



UDB

Inspiring Development



BUSINESS HEALTH INDEX (BHI)

Report Quarter 2, 2024

Executive Summary:

The Business Health Index (BHI) for Q2 2024 indicates a partial recovery in Uganda's private sector, with the index increasing from 36.79 in Q1 to 46.33 in Q2 2024. Despite this improvement, the index remains below the critical threshold of 50, signaling ongoing challenges. The gains reflect better raw material availability, increased production, and higher sales volumes. Specifically, UDB-funded enterprises saw their BHI rise from 39.05 in Q1 to 48.79 in Q2, while non UDB-funded enterprises experienced an increase from 35.34 in Q1 to 45.39 in Q2 2024. Although these indices are still below 50, they suggest a gradual improvement in business performance.

The outlook for Q3 2024 is optimistic, as reflected in the business health outlook index, which has risen above the critical threshold of 50 to 62.84 in Q2 2024, up from 56.78 in Q1 2024. Businesses anticipate further improvements in production, sales, and profitability, contributing to this positive forecast. The BHI outlook for UDB-funded enterprises saw a significant increase, rising sharply from 58.19 in Q1 to 67.55 in Q2 2024, indicating a robust confidence in future business health. Similarly, the BHI outlook for non UDB-funded enterprises also improved, climbing from 55.92 in Q1 to 61.18 in Q2 2024. Despite this optimism, several key challenges continue to constrain business performance.

High financing costs were reported as a significant barrier by 65% of businesses, particularly impacting SMEs that struggle to access affordable credit. The high cost of utilities, especially water and energy, affected 42% and 49% of businesses, respectively, contributing to costly operational expenses. Labor costs were another major challenge, with 43% of enterprises citing them as a constraint, particularly in sectors requiring specialized skills.

Transport costs also posed a significant challenge, affecting 44% of businesses, particularly those involved in logistics and distribution, where poor infrastructure and high fuel prices have escalated costs. Additionally, insufficient demand was a critical issue for 53% of businesses, reflecting broader economic challenges and revenue generation difficulties.

Overall, while the business environment in Uganda shows signs of recovery, addressing these challenges—particularly in financing, utilities, labor, and transport—will be crucial for sustaining growth and improving business health in the coming Quarters.

1.0 Introduction

This report presents the latest analysis based on data collected from the quarterly survey of business health within Uganda's private sector. The Business Health Index (BHI), derived from the Business Health Survey (BHS) quarterly data, serves as a critical measure of both the current health and future expectations of business enterprises across Uganda.

The BHI captures the sentiments of business owners and managers regarding their business health conditions, providing vital insights into key areas such as inputs, production, sales, profitability, and enterprise-driven job growth. An improvement in the BHI indicates a strong and resilient business environment, leading to increased investments, higher financial returns, and notable job creation.

In contrast, a decline in the BHI signals growing challenges and uncertainty within the business landscape, potentially undermining economic stability.

The analysis of Q2 2024 reveals how various factors have influenced business performance in Uganda, shedding light on the constraints faced by enterprises, such as high costs of financing, utilities, and labour, as well as insufficient demand and transport costs. The report also highlights other significant constraints, which 80% of respondents cited as having a bearing on their operations. This underscores the complexity and interconnectedness of the challenges within Uganda's business environment.

2.0 Data and Methods

The Uganda Business Health Index (BHI) is derived from survey data collected from managers and owners of both SMEs and large-scale enterprises in Uganda. The study, conducted in July 2024, analyzed responses from 441 enterprises, including 115 UDB customers and 326 non-UDB customers. To ensure broad representation across different sectors and company sizes, a stratified random sampling approach was employed. The survey covered key sectors such as agriculture, agro-processing, manufacturing, tourism and hospitality, human capital development (including education and health), wholesale trade, and other services, including the creative industry, transport, and financial services.

As part of the bank'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 Q2 2024 closely examined the marginal changes in these perceptions relative to Q1 2024, focusing on the direction of change rather than the magnitude. Additionally, the report assessed anticipated business health expectations for Q3 2024 compared to Q2 2024.

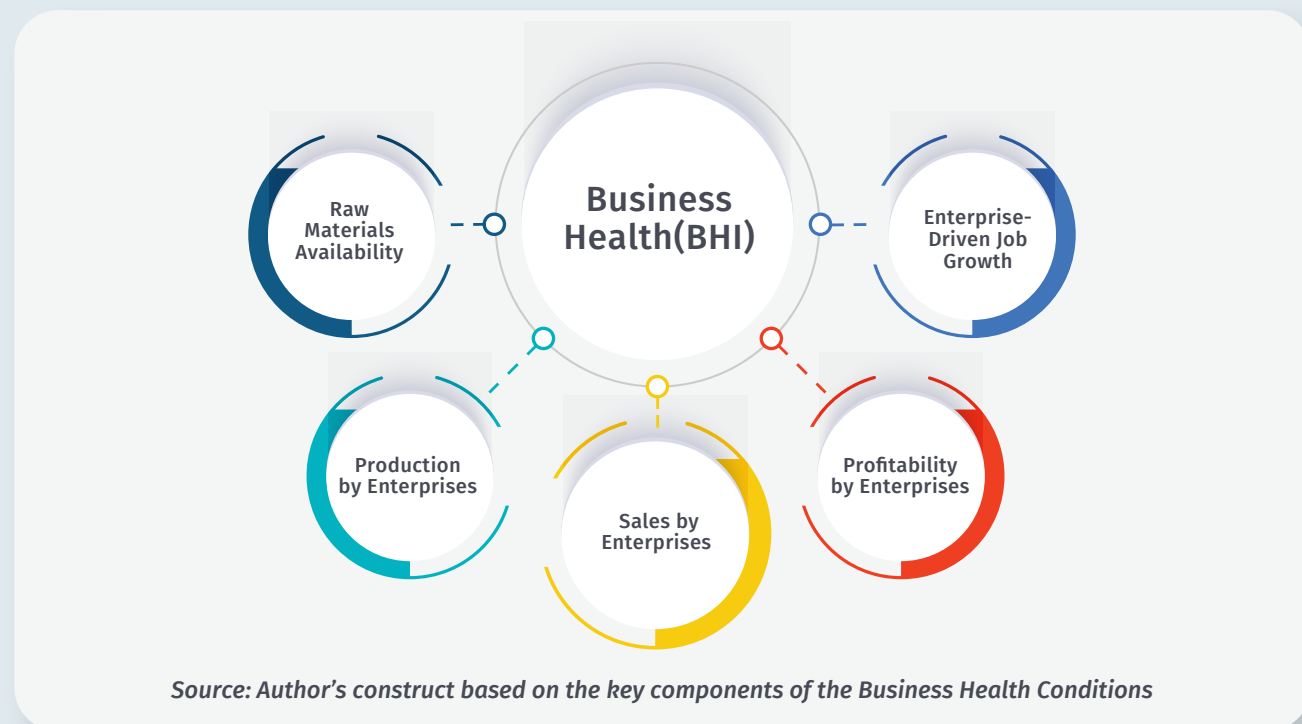
During data collection, business managers and owners were asked to evaluate the general business health for the current quarter in comparison to the previous quarter and to provide their expectations for the upcoming quarter. This approach allowed for a detailed understanding of the business environment and the factors influencing it.

The report also analyzed the main challenges affecting business health in key sectors of the economy during the April-June quarter of 2024. Respondents were asked whether specific constraints, such as the high cost of financing, utilities (water and energy), labour costs, transport costs, and insufficient demand, had impacted their businesses during Q2 of 2024. Additionally, respondents were invited to share other constraints that affected their operations during the same quarter, providing further insight into the specific challenges faced by businesses across different sectors.

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).



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

3.1 Overall Business Health Index (BHI)

The Business Health Index (BHI) showed significant improvement in business health conditions, with future sentiments remaining optimistic.

