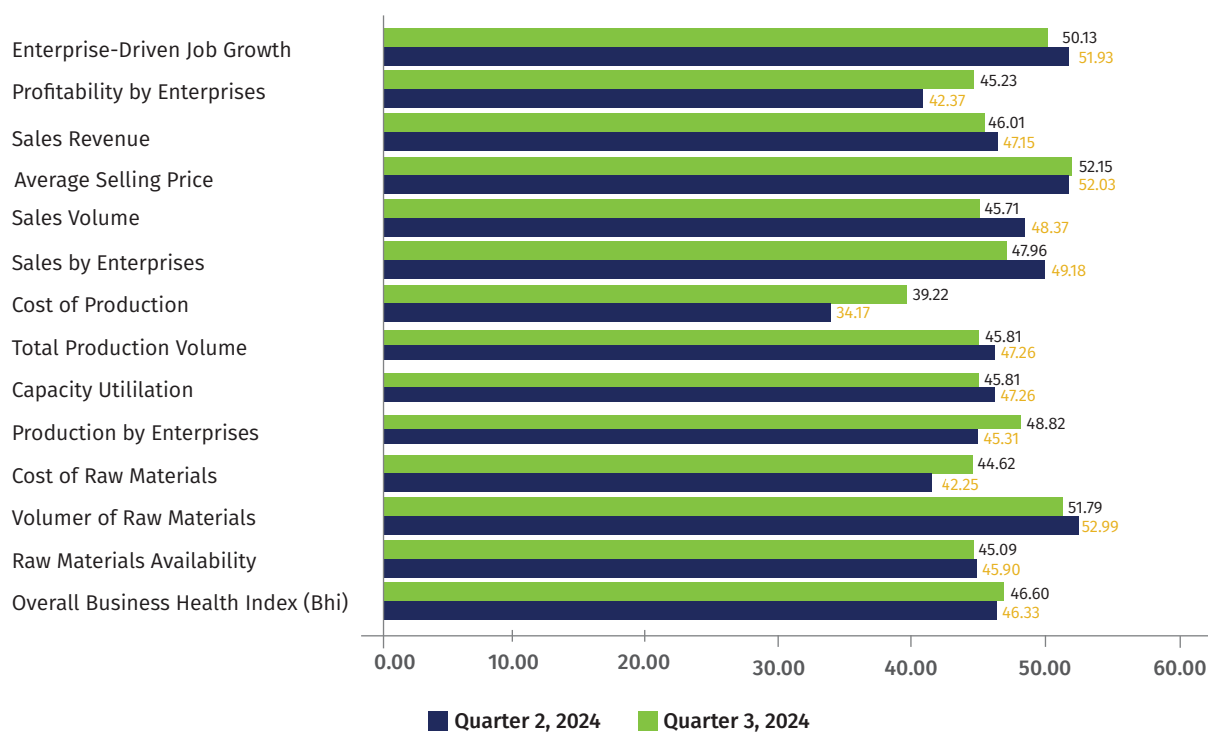
#### Enterprise-Driven Job Growth

Despite the decline from 51.93 in Q2 2024 to 50.13 in Q3 2024, business owners and managers perceive an improvement in enterprise-driven job growth, as evidenced by the index above the critical mark of 50. This decline is due to investors' less optimistic view of overall business health, as shown by the decrease in the overall business health outlook index from 62.84 in Q2 2024 to 61.55 in Q3 2024.





**Figure 2: Business Health Index (BHI) for Q3 2024: Overall index, Components Indices and Sub-Indices.**



Source: Computation based on Business Health Survey (BHS) data, October 2024



## 3.2.2 Drivers of Business Health Outlook in Uganda

*Optimism about business health declined due to anticipated challenges in raw materials, production, sales, profitability, and job growth.*

The business owners and managers were optimistic about business health, as shown by the index above the threshold of 50, despite the decline from 62.84 in Q2 2024 to 61.55 in Q3 2024, indicating less optimism compared to the previous quarter. The various components of the business environment explain this business health performance, as shown below:

### Raw Materials Availability

Business owners and managers expressed increased optimism about raw material availability, with the outlook index rising to 52.83 in Q3 2024 from 51.62 in Q2 2024. However, concerns over raw material costs persisted, as reflected in the Q3 index of 37.50, which, despite improving from 30.35 in Q2, remained below the critical threshold. Investors remained optimistic about raw material volumes, with the index staying above 50, but their confidence declined slightly, as shown by the drop in the outlook index from 72.89 in Q2 to 68.15 in Q3 2024.

