

The Uganda Business Climate Index

Uganda's Business Climate Slightly Improves and Businesses Remain Optimistic

Executive Summary

The Business Climate Index (BCI) improved marginally by 3.7 index points from 88.8 in the previous quarter (January-March 2025) to 92.5 in the current quarter (April-June 2025). Increased business activity, sales turnover, profitability, and improved selling prices are responsible for the slight increase in business sentiment during the current quarter. The improvement in perceptions of business conditions appeared across all business segments, but was more pronounced among large businesses, mainly attributed to the continued growth in consumer demand, especially around the Easter season in April.

At the sectoral level, business sentiments within the service sector registered slight improvements of 2.4 index points, rising to 94.7 in the current quarter from 92.3 in the previous quarter, emanating from improved sentiments on product prices, increased capacity utilisation and increased profitability. On the contrary, sentiments in the agriculture and manufacturing sectors slightly declined by 1.0 and 1.7 index points to 98.3 and 79.9 from 99.3 and 81.6, respectively. The deterioration in business sentiment within the agriculture sector is partly because of several factors, including reduced business activity, turnover and low capacity utilisation—owing to declining coffee prices due to global market forces.



Man casting his ballot (Photo credit: New vision)

Nonetheless, the near-term business sentiments (July-September 2025) indicate anticipated improvements in conditions for doing business by 7.8 index points from the current 92.5 index points to 100.3 index points in the next quarter. The expected favourable business conditions are attributed to a projected improvement in the general business optimism, especially the pickup in demand due to the expected political spending, which is likely to increase business activities, sales turnover as well as issuance of new business orders.

Data and methods

The data used in computing the current Business Climate Index (BCI) is from a cross-sectional survey of 1,056 business establishments, sampled by the Uganda Bureau of Statistics from the Uganda Revenue Authority business database. 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: "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 quarter under review relative to the previous quarter and their expectations for the next quarter. Based on the business evaluation indicators explained earlier, we compute the business climate index as the weighted arithmetic mean of individual business evaluation indicator indices. The indices range from 0 – 200. The interpretation of the BCI is such that scores above 100 points to an improving/above average business climate. Scores below 100, imply that the general business conditions are getting worse/below average. And a score of 100, points to unchanged business conditions.

Also, the index analyses the evolution of challenges faced by businesses during April-June 2025 by identifying which business constraints became more of a problem and less of a problem. We also ask business managers to indicate how each identified business constraint 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 constraints whose severity has remained unchanged.

Findings

Business climate has slightly improved, and businesses remain optimistic about the future. The results indicate that the BCI improved

slightly by 3.7 index points, to 92.5 during the current quarter (April–June 2025) from 88.8 in the preceding quarter (January–March 2025) (Figure 1). This marginal improvement in business sentiment is largely attributed to increased business activity, sales turnover, profitability, and improvement in the overall business environment. These positive sentiments among the mentioned indicators are attributed to the continuous increase in consumer demand during the quarter, owing to the Easter and Eid-al Adha festivities season as well as the back-to-school season following the opening of the second term of the academic year. These findings corroborate those of the Purchasing Managers' Index by Stanbic Bank Uganda, which attributes expansion in business activity in Uganda's private sector to the rise in client demand.¹

Worth noting, the improvement in business environment was more pronounced in businesses dealing in education and education related materials, wholesale trade businesses, arts, entertainment and recreation, and enterprises in the transport sector. Disaggregating by business size shows that all categories recorded improved business climates, but large firms showed more pronounced improvement.

The Business Climate Index by sector

Business sentiment in the services sector improve, while the agriculture and manufacturing sectors show a minor decline. A disaggregation by sector (Figure 2) highlights improved business sentiment in the services sector by 2.4 index points from 92.3 in the previous quarter (January–March 2025) to 94.7 index points in the current quarter (April–June 2025). This improvement majorly stemmed mainly from increased business activity, sales turnover, favourable selling price and profitability, mainly among large businesses in education, monetary intermediation, transport, and warehousing and storage services.

By contrast, sentiments in the agriculture and manufacturing sectors slightly declined by 1.0 and 1.7 index points to 98.3 and 79.9 from 99.3 and 81.6, respectively. Agricultural businesses, particularly large enterprises dealing in agricultural storage, packaging, transportation, agricultural inputs, and post-harvest equipment, reported reduced business activity, sales turnover and declining capacity utilisation as

the drivers of the decline —partly attributed to the declining coffee prices on the global market, which discouraged farmers during the quarter. In the manufacturing sector, businesses involved in sewerage, water collection, treatment and supply recorded declining sentiments, mainly attributed to high input costs, explained by the increase in the annual headline inflation in May 2025 as reported by the Producer Price Index of the Uganda Bureau of Statistics (UBOS).