In Q2 2024, there was a perceived decline in business health, as reflected by a Business Health Index (BHI) of 46.33, which is below the threshold of 50. However, this was an improvement compared to Q1 2024, where the BHI was 36.79. This improvement was driven by recoveries in key component indices such as sales, profitability, and job growth. Q2 2024 registered low sales compared to Q1, as indicated by a Sales by Enterprises Index of 49.18, which is below the threshold of 50. Nonetheless, the situation improved over the quarter, with the index rising from 37.88 in Q1 to 49.18 in Q2, driven by improved availability and reduced costs of raw materials. The Raw Materials Availability Index also reflected a perceived decline, standing at 45.9, below the threshold of 50. This would however pick up in Q2 2024, increasing from 37.32 in Q1 to 45.90 in Q2 2024. Additionally, the Cost of Raw Materials Index rose from 28.01 in Q1 to 38.81 in Q2 2024. These improvements enabled businesses to boost production, leading to higher sales volumes and revenues, particularly in agriculture, agro-processing, and manufacturing.

The profitability of enterprises also saw a significant improvement, with the Profitability by Enterprises index increasing from 29.89 in Q1 to 42.37 in Q2 2024. This rise was attributed to increased sales revenue and better management of operational costs. Despite challenges such as high production costs, businesses were able to improve their profit margins through strategic cost management and capitalizing on the increased demand in key markets.

Additionally, the Enterprise-Driven Job Growth index went up to 51.93 in Q2 2024 from 43.65 in the previous quarter, reflecting an increase in employment as businesses expanded their operations to meet rising demand. This job growth was particularly evident in sectors like agro-processing and manufacturing, where companies scaled up their production activities.

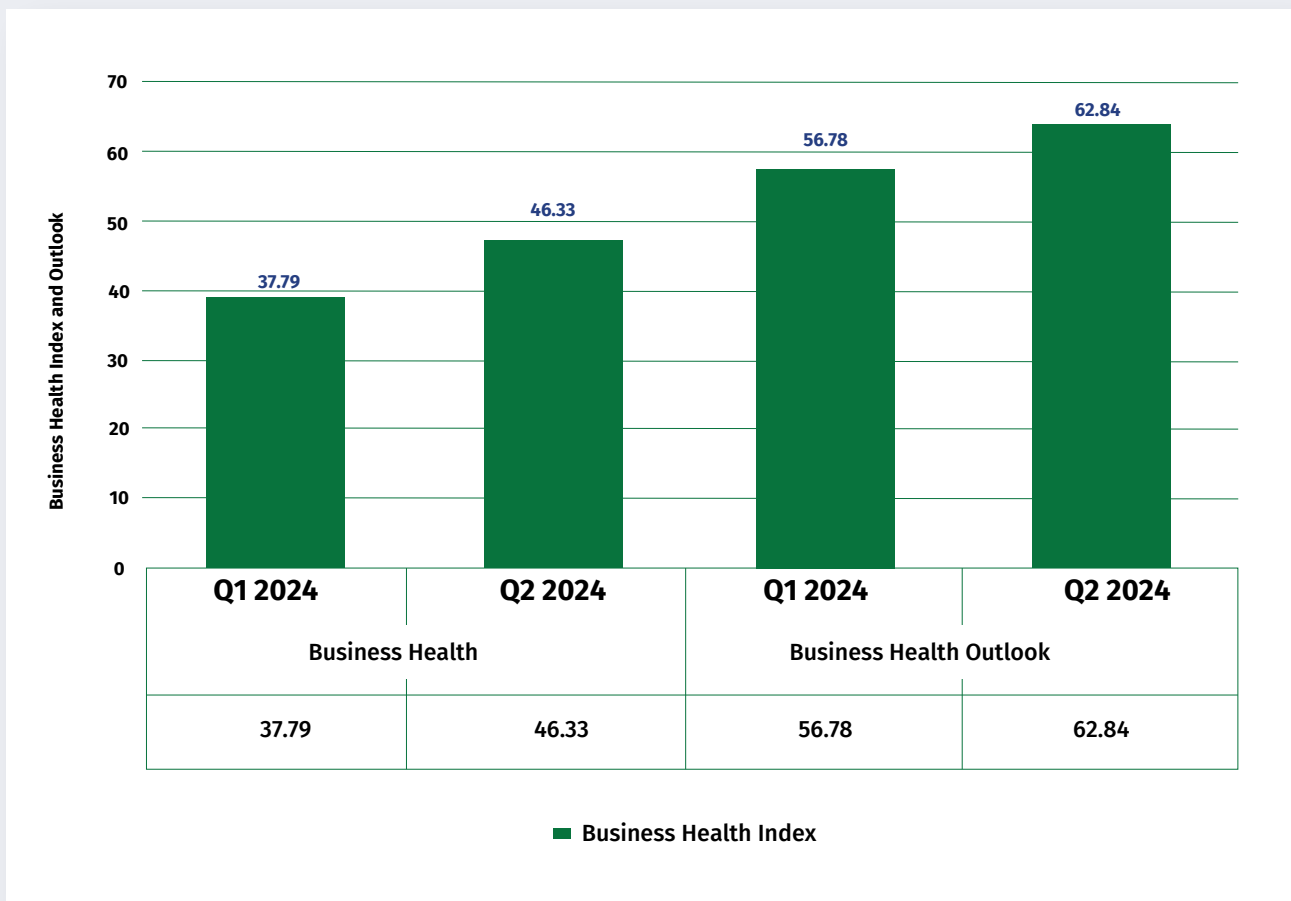
Looking ahead, the business outlook remains highly optimistic, with the outlook Business Health Index (BHI) rising from 56.78 in Q1 2024 to 62.84 in Q2 2024. This optimism is supported by strong expectations for continued improvements in key areas. The Raw Materials Availability index outlook surged from 47.95 in Q1 to 51.62 in Q2 2024, indicating confidence in stable supply chains moving forward.

The Production by Enterprises outlook index rose from 49.61 in Q1 to 59.50 in Q2 2024, attributed to businesses' plans to boost capacity utilization and production volumes in response to anticipated sustained demand. However, the expected cost of production may challenge this growth in Q3 2024, as indicated by the decline in the cost of production index outlook from 28.73 in Q1 to 27.64 in Q2. To counter rising production costs, business owners and managers are strategically planning to implement better cost management practices, including bulk purchasing and energy efficiency measures.

The sales outlook remains positive, with the Sales by Enterprises outlook index increasing from 62.08 in Q1 to 70.51 in Q2 2024. This is driven by expectations of higher sales volumes and revenues as market conditions continue to improve. Additionally, the Profitability by Enterprises outlook index increased from 63.04 in Q1 to 70.66 in Q2 2024, reflecting confidence in further profitability gains as businesses optimize their operations and leverage the improving economic environment.

Overall, these trends suggest that businesses are not only recovering from the challenges of the previous quarter but are also positioning themselves for growth in the upcoming quarters. This is driven by improved market conditions, strategic adaptations, and a positive outlook for continued economic stability

Figure 2: Business Health Index and Outlook (Q1 and Q2 2024).



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

Relative Business Health for the current quarter (Q2 2024) relative to the previous quarter (Q1 2024) and Relative business health for next quarter (Q3 2024) compared to the current quarter (Q2 2024).

3.2 Key Drivers of Businesses' Health in Uganda

3.2.1 Key Drivers of Uganda's Business Health in Q2 2024

Business Health Improved in Quarter 2, 2024

The business health in Uganda, as indicated by the Headline Business Health Index (BHI), rose significantly from 36.79 in Q1 2024 to 46.33 in Q2 2024. This increase signifies improvements across several key components of business health. Below is a detailed analysis of the drivers behind this growth and their broader implications.

Raw Materials Availability

Raw materials availability improved significantly, with the index rising from 37.32 in Q1 2024 to 45.90 in Q2 2024, driven by increased local sourcing, partly due to favourable weather and stabilized supply chains. The volume of raw materials also increased from 46.63 in Q1 to 52.99 in Q2 2024. The cost of raw materials index rose from 28.01 to 38.81 during the same period, reflecting a reduction in previously high costs. This dual improvement in availability and cost has eased operational pressures, enabling businesses to scale up production and enhance profitability.

