Opportunities and Challenges of the Ugandan Business Environment

A Situational Analysis

Editors
Joseph M. Ntayi
Sunday A. Khan

Investment Climate and Business Environment Research Fund

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Edited by
Joseph M. Ntayi, PhD
Sunday A. Khan

Foreword by
Frank B. Sebbowa, PhD

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List of Contributors

Geoffrey Bakunda, PhD, is an Associate Professor of Trade and International Business and Dean of Faculty of Marketing and Hospitality Management at Makerere University Business School, Kampala Uganda. P.O. Box 1337, Kampala, Uganda; gbakunda@mubs.ac.ug, gbakunda@yahoo.com.

George F. Walusimbi-Mpanga holds a Master of International Trade Policy. He is a trade economist and the Executive Director of the Uganda Coalition of Service Industries. P.O. Box 7203, Kampala, Uganda; g.walusimbimpanga@gmail.com.

Aggrey Niringiye, PhD, is a Lecturer in the School of Economics and Management, Makerere University. P.O. Box 7062, Kampala, Uganda; aggrey1970@yahoo.com.

Jotham Mbiito Byarugaba, PhD is a Lecturer in the Department of Marketing and International Business at Makerere University Business School. P. O. Box 1337, Kampala, Uganda; jothambyarugaba@mubs.ac.ug.

Michael Mugabira holds a Master of Management, Postgraduate Diploma in Management, Bachelor of Science (Industrial Chemistry) and is a member of the Chartered Institute of Purchasing and Supply (CIPS-UK). He is currently pursuing a PhD in Business Administration at the Graduate School of Business, University of Cape Town. Prior to his PhD studies, Micheal was a Senior Investment Executive at the Uganda Investment Authority (UIA). P.O. Box 10809 Kampala, Uganda; mmugabira@gmail.com.

Richard Chivaka, PhD, is an Associate Professor of Accounting at the Graduate School of Business, University of Cape Town. Private Bag X3, Rondebosch 7701, South Africa; Richard.Chivaka@gsb.uct.ac.za.

Samuel Sejjaaka, PhD, is an Associate Professor of Accounting and Finance and Deputy Principal, Makerere University Business School. P.O. Box 1337, Kampala, Uganda; kisakye@accamail.com.

Joseph Mpeera Ntayi, PhD, is a Professor of Procurement and Logistics Management and Dean of Faculty of Computing and Management Science at Makerere University Business School. His teaching and research interests are in public procurement, managing contracts, business ethics, industrial marketing, purchasing, commercial and humanitarian logistics management and supply chain management. P. O. Box 1337, Kampala, Uganda; ntayius@gmail.com, jntayi@mubs.ac.ug.

Sarah Eyaa holds a Master of Business Administration (Procurement), a Bachelor of Commerce (Marketing) and is a qualified member of the Chartered Institute of Purchasing and Supply (CIPS-UK). She is a senior lecturer in the Department of Procurement and Logistics and Management at Makerere University Business School and is currently pursuing a PhD (Management) at the Newcastle Business School, University of Newcastle in Australia. P.O. Box 1337, Kampala, Uganda; eyaalydia@gmail.com.

Gerrit Rooks, PhD, is an Assistant Professor in the Department of Industrial Engineering and Innovation Sciences, at the Technische Universiteit Eindhoven. He is currently a visiting professor at Makerere University Business School. P. O. Box 513- 5600 MB Eindhoven, Netherlands; G.rooks@tue.nl.

Flavian Zeija, PhD, is a senior lecturer and the Head of the Department of Business Law at Makerere University Business School. P.O. Box 1337, Kampala, Uganda; fzeija@mubs.ac.ug.

Mutunzi Ahmed Kitunzi is a consultant at Uganda Management Institute. P.O. Box 20131, Kampala, Uganda; kmutunzi@yahoo.com.

Audrey Kahara-Kawuki holds Master of Business Administration and Bachelor of Science (Agriculture). She is a business consultant and a coach using the Solution Focused model and director of Zebra Solition Ltd. akawuki@yahoo.com.

Sunday A. Khan, heads the ICBE Research Fund at TrustAfrica. He is currently on leave from the University of Yaoundé II where he is Senior lecturer in the Faculty of Economics and Management. khan@trustafrica.org, sunkhan68@yahoo.co.uk.

Foreword

It is indeed an honor for me to write the foreword to this book, a carefully selected collection of expert research by well-known academics and individuals versed in the subject matter of business and investment in our society.

I must applaud this revealing work on some of the challenges to investment, business, and economic growth in the country. This book comes at a time when Uganda must be preparing for its next major phase of economic development. The coming on board of proceeds from oil and gas should be a major driver of our socio-economic growth and development for the next decade and beyond. Reflecting on challenges experienced in the past provides us with an opportunity to plan which path the future must take. This book address past aspects while giving direction to the future.

The regional integration to which Uganda is very committed on both political and economic fronts means that going forward it will not be business as usual. New ways of attracting benign foreign direct investment for Uganda must be devised. There is need to focus on which national and which regional projects to promote given the open borders we are creating. Careful analysis of the economic and political environment is needed to determine our behavior for the future. For while the markets for investors in provision of goods and services will be much larger and more attractive; free flow of goods, services and labor will lead to intense competition. This book gives indicators on which rates to take for sustainable investment with regional and national contexts.

As East Africa begins to embrace regional capital mobilisation through cross-border stock market listings and transactions, sections of the book examining the capital markets environment provides excellent insights on the challenges and opportunities that cannot be ignored.

All-in-all this book is a masterpiece on doing business in Uganda and in the region in general. It is a book well researched and therefore worth reading by researchers, political economists, drivers, and captains of business. It is absolutely a useful tool for those of us in national and regional investment promotion.

Eng. Dr Frank B Sebbowa,
Executive Director
Uganda Investment Authority (UIA)

Preface

This book contains the findings of eight of the sixteen research projects from Uganda sponsored by the Investment Climate and Business Environment (ICBE) Research Fund.

The publication of this volume falls in line with one of the key objectives of the ICBE Research Fund, which is to disseminate research findings to interested stakeholders, to promote reform of business and investment climates and performance of private enterprises for poverty reduction in Africa. It is our fervent hope that policy makers and other relevant stakeholders would closely study the findings and the proposed recommendations and translate them into action points. This is equally the desire of the respective researchers from various universities and institutions in Uganda who contributed towards this publication. We also consider this book as a sort of bridge between policymakers and researchers who seldom interact with each other on matters of national development. This explains why we requested the Executive Director of the Uganda Investment Authority to write the Foreword to the book. It is further hoped that when pertinent recommendations of the respective research projects are implemented, they could have a profound effect on the Ugandan economy.

The issues addressed in these studies are not unique to the Ugandan economy, but also reflect problems encountered by other African countries in creating a conducive environment for enterprises to thrive. It is therefore our intent that the findings and recommendations are replicated by other countries where applicable. We also expect that this publication would add to the literature and inform further studies by other researchers in the field and in other parts of the world. We also encourage other researchers and their partners, especially funding entities to always consider sharing their findings through publications or other means. One of the reasons why Africa has a dearth of research publications is because most of the locally produced research is rarely published as most funding organisations hardly support such efforts. TrustAfrica and IDRC stand tall in the dissemination of research

findings to a wider audience. It's our hope that any funding for research should also include funding for dissemination and publications of findings.

The role of research in economic development is rapidly increasing as we transition to knowledge-based economies. Such economies are characterized by the rapid creation, diffusion and use of knowledge. Research and the application of these results will be a key ingredient in the transition of African countries, and how it impacts the productivity and competitiveness of these economies will be very important. This calls for regular interaction and exchange of information between the key national developments stakeholders: the government, the private sector, the civil society and researchers within universities and private sectors. This book is intended as a step in that direction.

Sunday A. Khan
Director, ICBE Research Fund
TrustAfrica

Acknowledgement

Many people deserve to be acknowledged for their contribution to this book. I wish to thank first, TrustAfrica and IDRC for initiating the ICBE Research Fund and providing the funds for the studies in Uganda and also financing the publication of this edited volume. I equally extend special gratitude to members of the ICBE Steering Committee: Akwasi Aidoo (Executive Director), Tendai Murisa (Director of Programmes) and Rose Maruru (Director of Operations) from TrustAfrica; and David Schwartz (Director, Donor Partnerships Division) and Flaubert Mbiekop (Senior Programme Officer) from IDRC; for their constant support and overseeing the implementation of the ICBE Research Fund.

I am also greatly appreciative of the continuous assistance of the management and my colleagues at TrustAfrica, without whom ICBE couldn't achieve its objectives; especially Facoumba Gueye who works daily on the ICBE Research Fund. The effort of everyone at TrustAfrica has facilitated the publication of this volume, but more importantly, the implementation of the ICBE project over the past seven years.

I similarly acknowledge the invaluable contribution of members of the ICBE Jury and the many peer reviewers across the continent, who play a critical role in the selection of grant winners and review the research reports to assure the high quality of ICBE research findings.

Special thanks are extended to the Executive Director of the Uganda Investment Authority, Eng. Dr Frank B. Sebbowa, for accepting to write the Foreword to this book, thus establishing a useful relationship with the local research community and promoting local ownership of the research findings. This also solidifies the good relationship existing between the Authority and the ICBE Research Fund.

There would be no book without the authors who did the research and worked tirelessly with the editors to polish the papers for publication. Their immeasurable contribution is highly acknowledged.

The co-editor, Dr Joseph Mpeera Ntayi of the Makerere University Business School in Kampala, played a crucial role in getting this volume out.

The ICBE Research Fund and its initiators can't compensate him enough for his contribution to this book. He will always be a true friend of the ICBE Research Fund.

However, all views, interpretations, recommendations, and conclusions expressed in this volume are those of the authors and not necessarily those of the supporting or cooperating organisations or individuals.