Challenges in doing business

Unfavourable tax policy (increased tax pressure), increased competition from informal businesses and unreliable power supply remained the most pressing business constraints during the quarter. For the second consecutive quarter, business owners have identified increased tax pressures-arising from frequent interactions with both central and local government agencies for payments such as URA taxes, operating permits and ground rent-as a major challenge. Additionally, the perceived complexity and cost of compliance-marked by bureaucratic procedures and technical difficulties with digital systems-continue to place an added burden on businesses. This quarter's coincidence with the end of the financial year (2024/25)-a time when businesses must file returns and meet their tax obligations-largely explains the renewed emphasis on tax system challenges. As indicated in the previous quarter, these findings are consistent with those of MoFPED (2022; 2025), which highlighted how the tax system contributes to the expansion of the informal sector by driving already registered and formal businesses out of formalisation.

Relatedly, for two consecutive quarters, we have highlighted the challenge of increased competition from informal businesses. This stems from the unfair advantage they hold over formal enterprises, especially in Kampala. With significantly lower tax obligations, informal firms are able to offer lower prices, thereby creating an uneven playing field and intensifying competition for the available market. This highlights the need for quicker government regulation to encourage businesses to become more formal, creating a more balanced business environment.

Finally, unlike the previous quarter, during April–June 2025, business owners reported being impacted by macroeconomic challenges—including interest rates, exchange rates, and inflation. For example, the April 2025 Performance of the Economy Report by MoFPED indicated that the Ugandan shilling depreciated against the US dollar—a development with significant implications for an economy, especially on exports. Firms in the manufacturing sector reported all the highlighted challenges.

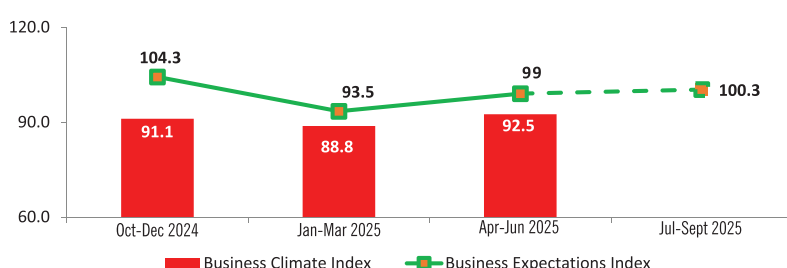
The evolution of business constraints

Increased tax pressure, competition from informal businesses and unfavourable macroeconomic factors became more severe during the quarter across all regions except northern Uganda.

In addition to being the major challenges that affected businesses during the current quarter, increased tax pressure, unfair competition from informal businesses and unfavourable macroeconomic factors (especially exchange rates) became more severe during the quarter. As previously noted, firms raised concerns about the frequent interactions with various government authorities, each seeking to collect different charges, levies, and fees—an arrangement they perceive as a form of multiple taxation. The end of the Financial Year in June 2025, when businesses must file returns and meet tax obligations, heightened concerns about this challenge. As recommended in the previous quarter, there is a need to consolidate some of these charges into a single fee to reduce the burden of taxation but also limit the multiple third-party interferences into the

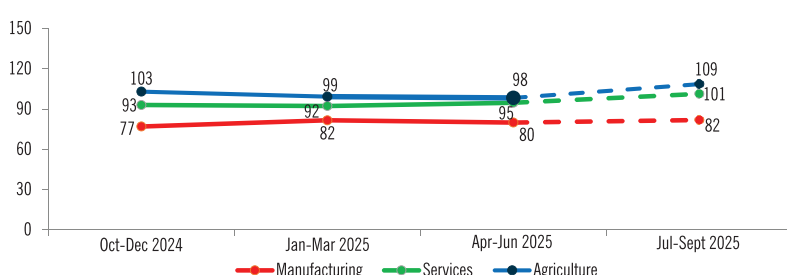
1 <https://ugbusiness.com/2025/06/uganda-economy/uganda-economic-activity-hits-highest-in-almost-2-years>

Figure 1 The Business Climate Assessment

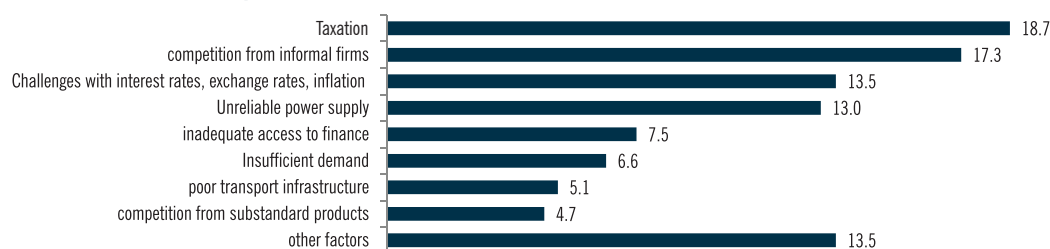


Source: April-June 2025 BCI survey

Figure 2 Business Climate Index by sector



Source: April - June 2025 BCI survey

Figure 3 Business Constraints (percent)


Source: April-June 2025 BCI survey

day-to-day business operations. Similarly, increased competition from both local informal and foreign-owned enterprises became more severe during the quarter as indicated earlier.