### Production by Enterprises

Business owners and managers were more optimistic about enterprises' production, as indicated by the rise in the production outlook index from 59.50 in Q2 2024 to 61.24 in Q3 2024 due to the anticipated rise in production volume and reduction in overall production costs; their outlook indices increased from 75.87 to 76.05 and 27.64 in Q2 2024 to 34.73 in Q3 2024, respectively. However, investor confidence in capacity utilization weakened, though the outlook index remained above the threshold of 50. Their optimism declined slightly, as indicated by the drop in the outlook index from 75.00 in Q2 to 72.94 in Q3 2024.

### Sales by Enterprises

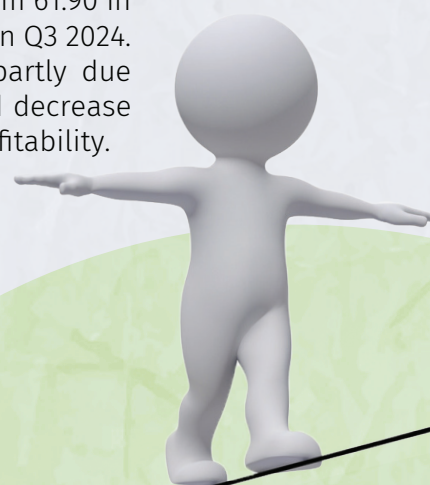
Investors remained optimistic about sales, as indicated by the outlook index staying above the threshold of 50, despite a decline from 70.51 in Q2 2024 to 68.02 in Q3 2024. This reduced optimism was primarily driven by the anticipated decline in the average selling price, which was influenced by low purchasing power and expected weaker demand. Notably, the average selling price outlook index fell from 60.57 in Q2 to 57.85 in Q3 2024.

### Profitability by Enterprises

Investors were less optimistic about profitability, as shown by the fall in the profitability outlook index from 70.66 in Q2 2024 to 69.27 in Q3 2024, which was due to an anticipated decline in sales. Significantly, the entrepreneurs anticipate a decrease in profitability across all sectors except for manufacturing and health.

