

Disruptions from Elections and COVID-19 pandemic affect Businesses Environment



People queuing to cast their vote during the general presidential elections held on 14 January 2021.

Picture Source: <https://www.aljazeera.com/gallery/2021/1/14/in-pictures-ugandans-vote-in-charged-election>

Executive Summary

The Business Climate Index (BCI) decreased by 16.9 basis points from 53.4 in the previous quarter (July–September 2020) to 36.5 in the current quarter (October–December 2020). The business environment’s negative sentiments were primarily driven by some persistent challenges in doing business and new emerging ones. In particular, the domestic political election cycle amidst continued disruptions brought about the COVID-19 pandemic elevated the perceived risks for doing business in the current quarter. In terms of business constraints, limited access to credit, increased competition, insufficient demand and tax policy continue to constrain business competitiveness. Their severity was perceived to have been elevated during the current quarter. Perceptions about business sentiments in the next quarter (January–March 2021) are pessimistic on account of the expected deterioration in business environment, business optimism, anticipated rise in input costs and inability to establish new businesses possibly signalling business environment slump in post-election period.

Data and methods

The data used in computing the Business Climate Index (BCI) is a panel of businesses based on the Uganda Bureau of Statistics Census of Business Establishment 2011, first tracked in 2012. This current quarterly bulletin covered 167 business establishments. The panel element has enabled us to track the business environment in Uganda over time.

The BCI is computed based on the following business evaluation indicators: level of business activity, turnover, profitability, incoming new business, capacity utilisation, average costs of inputs, price of produced goods, business optimism, number of employees, and average monthly salary. For each of the evaluation indicators, respondents are asked to express their perceptions on a Likert scale as follows: “improved”, “did not change”, “declined” or “above normal for the quarter”, “normal for the quarter”, below average for the quarter” or “more favourable”, “unchanged”, “less favourable”. These responses are coded as 0, 1, and 2, respectively. In this case, if a respondent’s perception of the business environment is that it deteriorated, such a response would be coded 0, it would be coded 1 if the business climate did not change, and 2 if the business climate improved.

The index does not consider the magnitude of change in the data but considers the general direction of movement in the key indicators.

As such, the index is sensitive to the direction as opposed to the magnitude of the change in business conditions. During the data collection process, we ask business managers to assess the general economic environment for the current quarter relative to the previous quarter; and their expectations for the next quarter. Based on the business evaluation indicators explained earlier, the business climate index is computed as the weighted arithmetic mean of indices of the individual business evaluation indicators. The indices range from 0 – 200. The interpretation of the BCI is such that scores above 100 point to an improving business climate. Scores below 100 imply that the general business conditions are getting worse. A score of 100 points to unchanged business conditions.

Also, the index analyses the evolution of challenges facing businesses during July–September 2020 by identifying which business constraints became more of a problem and less of a problem. We also ask business managers to indicate how each of the identified business constraints has evolved during the quarter. For each of the business constraints, we asked if it was “more of a problem”, “unchanged”, or “less of a problem”. The resultant weighted indices range from -100 to 100, with positive scores suggesting that a particular constraint is perceived to be more of a problem in the current quarter; negative scores imply that a constraint is less of a problem, and zero scores point to business constraint whose severity has remained unchanged.

Results

Business Climate Perceptions Indicate Elevated Risks.

Results indicate a drastic slowdown in the conditions for doing business in the current quarter (October – December 2020), having declined from a generally optimistic trend observed in the previous five quarters (Figure 1). The business climate index drastically fell by 16.9 index points on a quarter-on-quarter basis from 53.4 during (July – September 2020) to 36.5. The drop in the index indicates deteriorating conditions for doing business in Uganda during the period under review. In particular, all sub-indices, namely capacity utilisation (26.5), turnover (27.8), activity (34.5), labour (33.4), salary (48.1) and profit (27.7), among others, were all below normal. This indicates that the economy is operating at less than full potential.