A regional breakdown reveals that the severity of these challenges increased across all regions except Northern Uganda where poor transport infrastructure, insufficient demand and limited access to finance became more severe. This regional variation highlights that a one-size-fits-all approach is inadequate for addressing the diverse challenges faced by businesses across Uganda.

Future business outlook: July - September 2025

Besides the registered improvement, most businesses remain optimistic about the future outlook. Business owners' perceptions about near-term business sentiments are expected to improve by 7.8 index points to 100.3 in the next quarter (July-September 2025) from the 92.5 index points registered in the current quarter (April-June 2025) as shown in Figure 1. The anticipated improvement in general business conditions next quarter is attributed to a projected improvement in business optimism, a pickup in demand due to expected political spending, and this will boost business activity and sales turnover due to predicted new business orders.

The favourable business sentiment is expected across all sectors, but more strongly in the agriculture and service sectors (see Figure 2). The anticipated increase in business activity, turnover, and new orders, along with a decline in input costs, will improve agriculture sector business conditions by 11 index points—from 98 to 109—between the current and next quarters (July-September 2025). Additionally, the upcoming quarter's alignment with the harvest season for annual crops like maize, beans, and groundnuts attributes the anticipated above-average positive sentiments in the agriculture sector.

Similarly, sentiments in the service and manufacturing sectors are expected to improve from 95 and 80 to 101 and 82 index points, respectively. The positive expectation in these sectors is mainly driven by the anticipated improvements in business activity, profits, turnover, and a decline in input costs.

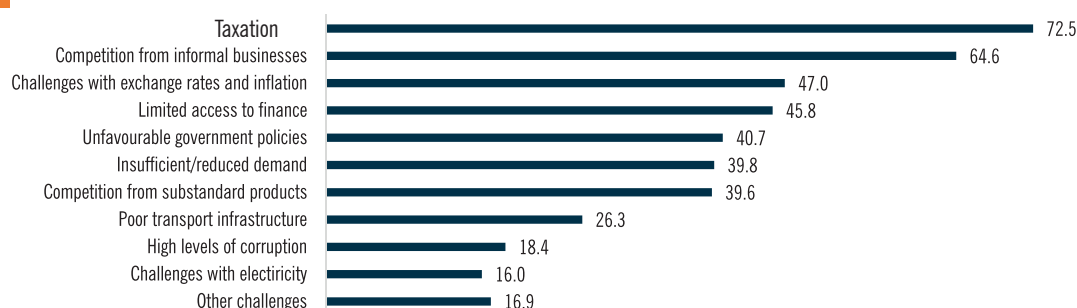
Question of the quarter (April-June 2025)

Effect of the power service transition from UMEME to UEDCL on businesses

At least 4 in every 10 businesses expressed concern about the negative effects of the transition on their operations. In this quarter, we sought to understand whether and how the transition of the provision of electricity services from UMEME to UEDCL, effective 1st April 2025, potentially affected Uganda's business environment. Businesses were asked: (i) "Has there been noticeable changes in your business's access to electricity following the transition from UMEME to UEDCL?" and (ii) "If Yes, what changes?"

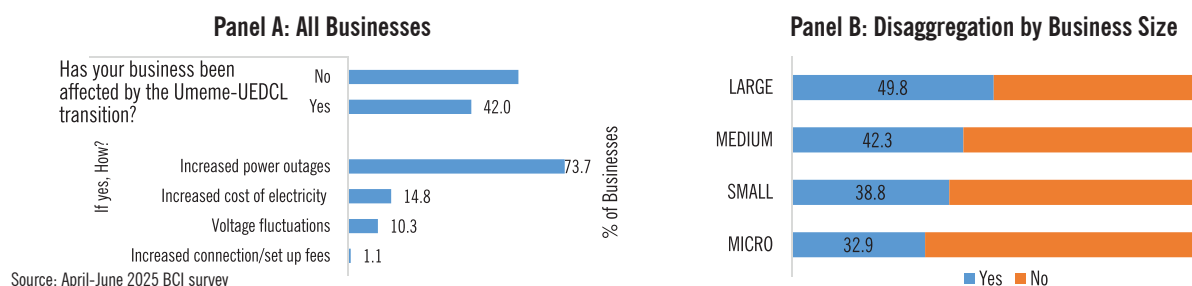
As indicated in Figure 5, panel A, 4 in every 10 businesses (42% of the firm owners) expressed concern about the transition and its effects on their operations. Among those affected, the most cited issue was the increase in the frequency of power outages (74 percent), which disrupted business operations, particularly in energy reliant sectors, including manufacturing and service sectors, specifically businesses in information and communication, accommodation and food service activities, agro-processing, wholesale and retail trade, education, and health services. Several factors contribute to this unreliability. First, there is the ageing infrastructure and underinvestment. The poor condition of the electricity distribution network before the transition was because of underinvestment. This has led to challenges in operation using medium voltage lines and an urgent need for transformer replacements. Substantial investment and time are required to address these issues, with the importation of replacements taking up to six months to be shipped and installed. Secondly, vandalism of electricity infrastructure is a critical and dangerous problem, causing significant issues for the economy. Businesses raised concerns that some industry insiders are also involved in vandalism. The high market value of vandalized products, such as copper, contributes to this issue.

