

# Uganda's Supply Side Constraints and Performance of Exportable Products in the Global Market

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*This study is about the relationship between Uganda's supply side constraints and the performance of exportable products in the global market. While market access remains important, Uganda's major handicap is her inability to enter and sustain export growth in the opened market. This could be attributed to product standards and supply side constraints categorized as; Financial Resources, Technology, Market Information, Trade Policy and Storage Systems. The study was to establish the relationship between supply side constraints and product standards; and export growth in terms of volume, value and employment opportunities. A sample size of major exportable products (Coffee, Fish and fish products) was selected purposively and information was gathered from 50 respondents. This will comprise; 15 exporters, stakeholder organizations, 25 active coffee exporters and 10 Fish and fish products exporters. Coffee is the leading exchange earner among the traditional exports and operating in a declining market while Fish is champion in the market among the non-traditional exports. Findings indicate that there is a positive relationship between supply side constraints and the performance of exportable products in the global market. It is therefore recommended that, Uganda supply-side constraints should be minimized to improve her export earnings.*

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## BACKGROUND/INTRODUCTION

Traditionally, Uganda runs a current account deficit on its trade and services accounts. On average, Uganda has had to service a trade deficit of US\$ 810 M per annum over the last five years. Despite the improvement in Uganda's exports real exchange rate, the response of Uganda's exports has been sluggish because of supply related bottlenecks and product standards.

Trade policy coordination and implementation is fragmented among the ministries of Tourism, Trade and Industry, Finance, Planning & Economic Development, Foreign Affairs, and Presidents Office yet the constitution mandates the ministry of Tourism, Trade & Industry to coordinate trade policy issues (MTTI Policy Statements 2005/2006).

All Ugandan exports, except those covered by the common agricultural policy, enter the European market free of customs duties, and quantitative restrictions. Uganda also qualifies for schemes of generalized system of preferences (GSP) treatment in major developed markets including the United States, Japan and Canada (WTO, 2005). The United Kingdom is the largest single destination for Ugandan exports. However, Uganda's export growth for coffee and fish products has been fluctuating in terms of volume and value. For instance, coffee experienced 22% decline in Volume in the last 10 months (UCD Monthly Report for July 2006). Similarly, export coffee earnings in July 2006 stood at US \$ 13.7M, representing a drop of 6.2%. Further more, fish and fish products earnings declined from 17.9% in 2002 to 15.4% in 2004 (Bank of Uganda, 2005). Similarly, fish and fish products experienced a decline in volume from 48.1% in 2001 to 18.8% in 2004

## Statement of the Problem

While market access remains important, Uganda's major handicap is her inability to enter and sustain export growth in the opened markets. This could be attributed to product standards and supply side constraints.

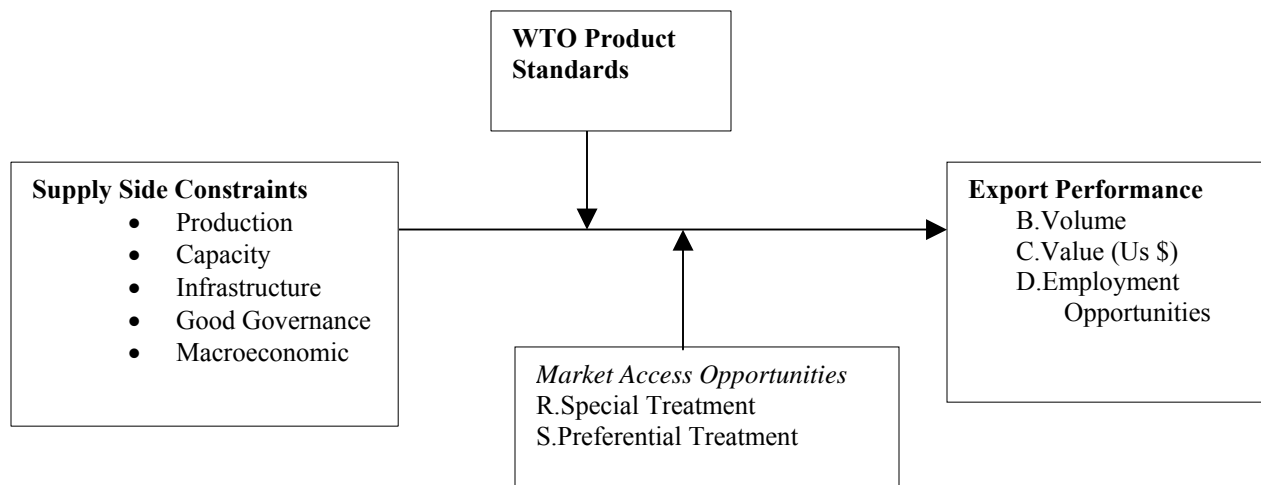
### **Purpose of the Study**

The purpose of the study was to establish the relationship between supply side constraints and export growth in terms of volume, value and employment opportunities.

