



UDB

Inspiring Development

Business Health Index (BHI) Report

Quarter 1, 2024



Executive Summary:

The Business Health Index (BHI) for Q1 2024 reflects a detailed picture of the business environment in Uganda. Overall, the BHI declined from 39.71 in Q3 2023 to 36.79 in Q1 2024, indicating a less favorable business climate. Key components such as Sales by Enterprises, Profitability, and Enterprise-Driven Job Growth all experienced significant downturns. The Sales by Enterprises index dropped from 45.23 to 37.88, driven by high raw material costs, multiple taxes, and lingering effects of the COVID-19 pandemic on consumer purchasing power. Consequently, the Profitability index fell from 34.78 to 29.89, and the Enterprise-Driven Job Growth index decreased from 49.26 to 43.65.

Despite the overall decline, some areas showed resilience. The Raw Materials Availability index slightly improved from 36.17 to 37.32, due to better local sourcing, although the cost of raw materials remained a challenge. The Production by Enterprises index saw a modest rise from 33.12 to 35.20, attributed to increased capacity utilization and lower production costs.

Looking forward, business sentiment remains cautiously optimistic, though less so than in previous quarters. The Business Health Index (BHI) outlook fell from 58.10 to 56.78. The Production outlook index notably decreased from 55.06 to 49.61 between Q3 2023 and Q1 2024, reflecting concerns over high costs and supply chain disruptions. Similarly, the Sales outlook index between the same period dropped from 66.16 to 62.08, influenced by high taxes and increased competition from imports.

Sector-specific analysis reveals varied performance. The agriculture sector's performance index fell from 47.06 in Q3 2023 to 41.40 in Q1 2024, due to increased input costs and declining profitability. The manufacturing sector showed slight improvement, while agro-processing faced challenges with high raw material costs and decreased production and sales volumes. The services sector, particularly tourism, and hospitality, saw significant declines, while education and health sectors remained relatively stable.

Comparative analysis between UDB-funded and non-UDB-funded enterprises showed that UDB customers maintained a relatively better business health status, despite both groups experiencing declines. The overall BHI for UDB customers fell from 44.07 to 39.05, while non-UDB customers saw a sharper drop from 37.95 to 35.34.

Overall, the Q1 2024 BHI findings indicate significant challenges in Uganda's business environment, driven by high costs of inputs and operations, limited finance access, market volatility, demand fluctuations. Despite these challenges, pockets of resilience and cautious optimism remain, emphasizing the need for targeted interventions to support business growth and stability.



Introduction

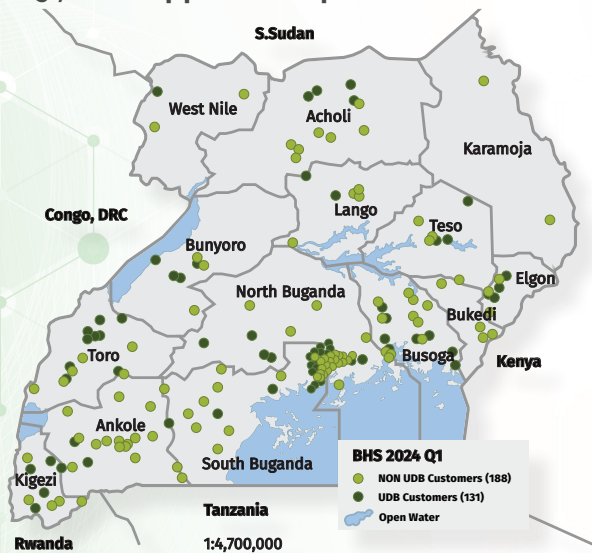
The Business Health Index (BHI) measures the current health and future expectations of business enterprises in Uganda. It captures the sentiments of business owners and managers about their business conditions, offering crucial insights into inputs, production, sales, profitability, and enterprise-driven job growth.

An improvement in the BHI indicates a robust business environment, fostering increased investments, higher financial returns, and significant job creation. Conversely, a decline in the BHI reflects growing uncertainty and challenges within the business landscape, impacting overall economic stability.

Methodology

The Uganda Business Health Index (BHI) is derived from survey data collected from SME and large-scale enterprise's managers/owners in Uganda. The study analyzed responses from 371 enterprises, including 140 UDB customers and 231 non-UDB customers, conducted in April 2024. Stratified random sampling was used to ensure representation across different sectors and company sizes. The survey covered various sectors such as agriculture, agro-processing, manufacturing, tourism and hospitality, human capital development (education and health), wholesale trade, and other services, including the creative industry, transport, and financial services sectors.

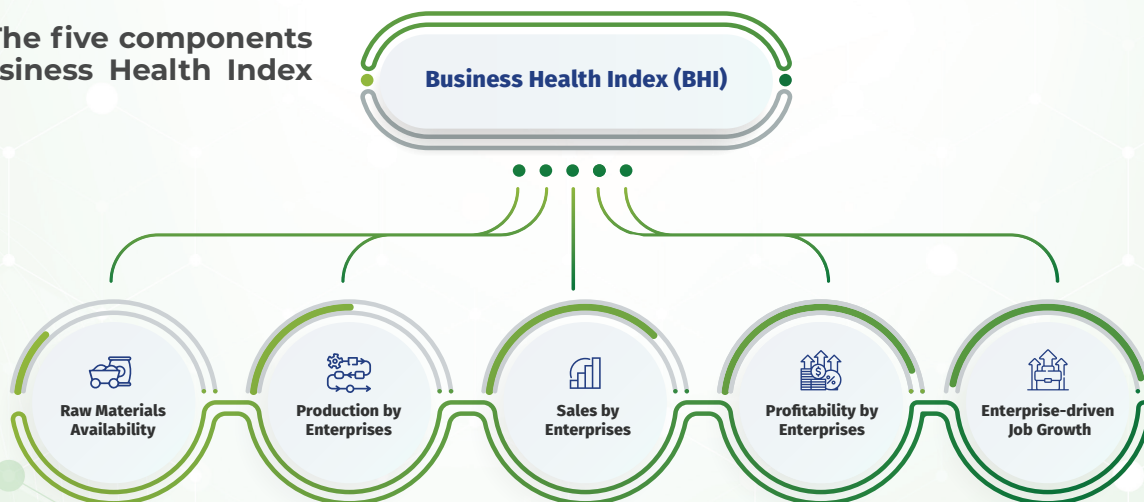
UDB Business Health Survey 2024 Q1, 319 Mapped Enterprises



This survey is part of the bank's quarterly assessments of current business health conditions and future expectations. The BHI report examines business health conditions for Q1 2024 compared to Q3 2023. It also assessed business health expectations for Q2 2024 compared to Q1 2024.

The BHI is computed from 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 "worse" for each indicator.

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



Source: authors 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 or unchanged stance, and 1 for positive current performance and outlook.

