

How the vandalism of high-voltage electricity pylons affects business operations for firms in Uganda

Executive summary

The Business Climate Index (BCI) improved but remained below potential for the twelfth consecutive quarter since the first quarter of 2020. The business perceptions improved by 9 percentage points from 80.1 in the previous quarter (July-September 2022) to 89.3 in the current quarter (October-December 2022). The high input costs primarily drove the below potential performance in business sentiment, high salary demands, labour unavailability, and low business activities primarily driven by the high commodity prices emanating from the harsh climate characterised by drought, increasing the overall cost of doing business in the current quarter. For food crops and related items, inflation remained high. It accelerated to 27.8 percent in November 2022 from 25.6 percent in October due to the dry spell, which kept the prices high, affecting all the economic sectors in Uganda. Meanwhile, business perceptions in the agricultural and manufacturing sectors improved slightly than those in services sectors.



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 175 business establishments. The panel element has enabled us to track the business environment in Uganda over time.

We compute the BCI 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, we would code such a response 0; we would code it 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, we compute the business climate index as the weighted arithmetic means of individual business evaluation indicator indices. The indices range from 0 to 200. The interpretation of the BCI is such that it scores above 100, pointing to an improving business climate. Scores below 100, imply that the general business conditions are getting worse. And a score of 100, points to unchanged business conditions.

Also, the index analyses the evolution of challenges facing businesses during October-December 2022 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 constraint whose severity has remained unchanged.

Results

Improvement in the Business climate perception, but the outlook remains pessimistic.

Results indicate a slight improvement in the conditions for doing business in the current quarter (October – December 2022), having improved from a generally pessimistic trend over the previous four quarters—since quarter one of 2020, i.e. January- March 2020 (Figure 1). The business climate index is 89 and has slightly improved by 9 index points on a quarter-on-quarter basis from 80 during September–October 2022. The improvement in the conditions for doing business in Uganda during the period under review resulted from the general improvement in most of the sub-indices, namely, the product cost, improved capacity utilisation, general business environment, the opportunities to expand new businesses, business profits, and reduced input cost among others. This indicates that, like the previous quarter (July-September 2022), the economy is operating at less than its full potential.

The improvement in the index signals a slight recovery in business operations partly buoyed by the recuperation of Uganda's macroeconomic environment following the disruptions brought about by the emergency of the COVID-19 pandemic. Specifically, during the quarter, the Uganda shilling appreciated by 1.6 percent month-on-month in November 2022 to an average of UGX 3,761.1 per US dollar. The appreciation was supported by the recent easing of global transportation costs and the decline in global commodity prices, mainly crude oil, which eased the pressure on the deteriorating terms of trade (BoU, 2022)². In this regard, the favourable exchange rate favoured the product cost, business activity, business expansion and reduction of input costs.

Despite the slight improvement in the business environment, business managers interviewed remained downcast about the prospects of the economy, driven by anticipated increased input cost, partly explained

by the continued escalation of Ukraine- Russia conflict, the expected reduction in capacity utilisation, declining product prices and the general pessimism in the general business environment. Indeed, to contain the anticipated runaway inflation, in December 2022, the Central Bank Rate (CBR) remained unchanged at 10 percent, a level reached after a 1 percentage point increase in October 2022. The CBR were maintained at +/- 2 percentage point, while the rediscount and bank rates were also maintained at 13 percent and 14 percent, respectively. This suggests that commercial banks have a significant risk perception of Uganda's economy. Moreover, interest rates maintained an upward trajectory in the quarter to November 2022. The seven-day and overnight interbank rates averaged 11.5 percent and 10.4 percent in the quarter under review compared to 9.5 percent and 9.0 percent, respectively, in the quarter to August 2022.

The business climate index by sector

During the current quarter, the conditions for doing business improved marginally across the agriculture, manufacturing and service sectors compared to the previous quarter. The respective indices for the agriculture, manufacturing and services sector improved to 75.3, 94.6 and 89.6 points, compared to 63.3, 82.9 and 81.1 percentage points in the previous quarter, respectively (Figure 2). The improvement in the condition for doing business in agriculture was mainly because of the increased availability of labour. It reduced labour costs, favourable product prices, improved business optimism, and enhanced business activity. Similarly, improving the condition for doing business in the manufacturing sector improved, buoyed on a favourable business environment, improved product prices, improved optimism, and decreased workers' wages. On the other hand, minimal improvement in the condition for doing business in the services sector was mainly due to favourable business environment characterised by favourable product prices, opportunities for business expansion and improving capacity utilisation, among others.