### **Research Objectives**

- To establish the level of Uganda's supply side constraints.
- To assess the Uganda's product standards required in global markets.
- To examine the relationship between supply side constraints, product standards; and export growth in the global market.

## **THEORETICAL AND CONCEPTUAL FRAMEWORK**



*Source: Developed after reviewing related literature*

As indicated in the above model, it is expected that supply side constraints and product standards with market access opportunities influence export performance.

## **METHODOLOGY**

### **Research design**

The study was cross-sectional in which both primary and secondary data were collected on the study variables. To achieve the objectives of the study and to ensure consistency, literature on prior work, including studies and survey reports on various exportable products, markets for Uganda and present intervention program documents were reviewed as a starting point.

### **The Population**

The population survey comprised exporters of Fish and Fish products as well as Coffee. Other stakeholders such as UEPB, UPTOP, UNBS, UIA, UIRI, UFEA, UCDA, UCF, and WTO were considered. These organizations were selected due to the fact that they were knowledgeable about Uganda's exports growth and performance.

### **Sample Size**

A sample size of 2 exportable products (Coffee, Fish and fish products) was selected purposively and information was gathered from 50 respondents. This comprised; 15 exporters, stakeholder organizations, 25 active coffee exporters and 10 Fish and fish products exporters. Coffee was the leading exchange earner among the traditional exports and operating in a declining market while Fish was a champion in the market among the non-traditional exports.

### **Data Collection**

Primary and secondary data were gathered. Primary data were collected from the 50 respondents, using customised interview guides and self-administered questionnaires. Consultative meetings were held between researchers and UEPB officials aimed at getting a general briefing and consensus building. The data collection instruments were designed in a way that was not undignified to the respondents with special focus on confidentiality and gender balancing. The data collection instruments were tested for validity, and reliability. Secondary data was obtained from the above mentioned stakeholder organizations, for the period 2001 – 2005, as well as electronic journals. The researchers also conducted desk reviews of relevant study reports from other Stakeholder institutions to capture secondary information.

### **Data Analysis**

The collected data were processed and analyzed using statistical program for social scientists (SPSS). Pearson rank order correlation analysis was used to measure the strength and direction of the relationships among the variables.

### **Presentation of Data, Interpretation and Discussion**

#### **Relationship between supply side constraints and export growth in the global market**

Findings indicate that there is a positive relationship between supply side constraints and the performance of exportable products in the global market. It is also indicated that there is positive relationship among the components of supply side constraints and the export value. For instance, while macroeconomics is positively related to the export value with P-Value<0.05 and  $r = 0.286$  meaning that when there is an improvement in macroeconomic level, the performance of export value will also improve and vice-versa, Good Governance is also positively related to the export value with P-Value < 0.05 and  $r = 0.157$ , Infrastructure has a positive relationship with export value with a P-Value < 0.05 and  $r = 0.94$  and Production is positively related to the export value with a P-Value < 0.05 and  $r = 0.268$ .

### **DISCUSSION OF THE FINDINGS**

#### **Level of export**

Average annual catch of all fish from all lakes in Uganda is estimated to be in the range of 220,000 tons. According to Bahiigwa and Keizire 2003/4, in the 1990s and early 2000s, Nile perch catches have dominated Ugandan fisheries – representing 60% of total recorded catches. Other major species that are exploited commercially are Mukene with 20% of the total and tilapia with 10%; other species account for the remaining 10%. Another source shows a very different picture, with 44% of total catches by volume represented by tilapia, followed by 41% by Nile perch in 2002 (Nyombi and Bolwig 2004). Keizire 2006 confirms that total annual fish production is currently lower than the Maximum Sustainable Yield (MSY) estimated at 330,000 tons for all the lakes in Uganda. This shows that there are constraints which hinder the exploitation of this resource as indicated in our findings. Arkadie (2006) says that although coffee had a significant contribution of 52.8% in the 1966 by 2004/05 fish had a higher contribution of 21.6% and coffee with a contribution of 18.4%.

#### **Level of supply side constraints**

Our findings indicate that constraints such as good governance, infrastructure, capacity production and macroeconomic conditions are not adequate to foster high level of export growth. This also supported by the work of Keizire 2006 which affirms that fisheries is producing below capacity far below than the Maximum Sustainable Yield (MSY) estimated at 330,000 tons for all the lakes in Uganda. UEPB 2004 has similar findings of poor farmer organization, inadequate financial resources poor post harvest handling and storage systems limit the production of critical quantities for exports. As a result, it has

proved difficult to ensure consistent and quantity supplies of exportable products. A report by UNCTAD in 1998 stressed that, supply-side constraints were the root cause of Less Developed Countries weak participation in international trade. Yenteshwar et al 2005 says that factors such as; Market information, Affordable / accessible Export Finance as well as Trade policy constitute crucial points that economies like Uganda should consider if they are to fit in the competitive global market.