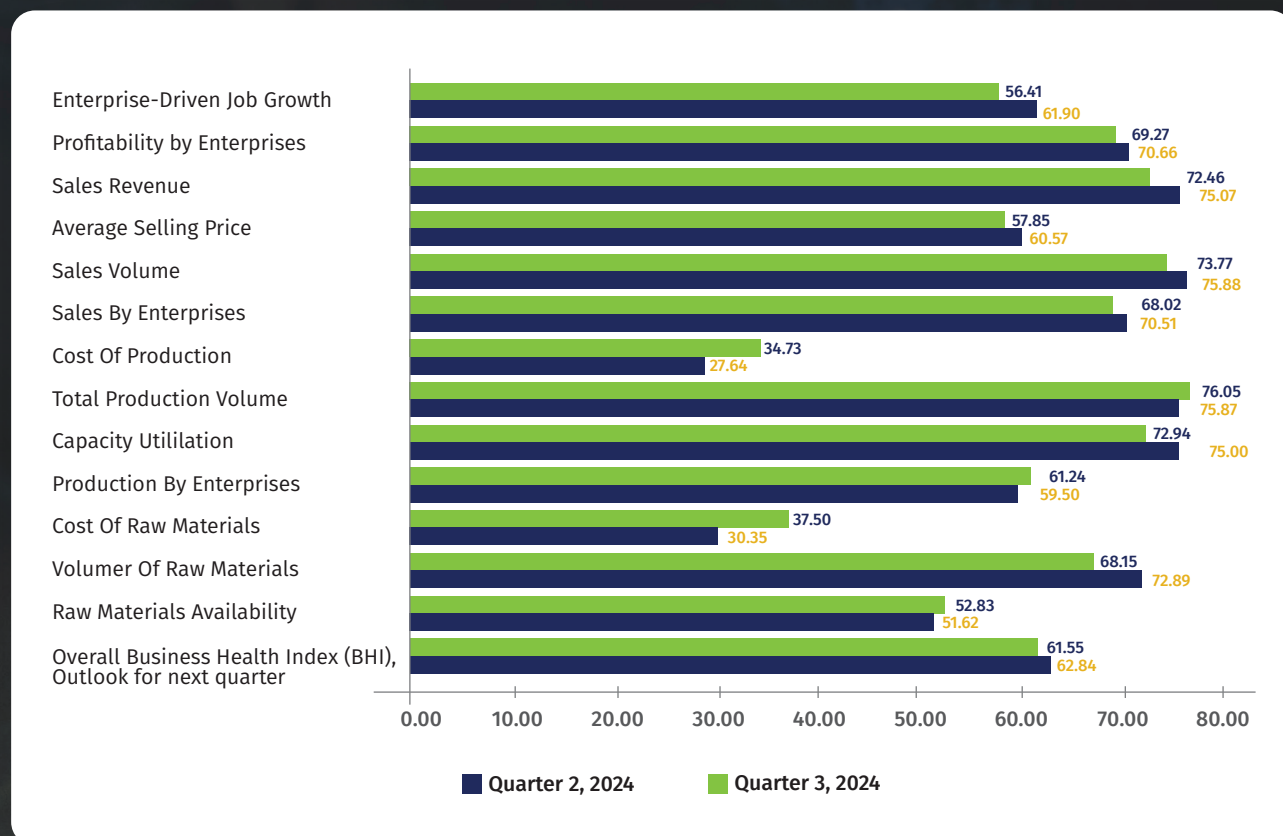
### Enterprise-driven Job Growth

Business owners and managers were less optimistic about enterprise-driven job growth, as indicated by the decline in the job growth outlook index from 61.90 in Q2 2024 to 56.41 in Q3 2024. This decline is partly due to an anticipated decrease in enterprise profitability.





**Figure 4: Business Health Index (BHI) Outlook: Overall Index, Components Indices and Sub-Indices**



Source: Computation by the author based on Business Health Survey (BHS) data.

### 3.3 Analysis of Business Health Index (BHI) by Sector

#### 3.3.1 The Sector-Specific Analysis of Key Indicators: Business Health Index (BHI) in Q3 2024.

##### Agriculture

The agriculture business health index experienced a decline from 46.73 in Q2 2024 to 43.61 in Q3 2024, falling below the critical mark of 50. This indicates a perceived worsening of business health during the quarter compared to the previous one. The perceived higher cost of agricultural inputs and the decline in production volume explain this. On the other hand, sales revenue improved slightly, as shown by the sales revenue index, which increased slightly from 43.01 in Q2 2023 to 43.90 in Q3 2024 due to the rise in prices of agricultural commodities, as demonstrated by the increase in the average selling price index from 54.30 in Q2 2024 to 58.54 in Q3 2024. According to the Uganda Bureau of Statistics CPI report<sup>1</sup> for September 2024, the inflation of crops and related items rose from -1.1% in Q2 2023 to -0.9% in Q3 2024, indicating higher prices during the quarter. However, the profitability level in the agriculture sector deteriorated further, as shown by the decline in the profitability index from 46.35 in Q2 2024 to 40.85 in Q3 2024 due to the high cost of inputs. As a result, the job growth rate declined, reflecting the decline in the enterprise-driven job growth index from 53.09 in Q2 2024 to 45.73 in Q3 2024, which is below the threshold of 50.

##### Industry (Manufacturing and Agro-processing)

The business health of the agro-processing sector improved significantly, with its index rising from 43.46 in Q2 2024 to 56.26 in Q3 2024, surpassing the critical threshold of 50. This improvement was largely driven by the increased availability of locally sourced raw materials, higher production levels, stronger sales, and improved profitability. Notably, despite a decline in agricultural production, the availability of agricultural raw materials remained sufficient, as processors relied on stockpiles from the previous harvest season to sustain operations. This explains why agro-processing performed better even as agriculture faced challenges.

Conversely, business health in the manufacturing sector continued to decline, with its index falling from 45.82 in Q2 to 43.19 in Q3 2024. The sector grappled with rising raw material costs and reduced manufacturing output and sales, leading to weaker job growth, as reflected in the decline of the employment index from 48.84 in Q2 to 47.17 in Q3 2024.

<sup>1</sup> <https://www.ubos.org/cpi-september-2024/>





## The services include tourism and hospitality, education, health, and wholesale trade, among others.

The tourism business health declined, as shown by the fall in its index from 52.32 in Q2 2024 to 48.22 in Q3 2024, below the threshold of 50. The sales index for enterprises decreased from 52.00 to 49.37 during the same period. This resulted in a decline in the tourism job growth index from 52.48 in Q2 2024 to 47.64 in Q3 2024.