Production by Enterprises

Production by enterprises improved significantly in Q2 2024, with the index rising from 35.20 in Q1 to 42.25. This growth was driven by increased capacity utilization, which climbed from 39.57 in Q1 to 45.31 in Q2 2024, and a rise in total production volume from 39.78 to 47.26 during the same period. These gains were fuelled by better raw material availability and reduced production costs, as the cost index improved from 26.24 in Q1 to 34.17 in Q2 2024. While businesses have become more efficient in meeting demand, the high production costs remain a challenge, with the index still below the critical 50 mark, reflecting ongoing pressures.

Sales by Enterprises

Sales by enterprises saw a significant increase in Q2 2024, with the index rising from 37.88 in Q1 2024 to 49.18. This improvement was supported by growth in sales volume from 31.23 in Q1 to 48.37 in Q2 2024 and a slight rise in the average selling price from 50.15 to 52.03 during the same period. The sales revenue index also improved significantly, rising from 32.26 in Q1 2024 to 47.15 in Q2 2024. These improvements indicate a recovery in consumer demand and a more favourable market environment. Businesses have been able to increase their sales volumes and revenues, driven by better market conditions and improved consumer confidence.

Profitability by Enterprises

Profitability by enterprises improved significantly in Q2 2024, with the index rising from 29.89 in Q1 2024 to 42.37. This increase in profitability is largely due to higher sales revenue and better management of operational costs. The improvement in raw material availability and the reduction in production costs have also contributed to this positive trend. As businesses have managed to generate more revenue and manage their costs more effectively, their profitability has improved, providing them with greater financial stability and the ability to invest in further growth.

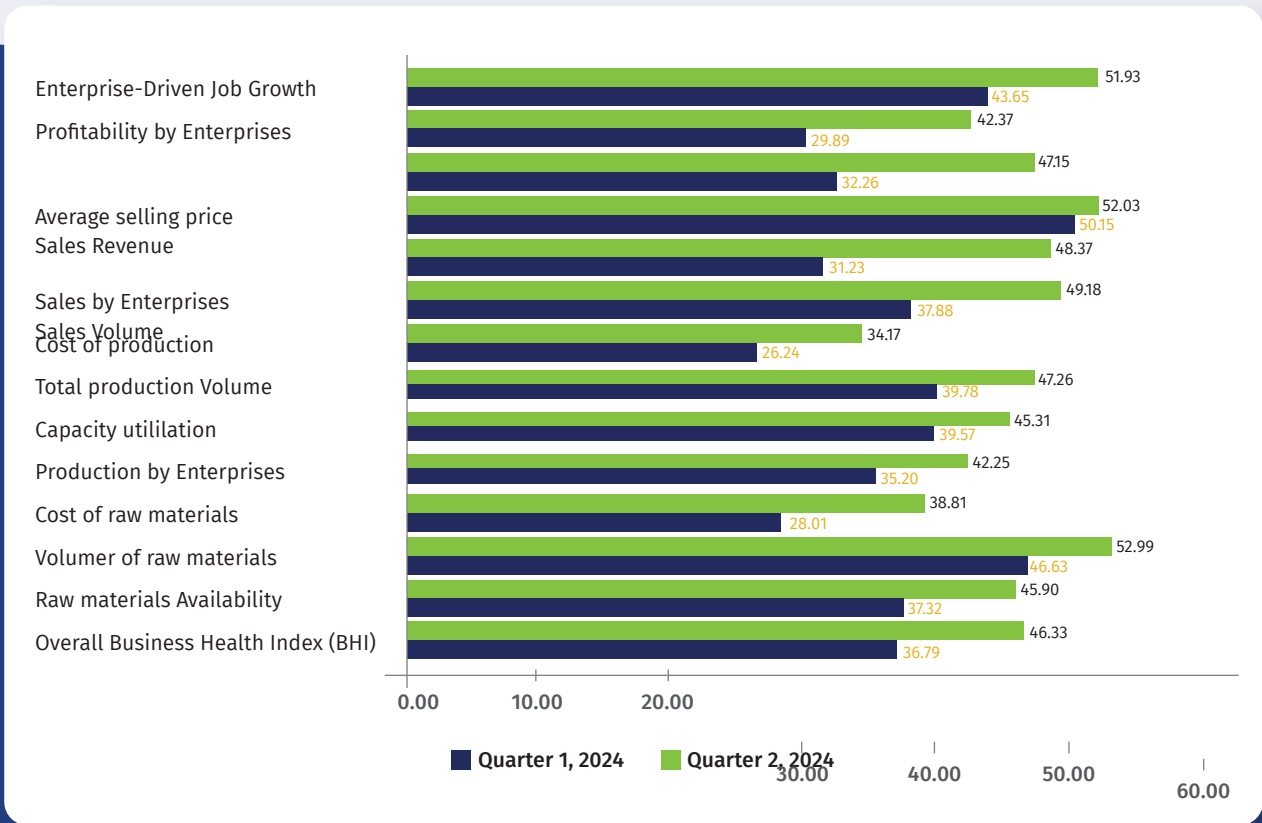
Enterprise-driven Job Growth

The Enterprise-driven Job Growth index also improved to 51.93 in Q2 2024 from 43.65 in Q1 2024. This improvement reflects businesses' ability to expand their workforce in response to better market conditions and increased production. The improved profitability and

sales volumes have enabled businesses to hire more employees, contributing to job creation and supporting economic growth. However, continued improvements in job growth will depend on sustained business performance and favourable economic conditions.

These positive trends point to the fact that businesses are rebounding from the challenges of the previous quarter and are well-positioned for further growth in the coming months. Sustaining this momentum will require further management of production costs and securing access to affordable raw materials.

Figure 3: Business Health Index (BHI) for Q2 2024: Overall index, Components Indices and Sub-Indices.



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

3.2.2 Drivers of Business Health Outlook in Uganda

The future sentiments about business health remain highly optimistic.

The future sentiments about business health remain highly optimistic, as reflected by the significant increase in the Business Health Index (BHI) from 56.78 in Q1 2024 to 62.84 in Q2 2024. This optimism is supported by improvements across various components of the business environment. Below is a detailed analysis of the key drivers behind this positive outlook.

Raw Materials Availability

The Raw Materials Availability Outlook index saw a substantial increase from 47.95 in Q1 2024 to 51.62 in Q2 2024, indicating an improvement in expectations regarding the availability of raw materials. This optimism is further supported by the rise in the Volume of Raw Materials index from 66.32 to 72.89, reflecting better access to raw materials as supply chains stabilize. Additionally, the Cost of Raw Materials index rose from 29.58 to 30.35, suggesting that businesses expect a reduction in the costs associated with raw materials. This improvement in raw materials and inputs availability and cost is crucial for businesses, particularly in the manufacturing and agriculture sectors, as it allows for more efficient production and better profit margins.

Production by Enterprises

The outlook for production by enterprises has improved, with the Production by Enterprises index rising from 49.61 in Q1 2024 to 59.50 in Q2 2024. This growth was enabled by a significant increase in capacity utilization, which jumped to 75.00 in Q2 2024 from 59.88 the previous quarter, and an increase in the Total Production Volume index from 60.22 to 75.87

during the same period. These positive changes suggest businesses are planning to expand their production capacities to meet expected higher demand, mirroring confidence in scaling up operations efficiently. However, production costs are anticipated to rise, driven by the low production cost (27.64 in Q2 2024) which fell from 28.73 in Q1 2024. This even as producers adopt better cost management strategies such as energy efficiency upgrades, bulk purchasing, and lean manufacturing processes.

Sales by Enterprises

In Q2 2024, business managers were optimistic about sales, as reflected by an outlook index of 70.51, well above the threshold of 50. Compared to Q1 2024, there was a notable improvement in the Sales by Enterprises outlook, a surge from 62.08 in Q1 to 70.51 in Q2. This optimism is further evidenced by the increase in the Sales Volume outlook index, from 64.81 in Q1 to 75.88 in Q2 2024, and the Sales Revenue outlook index, which rose from 63.78 to 75.07 over the same period. Additionally, business managers were optimistic about the Average Selling Price, with the outlook index rising from 57.65 in Q1 to 60.57 in Q2 2024, surpassing the threshold of 50, indicating expectations of slightly increased pricing power. These improvements are driven by expectations of stronger consumer demand and better market conditions, which are likely to result in higher sales volumes and revenues. This positive sales outlook is particularly important for sectors like wholesale trade, manufacturing, and services, which rely heavily on consumer spending.