The formula for BHI Calculation:

a) Sub-indices

The sub-indices representing key sub-variables within each business health component are calculated using the following formula:

$$d = 100 * (w_u(N_{tu}/N_t) + w_s(N_{ts}/N_t) + w_d(N_{td}/N_t)); \dots \dots \dots (1)$$

where N_{tu} ; N_{ts} ; and N_{td} denote, respectively, the number of survey participants who report that the relevant business health variable has increased, stayed unchanged, or declined from period $t-1$ to period t .

d signifies sub-indices for key sub-variables.

$w_u = 1$, $w_s = 0.5$, and $w_d = 0$ are the weights assigned.

For current business health conditions, $t-1$ corresponds to the previous quarter, and t represents the current quarter.

For future business health conditions, $t-1$ corresponds to the current quarter, and t represents the next quarter.

The formula yields sub-indices (d) for sub-variables under each business health component, such as Volume of raw materials and cost of raw materials under the Raw Materials Availability component; Capacity utilization, Total Production Volume, and cost of production under the Production by Enterprises component; Sales Volume, Average selling price, and Sales Revenue under Sales by Enterprises component. Notably, Profitability by Enterprises and Enterprise-Driven Job Growth components have no sub-variables.



b) Business Health Component indices

$$C = \sum d / n \dots \dots \dots (2)$$

Where:

C represents the Business Health Component index for key business health indicators, including Raw Materials Availability, Production by Enterprises, Sales by Enterprises, Profitability by Enterprises, and Enterprise-Driven Job Growth.

$\sum d$ is the summation of sub-indices for key sub-variables.

n is the number of sub-indices for key sub-variables.





c) Overall Business Health and Outlook Indices

$$O = \Sigma C / m \dots\dots\dots (3)$$

Where:

O represents the Overall Business Health Index.
 ΣC is the summation of component indices.
 m is the number of component indices.

d) Interpretation of results

The current Business Health condition depicts the current perceived performance relative to the preceding quarter (three months). An index exceeding 50, signifies a relatively better performance perceived by the business owners/managers compared to the preceding quarter. In addition, a value of 50 indicates a perceived similar performance across periods/quarters. A value below 50 reflects a perceived decline in performance of the current quarter compared to the previous quarter.

The expected Business health performance analysis is considered for the subsequent quarter, projecting future outcomes. An index above 50 shows positive expectations or optimism for the upcoming quarter, 50 means a neutral outlook with no change, and a value below 50 indicates negative expectations or pessimism for the next quarter compared to the just-ended quarter.

Results

Overall Business Health Index (BHI)

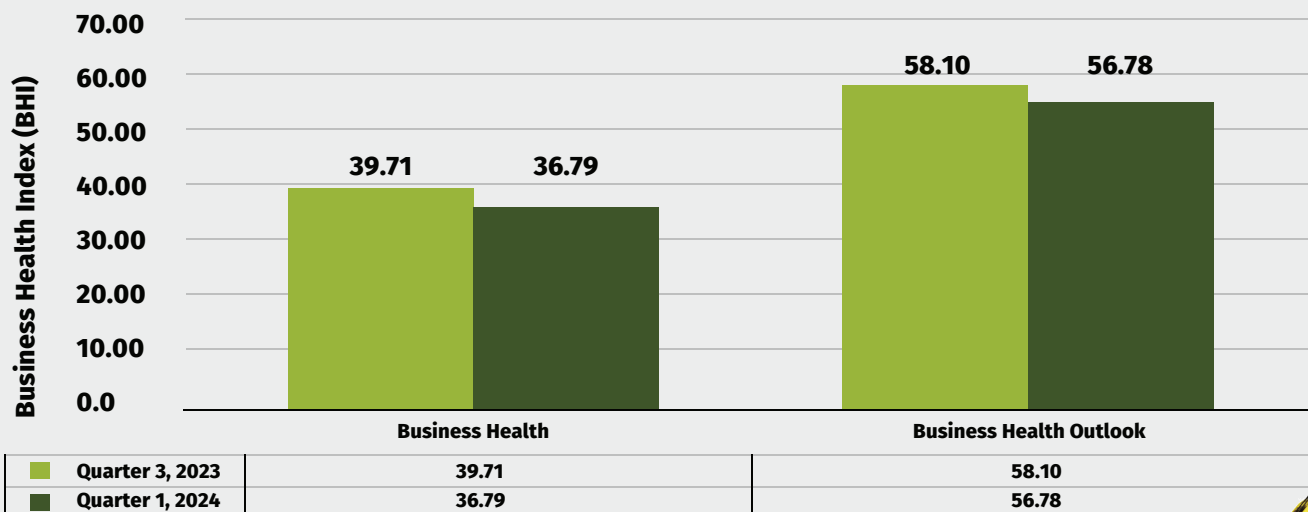
The Business health slightly declined, but the future sentiments remain optimistic.

In Q1 2024, the Business Health Index (BHI) declined to 36.79 from 39.71 in Q3 2023, driven by significant reductions in key component indices. The Sales by Enterprises index dropped from 45.23 to 37.88, due to high raw material costs and lagged COVID-19 pandemic effects on consumer purchasing power, impacting sectors like agriculture, manufacturing, and services. Consequently, the Profitability index decreased from 34.78 to 29.89, squeezed by high operational costs and import competition. This downturn in sales and profitability also affected job growth, with the Enterprise-Driven Job Growth index falling from 49.26 to 43.65, reflecting financial constraints and reduced investment capacity.

Looking ahead, business owners and managers exhibited less optimism in Q1 2024 compared to Q3 2023, with the outlook Business Health Index (BHI) dropping from 58.10 to 56.78. This reduced optimism was driven by declines in key outlook component indices. The Production outlook index fell significantly from 55.06 to 49.61, reflecting challenges from high costs of raw materials and labor, and the geopolitical conflicts such as the Russia-Ukraine war disrupting supply chains. The Sales outlook decreased from 66.16 to 62.08, due to high taxes, and competition from imports, impacting sectors like wholesale trade and other services. The profitability outlook index saw a slight decline from 63.30 to 63.04, with high operational costs eroding margins, particularly in manufacturing. These trends suggest potential supply shortages, weakened demand, and financial strain on businesses (See Figure 2).



Figure 2: Business Health Index (BHI): Q1 2024 Performance and Outlook for Q2 2024¹.



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



Key Drivers of Businesses' Health in Uganda

Business Health was weaker in Quarter 1, 2024

The business health in Uganda, as indicated by the Headline Business Health Index (BHI), declined from 39.71 in Q3 2023 to 36.79 in Q1 2024. This decrease was influenced by several key factors impacting various aspects of the business environment. Below is a detailed analysis of these drivers and their implications.

Raw Materials Availability

Raw materials availability showed a slight improvement from an index of 36.17 in Q3 2023 to 37.32 in Q1 2024, supported by an increase in the volume of raw materials, which rose from an index of 41.84 to 46.63 during the same period. This positive change was attributed to improved local sourcing. However, the cost of raw materials index decreased from 30.50 to 28.01, reflecting increased raw material costs. The deterioration in cost is attributed to higher import expenses and ongoing supply chain disruptions caused by geopolitical conflicts. These challenges have led to increased operational costs for businesses, overshadowing the benefits of improved raw material availability. As a result, while businesses may have more raw materials at their disposal, the higher costs could strain profitability and limit growth potential.