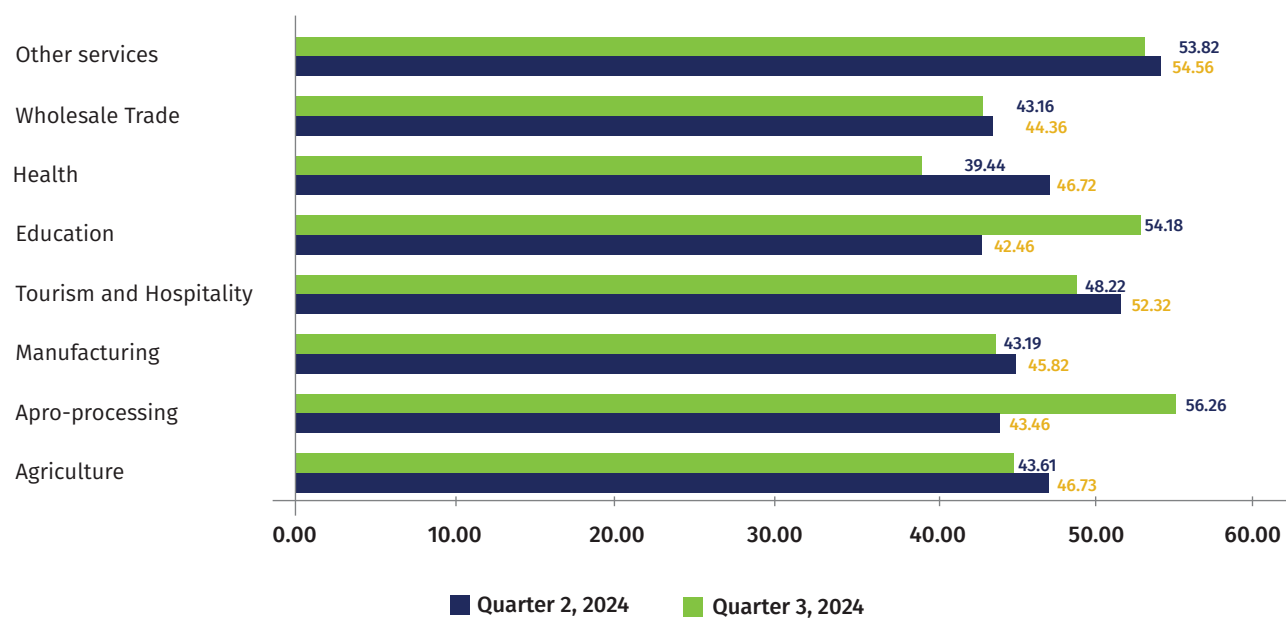
Business health in education rose significantly, as indicated by the increase in the education business health index from 42.46 in Q2 2024 to 54.18 in Q3 2024, partly due to a perceived improvement in tuition revenues. Additionally, the education sector profitability index increased from 52.54 to 58.57 during the same period.

The private sector health business performance deteriorated further, as shown by the decline in its index from 46.72 in Q2 2024 to 39.44, below the critical mark of 50, reflecting the decline in sales revenue and profitability indices from 40.91 to 27.78 and 36.36 in Q2 2024 and 30.00 in Q3 2024, respectively. During the same period, the health sector sales volume and average selling price declined from 45.45 to 33.33 and 50.00 in Q2 2024 to 38.89 in Q3 2024, respectively. Notably, the enterprise-driven job growth index declined from 58.33 in Q2 2024 to 55.00 in Q3 2024 during the same period.

The wholesale trade sector's business health also deteriorated further, as shown by the decline in its index from 44.36 in Q2 2024 to 43.16 in Q3 2024, below the threshold of 50 due to a decline in profitability. The wholesale sector profitability index decreased from 43.33 in Q2 2024 to 40.00 in Q3 2024 due to the higher cost of operation. During the same period, the sales revenue index also fell from 50.00 to 42.59, below the critical mark of 50.

Other service sectors, including the creative industry, transport, and financial services, also experienced a decline in business health, as evidenced by a decrease in their index from 54.56 in Q2 2024 to 53.82 in Q3 2024. A decrease in the profitability index from 53.85 to 37.50 during the same period caused this decline. Notably, the sales by enterprises index decreased from 56.00 in Q2 2024 to 42.71 in Q3 2024.



**Figure 4: Business Health Index (BHI) by Sector, Q2 2024 - Q3 2024**

Source: Computation by the author based on Business Health Survey (BHS) data, October 2024.



## 3.3.2 The Sector-Specific Analysis of Key Indicators: Business Health Index (BHI) Outlook for the next three months

### Agriculture

The outlook index for the agriculture sector rose from 61.18 in Q2 2024 to 64.75 in Q3 2024, indicating an expected improvement in farming input availability, production, sales, and profitability over the next three months. Despite the projected improvement in agriculture business health, jobs are expected to grow at a decreasing rate, as shown by the decrease in the job growth outlook index from 62.89 in Q2 2024 to 61.59 in Q3 2024, driven by price and profitability fluctuations in the sector.