Profitability by Enterprises

The Profitability by Enterprises outlook index also improved, rising from 63.04 in Q1 2024 to 70.66 in Q2 2024. This increase reflects businesses' expectations of higher profits due to better sales performance, improved production efficiency, and lower costs of raw materials. The anticipated rise in sales volumes and revenues, coupled with controlled production costs, is expected to enhance profit margins. This optimism is particularly relevant for businesses in manufacturing and services, where profitability is closely linked to operational efficiency and market demand.

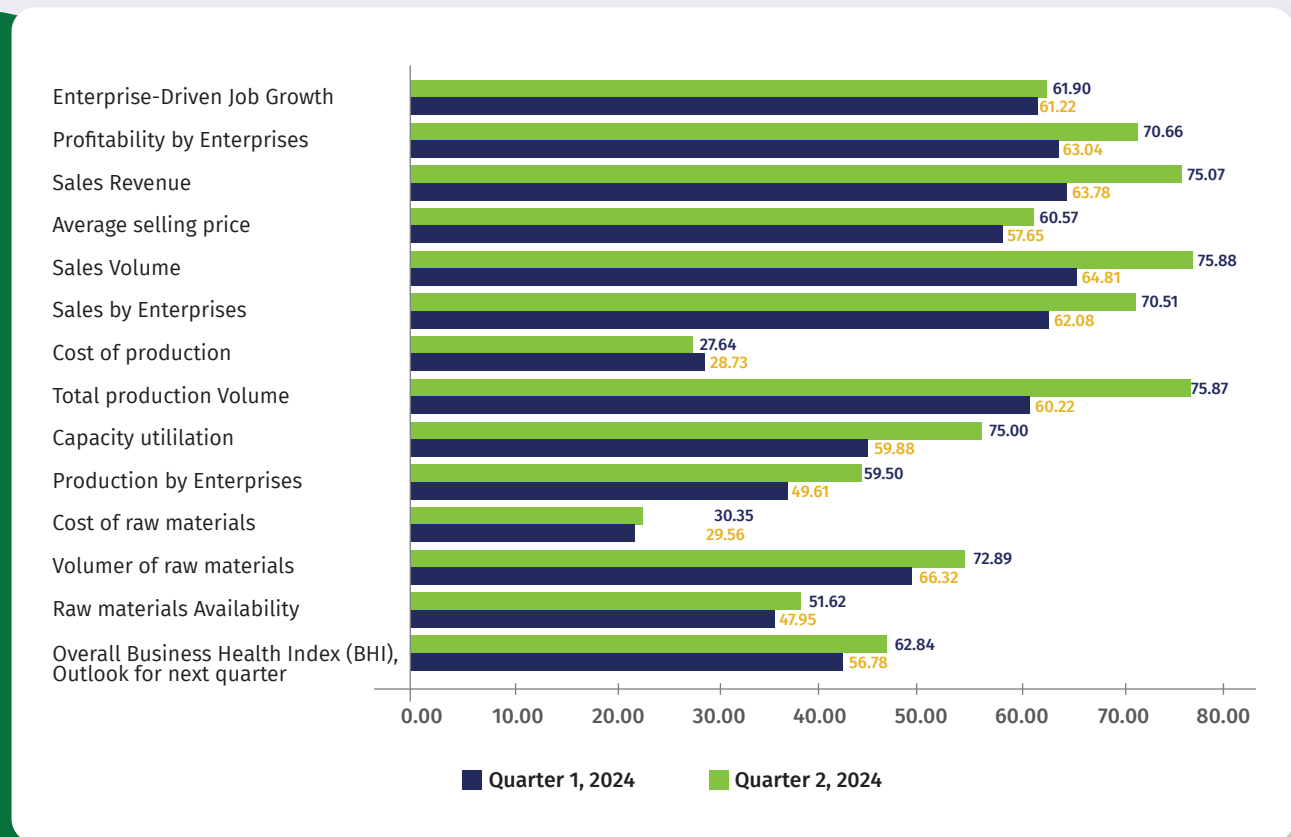
Enterprise-driven Job Growth

The Enterprise-driven Job Growth outlook index remained stable, increasing slightly from 61.22 in Q1 2024 to 61.90 in Q2 2024. This

stability suggests that businesses are cautiously optimistic about expanding their workforce in response to improving business conditions. While the increase is modest, it highlights that businesses are planning to hire more employees, driven by expectations of higher production and sales. This trend is particularly important for sectors like agriculture and manufacturing, where job growth is closely tied to production capacity and market demand.

These optimistic expectations attest to the confidence by businesses in navigating current economic challenges and capitalizing on emerging opportunities. Sustaining this positive momentum in the coming quarters will require continued focus on cost management, expanding production, and refining sales strategies.

Figure 4: Business Health Index (BHI), Outlook for Q3 2024: Overall Index, Components Indices and Sub-Indices



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

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 Q2 2024.

Agriculture

In Q2 2024, the agriculture sector demonstrated a noticeable recovery, with the Business Health Index (BHI) increasing from 41.40 in Q1 to 46.73 in Q2 2024. This recovery was largely driven by improved availability of agricultural inputs, with the index rising from 41.44 in Q1 to 46.80 in Q2 2024. Production by enterprises also saw a slight increase, with the index moving from 37.32 in Q1 to 39.36 in Q2 2024. Sales by enterprises in agriculture improved significantly, posting a rise in the sales index from 39.84 in Q1 to 48.03 in Q2 2024. The improvement in sales combined with better profitability (which increased from 38.41 to 46.35), suggests that the sector is gradually overcoming previous challenges such as drought and pests, as seen in regions producing maize, coffee, and dairy/beef. The Enterprise-driven Job Growth index also improved from 50.00 to 53.09, reflecting the sector's potential to generate more employment as business conditions improve, especially in crop production areas.

Industry (Manufacturing and Agro-processing)

The industry sector, encompassing both manufacturing and agro-processing, showed robust recovery in Q2 2024:

The Business Health Index (BHI) for the manufacturing sector rose from 35.36 in Q1 2024 to 45.82 in Q2 2024. In manufacturing, the recovery was driven by improved raw material availability, with the index increasing from 32.40 to 46.60. For instance, manufacturers in the textile and food processing industries benefitted from better access to inputs.

Production by enterprises also saw a significant boost, with the index rising from 32.79 in Q1 to 44.34 in Q2 2024, driven by higher capacity utilization and increased production volume, particularly in sectors like cement and brick manufacturing. Sales by enterprises in manufacturing improved, with the index rising from 41.30 in Q1 to 48.61 in Q2 2024, reflecting higher demand in both local and export markets. Profitability in manufacturing also increased from 30.43 in Q1 to 40.70 in Q2 2024, indicating better margins as a result of improved sales and cost management.

Agro-processing also experienced growth, albeit at a slightly slower pace compared to manufacturing. In Q2 2024, agro-processing business health declined posting an index of 43.46, below the threshold of 50. However, the index improved from 35.95 in Q1 2024 to 43.46, indicating better performance in Q2 2024. This improvement was supported by better raw material availability (index rising from 39.29 to 42.86), especially for sectors like food and beverage processing. Production by enterprises in agro-processing improved, with the index rising from 28.86 in Q1 to 35.78 in Q2 2024. Sales by enterprises in agro-processing saw an increase, with the index moving from 40.91 in Q1 to 45.83 in Q2 2024, and profitability also rose from 30.68 to 37.50 during the same period. The Enterprise-driven Job Growth index in both manufacturing and agro-processing sectors saw significant improvements, with manufacturing increasing from 39.86 in Q1 to 48.84 in Q2 2024 and agro-processing from 40.00 in Q1 to 55.36 in Q2 2024, indicating increased hiring as business conditions stabilized.