Production by Enterprises

Production by enterprises improved, with the index rising from 33.12 in Q3 2023 to 35.20 in Q1 2024, due to increased capacity utilization and lower production costs. Capacity utilization saw a significant increase from 35.93 to 39.57, indicating better efficiency in using production facilities. The cost of production index improved from 22.99 to 26.24, reflecting lower expenses in production processes. Despite these positive changes, total production volume slightly decreased from an index of 40.44 to 39.78 during the same period. This decline is attributed to ongoing challenges such as supply chain disruptions and higher raw material costs, which constrained overall output. As a result, while enterprises are becoming more efficient and reducing costs, external factors continue to limit their production potential and growth prospects.

Sales by Enterprises

Sales by enterprises experienced a significant decline, with the index falling from 45.23 in Q3 2023 to 37.88 in Q1 2024. This drop is evident in the sales volume, which decreased from an index of 41.57 to 31.23. The average selling price also fell from an index of 53.48 to 50.15, leading to a decrease in sales revenue from an index of 40.64 to 32.26. The lower sales volumes are attributed to decreased consumer purchasing power and increased competition. The declining average selling prices may reflect a competitive market environment and efforts to attract more customers through price reductions. The reduction in sales volume and average selling price indicates weakened market demand and heightened competition, leading to lower revenue. This trend poses a significant challenge for businesses to sustain operations and profitability, necessitating strategic interventions to boost market demand and stabilize prices.

Profitability by Enterprises

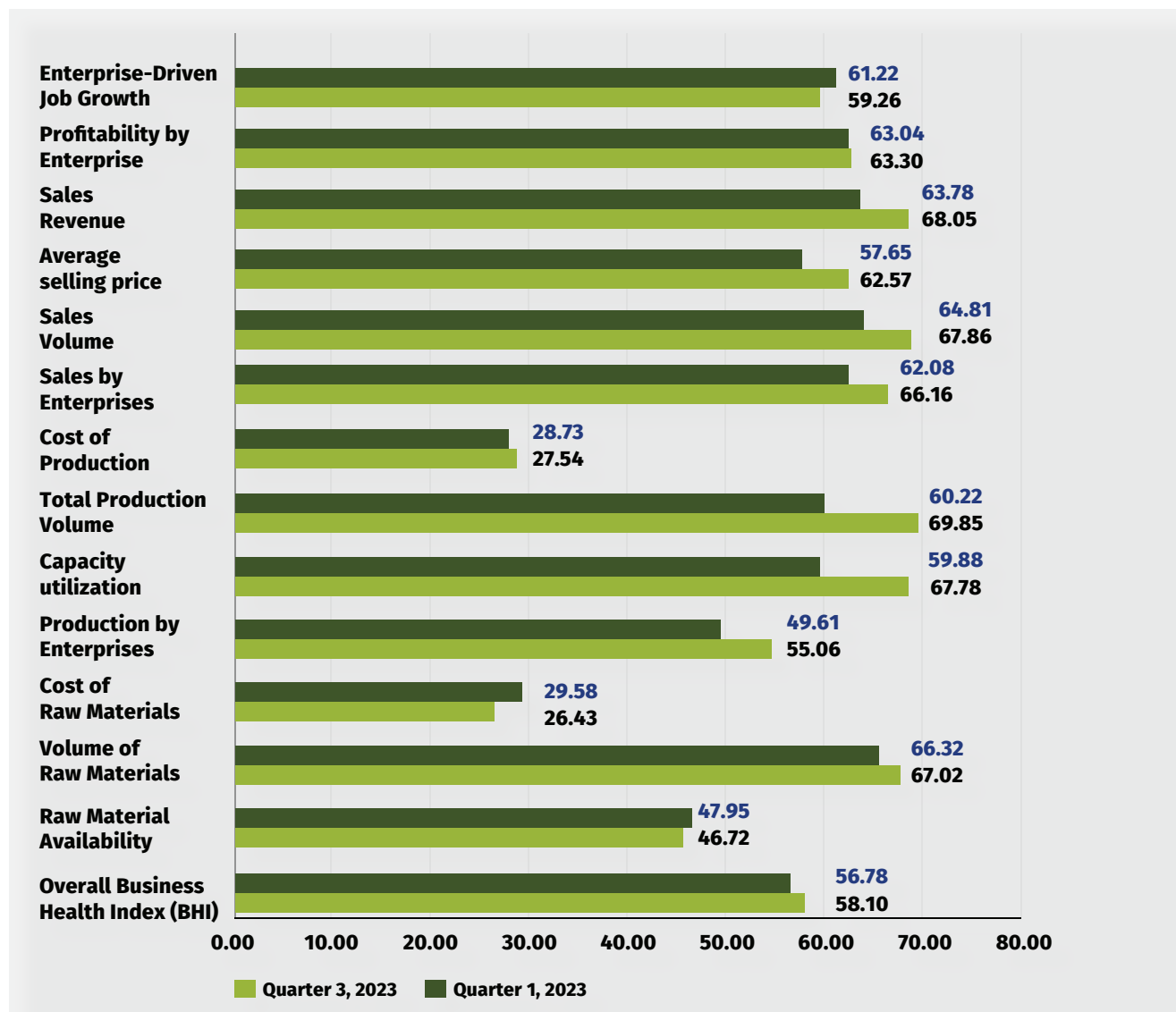
Profitability by enterprises declined from an index of 34.78 in Q3 2023 to 29.89 in Q1 2024. This reduction is largely due to higher operational costs and reduced sales revenue, which together have squeezed profit margins. The increased operational costs, including higher expenses for raw materials, labor, and utilities, combined with lower sales revenue as a result of declining sales volumes and average selling prices, have negatively impacted profitability. Declining profitability highlights the financial strain on businesses, limiting their ability to reinvest in growth and innovation. This trend could affect business sustainability and competitiveness in the long term, making it harder for companies to survive in a challenging economic environment.

Enterprise-Driven Job Growth

The Enterprise-Driven Job Growth index dropped from 49.26 in Q3 2023 to 43.65 in Q1 2024. This decline reflects the challenges businesses face in expanding their workforce amid financial constraints and reduced profitability. Financial constraints are limiting the ability of businesses to invest in hiring and expanding their workforce. Lower profitability reduces the incentive for businesses to grow their employee base. Reduced job growth can lead to higher unemployment rates, which in turn lowers consumer spending and dampens economic growth. This underscores the need for policies that support job creation and workforce development to sustain economic stability.



Figure 3: Business Health Index (BHI) for Q1 2024: Overall index, Components Indices and Sub-Indices.



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

Drivers of Business Health Outlook in Uganda

The future sentiments about business health remain optimistic.