Other notable concerns included a perceived increase in the cost of electricity, with businesses reporting that they received fewer units of power for the same amount paid compared to the period before the transition. This perceived increase can be attributed to the bulk metering, an arrangement inherited from a previous distribution provider UMEME. Because of bulk metering, tenants in commercial buildings perceive landlords are overcharging for electricity. This practice creates

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


Source: April-June 2025 BCI survey

Figure 5 Effect of Umeme-UEDCL electricity service provision transition on businesses, %



disharmony and abuse of the system, making it difficult for tenants to pay for their actual consumption. On the other hand, bulk metering minimizes power losses through reduced opportunities to bypass installed electricity meters.

In addition, 10 percent of the respondents highlighted increased voltage fluctuations, which pose serious risks to sensitive equipment and can lead to production downtime or costly equipment damage.

Figure 5, Panel B shows a disaggregation of the highlighted effect of the transition by firm size. Notably, the proportion of businesses affected by the transition from UMEME to UEDCL increases with firm size. Large-sized businesses were the most affected, with 49.8 percent reporting disruptions, followed by 42.3 percent, 38.8 percent and 32.9 percent of medium, small and micro businesses respectively. The findings highlight the need for targeted communication and support during the transition, especially for firms with substantial electricity-reliant operations.

These disruptions not only affect short-term productivity but also have broader implications for business confidence and the cost of doing business in Uganda. For larger firms and potential investors, such disruptions imply limited capacity utilisation or expansion, while for small and medium enterprises (SMEs), such uncertainties undermine growth. This feedback underscores the need for UEDCL to fast track the solutions to the perceived service delivery gaps.

Conclusion

The Business Climate Index (BCI) improved marginally by 3.7 index points from 88.8 in the previous quarter to 92.5 in the current quarter (April - June 2025). The slight improvement in business sentiments registered during the current quarter was mainly driven by increased business activity, sales turnover, increased profitability, and favourable selling prices partly due to the Eid and Easter festivities in April 2025. At the sectoral level, the service sector (especially education and transport businesses) recorded increasing business sentiments, while the agriculture and manufacturing sectors recorded minor reductions. The decline in the agriculture and manufacturing sectors resulted from declining global coffee prices and increased input costs, respectively.

Several recommendations are proposed to create a more supportive and predictable tax environment. First, expand initiatives to support the formalization of businesses. While there's a perception that formalization immediately attracts high taxes, it should be emphasized that formalization offers significant advantages such as easier access to credit, contracts, growth opportunities, and the ability to claim VAT or get exemptions from withholding tax. In addition, formalization is crucial for widening the tax base, as a limited tax base places a higher burden on existing taxpayers. Secondly, businesses should plan their tax payments on a quarterly basis rather than waiting until the financial year end. This proactive approach helps businesses manage finances, prevents them from diverting money for taxes, and keeps them from halting production at the end of the year due to tax concerns. Finally, businesses should maintain thorough transaction records to facilitate easier and more accurate tax dealings and avoid estimated tax assessments. Finally, tax authorities need to conduct workshops and business clinics to sensitize businesses about the various types of taxes, helping them differentiate between direct payments and those they withhold on behalf of the government, thereby reducing confusion about "multiple taxation."

Regarding the reliability of the electricity supply, there is an urgent need for transformer replacements due to frequent failures. To support the network in the medium term, the UEDCL should focus attention on installing larger-scale transformers, and they should also intensify efforts to improve medium voltage lines, which currently contribute to the electricity distribution network challenges.

Small businesses with significant production should apply for commercial electricity connections for cottage industries. Specifically, the UEDCL should encourage cottage industries operating from homes to switch from domestic to commercial (three-phase) electricity connections. The three-phase tariff is cheaper, and businesses can benefit from "time of use" rates, where electricity is cheaper during off-peak hours (e.g., early morning), helping them manage costs more effectively.

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. The purpose of BCI is to forecast turning points in economic activity and thus 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.

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