Sunday A. Khan
Director, ICBE Research Fund
TrustAfrica

Chapter One

Introduction: Context and Overview

Joseph M. Ntayi and Sunday A. Khan

This book contains findings of eight of the sixteen research projects from Uganda sponsored by the Investment Climate and Business Environment (ICBE) Research Fund. The ICBE Research Fund is a collaborative project of TrustAfrica and International Development Research Centre of Canada that started in 2006. The overall goal of the Fund is to promote reform of the business and investment climate in Africa so as to enhance the performance of private enterprises and their impact on livelihoods. The ICBE uses competitive research grant mechanisms, capacity strengthening, and policy dialogues to enhance evidence-informed policy making on the African continent.

We are living in the era of scientifically guided society which requires evidence based policy design, strategy, and implementation. Today, economic and social growth along with the progress in unemployment and poverty reduction, have raised the importance of evidence-based policy, thereby placing research on a high agenda for governments and universities world over. With the move towards evidence based policy, governments should expect to utilise new ideas, linking the use of evidence and research in policy making, and focus on policies that deliver long term goals. Now, more than ever before, economic growth is recognised as the most powerful mechanism to alleviate poverty. There are issues related to the equitability, sustainability, and inclusiveness of growth, but not with growth itself. There is also strong evidence on the effect of increased investment on growth, and on how an attractive business and investment climate can spur up investment, both domestic and foreign. Using evidence to inform policy can have a significant impact on the business environment and reduce the cost of doing business in a country.

African economies are growing at a faster rate than those of other parts of the world. This growth rate is even more significant when compared to that

of the 1990s. There has been a huge increase in resource inflows, especially foreign direct investment, but also domestic investment. The private sector has thus been significantly driving growth, promoting entrepreneurship, and creating an African middle class. The downside is that economic growth has not been that inclusive and there are growing questions about the sustainability of such growth, fuelled to an extent, by high commodity prices. It is common place in Africa to find rich countries with half of their population living below the poverty line, i.e. on less than US$ 1.25 a day. Africa is growing, but not creating enough jobs for its growing and very expectant youthful population.

In Uganda, strong growth in the late 1990s and 2000s has had a substantial impact on poverty, reducing the population of people living in poverty to 24.5% in 2009/10[1], consequently meeting the 2015 Millennium Development Goal of halving the poverty rate. Part of the growth in Uganda could be attributed to high commodity export performance, but a substantial part is the result of sound economic policy and the improved investment and business climate, highly informed by the Second Private Sector Competitiveness Project. Despite the improved growth of the economy, Uganda is ranked 120th in the 2013 rankings of the ease of doing business[2]. The growth rate fell below 4% in 2011/12, down from 6.7% in the previous year, and the lowest since 1992. There is also likelihood that declining growth can push several Ugandans back into poverty. Though significant progress has been made in improving the business and investment climate in the country, a lot still remains to be done. The goal of achieving a growth rate above 6% is achievable, and requires significant contribution from the private sector, which in turn requires a very friendly business and investment climate.

It is our fervent wish that this book contributes evidence to inform policy that improves the business environment in Uganda. The findings coincide with the efforts of the government of Uganda to implement policies and programs targeting private sector development, solving daunting problems of unemployment, economic growth and development. The studies have been carried out by Ugandans and address issues pertinent to the Ugandan

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[1] World Bank (2013) "Uganda Overview". http://www.worldbank.org/en/country/uganda/overview. Last updated April 2013.

[2] World Bank (2013) Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises. Washington, DC: World Bank Group.

economy. It is part of an effort by the ICBE Research Fund to promote the use of evidence to inform policymaking in Africa. The paragraphs below provide an overview of the different chapters in this volume.

The book begins in Chapter Two by addressing the stinging issue of unemployment that has bedevilled the Ugandan economy in the last decade. The importance attached to solving the increasing unemployment problem in Uganda, is driven by high rates of graduate unemployment, 'labor casualization' and labor migration from the informal sector. Bakunda and Walusimbi-Mpanga examine Uganda's potential for export of labor in the Framework of Regional and Multilateral Agreements. Their study is based on available evidence which reveals a steady growth in labor remittances for Uganda since the 1990s. The main purpose of the study was to examine the extent to which export of labour can be used as a tool to mitigate the level of unemployment and under-employment in Uganda. This study was deemed necessary since Uganda experiences "skill surpluses" in the middle and lower level categories of labour; particularly teachers, and arts and social science professionals. Authors observe that although a Labour Externalisation Unit was established in the Government, the potential for export of labor in Uganda has remained relatively unknown to policy makers and other stakeholders. The study finds that Uganda's labour externalisation regime has remained limited in scope and focus, with a weak institutional framework for labour export. It is against this background that the researchers recommend a shift in government policy orientation on labour and employment, and undertake legal, regulatory, institutional and labour export promotion reforms aimed at increasing the role of labor export.

In Chapter Three, Niringiye discusses the effects of investment climate factors on manufacturing firms' growth in Uganda. Niringiye's study is largely driven by the importance played by firms' growth in creating employment and reducing poverty in sub Saharan Africa. Generally speaking, sub Saharan Africa has been stabbed with a stagnated manufacturing share in GDP below 20 percent since independence. The low and stagnant levels of the manufacturing sector share in Gross Domestic Product in most sub-Sahara African countries has been widely recognised as an important policy problem. It is against this backdrop that the study attempts to examine the determinants of successful growth of firms using survey data sets from Uganda. Given the main objective

of this study, the author adopts a Gibrats Law of Proportionate Effect (LPE) and learning model due to Jovanovic to analyse investment climate factors that determine firm growth in Uganda. Results reveal that firm size, firm age, and average education determine the growth of Ugandan manufacturing firms.

This study is supplemented by Byarugaba in Chapter Four, who notes that in 2009, Uganda attracted Foreign Direct Investment (FDI) of up to US$ 799 million. Byarugaba underscores the importance of Foreign Direct Investors (FDI clients) to the development of the Ugandan Economy. The study is premised on the view that, traditional determinants of FDI flows notwithstanding, perceptions of quality investment services by foreign investors is a potential determinant of decisions on FDI destinations. As a result the study sought to find out whether;

- FDI clients receive investment services from GOU officials.
- The relative importance of service quality dimensions as determinants of FDI destination decisions.

The paired samples t-test indicated that FDI clients were dissatisfied with GOU investment officials' service quality. This has a negative multiplier effect in terms of negative advice from other FDI clients which in turn may slow down FDI flows into Uganda. The author recommends Uganda Investment Authority (UIA) to train staff, improve service, and office settings.

Chapter Five builds on the classic work written by R. Quentin Grafton (2000) on three major kinds of property regimes for the common property resource management. He also focuses on sustainable competitiveness of common resources, subjected to degradation and depletion. Mugabira and Chivaka assert that lead firms in Public Private Partnerships appear to offer a potentially competitive and sustainable governance model of the commons. Their work is based on the observation that few studies and analyses have been undertaken on the effect of free market policy regulatory framework on long-term survival of the commons in global commodity value chains. The study attempts to address the call for increased research on the role of markets and common property resources. Results from this research reveal that:

- the Department of Fisheries Resources pursued a strategic stretch approach (reacting to market conditions) rather than a strategic fit (matching resources with demand)

- Uganda's competiveness in the fisheries sector was mainly due to inefficiencies caused by the vice of immature fishing
- an appropriate regime that could cause a sustainable competitiveness for the fisheries sector was a Public Private Partnership (State & Lead Firms in value chain) compared to Co-management (State & Local Communities)
- the development partner's packages cannot be replicated in other environments without careful consideration of the culture, political and socio-economic considerations. These findings have both policy and managerial implications which the detailed study in chapter five provides.

Chapter Six employs expert interviews of key informants to develop a conceptual model for examining the various factors responsible for the private sector's failure to use stock markets as a financing vehicle. Sejjaaka uses interviews, focus discussion groups, and panel data across the years 2003 – 2007 to test the hypothetical model. Results reveal that age, auditor type, disclosure, and size are significant predictors of initial public offer (IPO) readiness. Additionally, disclosure and legitimacy of the board through inclusion of independent non-executive shareholders, and increased market activity improve IPO readiness to seek stock markets as a legitimate source of financing. As firms' disclosure improves, so will their readiness to go IPO. The study finds the need for (a) a legislation obligating firms to file financial statements prior to the Initial Public Offering (IPO) or stock market launch, (b) improving the disclosure regime of firms as part of the process of increasing IPO readiness, (c) improving the disclosure regime of firms as part of the process of increasing IPO readiness, (d) increasing the legitimacy of firms that wish to be IPO. These findings are deemed necessary since IPO readiness is partly a maturation process.

The book further articulates the need to examine institutional aspects related to contract enforcement in Ugandan business transactions and draws lessons for policy formulation. This is necessary since Uganda lacks an institutional framework that governs establishment and successful running of SME businesses. Such an environment makes Uganda a breeding ground for the rapidly growing informal sector which has become the "sponge" that provides job avenues to all categories of labor, including skilled workers. It is

against this background that Ntayi, Eyaa, Zeija and Rooks investigate informal business management.

In Chapter Seven, they discuss the pitfalls of informal business management in Uganda. Contract terms relating to pricing, terms of payment, quality, quantity and delivery are not well articulated. This has become a breeding ground for conflict. When faced with conflicts majority of the SMEs do not know what to do although some seek redress from the Police and Local Councils (LCs). Minority of the SMEs who go to the commercial court for redress find it costly and time consuming. Additionally, the level of unethical behaviour by suppliers towards SMEs evidenced by incidents like lying, exaggeration and the breaking of promises. This study corroborates earlier studies which reveal that, despite having a rapidly growing liberalised economy, a favourable investment climate, necessary supporting institutions, and the physical infrastructure for private investment to flourish, Uganda still ranks 123rd out of the 183 economies measured by the *Doing Business 2012 Report* on the overall ease of doing business. Uganda ranks third in the region after Rwanda and Kenya.