Overall, future sentiments about business health remain optimistic, as reflected by the Business Health Index (BHI) staying above the critical 50 mark. However, business owners and managers were less optimistic in Q1 2024 compared to Q3 2023, as indicated by the decline in the BHI from 58.10 in Q3 2023 to 56.78 in Q1 2024. Various factors contribute to this outlook, as detailed below:



Raw Materials Availability

The Raw Material Availability Outlook index increased from 46.72 in Q3 2023 to 47.95 in Q1 2024, indicating a reduction in pessimism compared to the previous quarter, though still below the critical mark of 50. This slight improvement is driven by a modest decrease in the cost of raw materials, as indicated by the rise in the Cost of Raw Materials outlook index from 26.43 in Q3 2023 to 29.58 in Q1 2024. Despite this improvement, many businesses, especially in the agriculture and manufacturing sectors, continue to face challenges with high costs and inconsistent availability of raw materials. For instance, manufacturing enterprises are struggling with the high cost of raw materials due to the global impact of the Russia-Ukraine war on raw material supplies.

Production by Enterprises

The outlook index for production by enterprises declined from 55.06 in Q3 2023 to 49.61 in Q1 2024, indicating a shift from optimism to slight pessimism. This decline is due to a decrease in the Capacity Utilization outlook index from 67.78 to 59.88 and the Total Production Volume outlook index from 69.85 to 60.22 over the same period. High operational costs and supply chain disruptions are perceived to impact capacity utilization and production volume in Q2 2024. Notably, the agriculture sector, particularly maize and dairy farming, has been affected by climatic changes and diseases, such as foot-and-mouth disease in various districts. However, there is a slight improvement in the Cost of Production outlook index, rising from 27.54 in Q3 2023 to 28.73 in Q1 2024, indicating some relief in production costs.

Sales by Enterprises

Business owners and managers were less optimistic about future sales in Q1 2024 compared to Q3 2023, as shown by the decline in the Sales by Enterprises outlook index from 66.16 to 62.08. This decrease in optimism is attributed to a decline in the Sales Volume outlook index from 67.86 to 64.81, a decrease in the Average Selling Price outlook index from 62.57 to 57.65, and a drop in the Sales Revenue outlook index from 68.05 to 63.78. These declines indicate that businesses are perceived to experience lower sales volumes, reduced selling prices, and declining revenues due to weaker consumer demand and increased competition. In the services sector, for instance, hotels and restaurants reported low sales due to a slowdown in global economic conditions that affected the level of international tourists in the country and increased competition, which adversely impacted overall sales performance.

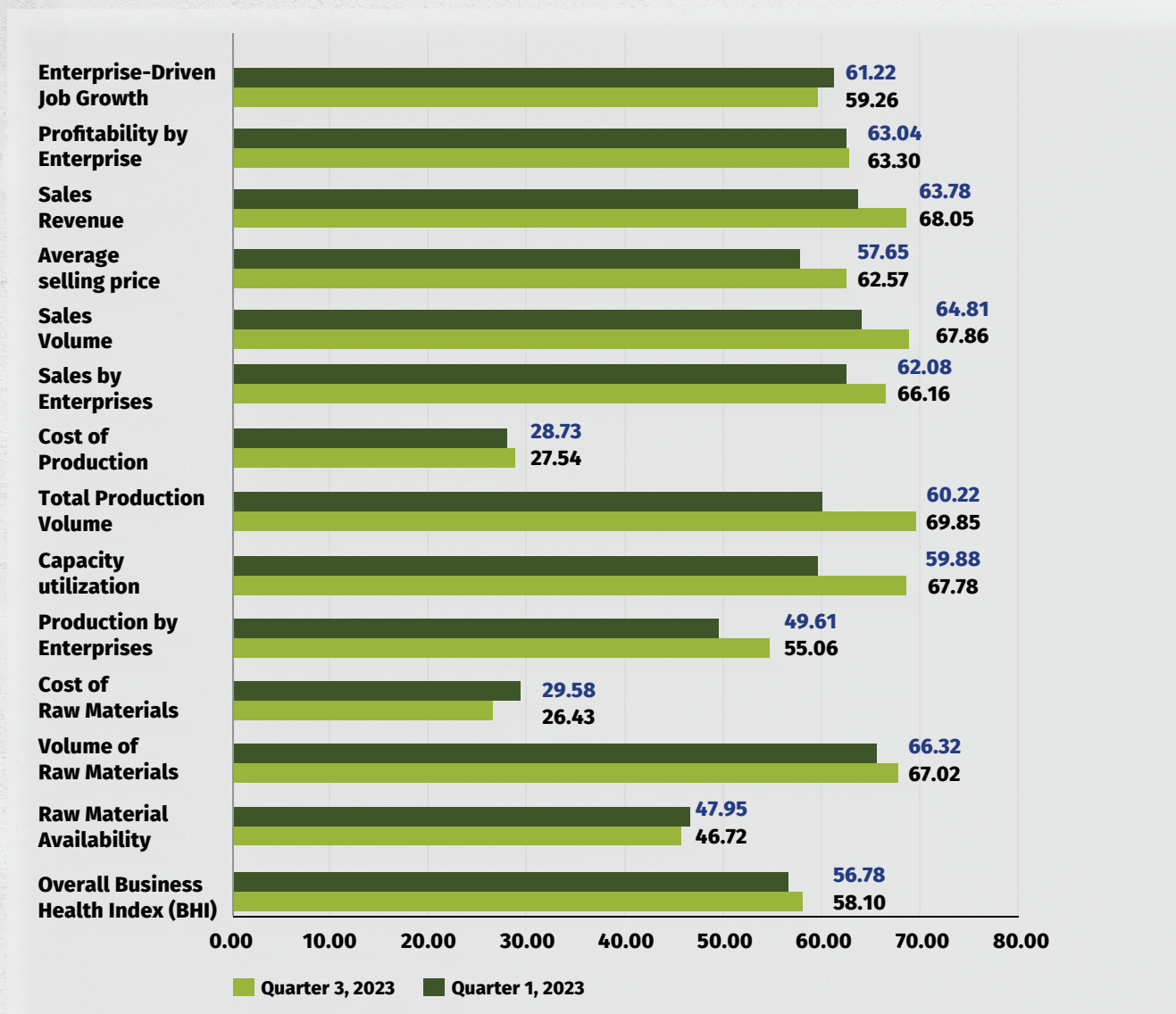
Profitability by Enterprises

Business owners and managers were less optimistic about future profitability in Q1 2024 compared to Q3 2023, as reflected in the slight decline of the Profitability by Enterprises outlook index from 63.30 in Q3 2023 to 63.04 in Q1 2024. This minor reduction suggests that while businesses are facing profitability challenges, the decline is not drastic. Factors such as fluctuating production costs, competitive pricing pressures, and lower sales volumes contribute to this cautious outlook on profitability. The manufacturing sector, particularly those dealing with chemicals, paints, and foam products, reported fluctuations in demand and high competition, impacting profitability.

Enterprise-Driven Job Growth

The business owners and managers were more optimistic about the future Enterprise-Driven Job Growth in Q1 2024 compared to Q3 2023. This optimism is reflected in the rise of the Enterprise-Driven Job Growth Outlook index from 59.26 in Q3 2023 to 61.22 in Q1 2024. This increase indicates that businesses anticipate creating more job opportunities in the near term, potentially driven by planned expansions, increased investments, or expectations of improved market conditions. The agriculture and services sectors, particularly those involved in coffee production and tourism, reported expected stable performance and potential for job growth in the future, driven by market demand and better climatic conditions.