The business environment’s negative sentiments were driven mainly by some persistent challenges in doing business and new emerging ones. In particular, the tense domestic political election cycle amidst disruptions caused by the COVID-19 pandemic elevated the perceived risks for doing business in the current quarter. In addition, insufficient demand, increased difficulty accessing credit, volatility in the macroeconomic environment, substandard products, and tax policy and concerns over the cost and reliability of electricity supply continued to be binding constraints to business competitiveness. It was reported to be more of a problem in the current period than in the previous.

There are concerns that interest rates are very high, posing constraints to private sector credit growth. Also, the depreciation of the Uganda shilling against the leading world currencies has affected business, especially in the services and wholesale trade where a sizeable amount of stock and other materials are imported.

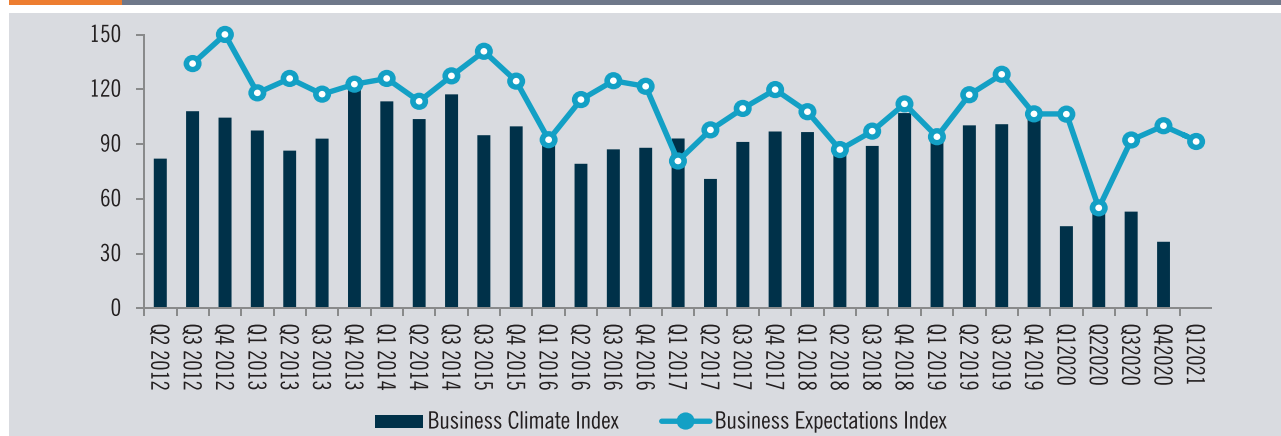
The nominal exchange rate continued to depreciate by 0.2 percent during October – December 2020 on a year-on-year basis. The local currency depreciation further strengthened the inflationary outlook, with headline inflation averaging 3.9 percent compared to 3.0 percent during October – December 2019.

The Business Climate Index by Sector

While business sentiments across all sectors declined, there were differences in the sectoral perceptions about the current quarter’s business environment. Business sentiments in the Agriculture sectors registered the most extensive deterioration, followed by the Manufacturing and Service sectors (Figure 2). In the Agriculture sector, the business climate index relapsed by 33.2 points to 46.9 from 80.2 points. However, the index for manufacturing declined by 18.7 points to 46.4 from 64.1 in the previous quarter. Similarly, the index for services decreased by 13.7 points to 34.4 from 48.1 during the last quarter. The considerable deteriorating confidence in the agriculture sector was attributed mainly to the less favourable business activity, turnover and subdued demand that affected business profitability.