In order to improve Uganda's overall ranking, more focus is needed in the areas of ethics, trading across borders, starting a business, protecting investors, getting electricity and registering property. This is supported by the Ministry of Planning and Economic Development Competitiveness and Investment Climate Strategy (2012, page 2) which asserts that:

> The Government of Uganda launched the Competitiveness and Investment Climate Strategy (CICS) in 2006 to trigger productivity in productive sectors of agriculture, manufacturing, services and tourism; improving Uganda's business environment and competitiveness within the region. In July 2009, the Government of Uganda through the CICS secretariat requested the World Bank's Investment and Advisory Services Program (ICAS) to offer technical assistance on improving Uganda's *Doing Business* ranking. The World Bank responded by sending a team to review the situation on the ground and as a result of this exercise, the "*Doing Business in Uganda Reform Memo, 2009"* was produced.

The Competitiveness and Investment Climate Strategy (CICS) is a Uganda Government's strategic framework for private sector development. This was followed by developing an institutional framework to provide policy

oversight and guide the implementation of the CICS strategy and steering policy development.

Chapter Eight addresses the subject of globalisation as one of the major strategies for attracting Foreign Direct Investment (FDI). However, Low Income Countries such as Uganda attract less FDI inflows than the Middle and High Income Countries. Kitunzi investigates the relationship between the levels of economic, social, and political globalisation and FDI to identify globalisation threats to and/or opportunities for enhancing FDI inflows. This serves as lesson to benefit Low Income Countries such as Uganda. The author observes that since 1999, Uganda and other low income countries have generally attained low levels of globalisation and have as well registered meager proportions (less than 10%) of the global FDI inflows compared to the middle and high income countries. The sizeable variance in the FDI inflows attained by the low and high income countries can be partially attributable to the disparity in the levels of globalisation generally notable in each category of these countries. The study reveals that there is a statistically significant positive relationship between inbound FDI and the levels/indices of a country's economic globalisation. Low levels of globalisation pose threats to FDI while higher levels present opportunities for enhanced FDI. The study recommends Low Income Countries to (a) improve their respective political globalisation status, (b) competitively reduce economic restrictions, (c) increase personal contacts (d) decrease and/or eliminate hidden import barriers such as unclear tariffs, lowering the mean tariff rates, reducing taxes on international trade and liberalising capital accounts.

The last chapter in this book, Chapter Nine, shifts attention from investment issues to corporate entrepreneurship. Kahara-Kawuki specifically, examines the link between corporate entrepreneurship, innovativeness, and performance of telecommunications companies in Uganda. The author observes that before the liberalisation of the telecommunications sector in Uganda, its contribution to Gross Domestic Product (GDP) and taxation was minimal. However, today, the sector is the largest contributor of tax to government with MTN as one of the service providers in number 1 position for two years consecutively. The sector's contribution to GDP is now visible approaching 5%. Kahara-Kawuki reveals that telecommunication companies in Uganda

need to continue providing new products and services and give adequate time to clients to appreciate, use and benefit from the new products and services introduced. This is especially necessary since, in today's globally competitive environment, the challenge facing telecommunications companies is how to sustain the organisation amidst the dynamic and volatile changes.

Chapter Two

Labour Export as Government Policy: An Assessment of Uganda's Potential for Export of Labour in the Framework of Regional and Multilateral Agreements

Geoffrey Bakunda and George F. Walusimbi-Mpanga

Abstract

Export of labour through temporary migration is recognised worldwide as a pro-poor export strategy with significant development impacts in the poorest countries of the world. Because of the tremendous economic benefits from labour export, some developing countries have positioned themselves to maximise those benefits. Deliberate policies have been enacted, labour export mechanisms institutionalised, regulatory frameworks established and bilateral and regional initiatives undertaken to enhance labour exports. However, the situation in Africa seems to have remained mixed. Whereas some countries on the continent have aggressively promoted labour exports and received sizeable amounts of remittance inflows, many more seem to lack a deliberate effort to promote export of labour. This study on Uganda examines the extent to which a deliberate strategy for export of labour could be used as a tool to mitigate the level of unemployment and under employment. Relying on both primary and secondary data, the study combined a descriptive with analytical research designs to estimate the level of unemployment, determine labour export potential, as well as the status of the institutional and regulatory environment for labour export.

The study establishes that Uganda suffers high levels of unemployment and underemployment projected to increase significantly by 2020. Secondly, the high unemployment is driven by not only high rates of graduate unemployment, but also high levels of 'labour casualisation' and labour migration from the informal sector. Consequently, the number of people seeking employment abroad would increase at an annual average rate of 4.3% during the period in line with the trend of unemployment. However, despite this scenario, Uganda's labour externalisation regime

remained limited in scope and focus and outlined a very limited role for the government. As a result, the institutional framework for labour export has remained very weak. The study recommends that to increase the role of labour export in the local economy, a number of reforms need to be undertaken in the short to medium term. Reforms are needed in three areas namely; legal and regulatory reform, institutional reform, and labour export promotion reform. However, these must be preceded by a shift in government policy orientation on labour and employment.

Keywords: labour export, unemployment, Uganda

Introduction

Export of labour through temporary migration is increasingly recognised worldwide as a pro-poor export with significant development impacts especially in the poorest countries of the world. It is increasingly seen as the most profitable method of global trading, with less capital investment and risks on the part of the sending country and the expectation of high returns in the form of remittances. Many LDC countries, especially those with close proximity to the wealthy high labour-demanding countries, have benefited significantly from foreign exchange remittances arising from their labour exports. By 2006, for example, the Philippines received US$ 14 billion from its labour exports and the largest commodity export of the country. Other countries particularly in Eastern Europe, Latin America, South and South East Asia, the Middle East and North Africa situated close to high-demand countries of the EU, North America, South East Asia as well as Australia and New Zealand have benefitted significantly from sustained labour exports over the last decade (IFAD, 2005). However, exports of labour have also benefitted those LDC countries that have no close proximity to high labour demanding countries. In Africa, the World Bank (2008) reported more than 6 countries that earn over US$ 1 billion annually from labour exports, which has significantly boosted their economic performance. In general, remittances from labour exports have been reported to be more consistent than FDI and ODI for many LDCs, making them an important source of poverty reducing foreign exchange flows.

Because of the tremendous economic benefits from exports of labour, many developing countries, generally characterised by excess labour and high levels of unemployment and under employment, have positioned themselves

to maximise benefits from labour exports. Many have enacted policies to encourage temporary migration, institutionalised labour export mechanisms, established regulatory frameworks, and undertaken bilateral and regional initiatives to enhance labour exports and ensure that their nationals obtain fair treatment while working abroad. Following such measures, countries such as the Philippines have registered significant economic benefits. The Philippines is a model case where a deliberate labour export policy has yielded significant economic benefits to the local economy and contributed to household poverty reduction. At a macro level, remittances constitute the single largest commodity export and the largest source of foreign exchange earnings for the Philippines, bringing in US$ 17 billion in 2007. Remittance inflows have been used to compensate for the limited spending on social services such as health and education, to boost domestic consumption and cover the Philippines' yearly budget deficits. At the household level, recipient families in the Philippines have used remittance receipts to improve their housing status, send their children to school, give children access to quality health care, and in some cases, improved household food security (www.isg-fi.org.uk/spip.php). Overall, remittances have contributed significantly in reducing poverty levels among recipient households. This scenario seems to apply to all labour exporting countries that receive significant remittance inflows.

To ensure sustained benefits, some of the leading beneficiary countries have undertaken wide ranging domestic reforms and initiatives as part of a deliberate labour export strategy. Major domestic initiatives undertaken include ensuring that such countries produce 'tradable labour' as a key pre-requisite for effective and sustained exports of labour. These countries have undertaken specialised training for their labour force in skills that are in high demand in the net labour importing countries. In many cases, this has involved the establishment of specialised training institutes/schools and assessment centres to enhance skills for the mainly blue-collar-type occupations that are in high demand in Europe, North America, and other net labour importing countries. As a result of these initiatives, countries such as the Philippines, Morocco, and Egypt have registered high levels of remittance flows from their labour exports exceeding 10% of their GDP. This has significantly contributed to poverty reduction, reducing levels of local unemployment and underemployment, and creating additional opportunities for gainful employment for the local population.

However, the labour export situation in Africa seems to have remained mixed. While many countries on the continent have aggressively promoted labour exports and already receive significant amounts of remittance inflows, many of them have not exerted much effort to promote labour exports. Although many on the continent are characterised by excess labour and significant levels of under employment and unemployment, limted or no initiatives have been undertaken to systematically promote labour exports and benefit from the remittance flows from such exports. Again, because of the prevailing structure of the education system and the low level of economic development, there is often a disconnection between the skills produced by the education system in these countries and the skills demanded in the labour importing countries. There is little or no evidence of any efforts that have been undertaken to offer specialised skills training required in labour importing countries, particularly those of the north. In many cases, temporary migration of labour is still perceived as 'brain-drain' and harmful to the economy. Consequently, very few African countries have established specialised agencies to promote and coordinate the export of labour and regulatory frameworks. Bilateral initiatives to promote labour exports in specific markets are also less common. In general, temporary migration of labour seeking gainful employment abroad has been left to private individuals, the majority of whom work in foreign countries as illegal immigrants with no facilitation or protection by their home countries. The absence of systematic promotion of labour exports within the economic policy frameworks of many countries in sub-Saharan Africa have unequivocally reduced their ability to maximise the economic benefits from high remittance inflows.

Uganda is one of the typical African countries that have registered steady growth in labour remittances since the 1990s and which are reported to have had substantial benefits to the local economy. Since the mid-1990s, government estimates indicate that private remittances from Ugandans living abroad rose from US$ 109.6 million in 1993 to US$ 1.4 billion by 2008 (Bank of Uganda, 2008). However, despite some recent efforts to externalise labour, the potential for export of labour has remained relatively unknown to policy makers and other stakeholders. This is with regard to the size of exportable labour available, the adequacy of the institutional and legal framework to facilitate labour exports, as well as the adequacy of foreign demand and markets. Besides, at

the highest level in government, export of labour is still regarded as brain-drain without due regard to the type of labour export that may not constitute brain-drain.