### **The Relationship between Supply-Side-Constraints and the Performance of Exportable Products**

The findings indicate a weak relationship between supply side constraints and the performance of exportable products in the global market. This is due to the fact that there are few participants in the market of exports and the constraints of these firms vary from individual firms. This is also because data from individual firms are being compared with the data of the performance of the whole economy. However there is a strong association among the components of the supply side constraints

Previous studies concur with our findings that transport infrastructures which constitute the main portion of infrastructure play an important role at most of the stages of export sector development. Most African countries, are characterized by poor transport infrastructure (Marco, 2004). This is likely to indicate that African countries could do much to raise their supply capacity by investing in transport infrastructure. Limão and Venables, (2001) present some empirical analysis indicating that levels of trade flows observed for African countries are *relatively* low essentially because of poor transport infrastructures. The fact that this sort of investment has not occurred in a significant manner in the last two decades could explain the very low upward mobility of African countries in export performance (Marco, 2004). The same writer confirms that the case for producers exporting low skill products, which are highly substitutable and whose demand is very volatile and price sensitive. Real interest rates are found to affect significantly export performance of good performers with high rates increasing producer costs and hence impacting negatively on export competitiveness (Marco 2004)

### **CONCLUSIONS AND RECOMMENDATIONS**

This paper has detailed the wide spectrum of supply-side constraints that Uganda is facing in fostering her exporting firms to perform better in global market.

Generally, these include limited and poorly-maintained physical infrastructure, lack of corporate governance, low production capacity, the absence of a skilled and experienced workforce, poor macroeconomic conditions and the high cost of conducting trade including geographical isolation, poor trade facilitation, and limited access to trade finance.

Given these constraints, the results obtained showed the maximum export receipts that the country can achieve under present circumstances. It was also shown that if some of these constraints are removed; the increase in export receipts that could be achieved would be substantial.

The issue that arises is how some of these constraints can be removed so that Uganda can realize increases in their export receipts. In the following paragraphs, we provide some policy recommendations, which, if properly formulated and implemented, can help remove some of the above-mentioned supply-side constraints.

The problem of limited physical infrastructure can be addressed by attracting foreign direct investments (FDIs) in these facilities. However, these FDIs can only be attracted if the country creates a stable macroeconomic and legal environment and have transparent and efficient institutions.

The problem of the absence of a well-educated and trained workforce can be addressed, if business development service providers can act as vehicles for providing short-term professional and vocational training to enhance the capacity of the workers in all sectors of the economy. FDIs can be a very important source of strengthening the skills of the workforce through exposure to new technologies and

management methods. However, none of these can totally substitute for deficiencies in the educational and training system of an economy. The emigration of skilled labour has been a major concern and constraint to effective investment in the export sector.

Consultations with the private sector regarding their educational needs when developing educational and training curricula are one way to start a process to overcome this obstacle. The provision of job attachments for students completing their university/ tertiary education would also help address this problem.

Natural disasters in this country are also a major constraint to the development of the export sector. The country is vulnerable to a range of natural hazards such as floods, landslides and droughts. Evidence suggests that natural hazards have a considerable economic impact on development in the country.

The costs of conducting trade can be broken down into the following components:

- information and contracting costs; financing costs; transport costs; and administrative and procedural costs (UNESCAP Report on Addressing Supply-side Constraints and Capacity Building, 2004).
- Reducing information and contracting costs would require policies that create a healthy level of competition in the telecommunication sector and improve access to information and communication technology (ICT).
- The development of trade promotion organizations, in partnership with chambers of commerce and other private sector associations, can also help to reduce the costs associated with identifying and reaching foreign markets. Reviewing contract laws and regulations may also be required.

In addition, reducing export financing costs would involve the development of a national or regional trade finance infrastructure able to provide access to a wide array of specialized trade finance and risk management services such as export credit insurance, hedging, and forfeiting.

The establishment of specialized trade finance institutions such as export-import banks and export credit agencies can then be considered to further enhance access to trade finance tools and instruments.

With regards to transportation costs, an improvement of the transport infrastructure may help to reduce transport costs by up to 60 per cent, while policies regulating market power in shipping and liberalizing port services may also lead to a reduction in transport costs by up to 30 per cent (Evenett & Venables 2002).

With regard to the issue of market information, Uganda's fish industry needs support at all levels to reach the global market. Most of our consumers are not aware of most of our unique organic agricultural exportable products Nile Perch and Arabic coffee as well as assorted fruits.

On the issue of market access, Uganda will benefit from the global market if and only if the market forces are allowed to play the role of resource allocation. Here, hidden barriers on the disguise of the global liberalized economy should be removed especially the non-tariff barriers that are more thorny than the "doctored" conventional tariff barriers.

Finally, the problem of the lack of access to trade finance can be addressed if the country creates an environment where contracts are easily enforceable, issues of collateral and security are managed effectively and financial institutions function efficiently and are able to offer a range of financial instruments to the various export industries. Another important measure is to improve the reliability of

financial information provided by export businesses by adopting user-friendly accounting and reporting requirements.

The study is limited by testing the impact of supply-side constraints on the performance of exportable products in the global economy in aggregate.

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