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Joseph Maweje, Paul Corti Lakuma & Elizabeth Birabwa

## Summary of lessons learned from the four years of Uganda Business Climate Surveys



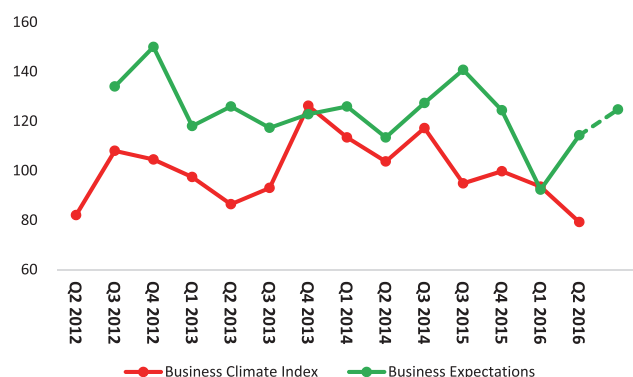
*The Economic Policy Research Centre (EPRC) has been producing the Business Climate Index (BCI) for Uganda since June 2012. The BCI reflects the perceptions of Ugandan business managers on the current and near future (expected three months ahead) business conditions. The BCI is a perceptions indicator of economic activity and the general business environment in which businesses operate. It can be used to forecast turning points in economic activity and thus provides critical information for policy makers both in Government and the Private Sector. This issue presents a brief overview of the findings from the business climate surveys conducted between April - June 2012 and July - September 2015.*

### Main findings

**The business environment has gained some momentum in recent periods but is still vulnerable to domestic, regional and global shocks.** The drivers of favourable business conditions in recent periods include opportunities for incoming new businesses, favourable product and input prices as well as the business overall business confidence supported by developments in regional integration and the discovery of significant natural resources in the region. However the Ugandan business environment has been sluggish in the last few quarters (Figure 1) and continues to be vulnerable to shocks due to political election cycles,

macroeconomic imbalances, and fragility in regional and global economic conditions.

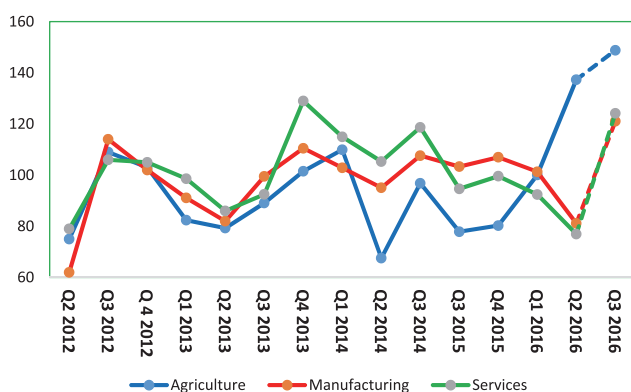
Figure 1: The Uganda Business Climate Assessment



**There are significant differences in business environment perceptions across firms by size and sector.** For instance firms in the agricultural sectors tend to have a less favourable outlook about the prevailing conditions for doing business than firms in the industry and services sectors (Figure 2). Firms in the services sector tend to be more optimistic. These differences in perceptions about the business environment could reflect the unique characteristics of the sectors. For example, firms in the services sectors might be more easily adaptable to changing conditions, while those in Agriculture and Industry might need more time and resources to adapt. With regard to firm size, small firms tend to have more pessimistic perceptions about the business environment than large firms.



Figure 2: Sectoral decomposition of the Business Climate Index



**Electricity issues have dominated the list of constraints faced by firms.** On average, sixteen percent of the business managers have cited challenges with the availability and cost of electricity as the number one challenge from a list of 15 constraints. Among the top five most binding constraints faced by firms, electricity is closely followed by macroeconomic factors (15 percent), competition (13 percent), substandard goods and counterfeits (11 percent) and tax policy (10 percent).



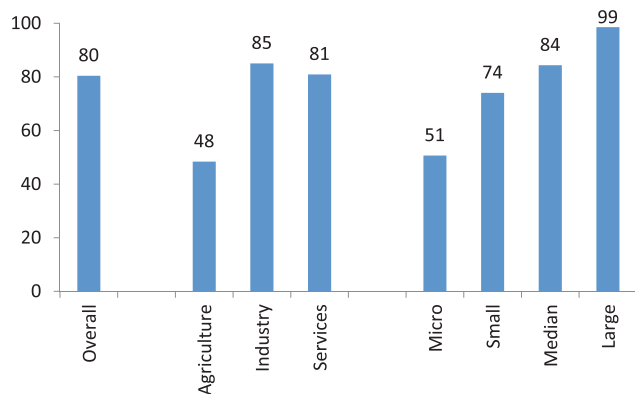
Furthermore, the poor perceptions about the quality of electricity supply are reflected in the high investments in backup generators by Ugandan businesses. In one of the surveys we sought to understand the most important sources of energy for daily business operations. Specifically, firm managers were asked the following question. “In order of importance, please rank the three most important sources of energy used in this business enterprise (for example rank 1, 2, 3)”. Results indicated that whereas 83 percent of the businesses use electricity from the grid as their primary source of energy, about two out of every three businesses had invested in generators as a secondary back up source.