Figure 1 The Business Climate Assessment¹

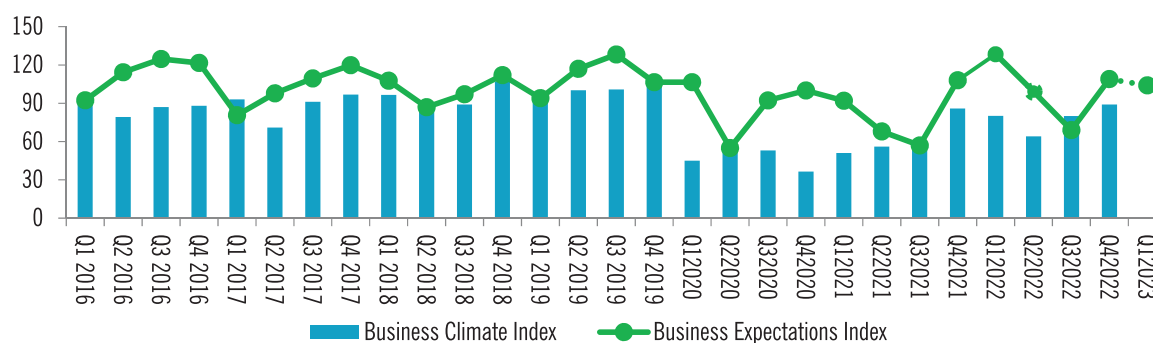
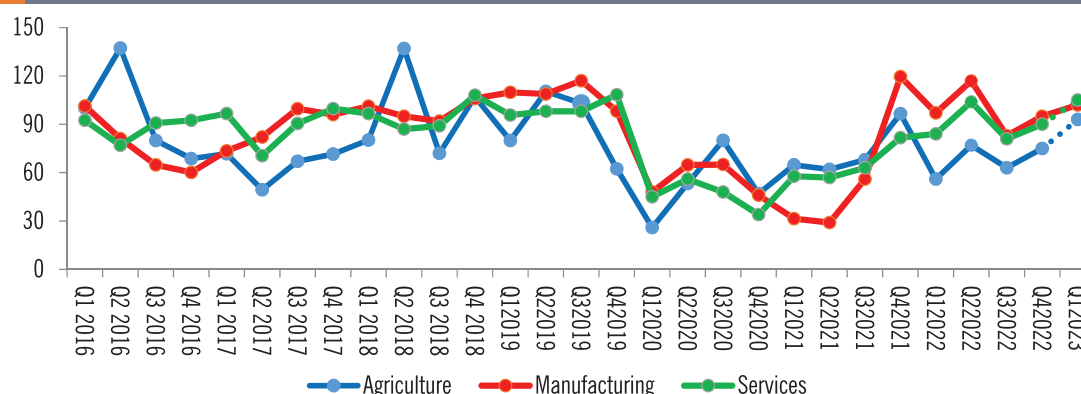


Figure 2 Business Climate Index by sector



Challenges in doing business.

Like the previous quarter (July-September 2022), the top five most pressing constraints to doing business for the current quarter include macroeconomic factors and electricity unavailability (Figure 3). This was alongside the persistent business challenges (unfavourable tax policy, insufficient demand, corruption and bribery, substandard products, and competition). These have stayed the same since last quarter. This suggests that constraints in Uganda's business environment are rather persistent. As mentioned above, the observed macroeconomic volatilities have been partly amplified by persistent domestic inflation, emanating from global supply chain disruptions and war-induced elevation of worldwide energy and non-energy commodity prices. In addition, inflation contains the lagged impact of the drought, which puts upward pressure on food prices. (BoU, 2022).

Similarly, the challenge of electricity unavailability was exacerbated by increased vandalism of high-voltage electricity conductors leading to continuous power blackouts across large parts of Uganda³.