Services (Tourism and Hospitality, Education, Health, Wholesale Trade, Other Services)

The services sector showed a mixed performance across its various sub-sectors in Q2 2024:

Tourism and Hospitality experienced a strong rebound, with the Business Health Index (BHI) increasing from 37.70 in Q1 to 52.32 in Q2 2024. This recovery was driven by a significant increase in sales, as the sales index rose from 34.43 in Q1 to 52.00 in Q2 2024, above the critical mark of 50. The improvement was particularly evident in regions that saw an increase in international and domestic tourist arrivals, leading to higher occupancy rates in hotels. Profitability in the tourism and hospitality sector also saw a substantial improvement, with the profitability index increasing from 20.67 in Q1 to 45.05 in Q2 2024, reflecting better margins as tourist inflows and spending picked up. Enterprise-driven Job Growth in this sector improved from 39.33 in Q1 to 52.48 in Q2 2024, an indication that businesses are hiring more as demand recovers.

Education faced ongoing challenges, as indicated by the decline in its Business Health Index from 47.76 in Q1 to 42.46 in Q2 2024. This decline was driven by lower sales in education services, with the sales index dropping from 50.96 in Q1 to 40.95 in Q2 2024. This drop is partly attributed to a decrease in student

enrolment, particularly in private institutions, due to economic pressures on families. Profitability also fell, with the profitability index dropping from 36.54 in Q1 to 33.90 in Q2 2024, reflecting ongoing financial pressures in the sector, particularly for institutions reliant on tuition fees. Despite these challenges, the impact on Enterprise-driven Job Growth was less severe, with the index only slightly declining from 55.77 in Q1 to 52.54 in Q2 2024. This implying that while there is a slowdown, some educational institutions are still maintaining their staffing levels.

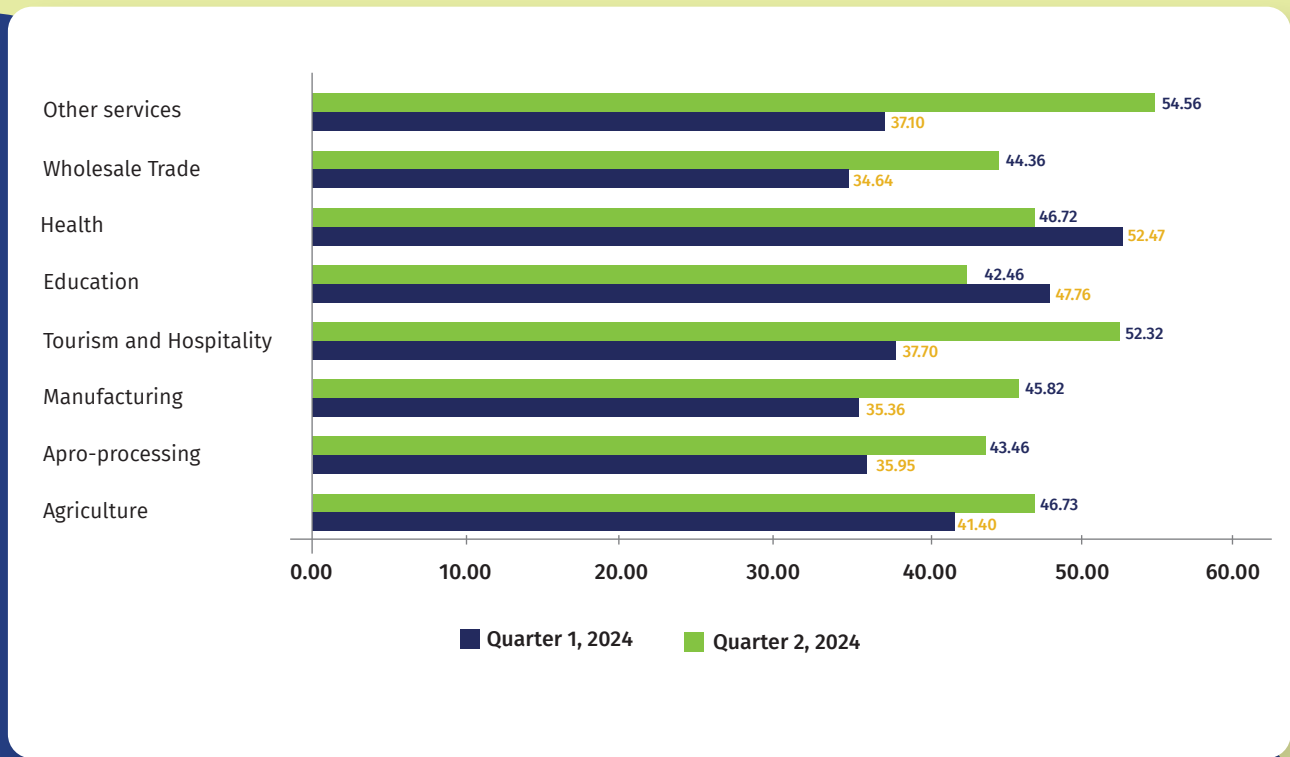
The health sector saw a downturn, with its Business Health Index dropping from 52.47 in Q1 to 46.72 in Q2 2024. The decline was primarily driven by lower sales, as the sales index fell from 57.41 in Q1 to 45.45 in Q2 2024, particularly in private healthcare providers who faced lower patient numbers due to affordability issues. Profitability in the health sector also decreased, with the index moving from 45.00 in Q1 to 36.36 in Q2 2024, reflecting higher operating costs and reduced margins. However, the Enterprise-driven Job Growth index in health improved slightly from 55.00 in Q1 to 58.33 in Q2 2024, indicating some resilience in employment despite revenue pressures, as health facilities prioritized staffing for essential services.



Wholesale Trade showed a significant recovery, with the Business Health Index increasing from 34.64 in Q1 to 44.36 in Q2 2024. Sales by enterprises in this sector improved, with the sales index rising from 34.80 in Q1 to 42.86 in Q2 2024, and profitability saw a significant increase from 26.47 to 43.33 during the same period. This recovery was driven by better inventory management and improved consumer demand, particularly in sectors like FMCG (Fast-Moving Consumer Goods). The Enterprise-driven Job Growth index also improved from 42.65 in Q1 to 46.88 in Q2 2024, indicating increased hiring as business conditions improved and consumer spending picked up.

Other services, which include creative industry services, transport services, and financial services, experienced significant improvement in Q2 2024. The Business Health Index for this sub-sector rose sharply from 37.10 in Q1 to 54.56 in Q2 2024, above the critical mark of 50, driven by strong sales performance, with the sales index increasing from 36.31 in Q1 to 56.00 in Q2 2024. Profitability in other services saw a remarkable rise from 19.64 to 53.85, indicating a strong recovery and positive outlook for these service industries as economic conditions continue to stabilize. For instance, transport services benefitted from increased logistics demand, while financial services saw a boost due to higher transaction volumes.

Figure 5: Business Health Index (BHI) by Sector, Q1 2024-Q2 2024



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

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

All key sectors showed optimism, signalling positive expectations for future business health and growth

In Q2 2024, most sectors in Uganda demonstrated positive sentiment, reflecting optimism for future business health. Below is a detailed analysis of the sector-specific outlooks:

Agriculture

The agriculture sector's Business Health Index (BHI) slightly improved from 60.99 in Q1 to 61.18 in Q2 2024, reflecting cautious optimism. This growth was primarily driven by an increase in sales, with the index rising from 65.85 in Q1 to 70.61 in Q2 2024, indicating strong demand for agricultural products. The profitability saw a significant rise from 71.95 in Q1 to 72.40 in Q2 2024, and the availability of agricultural inputs outlook index declined slightly from 49.53 in Q1 to 49.13 in Q2 2024, suggesting ongoing difficulties in accessing essential resources, possibly due to supply chain disruptions or higher costs. Additionally, there was reduced optimism in Enterprise-driven Job Growth, as the Outlook index declined from 68.67 in Q1 to 62.89 in Q2 2024, likely due to future production uncertainties, prompting businesses to be more cautious in workforce expansion.