### Industry (Manufacturing and Agro-processing)

The agro-processing business health outlook index declined from 66.06 in Q2 2024 to 60.20 in Q3 2024, indicating less optimism about business performance due to the expected challenges in raw materials availability and a decline in production, sales, and profits. As a result, the business owners and managers in the agro-processing sector were less optimistic about job growth, as shown by the decrease in the job growth outlook index from 64.29 in Q2 2024 to 57.58 in Q3 2024.

On a positive note, the manufacturing sector outlook index increased from 63.27 in Q2 2023 to 64.37 in Q3 2024, indicating improved optimism due to the anticipated reduction in the cost of raw materials as the Uganda shilling stabilizes against the dollar<sup>2</sup> and global supply chain disruption eases to lower the cost of imported raw materials. The expected rise in output and sales volume, along with profitability, also drove optimism in the manufacturing sector. Despite the expected improvement in demand due to festivities in Q4 2024, business owners and managers anticipate low purchasing power among the buyers, indicating the possibility of increased sales volume at lower prices. As a result, business owners and managers were cautious about hiring more workers, which led to a decrease in their optimism about job growth, as evidenced by the decline in the job growth outlook index from 63.95 in Q2 2024 to 58.49 in Q3 2024.

<sup>2</sup> [https://bou.or.ug/bouwebsite/bouwebsitecontent/statistics/MacroeconomicIndicators/Disseminated-Indicators-file\\_Web-version.xlsx](https://bou.or.ug/bouwebsite/bouwebsitecontent/statistics/MacroeconomicIndicators/Disseminated-Indicators-file_Web-version.xlsx)



## Services (tourism and hospitality, education, health, wholesale trade, and other services)

The tourism sector's business owners and managers expressed less optimism about business health, as shown by the decline in the outlook index from 66.75 in Q2 2024 to 63.45 in Q3 2024. The decrease in the profitability outlook index from 72.00 in Q2 2024 to 70.75 in Q3 2024 explains this. As a result, business owners were less optimistic about job growth, as shown by the fall in the job growth outlook index from 59.41 in Q2 2024 to 54.67 in Q3 2024.

The business health of the education sector also experienced less optimism during the quarter under review, with an outlook index falling from 64.43 in Q2 2024 to 59.00 in Q3 2024 due to the decline in the tuition revenue outlook index from 68.10 to 60.87 during the same period.

The health sector business health outlook index declined from 76.14 in Q2 2024 to 69.69 in Q3 2024, indicating less optimism by business owners and managers during the quarter due to the anticipated fall in medicament prices. The average selling price outlook decreased from 63.64 in Q2 2024 to 55.56 in Q3 2024, reflecting the anticipated low purchasing power. However, the investors anticipate the

rise in profits, as evidenced by the increase in the profitability outlook index from 81.82 in Q2 2024 to 85.00 in Q3 2024, primarily due to the surge in the sales volume outlook index from 81.82 to 83.33 in the same period.

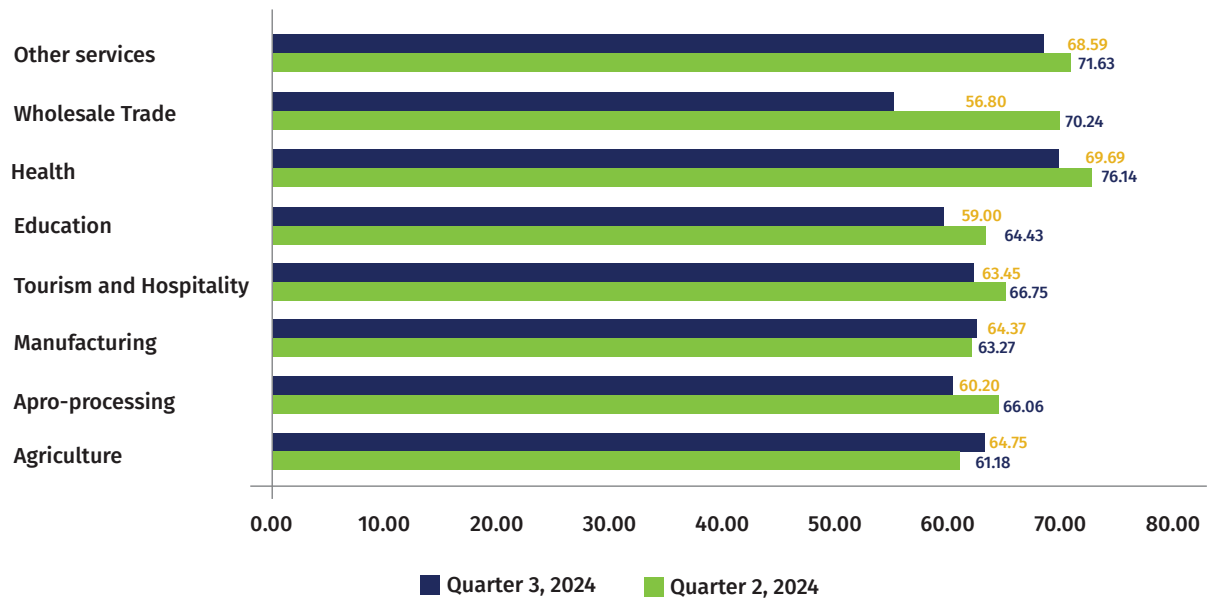
The wholesale traders were less optimistic during the quarter under review (Q3 2024), as shown by the decline in the sector business health outlook index from 70.24 in Q2 2024 to 56.80 in Q3 2024 due to the anticipated fall in profits. The profitability outlook index fell from 62.50 to 56.90 during the same period. As a result, the job growth outlook index declined from 62.50 in Q2 2024 to 55.17 in Q3 2024.