The evolution of business constraints

Like the previous quarter (July-September 2022), macroeconomic factors, unfavourable tax policy, and insufficient demand were significant challenges to doing business in the current quarter (Figure 4). This points to the persistence of some of these challenges from the previous quarter. In addition, firms reported electricity unavailability to be more of a problem in the current quarter. As already mentioned, increased vandalism of electricity pylons during the quarter exacerbated the power challenge. Indeed, in December 2022 alone, Uganda Electricity Transmission Company Limited (UETCL) reported that a total of 12 high-voltage electricity towers were vandalised. This caused

power blackouts in vast regions of the country for days⁴.

In addition, inflation remains elevated and persistent across countries as they grapple with food and energy price shocks and shortages, partly caused by the Russia-Ukraine war. More recently, however, there are some signs of moderation in price pressures, which have raised expectations of easing the pace of monetary tightening.

Future business outlook: January-March 2023

Overall, businesses are optimistic about near-term developments. The business perception for the January-March index is expected to be above the potential 104.0 (Figure 1). This is because of the expected improvement in business conditions in the next quarter in all sub-indices. The anticipated condition for doing business by sector indicates that for the January-March 2023 quarter, the agriculture sector expects a 17.5 percentage point increase to 92.8 percent, from the current 75.3 percent in the current quarter. The anticipated increase in the condition for doing business in the agriculture sector will probably emanate from the expected improvement in some sub-indices, i.e., business environment and activity, available labour, business, turnover, and capacity utilisation.

Meanwhile, the manufacturing and services sectors expect above potential business sentiment in the next quarter. The manufacturing sector expects a 7.0 index point increment to 101.6 relative to the current quarter index of 94.6. Among other sub-indices, the improvement is mainly because of the improved business environment, optimism, product cost, opportunities for new businesses, and lower input prices. Similarly, the services sector expects a 15.1 index point increment to 104.7 in the next quarter. The anticipated favourable sentiments for doing business will result from an increased possibility

Figure 3 Business Constraints (%)

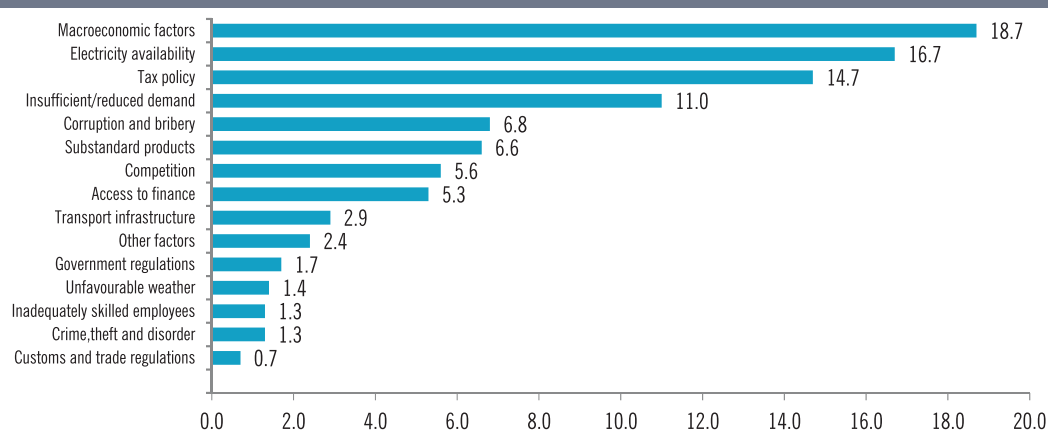
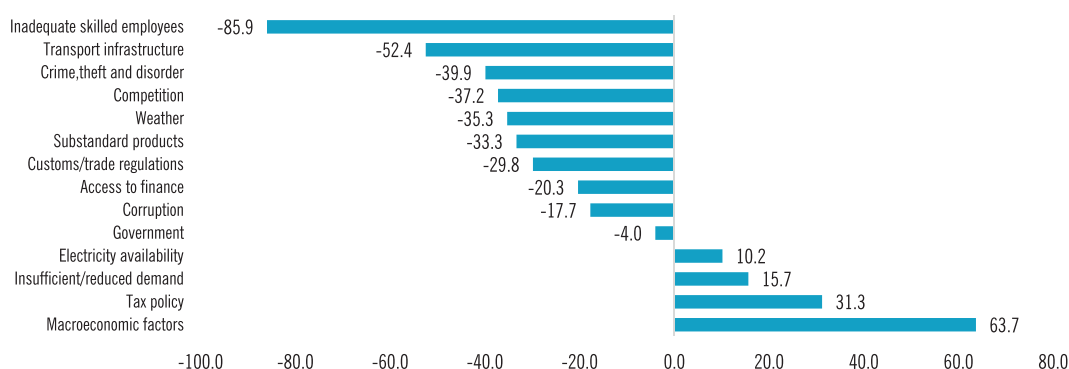