Figure 4: Business Health Index (BHI), Outlook for Q2 2024: Overall Index, Components Indices and Sub-Indices



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

Analysis of Business Health Index (BHI) by Sector

In Q1 2024, some sectors showed recovery while others experienced a decline in business health.

Agriculture

The agriculture sector’s performance index dropped from 47.06 in Q3 2023 to 41.40 in Q1 2024. This decline was driven by a sharp increase in input costs, with the cost of agricultural inputs index falling from 40.38 to 30.38, and a decrease in profitability, with the profitability index dropping from 50.74 to 38.41. These factors have impacted farmers’ financial stability and reinvestment capacity.





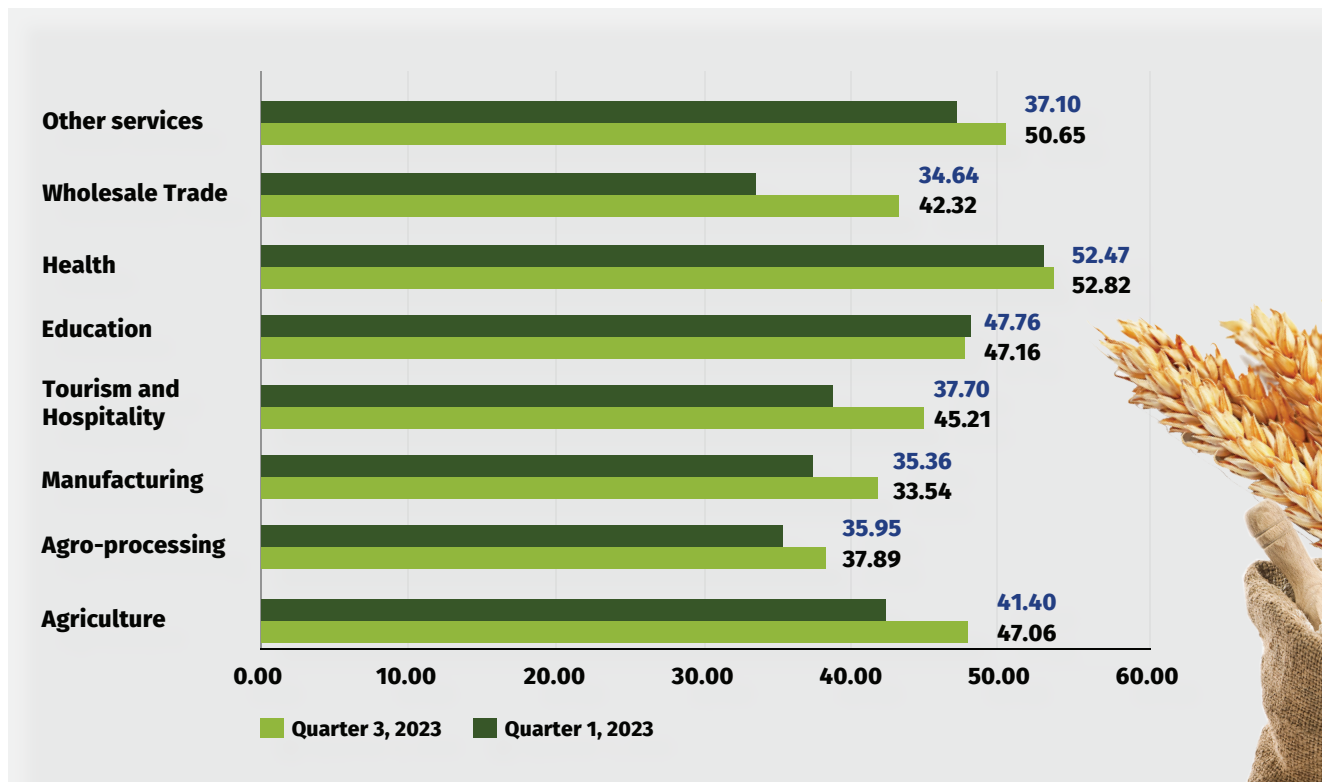
Industry (Manufacturing and Agro processing)

The industry sector, encompassing manufacturing and agro processing, showed mixed results. Manufacturing experienced slight growth, with the performance index rising from 33.54 to 35.36, driven by improved production volume (23.36 to 39.13) and sales volume (34.23 to 37.68). However, agro processing faced challenges, with its index falling from 37.89 to 35.95 due to higher raw material costs and significant drops in production volume (50.00 to 32.93) and sales revenue (38.33 to 32.95).

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

The services sector saw varied performances. Tourism and hospitality declined significantly, with the index dropping from 45.21 to 37.70, impacted by reduced tourist inflows and spending. Education remained stable, with a slight index increase from 47.16 to 47.76. Health saw a slight decline from 52.82 to 52.47 despite increased profitability. Wholesale trade and other services, including creative, transport, and financial services, also declined, with indices falling from 42.32 to 34.64 and 50.65 to 37.10, respectively.

Figure 5: Business Health Index (BHI) by Sector, Q3 2023-Q1 2024



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

Sector-Specific Analysis of Key Indicators: Business Health Index (BHI) Outlook for Q2 2024

Sentiments about future business health were less optimistic across all sectors except for Tourism and Hospitality, Education, and Health.

Agriculture

The agriculture sector's overall performance outlook index decreased from 66.80 in Q3 2023 to 60.99 in Q1 2024, showing reduced optimism but maintaining a positive outlook. The input availability outlook

index dropped from 55.77 to 49.53 due to supply chain issues. The cost of inputs outlook index fell significantly from 40.38 to 25.32, indicating a more pessimistic view of future input costs. The sales revenue outlook index decreased from 78.68 to 71.34, and profitability fell from 77.94 to 71.95, reflecting market challenges. Despite these declines, the index above 50 signifies retained optimism, suggesting resilience with a need for improved input availability and market conditions.