Similarly, the other services sector, including the creative industry, transport, and financial services, experienced less optimism during the quarter (Q3 2024), as shown by the decline in the business health outlook index from 71.63 in Q2 2024 to 68.59 in Q3 2024 due to the anticipated fall in profits. The profitability outlook index declined from 78.85 in Q2 2024 to 75.00 in Q3 2024 during the same period. As a result, the job growth outlook index decreased from 65.38 in Q2 2024 to 59.38 in Q3 2024.





**Figure 5: Business Health Index for UDB-funded Enterprises, Quarterly Outlook, Q2 and Q3 2024**



Source: Computation by the author based on Business Health Survey (BHS) data.





## 3.4 Comparative Analysis of Business Health Index (BHI) between UDB-Funded and Non-UDB Funded Enterprises

### 3.4.1 UDB vs. Non-UDB Customers: Business Health Index for Q3 2024

The UDB-funded enterprises experienced better business health outcomes compared to non-UDB-funded enterprises despite a perceived decline in business performance, as shown by the indices below the threshold of 50. The UDB-funded enterprises registered a business health index of 48.71 in Q3 2024, a slight decline from 48.79 in Q2 2024, likely due to perceived lower profits during the quarter. Notably, the UDB-funded enterprises' profitability index declined from 44.74 in Q2 2024 to 43.57 in Q3 2024 due to a fall in the sales revenue index from 49.01 to 48.08 during the same period. In Q3 2024, 59% of business owners and managers identified insufficient demand as a significant challenge, reflecting an increase from 53% in Q2 2024. These highlight growing concerns about limited consumer purchasing power and subdued market demand. Additionally, UDB-funded enterprises in the manufacturing sector faced higher raw material costs, particularly among those reliant on imports. The price of the raw materials index declined from 46.61 in Q2 2024 to 38.24 in Q3

2024, indicating this challenge. The investors perceive the jobs created by UDB-funded enterprises to have grown at a decreasing rate, mirroring the decline in the job growth index from 52.17 in Q2 2024 to 50.36 in Q3 2024.

The non-UDB-funded enterprises registered a drop in business health to 45.03 in Q3 2024, down from 45.39 in Q2 2024, due to raw materials availability challenges and lower production volume. Nevertheless, profitability improved, as evidenced by the rise in the profitability index from 41.54 in Q2 2024 to 46.12 in Q3 2024, though below the threshold of 50. This improvement is attributed to a perceived decline in the overall cost of production during the quarter. The production cost index for non-UDB-funded enterprises rose from 32.86 in Q2 2024 to 40.96 in Q3 2024. Notably, the entrepreneurs anticipate a decreasing rate of job growth for non-UDB-funded enterprises, mirroring the decline in the job growth index from 51.84 in Q2 2024 to 50.00 in Q3 2024.



Table 1: Business Health Index (BHI) for UDB Clients &amp; Non-UDB Clients, Q2 2024 - Q3 2024

Indicators	UDB Customers		Non-UDB Customers	
	Quater 2, 2024	Quater 3, 2024	Quater 2, 2024	Quater 3, 2024
Overall Business Health Index (BHI)	48.79	48.71	45.39	45.03
Raw Materials Availability	51.27	46.76	43.66	43.37
The volume of raw materials	55.93	55.29	51.76	48.19
Cost of raw materials	46.61	38.24	35.56	38.55
Production by Enterprises	46.59	52.59	40.76	39.22
Capacity utilization	51.61	72.06	43.30	33.33
Total Production Volume	50.86	48.21	46.13	43.37
Cost of production	37.29	37.50	32.86	40.96
Sales by Enterprises	49.17	50.26	49.13	46.43
Sales Volume	49.01	48.08	48.13	44.13
Average selling price	49.50	54.62	52.81	50.51
Sales Revenue	49.01	48.08	46.46	44.64
Profitability by Enterprises	44.74	43.57	41.54	46.12
Enterprise-driven job Growth	52.17	50.36	51.84	50.00

Source: Computation by the author based on Business Health Survey (BHS) data.