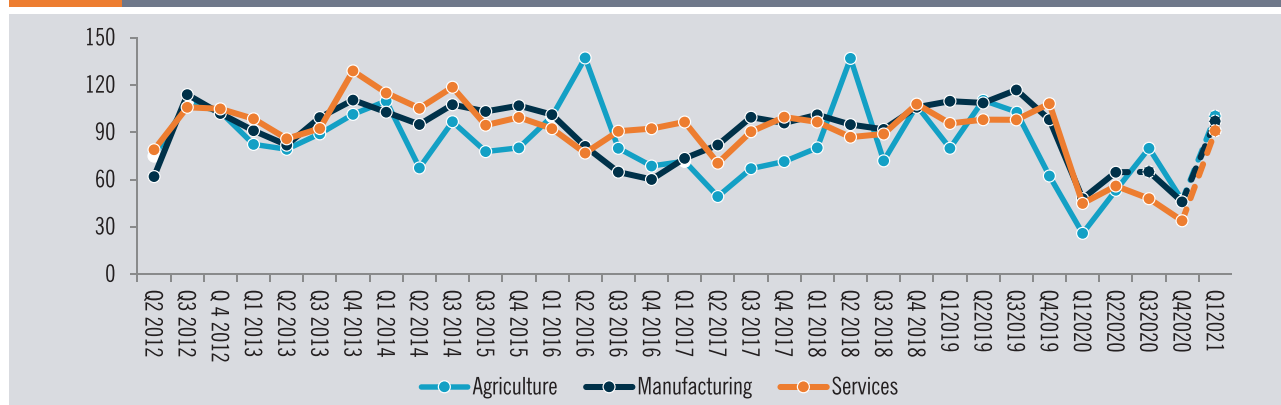
As already mentioned, the manufacturing sector’s business sentiment remained below normal, dropping by 18.7 points to 46.9 in the current quarter from 80.2 points in the previous quarter. The significant decline in business sentiment was driven by the inability to expand business operations due to low capacity utilisation and increased labour costs that affected turnover and profits. Like developments in the manufacturing sector, business sentiment in the services sector also deteriorated due to increased product prices due to increased input costs that affected profits and business expansion. These were primarily due to waning domestic demand and business anxiety due to a political election cycle.

Figure 1 The Business Climate Assessment



Note: Solid lines show period under review.

Figure 2 Business Climate Index by Sector



Challenges in doing business

The top five most frequently cited business constraints have not changed since last quarter. This suggests that the most pressing policy and regulatory constraints facing Ugandan businesses have persisted. The increased business competition amidst waning demand, high-interest rates, insufficient demand, the increased requirement to pay taxes amidst low sales (tax policy) and macroeconomic factors, notably exchange rate volatility, continue to be the significant business constraint in the current quarter. Challenges with electricity availability and competition from substandard goods continue to take second place.

Similar to the previous quarter (July-September 2020), the persistent burden of insufficient demand emanated from the low purchasing power in the economy as a result of severe job losses caused by the COVID-19 pandemic and an increase in precautionary savings due to the rising uncertainties regarding income flows¹ in preparation for an uncertain post-presidential election period. Again, meeting tax obligations has continued to be highlighted as a burden to businesses since their capacity to meet tax obligations is severely affected by the low business performance resulting from COVID-19 and its containment measures.

How have the business constraints evolved over the last period?

The results (Figure 4) indicate that the five most important challenges that businesses had to deal with during the quarter are also the ones whose severity got worse over the last full year. Like

in the previous quarter (July- September 2020), the severity of the challenges posed by the unfavourable tax policy, subdued demand, severe business competition with substandard goods, electricity unavailability and limited access to finance were perceived to have been elevated during the current quarter. As already mentioned, tax policy was reported to be more of a problem in the current quarter as in the previous, due to a severe decline in the capacity of businesses to meet their tax obligations due to the subdued demand and sales turnover. Lastly, just like in the previous quarter, electricity availability and cost continues to be a serious concern within the business community in the current quarter, albeit with high severity during the current quarter.