Industry (Manufacturing and Agro processing)

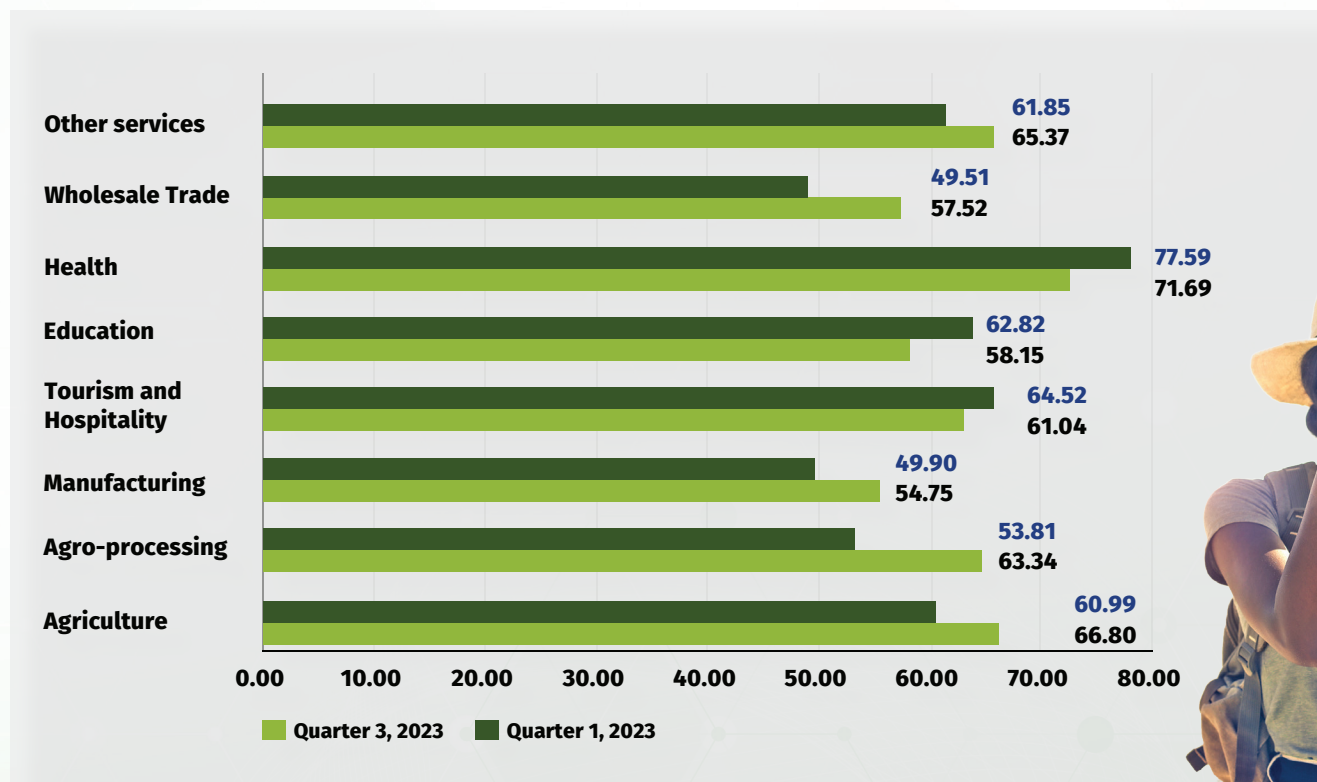
The agro-processing sector's outlook index dropped from 63.34 in Q3 2023 to 53.81 in Q1 2024, indicating reduced optimism but remaining positive. The raw material availability outlook index fell from 55.83 to 44.64, with the volume of raw materials outlook index plunging from 81.67 to 50.00. The cost of raw materials outlook index rose from 30.00 to 39.29, and capacity utilization decreased from 68.97 to 52.44. Sales revenue and profitability outlook indices dropped to 57.95, indicating operational challenges. The manufacturing sector saw its outlook index decline from 54.75 to 49.90, shifting to pessimism. Capacity utilization and production volume dropped, though raw material availability improved slightly, indicating mixed outlooks across the industry.

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

The tourism and hospitality sector's outlook index improved from 61.04 in Q3 2023 to 64.52 in Q1 2024, reflecting increased optimism. Sales volume and revenue outlook indices rose, despite a slight decline in average selling price. The education sector's outlook index rose from 58.15 to 62.82, with significant profitability and job growth improvements. The health sector showed strong optimism, with its outlook index rising from 71.69 to 77.59, driven by increased sales volume and revenue. The wholesale trade sector's index declined from 57.52 to 49.51, indicating a shift to pessimism due to reduced demand. Other services (creative industry services, transport services, and financial services) saw a decrease from an outlook index of 65.37 to 61.85, maintaining a positive outlook but requiring targeted interventions for stability.



Figure 6: Business Health Index (BHI) by Sector, Quarterly Outlook, Q3 2023 and Q1 2024



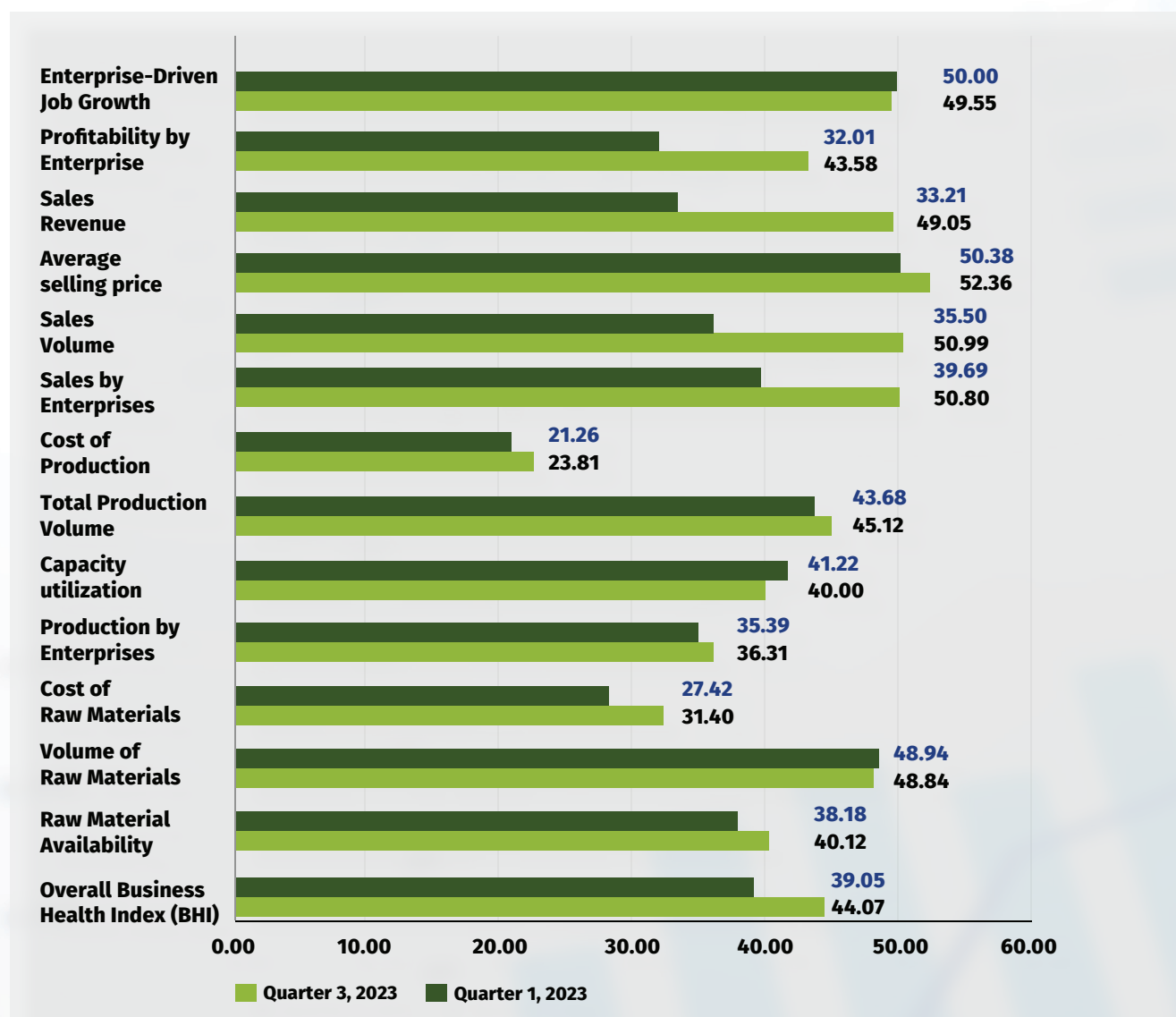
Source: Computation by the author based on Business Health Survey (BHS) data (April 2024).