**Businesses are struggling to create jobs.** Our data shows that the ability of Ugandan businesses to employ additional labour has been very weak. This has been on account of the low capacity utilisation of available production capacities. Low capacity utilisation implies that businesses have the potential to improve production without requiring additional resources such as labour, machinery and/or operating for longer hours. As a result, business have realised only modest improvements in the number of jobs created. In addition, the inability of the businesses to create adequate employment opportunities could be linked to the persistence of some constraints that affect firm productivity and growth.



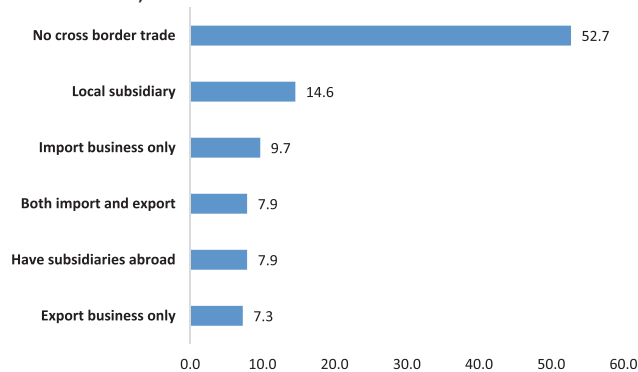
**Ugandan businesses have embraced the use of information and communication strategies.** Overall, 80 percent of firms in our sample have embraced the use information technologies and computers (ICTs) in their daily operations. However, there are differences in ICT adoption by firms in terms of sectors and sizes. Results in figure 3 indicate that ICT adoption is lowest among micro business (51 percent), while it is higher in Small (74 percent), Medium (84 percent) and (99 percent) by Large enterprises. A sector analysis shows that ICT adoption is lowest in agricultural firms (48 percent), while it is higher in services (81 percent) and Industry (85 percent).

Figure 3: ICT adoption by Uganda businesses, %



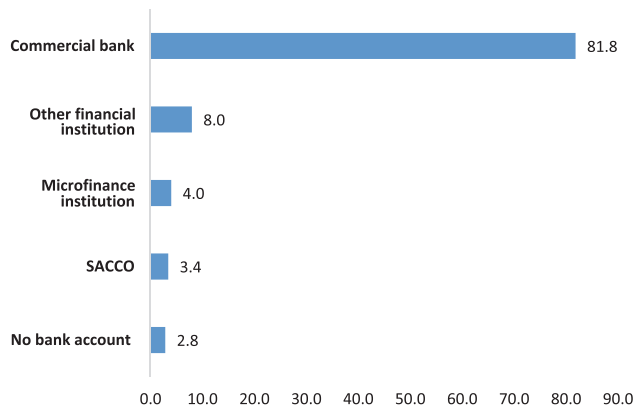
**Majority of Ugandan businesses do not directly engage in regional and international trade.** Results in figure 4 indicate that 52.7 percent of Ugandan businesses do not engage in any form of cross-border trade; 14.6 percent operate as local subsidiaries for larger firms abroad, 9.7 percent engage in import trade only, 7.9 percent engage in both import and export trade, 7.9 percent have subsidiaries abroad, and 7.3 percent engage in export trade. Moreover, the businesses that engage in cross-border trade tend to be larger, engage in agriculture and agro processing, manufacturing, and trade, and are mostly located in Kampala.

Figure 4: Extent of cross-border trade by Uganda businesses, %



**Financial inclusion is high among Uganda businesses.** Results in figure 5 indicate that 82 percent of Ugandan businesses operate an account with a commercial bank. However, most of these businesses tend to be large and located in Kampala. A small proportion – about 3 percent of businesses – do not have a bank account. Meanwhile, only 4 percent of business hold an account with a Microfinance institution. Equally, SACCO's have a comparatively low penetration among businesses with 3.4 percent membership.

Figure 5: Extent of financial inclusion by Uganda businesses, %



**Mobile money is driving financial inclusion especially among the micro and small enterprises.** Results indicate that the majority of businesses (68 percent) have adopted mobile money as a medium for effecting certain types of transactions with significant differences across business classifications. The adoption of mobile money decreases with size of the enterprise. The statistics presented in table

1 indicate that micro (75 percent) and small (74 percent) enterprises have been particularly quick at adopting the use of mobile money, while medium (69 percent) and large (52 percent) have not been as quick. The main reasons cited as encouraging businesses to use mobile money are: to reduce costs (27 percent), to save time (23 percent), to satisfy customers' request (14 percent), to satisfy suppliers' request (12 percent), to reduce the risks of handling cash (10 percent), and to align with competitors' use (3 percent).



**Table 1: Extent of mobile money use, %**

	Use Mobile Money	Do Not Use Mobile Money	Do Not Know
All Businesses	68	30	2
<b>Size classification of business establishments</b>			
Micro Enterprises	75	25	0
Small Enterprises	74	24	2
Medium Enterprises	69	29	2
Large Enterprises	52	44	4

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**About EPRC**

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis.

**Address**

Economic Policy Research Centre  
 Plot 51, Pool Road, Makerere University Campus  
 P.O. Box 7841, Kampala, Uganda  
 Tel: +256-414-541023/4  
 Fax: +256-414-541022  
 Email: eprc@eprc.or.ug

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