Recent studies-Turyasiima and Dimanche (2004) and Austin Associates and UMACIS (2004) –established that while Uganda's labour market was growing at an average of 3.4% per annum and only 14% of the employed population was employed in the formal sector, there were "*skill surpluses*" in the middle and lower level categories of labour, particularly teachers, and arts and social science professionals. The studies also found that remuneration in Uganda's private sector was not conducive enough to attract certain skills. ence employers in the private sector find difficulty in attracting and retaining a variety of skill categories. Such types of labour could obtain more gainful employment abroad if facilitated and supported. However, the studies also observed that there were no appropriate policies and procedures for successful management of the international labour migration system at the time. The *National Employment Policy* (2006) also makes no explicit reference to export of labour. Although the *Employment (Recruitment of Ugandan Migrant Worker Abroad) Regulations* of 2005 specify guidelines and procedures that private recruitment agencies should follow to recruit Ugandans into foreign employment abroad. Although a Labour Externalisation Unit was established in the government ministry responsible for labour, export of labour is not yet seen as an economic policy issue where pro-active policy actions need to be implemented to maximise benefits from labour exports and help mitigate local unemployment and under-employment.

Economic Justification of Trade in Labour

Temporary migration and trade in labour, particularly unskilled labour, is beneficial to both developed and developing countries alike and contributes to a faster growth in world GDP and quickens poverty reduction in LDCs. Winters (2002) established that developing countries' gains from unskilled labour export through remittances more than offset the exported labour's original (low) contribution to home output, so that the welfare of those who remain behind also rises. For the developed (labour importing) regions, higher imports of unskilled labour are more beneficial in terms of welfare than are those on skilled workers.

According to Winters (2002), increase in supplies of unskilled labour reduces unskilled wages and stimulates most sectors of developed countries' economies (agricultural, manufactures and some services), whereas the benefits of increased supplies of skilled labour are concentrated in just a few services sectors. Globally, world welfare is likely to increase through increased trade in labour. Winters (2002), estimated that an increase in developed countries' quotas on the inward movement of both skilled and unskilled temporary workers equivalent to 3% of their workforces would generate an estimated increase in world welfare of over US$ 150 billion per annum. – about 0.6% of world income. This is a significant positive effect on world GDP with a positive welfare effect.

Apart from the direct effect on the economies of developed countries through supplies of cheaper labour and on the economies of developing countries' through remittances, increased trade in unskilled labour seems to fulfil the principle of comparative advantage. Developed countries by their nature tend to have a labour force that is well trained and experienced. As such, they are major suppliers of skilled labour (which they tend to have in excess) while demand for less-skilled low-paid workers is higher. According to Winters (2002), highly industrialised countries, particularly USA, Canada, Japan, and Australia also happened to be the major "high demand' countries for unskilled labour. By 2002 for example, the USA constituted the largest share of demand for labour with an average annual demand estimated at about 2.7 million unskilled temporary workers and about 2.4 million skilled temporary workers. On the other hand, developing countries tend to have excess supply of unskilled labour that they could effectively export without harming their countries' output.

Trends in North-South Trade in Labour

Much of world trade in labour has been between the North and the South, and is reported to be growing despite a number of restrictions. The developed countries of the North export mainly skilled workers to the South while developing countries export mainly unskilled workers to the North. Although this trade has been a subject of several restrictions, including imposition of quotas, it has been reported to grow, often at rates consistent with the rates of economic growth in the respective countries.

By 2006, world demand for labour was estimated at over 11.5 million for unskilled workers and about 8.0 million for skilled workers (IFAD, 2006). The estimate of labour imports and exports for the leading importing and exporting countries is provided in Table 2.1 below.

Table 2.1: Status of Global Exports and Imports of Labour in 2002

Net Importing Countries		Net Exporting Countries	
Country	**Labour (000's)**	**Country**	**Labour (000's)**
USA	5,165.36	Mexico	375.90
Japan	2,610.00	Eastern Europe	538.37
Germany	1,665.00	Soviet Union (former)	1563.65
UK	1,134.00	China	2,916.65
Canada	573.00	South East Asia	1709.02
Australia-New Zealand	435.90	Rest of East Asia	509.80
Rest of EU	4, 713.10	India	2,844.72
Rest of Europe	234.12	Rest of South Asia	661.84
Total	16,530.48	Brazil	654.46
		Rest of Latin America	1138.50
		Middle East & North Africa	1259.69
		South Africa	1810.28
		Rest of World	546.49
		Total	16, 530.49

Source: Winters et al., 2002

The table above shows the USA as the largest net importer of labour followed by Japan, Germany and the UK. Canada and Australia are also major net labour importers. The major labour exporting countries are Mexico, former Soviet Union, China, India, Brazil, and South Africa. According to the table, the major exporting regions are Middle East and North Africa, Latin America, Eastern Europe, South East Asia, South Asia and East Asia. The table suggests that in sub-Saharan Africa, South Africa is the only major exporting country while the region as a whole does not feature as a major labour exporting region.

Recent Trends in Labour Export and Remittance Inflows in Africa

By 2006, the African continent had over 30 million people in the Diaspora (IFAD, 2006). Of all the world's regions, however, Africa's predominant migration is the most intraregional. For instance, migration within West Africa is fluid, partly due to the region's status as a geopolitical and economic unit, but also to a common history, culture and ethnicity among many countries in the region. There is also significant international migration to former European colonial powers such as France, the United Kingdom, the Netherlands, and Italy. With regard to remittances flows, by 2007, flows to and within Africa approached US$ 40 billion (IFAD, 2006). Countries in Northern Africa (for example, Morocco, Algeria and Egypt) are the major receivers on the continent. The Eastern African countries, though not among the major remittance receiving, depend heavily on these flows, with Somalia standing out as particularly remittance dependent. For the entire region, annual average remittances per migrant reach almost US$ 1,200 and on a country-by-country average represent 5% of GDP and 27% of exports. Furthermore, remittances to rural areas are significant and predominantly related to intraregional migration, particularly in Western and Southern Africa. The mobility of Africans within these regions has been followed by the sending of regular amounts of money. Two thirds of West African migrants in Ghana remit to rural areas in their countries of origin. The status of temporary labour migration and remittances in Africa for the year 2006 is summarised in the table 2.2 overleaf and figure 2.1 on page 18.

Table 2.2: Labour Migrants and Remittances for Selected African Countries, 2005

Country	No of Labour Migrants (Est.*)	Remittance Inflows (US$ Millions)	Remittance % of GDP
Uganda	154, 747	814	8.7
Tanzania	188,789	313	2.4
Kenya	427,324	796	3.8
Rwanda	196,104	149	6.0
Burundi	315,477	184	22.8
Nigeria	836.832	5397	4.7
Ghana	906,698	851	6.6
Senegal	463,403	667	8.5
Algeria	1,783,476	5,399	4.7
Egypt	2,399,251	3,637	3.4
Morocco	2,718,665	6,116	10.7
Tunisia	623,221	1,559	5.1
South Africa	713,104	1,489	0.6
Lesotho	258,589	355	24.1
Mozambique	803,261	565	7.4
Ethiopia	445,926	591	4.4

Source: IFAD Fact Book 2006, * Estimates based on World Bank Data, 2008; Author Computations

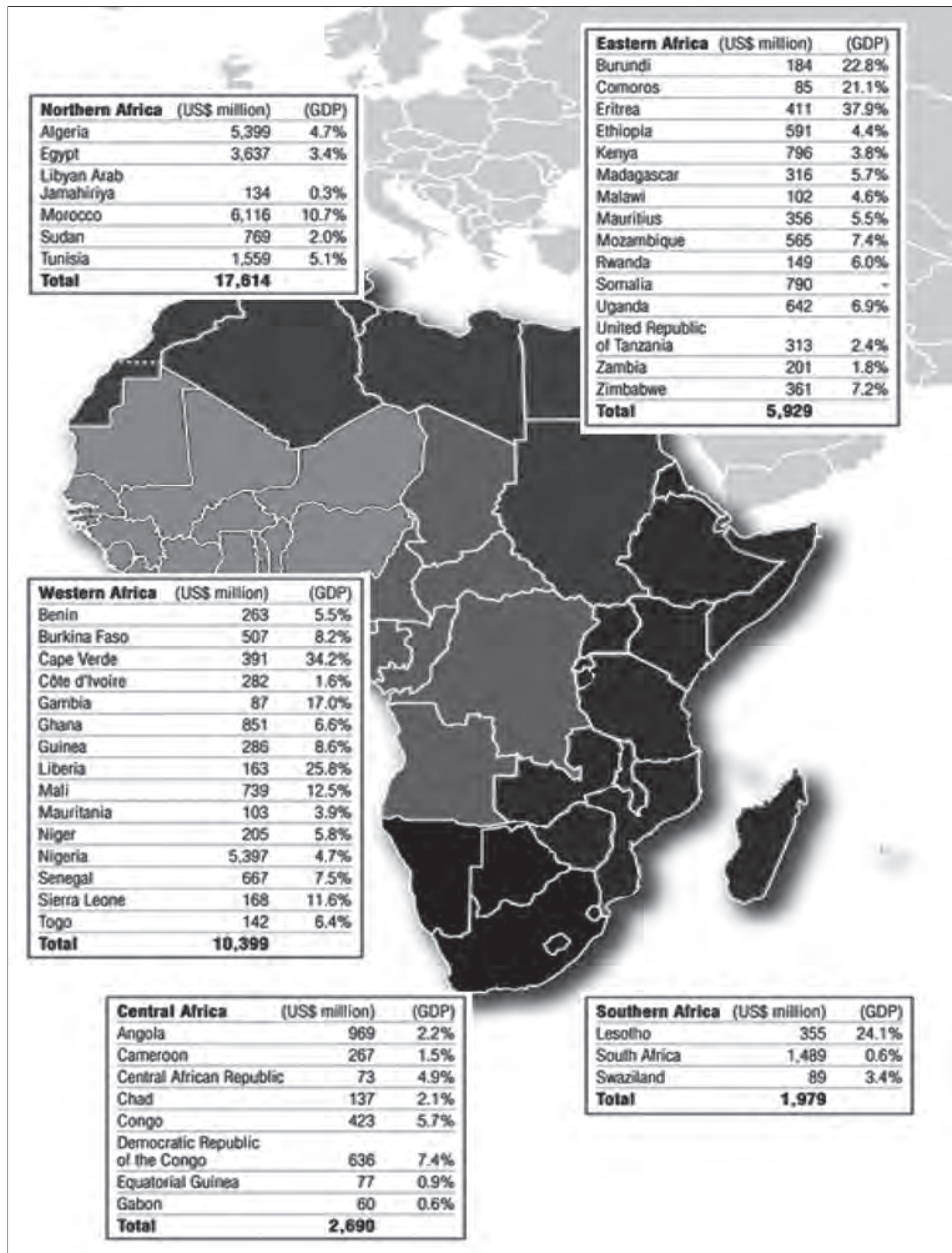
With regard to inward remittance growth, data for selected African countries shows that almost all countries have registered inward remittance growth since 2000. The average growth rate is well over 10% per annum with Ethiopia, Uganda, Rwanda, and Ghana registering well over 20% annual growth rates. The data show that most African countries earned substantial amounts of foreign exchange in form of remittances that accounted for between 2%-24% of their GDP in 2006. However, only Burundi, Lesotho and Morocco had remittance inflows exceeding 10% of their GDP in 2006.