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

Business Health for UDB-Funded Enterprises was weaker in Q1 2024.

In Q1 2024, the Business Health Index (BHI) for UDB-funded enterprises fell from 44.07 in Q3 2023 to 39.05, indicating a less favorable business environment. The raw materials availability index dropped slightly from 40.12 to 38.18, with stable volumes but increased costs (31.40 to 27.42). The production index declined from 36.31 to 35.39, reflecting decreased production volumes (45.12 to 43.68) and higher production costs (23.81 to 21.26). Sales by enterprises index saw a significant drop from 50.80 to 39.69, with sales volume index falling from 50.99 to 35.50 and revenue from 49.05 to 33.21. The profitability index decreased from 43.58 to 32.01 due to lower sales and higher operational costs. However, the enterprise-driven job growth index remained stable, increasing slightly from 49.55 to 50.00. This job growth reflects optimism for the near future and a lag effect where declines in profitability don't immediately impact employment. If the profitability decline persists, it may affect job creation in the near future.

Figure 7: Business Health Index for UDB Customers, Q3 2023 -Q1 2024



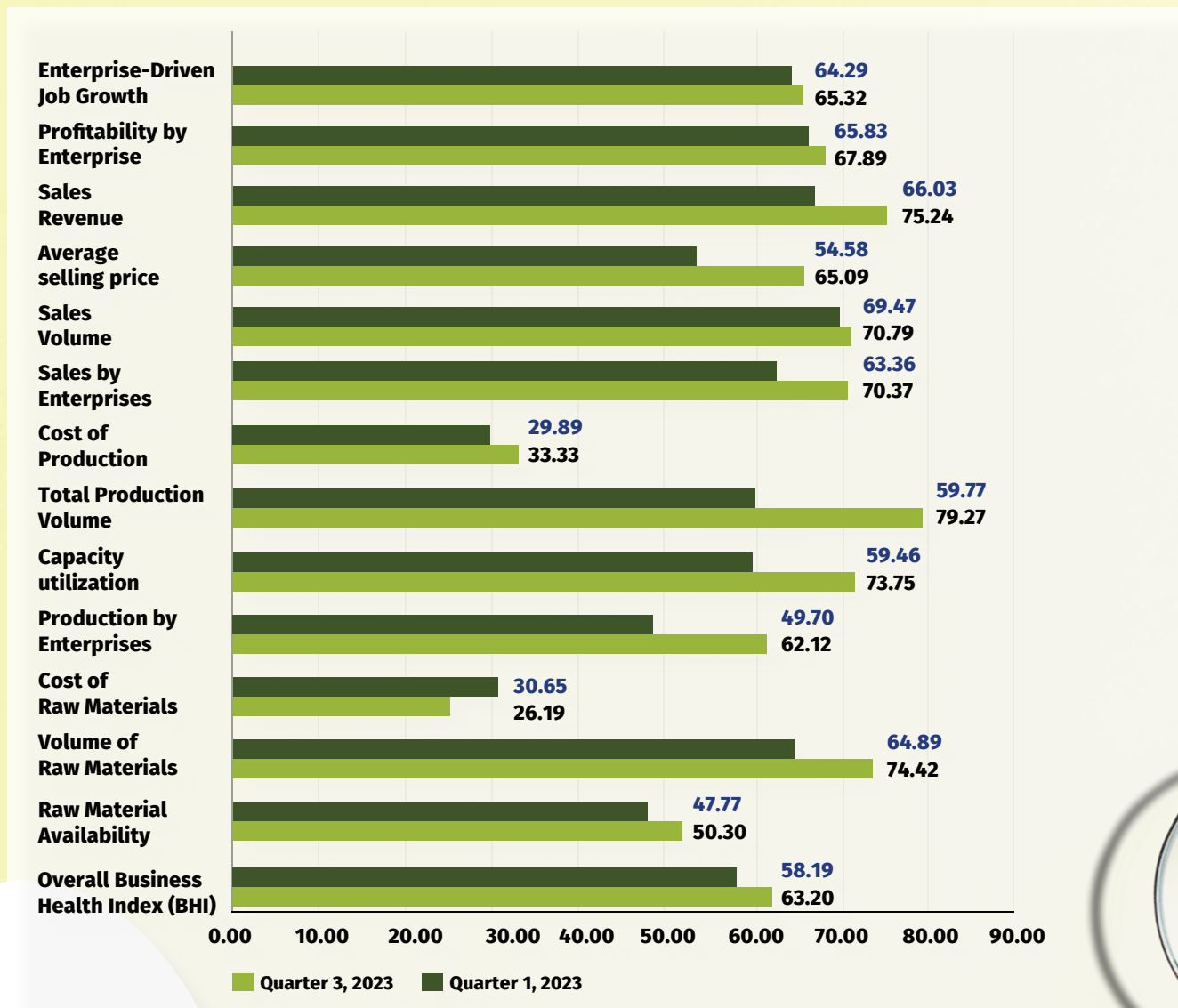
Source: Computation by the author based on Business Health Survey (BHS) data (April 2024).

Business Health Index (BHI): Quarter 2, 2024 Outlook for UDB-funded Enterprises.

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

The overall business health outlook index for UDB-funded enterprises decreased from 63.20 in Q3 2023 to 58.19 in Q1 2024, reflecting a less optimistic sentiment toward future business health. The outlook for raw material availability outlook index dropped from 50.30 to 47.77, indicating raw material concerns, while the volume outlook index fell from 74.42 to 64.89, though still optimistic. Conversely, the cost of raw materials outlook index rose from 26.19 to 30.65, suggesting a slight improvement in raw material costs. The production outlook index fell significantly from 62.12 to 49.70, with capacity utilization and total production volume outlook indices also dropping, though remaining optimistic. Sales outlook declined from 70.37 to 63.36, with the sales volume and average selling price indexes also showing reduced optimism. The profitability outlook index decreased slightly from 67.89 to 65.83, indicating enterprises' resilience despite higher costs and reduced sales. The job growth outlook index showed marginal stability, suggesting sustained workforce levels amidst these challenges.