Figure 4 The evolution of business constraints (% of businesses)

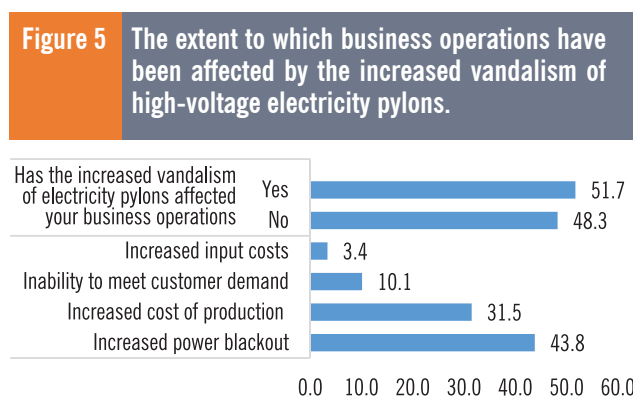


of business expansion, improved optimism, favourable product prices, improved, profits, new business, and capacity utilisation.

Question of the quarter

In this quarter, we sought to understand the extent to which increased vandalism of electricity pylons has affected business operations. Notably, we asked (i) “Has the increased vandalism of electricity pylons affected business operations?” (ii) “If Yes, how?”

Results (Figure 5) indicate that 51.7 percent of the businesses were affected by the increased vandalism of electricity pylons. Most businesses reported that this specific type of theft led to increased power blackouts (43.8%). This vice has a bearing on the high electricity blackouts, which slows down the production capacity of manufacturing firms. Furthermore, about 32 percent of businesses reported increased production costs due to the high fuel costs required to power generators to smooth their production patterns. In addition, 10 percent reported that they could not meet customer demand. Furthermore, only 3.4 percent of the businesses reported increased input costs. Since most businesses are facing difficulty due to the theft of electricity transmission pylons, the government should enforce strict penalties against perpetrators to stop the theft of the electricity infrastructure.



Conclusion

Perceptions about doing business in Uganda in the current quarter (October-December 2022) marginally improved compared to the previous quarter (July-September 2022) but remained below full potential. The improvement in the conditions for doing business was because of a meagre improvement of all sub-indices, overall business environment, product prices, opportunities for new businesses, capacity utilisation, and improved profit margins, among others. Considering business sentiments at the sector level, during the current quarter, the conditions for doing business improved marginally across the agriculture, manufacturing and service sectors compared to the previous quarter. However, perceptions across all the sectors were below potential. The respective indices for the agriculture, manufacturing and services sector improved to 75.3, 94.6 and 89.6 points, compared to 63.3, 82.9 and 81.1 points in the previous quarter, respectively.

Like the previous quarter, macroeconomic factors, electricity unavailability, tax policy, insufficient demand, corruption, and bribery persisted as key business constraints in the current quarter (October-December 2022). Considering future expectations, business perception for the next quarter (January-March 2023) is more optimistic across all sectors. The next quarter will see the above potential for all sectors except agriculture.

Lastly, Uganda's business environment in the current quarter remained challenged by electricity unavailability, exacerbated by the increased vandalism of high-voltage electricity pylons. During the quarter, most businesses experienced a power blackout which increased their cost of production and limited production capacity, making companies unable to meet their customer demands due to high input costs. As such, Government enforcement effort is required to curb this vice.

Endnotes

- 1 The data from Q12012 to Q4 2015 on the graphs has been truncated to enable presentation of the most recent quarters
- 2 <https://www.bou.or.ug/bouwebsite/bouwebsitecontent/publications/QuarterlyStateofEconomy/publications/Quarterly-Economic-Reports/2022/Dec/State-of-the-Economy-December-2022.pdf>
- 3 <https://www.monitor.co.ug/uganda/news/national/two-arrested-as-police-impound-electric-conductors-worth-millions-4076374>
- 4 <https://www.monitor.co.ug/uganda/business/commodities/12-high-voltage-power-lines-vandalised-in-just-a-month--4063774>

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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