Table 2.3: Inward Remittance Growth Rates for Selected African Countries 2000-2008, US$ Millions

Country	2000	2001	2002	2003	2004	2005	2006	2007	Annual Growth
Uganda	238	342	421	306	371	423	814	856	24.6
Tanzania	08	15	12	09	11	18	14	14	15.16
Kenya	538	550	433	538	620	805	1,128	1,300	15.1
Rwanda	07	08	07	09	10	21	21	21	21.6
Burundi	-	-	-	-	-	-	-	-	-
Ethiopia	53	18	33	47	134	174	172	172	39.1
Somalia	-	-	-	-	-	-	-	-	-
Mozambique	37	42	53	70	58	57	80	80	13.3
Ghana	32	46	44	65	82	99	105	105	20.0
Nigeria	1,392	1,167	1,209	1,063	2,273	3,329	3,329	3,329	19.4

Source: World Bank Fact Book, 2008; IFAD Fact book, 2006

Figure 2.1: Remittance Flows to Africa, 2006



Source: IFAD. www.ifad.org/events/remittances/maps/africa.htm

Further analysis shows that although growth in inward remittances from labour exports since 2000 is relatively high for a number of African countries, when compared with outward remittances, it becomes less clear whether African countries are net exporters of labour and whether the current levels

of remittance inflows can be expected to improve to a substantial degree the domestic economies and poverty levels in the countries.

A comparison of inward and outward remittance flows is made for the East African countries for the period 2003-2007 and the results show that Uganda's remittance outflows have averaged about 70% of inward remittances since 2003. For Kenya, the level of remittance outflows is the lowest in the East African Community with the percentage of outflows to inflows averaging 4% since 2003. In the case of Rwanda and Tanzania, remittance outflows exceed inflows. This high level of remittance outflows suggests, in part, that to maximise the development impact from inward remittance flows, improve the domestic economy, and reduce poverty levels, there is still need to significantly increase the levels of inward remittances beyond current levels.

Table 2.4: Inward and Outward Remittances for in the East African Countries 2003-2007, US$ Millions

Country	2003			2004			2005			2006			2007		
	IFS	OFS	NET	IFS	OFS	NET	IFS	OFS	NET	IFS	OFS	NET	IFS	OFS	NET
Uganda	306	259	47	371	235	136	423	359	64	814	322	492	856	-	-
Kenya	538	07	531	620	34	586	805	56	749	1,128	25	1,103	1300	-	-
Tanzania	09	27	(18)	11	34	(23)	18	31	(13)	14	29	(15)	14	-	-
Rwanda	09	30	(21)	10	31	(21)	21	35	(14)	21	47	(26)	21	-	-
Burundi	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: World Bank (2008)

Review of International Best Practice in Export of Labour – The Philippines Case

By 2008, a number of developing countries were regarded to be success stories in the export of labour. According to the World Bank (2008), the top five labour exporting countries were India, China, Mexico, Philippines and

France. The biggest labour exporting countries in Africa are Egypt, Morocco and Nigeria. This section reviews the Philippine experience as a best practice example in the promotion and management labour exports as a key government policy.

Evolution of the Labour Export Industry

Since the 1970s, the Philippines — a country of about 7,000 islands peopled by diverse ethno-linguistic groups — has supplied all kinds of skilled and low-skilled workers to the world's more developed regions. According to Ruiz (2008), over 8.2 million native Filipinos were estimated to be working or living in close to 200 countries and territories by 2007, equivalent to almost 25% of the Philippines' total labour force. About 75,000 Filipinos are deployed for overseas employment every month. Remittances from these migrants amounted to about US$ 17 billion or 13% of GDP in 2007. Although the Philippines is largely a country of emigration, it also attracts some foreigners to its shores and presently, there are 36,150 foreign nationals working and residing in the Philippines. Much of the country's attention and policies, though, are focused on emigration. Promised lands in different regions, the United States, the Middle East, Asia, Europe, Africa, and Oceania, have become the objects of Filipino dreams.

The Philippines' ascent as a major labour exporter in Asia and worldwide is based on various factors. When large-scale labour migration from the Philippines started in the 1970s, the "push" factors were very strong but made worse by the oil crisis in 1973. Among others, economic growth could not keep pace with population growth. The country was hard pressed to provide jobs and decent wages and had severe balance of payment problems. At the same time, the oil-rich Gulf countries needed workers to execute their ambitious infrastructure projects. With supply and demand factors converging, the Philippines were ripe for large-scale labour migration, an opportunity the Philippines government at the time recognised. The framework for what became the government's overseas employment program was established with the passage of the Labour Code of the Philippines in 1974 and the creation of the Overseas Employment Development Board (OEDB) to promote. "A systematic program for overseas employment of Filipino workers." In carrying out its mandate, the OEDB marketed Filipinos to potential host countries,

recruited workers from the local population, and secured overseas employment. The Philippines' foray into organised international labour migration was supposed to be temporary, lasting only until the country recovered from its economic problems.

However, the continuing demand for workers in the Gulf countries and the opening of new labour markets in other regions, especially in East and Southeast Asia, fuelled further migration. On the supply side, there were a number of push factors. The absence of sustained economic development, political instability, a growing population, double-digit unemployment levels, and low wages continue to compel people to look abroad. The flow of overseas foreign workers also known as Overseas Filipino Workers (OFWs), numbering a few thousand per year in the early 1970s, has grown to hundreds of thousands (see Table 2.5).

In 2004 alone, 933,588 OFWs left the country. Based on trends, it was expected that the number of deployed OFWs would hit the one million mark in 2005.

Table 2.5: Regional Distribution of Land based Filipino Workers, 2004

Region	Numbers	Percent
Asia	266,609	37.84
Middle East	352,314	50.00
Europe	55,116	7.82
Americas	11,692	1.66
Africa	8,485	1.20
Trust Territories	7,177	1.02
Oceania	3,023	0.43
Others	170	0.02
Total	704,586	100.00

Source: Available online, accessed 15th December 2008, based on Combined Data for new hires and rehires

In December 2004, the stock of overseas Filipinos included some 3.2 million permanent settlers. About 3.6 million temporary labour migrants (called OFWs) live around the globe, with Saudi Arabia hosting close to a million, and an estimated 1.3 million migrants in an unauthorised situation. The latter

tend to be mostly in the United States and Malaysia. Women are very visible in international migration from the Philippines. They not only compose the majority of permanent settlers, as part of family migration, but they are as prominent as men in labour migration. In fact, since 1992, female migrants outnumbered men among the newly hired land-based workers who are legally deployed every year. The majority of female OFWs are in domestic work and entertainment. Since these are unprotected sectors, female migration has raised many concerns about the safety and well-being of women migrants. Female OFWs can also be found in factory work, sales, and nursing. Among the top 10 destinations of OFWs, Hong Kong, Kuwait, Singapore, Italy, United Arab Emirates (UAE), Japan, and Taiwan are dominated by women. In Hong Kong, for example, over 90% of OFWs are women, which suggests that most job opportunities in Hong Kong are those suitable for women.

The Management of the Labour Export Process in the Philippines

Since the 1970s, the government and the private sector each have played a role in the labour export process. When the overseas programmeme started, the government participated in recruiting and matching workers and employers. Due to demand for workers and the large numbers involved, the government relinquished the placement of workers to private recruitment agencies in 1976. The government created the Philippine Overseas Employment Administration (POEA) to manage the overseas employment process. With its low rate of foreign investment and a steady reduction in development assistance, the government, not just its people, has come to rely on overseas employment as a strategy for survival. After years of pushing the official line that it does not promote overseas employment, the government set a target in 2001 of deploying a million workers overseas every year.

The Philippine Overseas Employment Administration (POEA) grew out of the Overseas Employment Development Board and the National Seamen Board in the then Ministry of Labour and Employment. The Overseas Employment Development Board, the National Seamen Board, and the Bureau of Employment Services were consolidated into the Philippine Overseas Employment Administration (POEA) in 1982. POEA became the government agency responsible for processing workers' contracts and pre-deployment

checks, as well as for licensing, regulating, and monitoring private recruitment agencies. There is a placement branch within the POEA, but it only accounts for a small number of all OFWs placed with foreign employers.

On the private-sector side, there are more than 1,000 government-licensed recruitment and manning agencies in the Philippines (and an unknown number of unlicensed ones) that match workers with foreign employers. In the Philippines, recruitment agencies refer to those that find jobs for aspiring land-based migrant workers; manning agencies refer to those that engage in recruiting and finding jobs for seafarers.