### 3.4.2 UDB vs. Non-UDB Customers: Business Health Index (BHI), Quarterly Outlook for the next three months

Despite experiencing less optimism during the quarter under review (Q3 2024), UDB-funded enterprises remained more optimistic about their business health compared to non-UDB-funded enterprises. Specifically, the business health outlook index of UDB-funded enterprises decreased from 67.55 in Q2 2024 to 62.49 in Q3 2024 due to the anticipated fall in production volume, sales, and profitability. As a result, business owners and managers experienced less optimism about job growth, as shown by the decline in the job growth outlook index from 70.0 in Q2 2024 to 57.5 in Q3 2024.

The non-UDB-funded enterprises' business health outlook index declined from 61.18 in Q2 2024 to 60.89 in Q3 2024 due to the anticipated challenges of raw material availability and a fall in sales. The non-UDB-funded enterprises' raw materials availability outlook index decreased from 53.08 in Q2 2024 to 51.51 in Q3 2024, while the sales outlook index decreased from 68.66 to

68.03 during the same period, indicating less optimism about business performance. Despite this, the non-UDB-funded enterprises anticipate an improvement in their profitability levels, as evidenced by the increase in the profitability outlook index from 66.92 in Q2 2024 to 68.48 in Q3 2024, which can be attributed to the anticipated decrease in the overall cost of production. However, business owners and managers showed less optimism about job growth during the quarter, reflecting the decline in the job growth outlook index from 59.05 in Q2 2024 to 55.81 in Q3 2024. Notably, the business owners continue to be uncertain about the availability of raw materials, as shown by the decline in the raw materials volume outlook index from 73.40 in Q2 2024 to 69.28 in Q3 2024 due to uncertainties surrounding imported raw materials due to geopolitical tension in the Middle East, contributing to increased cautiousness among business players.

**Table 2: Business Health Index (BHI) for UDB Clients & Non-UDB Clients, Quarterly Outlook, Q2 2024 and Q3 2024**

Indicators	UDB Customers		Non-UDB Customers	
	Quater 2, 2024	Quater 3, 2024	Quater 2, 2024	Quater 3, 2024
<b>Overall Business Health Index (BHI)</b>	<b>67.55</b>	<b>62.49</b>	<b>61.18</b>	<b>60.89</b>
<b>Raw Materials Availability</b>	<b>47.88</b>	<b>54.27</b>	<b>53.08</b>	<b>51.51</b>
The volume of raw materials	71.19	67.06	73.40	69.28
Cost of raw materials	24.58	41.18	32.75	33.73
<b>Production by Enterprises</b>	<b>63.04</b>	<b>62.10</b>	<b>58.21</b>	<b>60.60</b>
Capacity utilization	80.65	75.00	73.20	71.57
Total Production Volume	79.66	73.81	74.30	78.31
Cost of production	28.81	37.50	27.14	31.93
<b>Sales by Enterprises</b>	<b>75.41</b>	<b>68.01</b>	<b>68.66</b>	<b>68.03</b>
Sales Volume	79.70	73.64	74.44	73.85
Average selling price	62.87	58.08	59.70	57.69
Sales Revenue	83.66	72.31	71.83	72.56
<b>Profitability by Enterprises</b>	<b>81.42</b>	<b>70.71</b>	<b>66.92</b>	<b>68.48</b>
<b>Enterprise-driven job Growth</b>	<b>70.00</b>	<b>57.50</b>	<b>59.05</b>	<b>55.81</b>

Source: Computation by the author based on Business Health Survey (BHS) data.



## 4.0 Critical Challenges Affecting Business Health in Uganda

This business health index report outlines the critical constraints that impacted Uganda's business health during the quarter. These challenges impact various aspects of operations, ranging from financing to demand, thereby creating a challenging business environment, as explained below:

### High Cost of Financing

In Q3 2024, 58% of businesses reported that the high cost of financing constrained their operations, a slight improvement from 65% in Q2 2024. Businesses struggled to access affordable credit, as high interest rates and stringent loan security requirements limited capital availability. The need to finance expansions and address cash flow challenges further exacerbated this issue. Some enterprises cited difficulties in accessing loans due to collateral constraints, while others faced delays in loan disbursement, hampering growth and operational stability. Notably, according to the Bank of Uganda's latest statistics (2024)<sup>3</sup> commercial banks' lending rates increased from 18.1% in Q2 2024 to 18.6% in Q3 2024.