Figure 8: Business Health Index for UDB-funded Enterprises, Quarterly Outlook, Q3 2023 and Q1 2024



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

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

UDB vs. Non-UDB Customers: Business Health Index for Q1 2024

The comparison of the Business Health Index (BHI) and various indicators for UDB and non-UDB enterprises from Q3 2023 to Q1 2024 reveals that while UDB-supported enterprises generally performed better, they faced a sharper decline in performance due to high raw material costs and the lingering effects of the COVID-19 pandemic on consumer purchasing power. UDB enterprises had a higher BHI, dropping from 44.07 to 39.05, compared to non-UDB enterprises'; decrease from 37.95 to 35.34. UDB enterprises experienced significant drops in sales (50.8 to 39.69) and profitability (43.58 to 32.01), while non-UDB enterprises also saw declines but to a lesser extent. Both groups are strained by high raw material costs and operational expenses, despite improved local sourcing, with UDB-funded entities in the manufacturing sector, particularly affected by the high cost of imported raw materials, leading to a decline of 6.15 points as most UDB manufacturers import their raw materials. Additionally, UDB-funded enterprises had to be conscious of low consumer purchasing power, leading them to reduce output levels. However, notable UDB-funded entities accessed more concessional loans compared to non-UDB enterprises, providing some financial cushion. Both groups saw a fall in production and sales volumes, yet capacity utilization improved, indicating efficiency gains. This analysis highlights the resilience of UDB-supported enterprises in maintaining a higher BHI despite greater challenges, reflecting their better initial position and capacity to adapt. However, it also underscores the ongoing difficulties posed by economic pressures, particularly the high costs of imported raw materials and reduced consumer purchasing power.

Table 1: Business Health Index (BHI) for UDB Clients & Non-UDB Clients, Q3 2023-Q1 2024

Indicators	UDB Customers		Non-UDB Customers	
	Quarter 3 (2023)	Quarter 1 (2024)	Quarter 3 (2023)	Quarter 1 (2024)
Overall Business Health Index (BHI) Current	44.07	39.05	37.95	35.34
Raw Materials Availability	40.12	38.18	34.44	36.51
The Volume of Raw Materials	48.84	48.94	38.78	44.44
Cost of Raw Materials	31.40	27.42	30.10	28.57
Production by Enterprises	36.31	35.39	31.75	35.07
Capacity Utilization	40.00	41.22	34.21	38.20
Total Production Volume	45.12	43.68	38.42	36.17
Cost of Production	23.81	21.26	22.63	30.85
Sales by Enterprises	50.80	39.69	43.01	36.75
Sales Volume	50.99	35.50	37.75	28.57
Average Selling Price	52.36	50.38	53.92	50.00
Sales Revenue	49.05	33.21	37.36	31.67
Profitability by Enterprises	43.58	32.01	31.38	28.60
Enterprise-Driven Job Growth	49.55	50.00	49.15	39.78

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

UDB vs. Non-UDB Customers: Business Health Index (BHI), Quarterly Outlook

The Business Health Index (BHI) outlook for Q3 2023 to Q1 2024 shows varying levels of optimism and pessimism between UDB and non-UDB enterprises, influenced by several key factors. UDB-supported enterprises, although generally more optimistic, faced a sharper decline in their overall BHI outlook, dropping from 63.2 to 58.19, primarily due to high raw material costs and the lingering effects of COVID-19 on consumer purchasing power. Notably, UDB entities are significantly impacted by the rising cost of imported raw materials, given that many rely heavily on these imports. In contrast, non-UDB enterprises experienced a slight decline in the overall BHI from 56.01 to 55.92, but showed increased optimism in job growth (from 56.97 to 59.35), reflecting resilience despite financial constraints. This resilience is further supported by their slightly improved outlook on raw material availability (from 45.15 to 48.12), unlike UDB entities which saw a decline (from 50.3 to 47.77). Production optimism fell for both groups, with a more significant drop for UDB customers (from 62.12 to 49.7). Despite these challenges, UDB-funded entities have accessed more concessional loans compared to their non-UDB counterparts, offering some cushion against adverse economic conditions. However, the overarching concern remains the decline in profitability, which threatens enterprise-driven job creation across both segments.

Table 2: Business Health Index (BHI) for UDB Clients & Non-UDB Clients, Quarterly Outlook, Q3 2023 and Q1 2024

Indicators	UDB Customers		Non-UDB Customers	
	Quarter 3 (2023)	Quarter 1 (2024)	Quarter 3 (2023)	Quarter 1 (2024)
Overall Business Health Index (BHI) Outlook	63.20	58.19	56.01	55.92
Raw Materials Availability	50.30	47.77	45.15	48.12
The Volume of Raw Materials	74.42	64.89	63.78	67.68
Cost of Raw Materials	26.19	30.65	26.53	28.57
Production by Enterprises	62.12	49.70	51.93	49.51
Capacity Utilization	73.75	59.46	65.26	60.23
Total Production Volume	79.27	59.77	65.79	60.64
Cost of Production	33.33	29.89	24.74	27.66
Sales by Enterprises	70.37	63.36	64.49	61.29
Sales Volume	70.79	69.47	66.67	61.90
Average Selling Price	65.09	54.58	61.57	59.57
Sales Revenue	75.24	66.03	65.24	62.38
Profitability by Enterprises	67.89	65.83	61.52	61.35
Enterprise-Driven Job Growth	65.32	64.29	56.97	59.35

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



Main Challenges Affecting the Business Health in Uganda

High Costs of Inputs and Operations:

The high cost of inputs, including raw materials, agricultural inputs, labour, and utilities, is a major constraint affecting various sectors, particularly agriculture and manufacturing. For example, maize farmers have reported continuous increases in the prices of improved seeds and fertilizers, making them unaffordable for many and leading to reduced production and profitability. Additionally, enterprises face high operational costs that reduce profitability and hinder growth. To address these issues, the government could support local production of raw materials, implement cost-saving technologies, and provide subsidies for critical operational expenses. These measures would help businesses reduce costs and enhance profitability.

Limited Access to Finance:

Limited access to affordable finance is a critical challenge for businesses in Uganda. High interest rates and stringent lending requirements hinder enterprises, especially SMEs, from securing necessary funding for expansion and operations. Enhancing financial inclusion through favorable lending conditions, lower interest rates, and reduced bureaucracy can help businesses access needed capital.

Market Volatility and Demand Fluctuations:

Fluctuations in market demand and prices significantly impact business stability. For example, maize farmers experience market volatility due to climatic changes and input costs, leading to inconsistent supply and unstable prices. Similarly, the coffee and tea sectors struggle with high labor costs and expensive agro-inputs, exacerbated by geopolitical conflicts like the Russia-Ukraine war. Dairy and beef sectors face production cuts due to disease outbreaks such as foot-and-mouth disease. Hotels and restaurants grapple with insufficient demand. Agro-processors and manufacturers deal with raw material costs and transportation challenges due to rising fuel prices, driven by global crude price increases and OPEC's production cuts creating better market linkages, establishing price stabilization mechanisms, and promoting export diversification. These strategies can stabilize incomes and enhance business resilience across sectors, fostering overall economic stability.



1 Relative Business Health for the current quarter (Q1 2024) relative to previous quarter (Q4 2023) and Relative business health for next quarter (Q2 2024) compared to the current quarter (Q1 2024)



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