Recruitment agencies charge migrant workers "placement fees" for the service that they provide. Manning agencies are not supposed to charge placement fees as these fees are assumed by the principal or employer, but there are cases of known violations. Although there is a standard placement fee for most destinations (except for special markets such as Taiwan) equivalent to one month's salary plus 5,000 Philippine pesos (about US$ 94) for documentation, this is routinely violated. The excessive fees are a burden to migrants and put them in a vulnerable situation because they are already in debt before they leave. When they are abroad, they go without any salary for a period of time, and are forced to bear harsh working and living conditions in order to repay their loans. This a source of stress for the newly placed workers that exposes them to risks.

Regulation of recruitment is an important feature of the management of the labour export process in the Philippines. Within the Department of Labour and Employment (DOLE), the Philippine Overseas Employment Administration (POEA) is responsible for licensing private Recruitment Agencies. In addition, the POEA publishes an updated list of overseas job openings, recruitment agencies' contact information, and the number of vacancies available through its website. The POEA also provides a quality control service by rating the status of the private recruitment agencies, in doing so its charged with alerting potential overseas workers of agencies that have issued false contracts or have not complied with rules during the deployment process (The list of the current recruitment agency ratings can be seen on: *http://www.poea.gov.ph/)*. The POEA works closely with Philippine Overseas Labour Offices and dedicated labour attachés at Filipino embassies and consulates worldwide to) monitor the treatment of OFWs, verify labour documents, and assist OFWs

in employment and labour-related disputes at their various stations abroad. The POEA also processes overseas contracts and provides every OFW with a government issued identification card.

Overseas Workers Welfare Administration (OWWA)

Another government agency, the Overseas Workers Welfare Administration (OWWA), provides support and assistance to migrants and their families. All processes and requirements up to the point of departure are handled by the POEA, while the OWWA assumes responsibility for the workers' welfare while they are employed abroad. The POEA and OWWA are under the Department of Labour and Employment. A separate agency, the Commission on Filipinos Overseas (CFO), provides programmes and services to permanent emigrants. CFO was transferred from the Department of Foreign Affairs to the Office of the President in 2004.

Among the countries of origin in Asia, the Philippines offers a fairly comprehensive package of programmes and services covering all phases of migration, from pre-departure to on-site services and return and reintegration. Although the government could improve its implementation of these programmes, the programmes demonstrate the government's efforts to balance the marketing of workers with protection. Some of these initiatives, such as the pre-departure orientation seminars for departing workers and the deployment of labour attachés and welfare officers to countries with large OFW populations, are good practices that other countries of origin have also implemented.

Labour export in the Philippines is also characterised by a well-managed deployment process. Prior to departure, all overseas contract workers must undergo the Philippine Government's mandatory deployment process. Two key components of this are Pre-Departure Orientation Seminars (PDOS) and the issuance of OFW Identification Cards. Pre-Departure Orientation Seminars are largely conducted by Non-Governmental Organisations that work in partnership with the Government's Overseas Workers Welfare Administration (OWWA) for OFWs and the Commission on Overseas Filipinos for permanent emigrants. Every departing OFW and Filipino emigrant must attend a one-day seminar and provide the government with a certificate of completion prior to deployment.

Protecting Workers Abroad - Migrant Workers and Overseas Filipinos Act

It is the increasing problems associated with working abroad that have made migrant protection and representation an important priority for the Philippine Government. The Overseas Workers Welfare Administration (OWWA) was established as an institutionalised welfare fund to protect Filipino migrant workers abroad. OWWA is funded by a mandatory membership fee of US$ 25 that must be paid prior to deployment. The OWWA operates Filipino Resource Centres throughout the world in order to provide further assistance to OFWs. In addition, the government offers support services towards participation in pre-departure orientation seminars, public assistance programmes, and on-site services at its embassies and consulates.

Another major component of migrant protection was created in the 1990s with the enactment of the Migrant Workers and Overseas Filipino Act of 1995, "*The Magna Carta*" which created the Office of the Undersecretary for Migrant Workers Affairs within the Department of Foreign Affairs to take responsibility, "For the provision and coordination of all legal assistance service to be provided to Filipino migrant workers as well as overseas Filipinos in distress."

The irregular operations of recruitment agencies in the Philippines and their counterparts in the countries of destination remain one of the sources of vulnerabilities for migrant workers. Excessive placement fees, contract substitution, non-payment or delayed wages, and difficult working and living conditions are common problems encountered by migrant workers. Migrant women face particular vulnerabilities. Aside from the usual problems that plague migrants, their jobs in domestic work and entertainment usually mean long working hours, surveillance, control by employers, and abusive conditions, including violence and sexual harassment.

Given the "private" context in which they work, the problems encountered by migrant women in these sectors go unnoticed. In general, compared to other national groups, Filipino workers are relatively better protected because they are more educated, more likely to speak English, and they are better organised. NGOs for migrants in the Philippines and their networks abroad not only provide services and support to migrants, but, also advocate for migrants' rights. This increases the confidence of Philippine nationals to seek

employment abroad. Apart from the institutional framework, the development of a legal and institutional framework to promote migrant workers' protection is also an important factor. The Philippines was the first among the countries of origin in Asia to craft a law that aims. "To establish a higher standard of protection and promotion of the welfare of migrant workers, their families and overseas Filipinos in distress."

Although there had been discussions about a *Magna Carta* for migrant workers for some time, it was not until 1995 that the Migrant Workers and Overseas Filipinos Act (also known as Republic Act or RA8042) was finally passed. The tipping point was the national furore in 1995 over the execution of Flor Contemplación, a domestic worker in Singapore, who many Filipinos believed was innocent despite her conviction for the deaths of her Singaporean ward and another Filipino domestic worker.

The provisions of the Migrant Workers and Overseas Filipinos Act include:

1. The deployment of workers in countries that ensure protection, including the banning of deployment if necessary;
2. Providing support and assistance to overseas Filipinos, whether legal or in an unauthorised situation;
3. Imposing stiff penalties for illegal recruiters;
4. Free legal assistance and witness protection programme for victims of illegal recruitment;
5. The institution of advisory/information, repatriation, and reintegration services;
6. The stipulation that the, "Protection of Filipino migrant workers and the promotion of their welfare, in particular, and the protection of the dignity and fundamental rights and freedoms of the Filipino abroad, in general, shall be the priority concerns of the Secretary of Foreign Affairs and the Philippine Foreign Service Posts";
7. The establishment of the Migrant Workers and Other Overseas Filipinos Resource Centres in countries where there are large numbers of Filipinos;
8. The creation of the Legal Assistant for Migrant Workers Affairs (now the Office of the Undersecretary of Migrant Workers Affairs) and the Legal Assistance Fund.

The Office of the Undersecretary of Migrant Workers Affairs, under the Department of Foreign Affairs, provides assistance to migrant workers who encounter legal problems abroad. The National Labour Relations Council handles employment-related problems such as money claims.

In addition to government initiatives, the efforts of NGOs, church-based organisations, migrants' organisations, as well as transnational and international efforts directed at promoting and protecting migrants' rights, help provide an "antidote" to the dangers of migration. Among the countries of origin in Asia, the Philippines is also a leader in introducing several migration-related laws.

These include:

1. The Anti-Trafficking in Persons Act of 2003, which establishes policies and institutional mechanisms to provide support to trafficked persons;
2. The Overseas Absentee Voting Act of 2003, which gives qualified overseas Filipinos the right to vote in national elections;
3. The Citizenship Retention and Reacquisition Act of 2003, which allows for dual citizenship;
4. In terms of commitments to international norms and standards concerning migrants, the Philippines is one of 34 countries (as of 27 October, 2005) that has ratified the UN Convention on the Rights of All Migrant Workers and Their Families. It is also one of 95 countries (as of 6 November, 2005) that have ratified the UN Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children.

Management of Remittances

Aside from easing unemployment, Filipinos who choose to work abroad send home remittances that have become an important pillar of the Philippine economy. In 2004, according to the Central Bank of the Philippines, remittances sent through formal channels amounted to US$ 8.5 billion.

Table 2.6. Inward Remittances to the Philippines 1996-2007

Year	Annual Remittances Received (US$)	Year	Annual Remittances Received (US$)
1996	4,306.64	2002	9,735.00
1997	5,741.84	2003	10,243.00
1998	7,367.99	2004	11,471.00
1999	6,794.55	2005	13,566.00
2000	6,212.00	2006	15,250.00
2001	6,164.00	2007	17,000.00

Sources: Migration and Remittances Fact Book, 2008 for figures from 1996-1999 to 1983; Battistella

For the families of migrant workers, remittances are generally spent on fulfilling the basic needs of the family: better housing, educational opportunities for children, and starting or investing in small businesses. According to a 2005 World Bank report, the Philippines is the fifth-largest recipient of remittance flows after India, China, Mexico, and France. The government encourages migrant workers to send remittances through banks. A study by the Asian Development Bank found that 80% of Filipino respondents regularly remit through banks or other regulated sectors. Among other reasons, lower remittance costs help explain the greater use of regulated channels than was the case in the past. The Central Bank of the Phillipines is also working on enforcing minimum standards for banks and other players in the remittance business to protect OFWs and their families from fly-by-night operators, excessive fees, unfair foreign currency conversion, and delivery problems.

Current Policy Debate in the Philippines on the Labour Export Process

Within the Philippines, there has been a lot of speculation about the costs of migration: the problems borne by migrants, anxieties about the destabilising effect of migration on families, apprehension about materialism, and so forth. Although it is acknowledged that migrants and their families have benefited from labour migration, mostly because of remittances, the economic impact beyond the family level is less tangible. And while it is acknowledged that

remittances have buoyed the country's economy, development impact has not been clearly felt. Some question what the country has to show for more than three decades of overseas employment. In a strange twist, the Philippines has become so successful as a labour exporter that it has failed to develop and strengthen development processes. The target to send a million workers every year is a telling indicator that migration will be an important part of the country's future development plans and prospects.