### High Cost of Utilities: Water and Energy

The high cost of water continued to affect 42% of businesses in Q3 2024, unchanged from Q2 2024. Some enterprises, particularly those dependent on water-intensive processes, faced increased operational expenses. Additionally, energy costs impacted 47% of businesses in Q3 2024, a decrease from 49% in Q2 2024, but they still pose a significant challenge. To this end, businesses continue to advocate for subsidized tariffs and a stable electricity supply to enhance productivity.

### The high cost of labor

The high cost of labor was a constraint for 41% of businesses in Q3 2024, a slight decline from 43% in Q2 2024. Sectors such as hospitality and manufacturing highlighted the difficulty of managing rising wages amidst slow revenue

growth. Restaurants in urban areas, for example, reported reducing staff numbers to cut costs, which, in turn, affected service delivery.

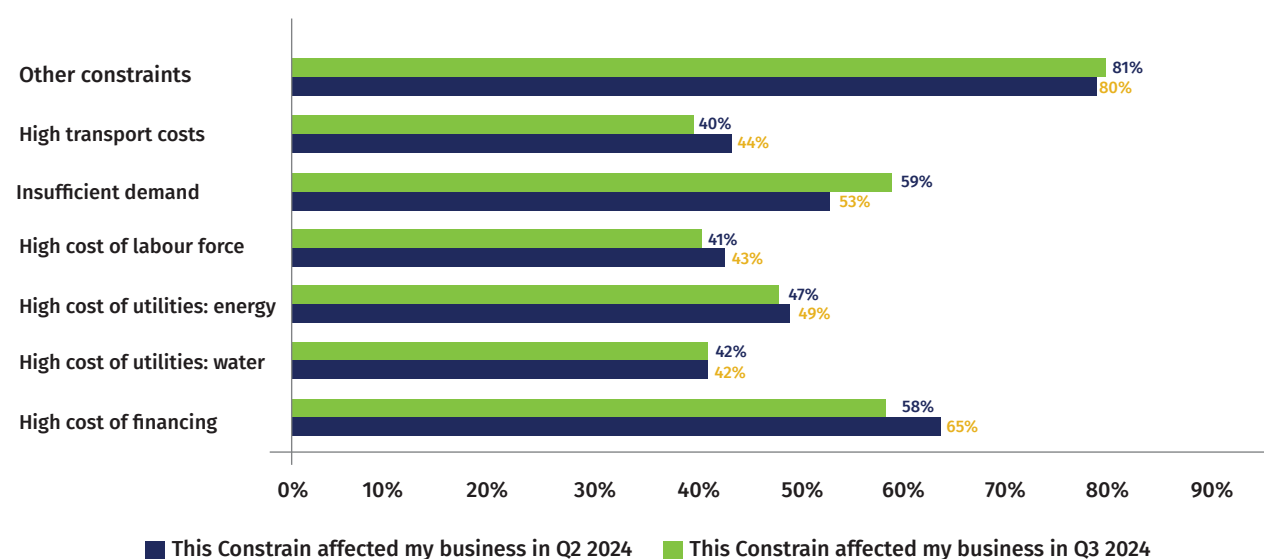
### Insufficient Demand

Insufficient demand became a more significant challenge in Q3 2024, with 59% of businesses identifying it as a constraint compared to 53% in Q2 2024. The declining purchasing power led to subdued consumer spending. Wholesalers and furniture manufacturers reported slower sales, with customers delaying purchases of nonessential goods due to financial constraints. For instance, furniture makers noted declining orders as households prioritized necessities.

### High Transport Costs

High transport costs were a concern for 40% of businesses in Q3 2024, down slightly from 44% in Q2 2024. High fuel prices and poor road infrastructure particularly hurt agricultural producers and manufacturers. For example, maize farmers in rural areas of Mbale and Iganga districts struggled to transport their produce to urban centers due to deteriorated feeder roads and high fuel costs, which significantly ate into their margins. Also, farmers in Katakwi district who grow cassava highlighted difficulties in transporting produce due to poor feeder roads and high fuel costs.

<sup>3</sup> [https://bou.or.ug/bouwebsite/bouwebsitecontent/statistics/InterestRates/Interest\\_rates.xlsx](https://bou.or.ug/bouwebsite/bouwebsitecontent/statistics/InterestRates/Interest_rates.xlsx)

**Figure 6: Business Constraints Impacting Enterprises in Uganda, Q2-Q3 2024**

Source: Authors' construct based on Business Health Survey (BHS) data, October 2024





*Feedback and comments can be sent to:*

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