Industry (Manufacturing and Agro-processing)

The outlook for the industry sector, including manufacturing and agro-processing, improved significantly in Q2 2024. The agro-processing sector's Business Health Outlook Index rose

from 53.81 in Q1 to 66.06 in Q2 2024, driven by better raw material availability, which increased from 44.64 in Q1 to 56.25 in Q2 2024. For instance, this improved availability is expected to be crucial for food processing enterprises. Production outlook also strengthened, with the index rising from 49.59 in Q1 to 61.15 in Q2 2024, reflecting enhanced operational capacity. Sales by enterprises saw a substantial jump from 59.09 in Q1 to 74.40 in Q2 2024, driven by stronger demand and better market conditions, particularly in sectors like beverages, where consumer demand is rising. Profitability surged as well, with the outlook index increasing from 57.95 in Q1 to 74.19 in Q2 2024, indicating improved cost management and higher margins.

Similarly, the manufacturing sector's Business Health Outlook index improved from 49.90 in Q1 to 63.27 in Q2 2024, largely due to anticipated improvements in sales (from 50.00 to 70.63) and profitability (from 55.80 to 69.19), signaling a robust recovery. Examples include textile manufacturing, where rising demand is expected to boost production volumes and profitability.



Services (Tourism and Hospitality, Education, Health, Wholesale Trade, Other Services)

In Q2 2024, the services sector displayed varying degrees of optimism for the next three months across its sub-sectors:

Tourism and Hospitality showed continued optimism, with the BHI increasing from 64.52 in Q1 to 66.75 in Q2 2024. Sales by enterprises improved, with the index rising from 64.89 in Q1 to 68.83 in Q2 2024, driven by increased tourist inflows and higher spending. Profitability also improved, with the index increasing from 66.00 in Q1 to 72.00 in Q2 2024, reflecting better margins as the sector continues to recover from previous downturns. However, Enterprise-driven Job Growth showed a slight decline from 62.67 to 59.41, indicating cautious hiring despite improved business conditions.

The education sector showed a slight improvement in overall outlook, with the BHI rising from 62.82 in Q1 to 64.43 in Q2 2024. Sales of education services saw a significant boost, with the index increasing from 59.62 to 72.94, likely driven by anticipated higher enrolment rates and growing demand for educational services in Q3 2024. However, the profitability outlook remained relatively stable, with a slight increase from 63.46 to 63.56, indicating that while revenues are improving, costs are also rising, limiting profitability gains. Additionally, the Enterprise-driven Job Growth Outlook index declined from 65.38 to 56.78, indicating caution in workforce expansion, likely due to uncertainties in the cost structure.

The health sector showed reduced optimism in Q2 2024, with the Outlook Index at 76.14 compared to 77.56 in Q1 2024. Additionally, there was less optimism in sales by enterprises, as the Outlook Index declined from 77.78 in Q1 to 75.76 in Q2 2024, driven by a slight decrease in sales volume optimism, with

the Sales Volume Outlook Index dropping from 83.33 in Q1 to 81.82 in Q2 2024. Profitability saw a more significant decline from 90.00 in Q1 to 81.82 in Q2 2024, partly due to rising operational costs or pricing pressures. Despite these challenges, the Enterprise-driven Job Growth Outlook index improved from 65.00 in Q1 to 70.83 in Q2 2024, reflecting confidence in maintaining or expanding the workforce as the sector remains robust.

Wholesale Trade saw a substantial improvement in optimism, with the BHI increasing from 49.51 in Q1 to 64.71 in Q2 2024. Sales by enterprises saw a rise, with the outlook index increasing from 51.47 in Q1 to 69.13 in Q2 2024, owing to a significant increase in demand and sales volumes. Profitability also improved significantly, with the outlook index increasing from 47.06 in Q1 to 62.50 in Q2 2024, reflecting better margins and cost control. The Enterprise-driven Job Growth Outlook index also improved from 50.00 in Q1 to 62.50 in Q2 2024, indicating increased hiring as business conditions improve.

Other Services, including creative industry services, transport services, and financial services, showed strong positive sentiments, with the BHI increasing from 61.85 in Q1 to 71.63 in Q2 2024. Sales by enterprises improved, with the index rising from 56.97 in Q1 to 70.67 in Q2 2024, while profitability saw a significant increase from 64.29 in Q1 to 78.85 in Q2 2024. The Enterprise-driven Job Growth Outlook index also showed a slight improvement from 64.29 in Q1 to 65.38 in Q2 2024, indicating continued optimism in hiring across these sectors.

Figure 6: Business Health Index (BHI) by Sector, Quarterly Outlook, Q1 2024 and Q2 2024



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

3.4 Analysis of Business Health Index (BHI) for UDB-Funded Enterprises

3.4.1 Business Health for UDB-Funded Enterprises in Q2 2024

Business Health for UDB-funded Enterprises improved in Q2 2024

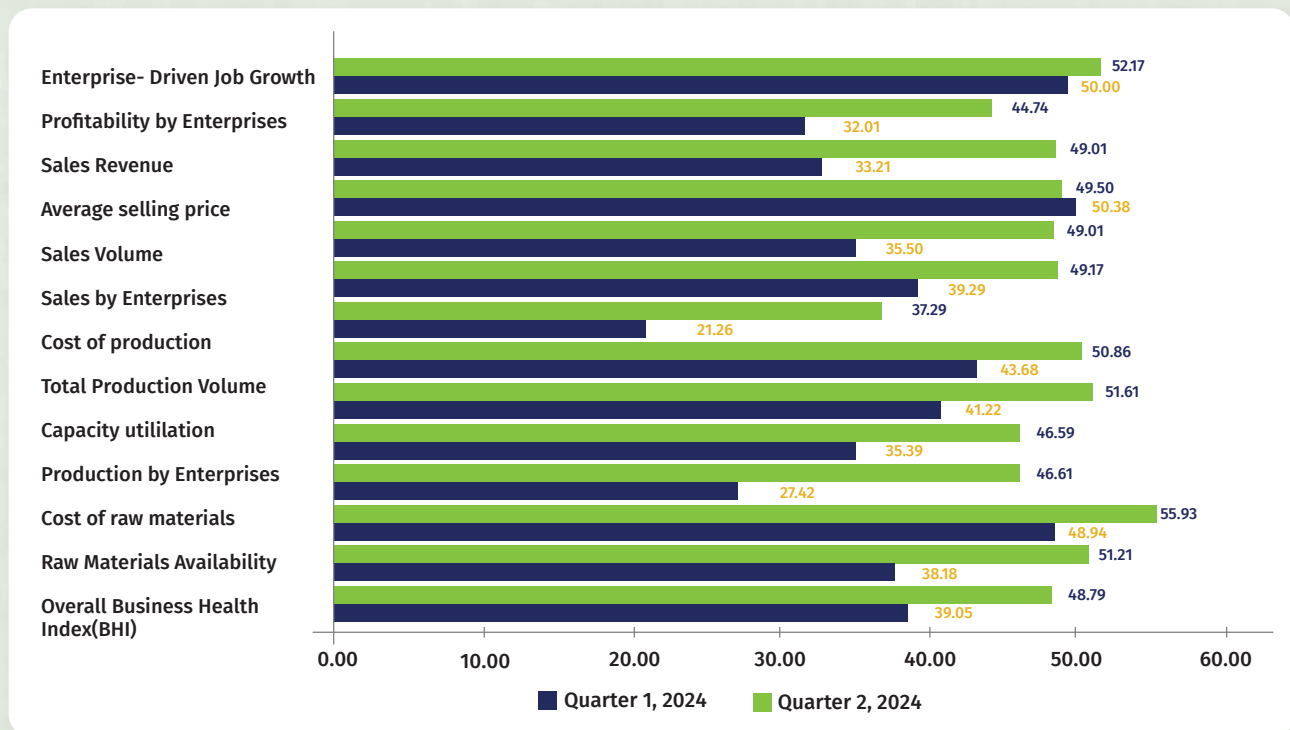
In Q2 2024, the Business Health Index (BHI) for UDB-funded enterprises increased from 39.05 in Q1 to 48.79, signalling improved business health but still falling short of the critical threshold of 50. The raw materials availability index rose from 38.18 in Q1 to 51.27 in Q2 2024, driven by an increase in raw material volume from 48.94 in Q1 to 55.93 in Q2 2024 and a reduction in costs, as reflected by the improvement in the cost of raw materials index from 27.42 in Q1 to 46.61 in Q2 2024.