Even without government involvement, labour migration from the Philippines is likely to persist thanks to social networks, social capital, and social remittances that have flourished.

Filipino society has become migration-savvy, having developed the ability to respond and adjust to the changing demands of the global labour market. Anticipation of future demand for nurses, for example, has resulted in the proliferation of nursing schools and a remarkable increase in student enrolment in nursing programmes in recent years. Even doctors are studying to be nurses to have better chances of working abroad. This is a concrete example of how perceptions of the international labour market have also woven their way into the educational and work aspirations of Filipinos. Individuals make decisions based on perceptions of what would be beneficial to them.

However, those decisions can have a cumulative effect on communities and the country. In the nursing field example, challenges include the proliferation of nursing programmes (which puts into question the quality of training), the spectre of an oversupply of nurses, and the potential mismatch between skills needed and available human resources are some societal-wide concerns that must be considered and must be weighed vis-à-vis individual aspirations. While the Philippines cannot stop people from leaving, the country will need to explore how migration can be an instrument for development.

Some Key Lessons from the Philippines Case

Export of labour has to be balanced with strong development planning in the source-country to maximise the development dividend of remittances. Export of labour is not a substitute for strong development planning, reforms to build local productive capacity, competitiveness, and expansion of employment opportunities in the source country. Policies have to be developed

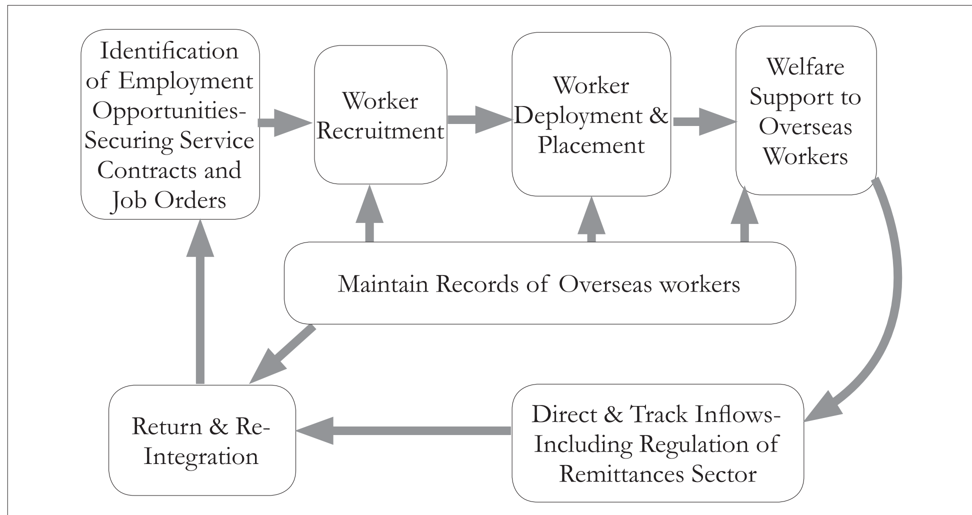
to make labour export through temporary migration an effective instrument of development.

Women are a key labour resource that needs to be harnessed through labour export. Most labour export opportunities tend to be more suitable for women, particularly in the areas of home care, nursing and in entertainment. However, these sectors tend to be less protected and domestic regulations with regard to the safety and wellbeing of the women placed abroad have to be put in place.

There is need to balance labour export promotion with protection. In this regard, the government of origin needs to create mechanisms for promoting as well as safeguarding the welfare of its overseas workers. Reducing the cost of remittances is an essential element of labour export policy. For instance, the remittance cost in Uganda is presently at slightly more than 1% through the regulated channels. This is quite high yet in the Philippines, following some innovative interventions by the Philippine Central Bank, the cost reduced to less than 0.5%. Reducing the average remittance cost acts as an additional incentive not only for overseas employment but also for workers employed abroad to increase their remittances through the regulated channels.

Deliberate efforts with clear targets premised on structures tailor-made to identify employment opportunities abroad, recruit workers, deploy workers, respond to specific needs in the foreign employment market, and direct and track inflows, maintain records of their workers abroad, offer welfare support workers while abroad, and reintegration when workers return are critical to successful labour export. The above activities, also diagrammatically represented below, together represent best practice in the management of the labour export process. At each stage of the process, careful supervision and regulation are essential.

Figure 2.2: Mapping of the Labour Export Process in the Philippines



In terms of management of the labour export process, the Philippine experience provides key insights for intending countries. First is not the effective regulation of private recruitment agencies to ensure that nationals preparing to depart the country as temporary migrant workers are not charged exorbitant recruitment and placement fees nor issued with false contracts. Establishing a dedicated office within the Ministry responsible for Labour tasked to review overseas' labour contracts prior to migrant workers' departure. The Foreign Affairs Ministry through a country's missions and consulates in destination countries can monitor the treatment of the expatriate workers; provide services for filing complaints about false contracts and labour disputes.

Secondly, is the need for Pre-Departure Seminars to brief migrating temporary workers on expectations in the destination country including information on prospective employers, contacts of migrant community organisations, available savings instruments, the remitting process and how to plan for eventual repatriation and reintegration upon conclusion of contracts.

Third, is the setting up of Protection Mechanisms for overseas migrant workers through migrant welfare systems, managed by the source country government. Such mechanisms could provide several support services for overseas workers including emergency repatriation in the event of an emergency or repatriation of the migrant's body in the event of death, life insurance, welfare assistance, and reintegration preparedness. Fourth is the

importance of developing an identification and reporting mechanism for overseas migrant workers. This would provide for the guarantee of return requirements of destination countries in addition to backstopping the protection mechanism adopted above.

Fifth, is the need to minimise remittance costs by promoting competition in the remittances industry to maximise the development impact of remittances. Central banks in countries of origin can help lower remittance costs by requiring banks and other RSPs to transparently post all costs related to a particular transaction, thereby ensuring that remitters and their recipients are fully aware of the costs of various products. Governments can also inform migrants about the options available in host countries for remitting money home through a pre-departure financial literacy programmes.

Other Observations and Lessons from the Review

Some additional observations can be made from the foregoing review. Firstly, labour export as a source of foreign exchange and poverty reducing income has a strong justification because of its consistence with the economic principle of comparative advantage. Developing countries gain from unskilled labour export through remittances that more than offset the exported labour's original (low) contribution to home output as the welfare of those who remain behind also rises. For the developed (labour importing) regions, higher imports of unskilled labour are more beneficial in terms of reduced unskilled wages and stimulation of most sectors.

Africa's position in the international labour market remains small and insignificant. North Africa and South Africa are the major players on the African continent. Labour migration in Africa is a common phenomenon and increasing similarly with other regions of the world. Labour export and temporary migration is marked by substantial intra-African exchange. Another key observation is that while inward remittance flows to sub-Saharan Africa constitute reasonably large percentages of most countries GDP, (on average above 2.0%), the levels of outward remittances remain high, which reduces the development impact of the remittance inflows. Whereas it may be difficult for countries in the region to significantly reduce on their labour imports, expansion of remittance earnings seems to be a main policy option to improve the current account situation of these countries.

Rationale, Purpose and Objectives of the Study

Rationale

Cross-border movement of people has for long been a common phenomenon along Uganda's borders. The location of related peoples across Uganda's borders was the major driving force behind cross-border movement. However, during the 1970s and 1980s, the movement of people grew into waves of asylum seekers largely to escape the terror and violence of the time. In the 1990s, when calm returned to Uganda, many continued to move, this time in search of employment and economic opportnities.

A large number of emigrants[3] headed for the United Kingdom, United States, Canada, Sweden, Denmark, Germany, and even as far away as Australia. This was done usually on visas for students, sports events, medical treatment, and under the pretext of visiting and joining family. To describe this type of migrant Ugandans who were living abroad illegally and almost in all cases lived on odd jobs, the term "Kyeyo[4]" was created in Uganda's lingua-franca. By 2008, the term had become a household name.

Over the last 12 years, the results of the emigrants work began to show in the suburbs of the capital city, Kampala and in other urban centres. Emigrants began constructing modern housing and commercial buildings, and they were opening many small and medium enterprises in the capital city and other urban centres. The macroeconomic performance indicators published by the Bank of Uganda (Central Bank) revealed that, by 2006, workers' remittances had surpassed total export revenue[5]. At the political level, the Presidency opened a desk to help Ugandans search for work abroad and to deal with the procedural formalities to their preferred destinations. By 2005, it became clear to Government and supporting agencies such as the Private Sector Foundation Uganda (PSFU) that the export of labour had outgrown its haphazard and clandestine era. By nurturing it, Uganda could benefit from the growing source

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[3] It is estimated that by 2005, 154,747 people had emigrated from Uganda including 21% with tertiary education - see www.worldbank.org/prospecs/migrationandremittances

[4] The term "Kyeyo" is ordinarily used in the local context to mean 'dirty work' and refers to those Ugandans doing 'dirty work' abroad.

[5] Comparative Annual Workers' Remittances (AWR) and Export Revenues (ER) US$ Millions: **2000** WR(238)-**2001/2** ER(474); **2001** WR(342)-**2002/3** ER(508); **2002** WR(421)-**2003/4** ER(647); **2004** WR(371)-**2004/5** ER(786); **2005** WR(423)-**2005/6** ER(889); **2006** WR(814)-**2006/7** ER(657).

of remittances and improve its current account balances at the same time as citizens improve their livelihoods through gainful employment abroad.

However, a number of questions remain unanswered and there is concern as to whether encouraging emigration of labour however temporary does not constitute brain-drain.

The major policy questions are:

- Which categories of labour in Uganda are exportable without damaging the local economy?
- Is the level of unemployment and or under-employment across different labour and skill categories significantly high to require rigorous promotion of labour exports?
- What type of skill training is required to make Uganda's labour attractive abroad?
- What is the appropriateness of the current institutional and policy framework?
- To which potential destinations should promotional efforts focus and for which occupational or skill categories?
- What market access barriers to Uganda's labour export drive exist and what policy actions are required to overcome them?
- What is the likely impact of labour market liberalisation arising from the East African Common Market and what mitigation measures are required?