Future business outlook: January – March 2021

The businesses are more pessimistic about the near term developments than they were in last quarter. The expected index for January – March 2021 is 91.9 (Figure 1) and is 8.2 index points lower than the current quarter’s expectation which was 100 points. Generally, deterioration in business conditions is expected to relapse most from the anticipated unfavourable business environment, business optimism, high input cost and limited business expansion heightened by the anticipated political election cycle.

However, there are sectoral differences in the expected business environment. Lower business confidence is expected in the services and the manufacturing sectors. In particular, the service sector will suffer more than manufacturing while the agricultural sector is expected to have relatively modest improvements. The expected indices are 100.2, 96.8, and 91.1 for agriculture, manufacturing and services, respectively. The anticipated favourable sentiments for doing business in the agriculture sector are attributable to the anticipated improvement in sales turnover, resulting from

1 <https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/publications/StateofEconomy/publications/StateOfEconomyReports/2020/Sep/State-of-the-Economy-September-2020.pdf>

Figure 3 Business Constraints (%)

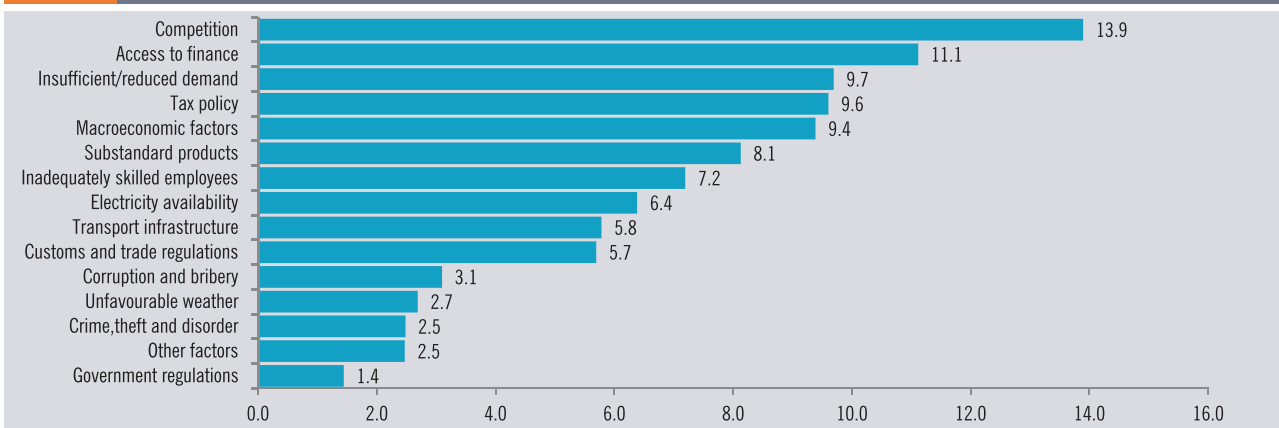


Figure 4 The evolution of business constraints (% of businesses)



the expansion of new business establishments and higher profits. Furthermore, the anticipated decline in agricultural input cost in the next quarter points to a favourable business environment in this sector. The expected unfavourable business environment in the manufacturing and services sectors is anchored around the anticipated deterioration of the general business environment and business optimism and inability to expand new business operations, possibly signalling business risks after the effects of the political election cycle.

Question of the Quarter

Registration of a Trademark to improve product visibility in the marketplace.

This quarter, we sought to understand if business owners had registered Intellectual Property Rights (IPR), namely the Trademark, to increase brand value and product visibility. In particular, we asked: a) “Has your business registered a Trademark to improve visibility of your products in the market place?” b) “And if not, what are the reasons for the failure?”

Results (Figure 5) indicate that most businesses in our sample (71 percent) had registered a trademark to increase brand value, visibility and ownership in the marketplace. However, among the firms that had not registered a trademark, 49 percent reported a lack of awareness about a trademark. In comparison, 21 percent reported the high costs involved in the registration of the Trademark was a significant deterrent. As such, the government, through the Uganda Registration Services Bureau, need to step up awareness campaigns among business owners. The awareness campaigns could be via multimedia channels to provide information to business executives on the different IPRs. Furthermore, the government needs to ensure that the registration process is made cheap. In this case, digital platforms should be availed to enable registration online and payment.