The production index also showed an improvement, rising from 35.39 in Q1 to 46.59 in Q2 2024. This was supported by improvements in

capacity utilization (from 41.22 to 51.61), production volumes (from 43.68 to 50.86), and a reduction in production costs (from 21.26 to 37.29). The sales by enterprises index saw a notable increase from 39.69 in Q1 to 49.17 in Q2 2024, with the sales volume index climbing from 35.50 in Q1 to 49.01 in Q2 2024 and sales revenue increasing from 33.21 in Q1 to 49.01 in Q2 2024.

The profitability index rose from 32.01 in Q1 to 44.74 in Q2 2024, largely due to higher sales and reduced operational costs. Additionally, the enterprise-driven job growth index increased from 50.00 in Q1 to 52.17 in Q2 2024, reflecting optimism in profitability levels and better management of operational expenses.

Figure 7: Business Health Index for UDB Customers, Q1 2024-Q2 2024



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

3.4.2 Business Health Outlook for the next three months: UDB-funded Enterprises

Sentiments about future business health were more optimistic for UDB customers.

The overall business health outlook index for UDB-funded enterprises improved significantly, rising from 58.19 in Q1 2024 to 67.55 in Q2 2024, reflecting a more optimistic sentiment toward future business health. There was reduced pessimism about raw material availability, as indicated by the slight rise in the Outlook Index from 47.77 in Q1 2024 to 47.88 in Q2 2024. This suggests that while concerns persist, they are expected to ease slightly in the upcoming quarter. The improved outlook is driven by optimism in the volume of raw materials, with the outlook index rising from 64.89 in Q1 to 71.19 in Q2 2024, largely due to better production conditions, especially for agro-processing materials, due to favourable weather. However, business managers remained pessimistic about raw material costs, with the index falling from 30.65 in Q1 to 24.58 in Q2 2024. They anticipate high costs to persist despite improved local supply, due to external economic challenges such as inflation and rising transport costs driven by higher fuel prices. Production by Enterprises is expected to rise substantially, with the outlook index increasing from 49.70 in Q1 2024 to 63.04 in Q2 2024. This optimism is fuelled by significant anticipated improvements in capacity utilization (rising from 59.46 to 80.65) and total production volume (increasing from 59.77 to 79.66). However, the cost of production is expected to rise slightly, with the index declining slightly from 29.89 in Q1 to 28.81 in Q2 2024.

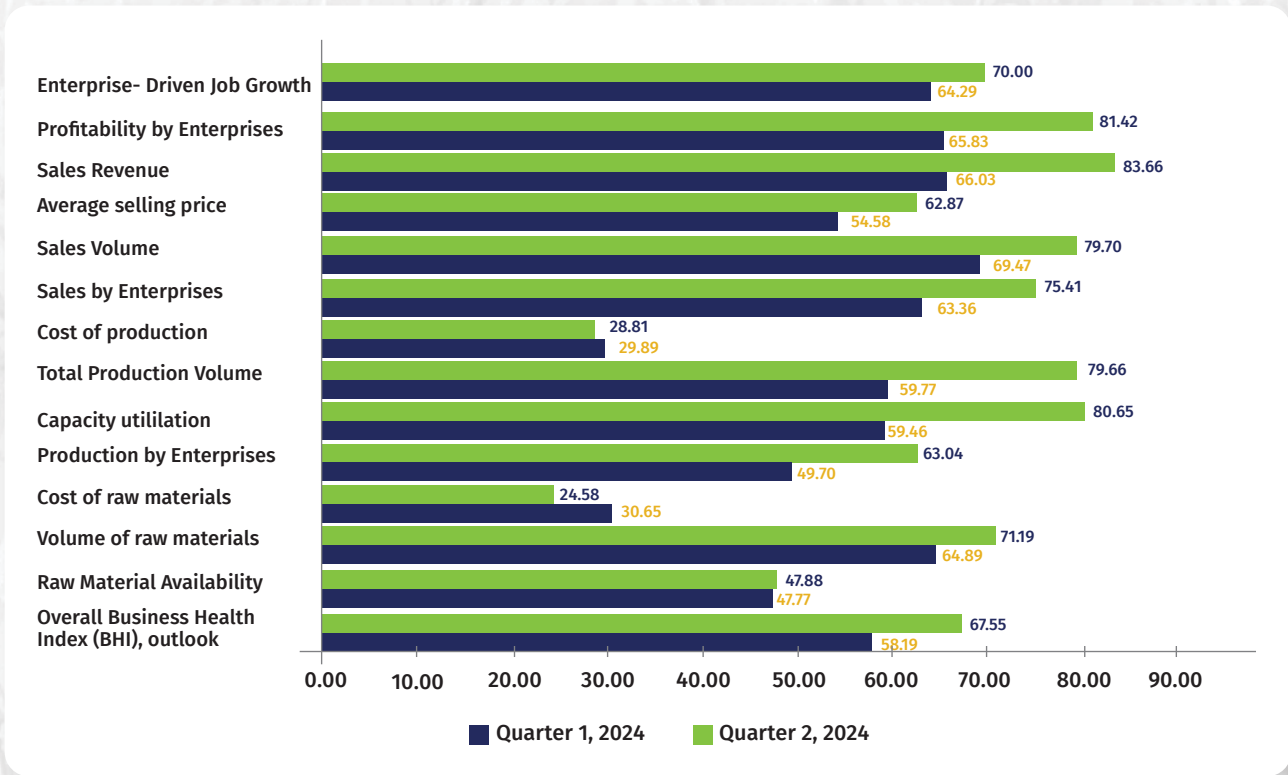
Sales by Enterprises are also expected to improve significantly, with the index rising from 63.36 in Q1 to 75.41 in Q2 2024. Similarly, sales

volume is expected to increase from 69.47 in Q1 to 79.70 in Q2 2024, driven by stronger market demand. The average selling price is projected to rise from 54.58 in Q1 to 62.87 in Q2 2024, an indicator that enterprises envisage higher prices for their goods and services. Consequently, sales revenue is forecasted to see a substantial increase from 66.03 in Q1 to 83.66 in Q2 2024, reflecting both higher volumes and prices.

Profitability by Enterprises is expected to see a strong improvement, with the index increasing from 65.83 in Q1 to 81.42 in Q2 2024. This improvement in profitability outlook is due to the combination of higher sales volumes, increased selling prices, and better management of production costs. Despite the anticipated challenges with raw material costs, enterprises are expected to manage their operations effectively to maintain healthy profit margins.

Enterprise-driven Job Growth is forecasted to improve, with the index moving from 64.29 in Q1 to 70.00 in Q2 2024. This increase suggests that businesses plan to expand their workforce in response to the more favourable business conditions. The growth in employment indicates confidence in sustained business performance and a positive outlook for the near future.

Figure 8: Business Health Index for UDB-funded Enterprises, Quarterly Outlook, Q1 and Q2 2024



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

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

3.5.1 UDB vs. Non-UDB Customers: Business Health Index for Q2 2024

In Q2 2024, UDB-funded enterprises had a higher Business Health Index (BHI) of 48.79 compared to 45.39 for non-UDB clients, though both remained below the 50 threshold, indicating poor performance. Notably, the BHI for UDB clients increased from 39.05 in Q1 2024 to 48.79 in Q2 2024, while non-UDB clients' BHI rose from 35.34 to 45.39 over the same period. In Q2 2024, UDB clients experienced better raw materials availability, with an index of 51.27 compared to 43.66 for non-UDB clients, attributed to a greater increase in the volume of raw materials. UDB-funded enterprises also achieved higher capacity utilization (51.61 vs. 43.30) and production volume (50.86 vs. 46.13), leading to stronger sales revenue growth (49.01 vs. 46.46). In Q2 2024, non-UDB clients experienced a greater decline in profitability,

with an index of 41.54, compared to UDB clients, who had a profitability index of 44.74, both below the threshold of 50. Despite the poor performance by both groups, there was a noticeable improvement compared to Q1 2024. The profitability index for UDB clients rose from 32.01 in Q1 to 44.74 in Q2, while the index for non-UDB clients increased from 28.60 in Q1 to 41.54 in Q2 2024. In Q2 2024, enterprise-driven job growth showed improvement for both UDB clients and non-UDB clients, with indices of 52.17 and 51.84, respectively, both surpassing the 50 threshold. Comparing Q2 to Q1 2024, the job growth index for UDB clients increased from 50.00 to 52.17, while for non-UDB clients, it rose significantly from 39.78 to 51.84, indicating a strong operational recovery.

Table 1: Business Health Index (BHI) for UDB Clients & Non-UDB Clients, Q1 2024-Q2 2024

	UDB Customers		Non-UDB Customers	
	Quater 1, 2024	Quater 2, 2024	Quater 1, 2024	Quater 2, 2024
Overall Business Health Index (BHI), Current performance	39.05	48.79	35.34	45.39
Raw Materials Availability	38.18	51.27	36.51	43.66
The volume of raw materials	48.94	55.93	44.44	51.76
The volume of raw materials	27.42	46.61	28.57	35.56
Production by Enterprises	35.39	46.59	35.07	40.76
Capacity utilization	41.22	51.61	38.07	43.30
Total Production Volume	43.68	50.86	36.17	46.13
Cost of production	21.26	37.29	30.85	32.86
Sales by Enterprises	39.69	49.17	36.75	49.13
Sales Volume	35.50	49.01	28.57	48.13
Average selling price	50.38	49.50	50.00	52.81
Sales Revenue	33.01	49.01	31.67	46.46
Profitability by Enterprises	32.01	44.74	28.60	41.54
Enterprise-driven job Growth	50.00	52.17	39.78	51.84

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

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

In Q2 2024, UDB-funded enterprises displayed stronger optimism compared to non-UDB enterprises, as reflected in the Business Health Index (BHI) scores. The Business Health Outlook Index for UDB customers rose from 58.19 in Q1 to 67.55 in Q2 2024, while non-UDB enterprises saw an increase from 55.92 to 61.18 during the same period. UDB clients anticipated better outcomes in key areas such as production and sales, with production and sales outlook indices rising to 63.04 and 75.41, respectively, compared to 58.21 and 68.66 for non-UDB clients. Despite a decline in the raw material cost outlook index (from

30.65 to 24.58 for UDB clients), both groups expected improved production volumes and capacity utilization, with UDB clients being more optimistic. Profitability expectations were also higher among UDB customers, increasing from 65.83 in Q1 to 81.42 in Q2 2024, reflecting confidence in managing operational costs and achieving higher sales revenues. In Q2 2024, Enterprise-driven job growth was projected to be higher for UDB clients at 70.00, indicating a positive outlook on employment and business expansion.

Table 2: Business Health Index (BHI) for UDB Clients & Non-UDB Clients, Quarterly Outlook, Q1 2024 and Q2 2024

	UDB Customers		Non-UDB Customers	
	Quater 1, 2024	Quater 2, 2024	Quater 1, 2024	Quater 2, 2024
Overall Business Health Index (BHI), outlook	58.19	67.55	55.92	61.18
Raw Materials Availability	47.77	47.88	48.12	53.08
The volume of raw materials	64.89	71.19	67.68	73.40
The volume of raw materials	30.65	24.58	28.57	32.75
Production by Enterprises	49.70	63.04	49.51	58.21
Capacity utilization	59.46	80.65	60.23	73.20
Total Production Volume	59.77	79.66	60.64	74.30
Cost of production	29.89	28.81	27.66	27.14
Sales by Enterprises	63.36	75.41	61.29	68.66
Sales Volume	69.47	79.70	61.90	74.44
Average selling price	54.58	62.87	59.57	59.70
Sales Revenue	66.03	83.66	62.38	71.83
Profitability by Enterprises	65.83	81.42	61.35	66.92
Enterprise-driven job Growth	64.29	70.00	59.35	59.05

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

4.0 Main Challenges Affecting Business Health in Uganda

The Business Health Survey for Q2 2024 highlights several significant constraints that impacted enterprises across Uganda. These constraints have contributed to a challenging business environment, affecting various aspects of operations from financing to demand. Below is an analysis of the key constraints:

High Cost of Financing

A significant 65% of enterprises reported that the high cost of financing adversely affected their business operations in Q2 2024. This constraint was particularly burdensome for SMEs that struggled to access affordable loans and credit facilities. For example, some businesses noted delays in receiving UDB loans, which exacerbated cash flow issues and limited their ability to expand or invest in new projects. In contrast, 35% of businesses indicated that this constraint did not impact them, likely due to their access to more favourable financing options or internal cash reserves.

High Cost of Utilities: Water and Energy

Utility costs emerged as critical constraints, particularly concerning water and energy. The survey revealed that 42% of businesses were affected by the high cost of water, while 49% reported challenges due to energy costs. These utilities are essential for many enterprises, particularly in the manufacturing and agro-processing sectors. For instance, companies dependent on continuous power supply faced increased operational costs due to frequent power outages and high electricity tariffs. Conversely, 58% of businesses reported that the high cost of water did not affect them, possibly due to lower water usage or more efficient systems. Similarly, 51% of enterprises were not impacted by high energy costs, which may indicate their reliance on alternative energy sources or lower overall energy consumption.

High Cost of Labor

The high cost of labor was reported as a significant constraint by 43% of businesses. This was especially challenging for sectors that require specialized skills, such as vocational training institutes, where maintaining a skilled workforce is critical to their operations. High labour costs contributed to reduced profitability and made it difficult for businesses to retain or attract the necessary talent.

Insufficient Demand

Insufficient demand was a major constraint for 53% of businesses in Q2 2024, reflecting challenges in generating sufficient revenue to cover operational costs.

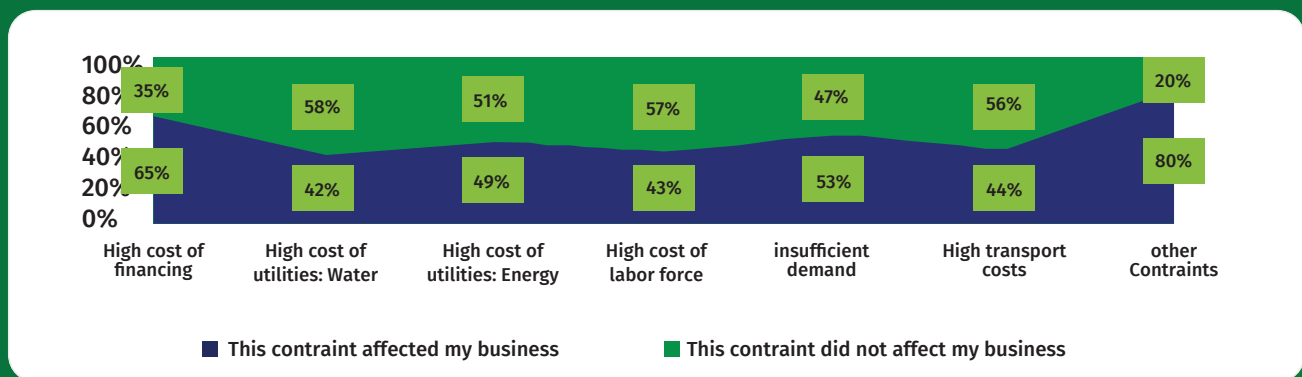
High Transport Costs

Transport costs were identified as a significant constraint by 44% of businesses. Poor road infrastructure and high fuel prices were major contributors to these costs, particularly for businesses involved in logistics and distribution. For example, companies distributing agricultural products reported increased expenses due to bad roads in rural areas, which affected their profitability.

Other Constraints

In addition to the specific constraints mentioned above, businesses reported being affected by various other constraints. These included high taxes, regulatory challenges, competition, and weather-related issues. High taxes were a common complaint, with businesses highlighting the burden of multiple and high taxes, including VAT and property taxes, which significantly reduced their profit margins. Moreover, the agricultural sector continued to struggle with the impact of climate change, including unpredictable weather patterns, which have reduced crop yields and livestock production.

Figure 9: Business Constraints Impacting Enterprises in Uganda, Q2 2024



Source: Authors' construct based on BHS data, July 2024



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