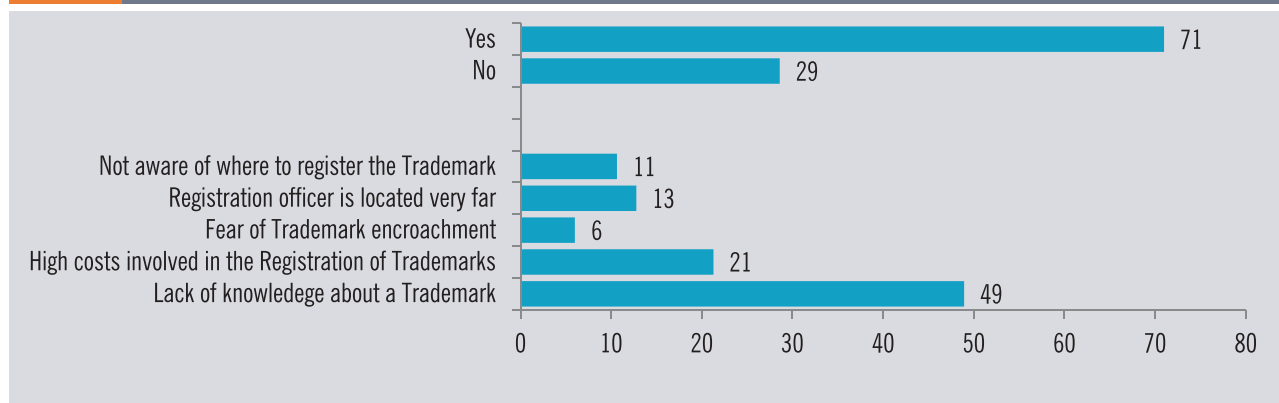
Conclusion

Perceptions about doing business in Uganda in the current quarter (October-December 2020) declined drastically compared to the previous quarter (July-September 2020). The negative sentiment in the business environment was primarily driven by the unfavourable business perceptions across all sectors, reflecting heightened risk in anticipation of the general elections.

Just like in the last quarter (July-September 2020), some business constraints persisted. In this regard, inadequate credit access, insufficient demand, exchange rate volatility, unfavourable tax policy and electricity unavailability were critical binding constraints to business competitiveness in the current quarter. Considering future expectations, business sentiment for the next quarter (January-March 2021) deteriorated across all sectors, except for agriculture. The next quarter will see below-average sentiments for the services and manufacturing sectors due to anticipated unfavourable business environment and optimism— signalling election-related uncertainties. Nonetheless, business sentiments in the agriculture sector are projected to improve in the next quarter slightly.

Based on the findings, most business executives in Uganda are unaware of the available IPR, especially the Trademark. In this regard, it is vital to step up sensitisation and training efforts for business owners on the importance of IPR, the registration process and the penalties for IPR infringement. Also, the cost of registration of these rights needs to be reduced by leveraging digital platforms to reduce physical travel costs and ensure social distancing.

Figure 5 Registration of a Trademark to improve product visibility in the marketplace, %



The Economic Policy Research Centre (EPRC) has been producing the Business Climate Index (BCI) for Uganda since June 2012. The BCI reflects Ugandan business managers’ perceptions 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. The purpose of BCI is to forecast turning points in economic activity and provide critical information for policy makers both in Government and the Private Sector.

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@eprcug.org

Acknowledgement

The Business Climate Survey team appreciates the support received from all participating business establishments across the country, our partners at the Uganda National Chamber of Commerce and Industry, Kampala City Traders Association and all persons who reviewed and edited this publication.

Learn more at www.eprcug.org