This study, undertaken during the period November, 2008 – March, 2009 with financing from the Investment Climate and Business Environment (ICBE) Research Fund of the World Bank in colation with the Private Sector Foundation Uganda (PSFU), attempted to respond to some of the above questions.

Purpose and Objectives of the Study

The main purpose of the study was to examine the extent to which export of labour can be used as a tool to mitigate the level of unemployment and under employment in Uganda.

Specific Objectives

The specific objectives were to:

(i) develop an inventory of the size of the labour pool in Uganda categorised by sector according to the International Standard Classification of Occupations at ILO. This inventory covered both semi-skilled and skilled workers.

(ii) establish graduate outputs in universities and other tertiary institutions and make forecasts over a 5-10 year period of trained personnel to be put on the labour market by institutions.

(iii) investigate the level of unemployment and underemployment across the various categories identified in (i) above.

(iv) assess and quantify the demand and supply conditions in the labour market in Uganda and estimate current and future demand and supply across the categories identified in (i) above.

(v) assess and quantify the labour market conditions (demand and supply opportunities) present in major export destinations including the identification of specific sub-sector demand and future growth prospects.

(vi) assess the suitability of the skills and training of domestic labour for international demand paying attention to the needs to match the supply situation and demand conditions in specific markets.

(vii) analyse the need for and implications of adjustment in Uganda in order to satisfy specific requirements in the relevant international markets. What measures would be required to achieve the adjustment in order to improve Uganda's semi-skilled labour as a basis for matching with GATS requirements and thus making this category of labour exportable?

(viii) Undertake an analysis of the market access barriers, both policy and regulatory, present on Mode IV exports in our current trading partners with particular regard to the sectors identified in 2 above.

(ix) assess the appropriateness of the current institutional and regulatory framework governing Mode IV exports.

(x) undertake an analysis of the likely effect of the liberalisation of Mode IV through regional initiatives (EAC, COMESA) on Uganda's economy, domestic employment, and labour export.

Methodology

The study adopted a descriptive research design combined with analytical modelling to estimate the level of unemployment. Both secondary and primary data collection methods were employed to obtain the required data for the study. The population for the collection of primary data included higher education institutions as well as senior officials of relevant government institutions. The study relied mainly on purposive sampling targeting specific informants who would provide the required information.

Data Collection

Data collection for this study involved extensive desk research and document review. Extensive internet research, key informant interviews including field surveys involving universities, tertiary institutions, visits to different sector associations/offices and various occupational associations, the Ministry of Labour, Gender and Social Development and the Labour Externalisation Unit, survey of companies externalising labour, Ministry of Public Service, the Public Service Commission, Ministry of Education and Sports, as well as other institutions where employment and unemployment data could be obtained.

Desk Research and Document Review

This involved the search for, collection, and systematic review of several documents and reports covering the labour market situation in Uganda, the East African Community, as well as the international market particularly focusing on countries of export interest to Uganda. Some of the national reports and documents reviewed included but were not limited to the following:

- Uganda Skills Inventory Report, IOM Kampala, 2004
- The Employment Act, 2006. Republic of Uganda, Kampala
- Report on the Institutional Framework for Migration of Ugandan Labour to Foreign Countries, (2004), Ministry of Gender, Labour and Social Development, Kampala
- The Employment (Recruitment of Ugandan Migrant Workers Abroad) Regulations, 2005
- Review on Remittances by Ugandans in the Diaspora, IOM Kampala, 2004
- The Treaty for the Establishment of the East African Community, (July, 2000)
- The EAC Common Market Draft Protocol

Extensive Internet Search

This was undertaken to obtain detailed information on high labour demand regions where Uganda has export interest including the EU, North America, Japan, and the Middle East. Review was also done on high labour exporting countries, especially in south and South East Asia, to draw lessons on possible practices that could inform countries trying to increase their exports of labour and to develop supportive policy and legal frameworks.

Survey of Universities and Tertiary Institutions

Uganda currently has 21 registered universities and several tertiary institutions who supply the labour market. In order to obtain the most up-to-date data on the training outputs supplied to the labour market over the last five years, visits were made to each of the universities and institution to obtain detailed statistical information. The main data collected was on graduates supplied to the labour market by these universities and tertiary institutions since 2000. Information was also collected on the employment size of the universities and tertiary institutions.

Key Informant Interviews

Key informant interviews were conducted involving government departments and ministries, employment agencies, employers/sector associations, as well as other key stakeholders involved with labour migration in Uganda. This exercise helped obtain important secondary data on the labour market situation, especially labour demand and employment in the different sectors. Key informant interviews were conducted with the following among others: Ministry of Labour, Gender and Social Development; Labour Externalisation Unit, The Immigration Department, Ministry of Public Service, the Public Service Commission, The BTVET Department of the Ministry of Education and Sports. The Directorate of Industrial Training; Other sector recruitment agencies of the GOU (Education Service Commission, Health Service Commission, Judicial Service Commission) were also contacted.

Analytical Approach and Labour Market Estimation

The analytical approach involved establishing employment levels across all sectors in both the public and private. Emphasis was on obtaining trend data to allow for statistical projection of the employment levels and the computation of

annual employment growth across the different sectors. Analysis also involved establishment of the aggregate skilled labour supply from universities and tertiary institutions since 2002, projecting labour supply over a ten year period. A comparison between estimates of labour supply and demand allowed for estimating the amount of labour shortage or excess. The main objective was to establish whether or not Uganda had adequate stocks of exportable labour both skilled and unskilled.

With regard to estimating unemployment, the study adopted the modified Kakwani & Son (2006) measure of unemployment that recognises the high rate of underemployment in the informal sector. This measure estimates both the *open unemployment* and combines it with the level of *underemployment* in the informal sector to estimate unemployment.

Findings

Inventory of Uganda's Labour Force

Data on Uganda's labour market (jobs, job seekers, employment levels, desired skills, and other variables) in both public and private sectors including the large informal sector, is important in order to have accurate information about the quantitative and qualitative aspects of the labour market. Uganda's total labour force, measured by the size of the population in the age brackets 14-64 (UBOS, 2007) increased from 9,773,000 in 2002/03 to 10,882,000 in 2005/06, an average increase of 11.4% over a three year period. However, the broad occupational distribution of the population maintained largely the same pattern, with the majority 'employed' in agriculture and a much smaller proportion in paid or wage employment.

Table 2.7: Employment Distribution of Uganda's Labour Force 2002-2005

Employment Status	2002/3	% of Popn	2005/2006	% of Popn	% Growth
Self-Employment in Agriculture	6,117,898	62.6	7,584,754	69.7	11.2
Self-Employment in Non-Agriculture	2,179,379	22.3	1,458,188	13.4	-9.4
Paid Employment	1,475,723	15.1	1,839,058	16.9	24.6
Total Labour Force	9,773,000	100.0	10,882,000	100	11.4

Source: UBOS, 2008; Authors' Computations

The table shows that there is substantial increase in self-employment in agriculture, both in absolute and percentage terms. Given the very low productivity levels (and sometimes declining output) in the sector (see PEAP, 2004), the growth of self-employment in agriculture implies increasing levels of under employment in the sector. While the growth in self-employment in agriculture is in line with the overall growth in labour force size, there is a decline in self-employment in the non-agricultural informal sector. This suggests that there is increasing occupational migration to paid employment, either locally or abroad[6]. The decline in the informal sector averaged 3.1% per annum between 2002-2005 amounting to about 202,682 persons migrating from the sector over that period. The level of paid employment grew at a higher rate than the overall growth in the labour force; suggesting a much greater increase in the demand for paid jobs than any other form of occupation. A further analysis of the paid employment workforce in Uganda shows that the following sector distribution and the average growth rates in each employment sector.

[6] The informal sector is mainly composed of school dropouts who get involved in blue-collar work with skills acquired through coaching and mentorship processes while on the job, upon which individuals graduate to set up their own informal business operations. The sector also includes graduates of educational institutions who decide to go into self-employment in the informal sector after failing to obtain paid employment.

Table 2.8: Sector Distribution of the Paid Employment Workforce 2002-2008

Employment Sector	2002	2003	2004	2005	2006	2007	2008	Av. Growth Rate %
Civil Service	83,073	85,062	91,601	100,076	85,226	74,347	74,750	-1.2
Teaching & Education Services	206,539	213,673	219,756	232,879	244,072	186,775	186,512	-1.0
Health (Public & Private)	-	-	-	-	40,000	42,000	45,000	
Armed Forces[7]	18,106	17,229	17,945	17,730	17,565	25,945	29,270	9.6
Manufacturing	17,198	19,334	29,393	35,974	*29,849	-	-	17.4
Financial Services	-	-	-	-	-	13500	14,000	
Private Professional Services[8]	-	-	-	-	36,000	38000	39,000	-
Hospitality, Tourism & Travel Related	-	-	-	-	-	9700	13,000	-
Transport & Auxiliary Services						46,000	54,000	
Printing & Publishing								
Construction & Construction Related						120,000	150,000	
Legislators, Senior Government & Political Leaders	600	630	744	780	810	980	1100	9.1
Other[9]	1,150,807	1,261,434	1,368,969	1,452,399	1,613,149			

Source: UBOS 2007; Ministry of Public Service, Kampala; Statutory Sector Regulators, NSSF incomplete data reported

7 The Armed Forces do not include the Military due to the sensitivity of the data. However, current estimates put the level at 0.1 million.

8 Private Professional services Include (Engineering, Legal, Accounting And Audit & Business Services

9 This number is estimated to be comprised of Casual workers who comprise 9.7 of Uganda's total labour force. According to Austin Associates & UMACIS (2004) this labour category is most likely not to have attained Tertiary and University Education.

Table 2.8 shows that two sectors continue to dominate paid employment in Uganda, these are civil service, the public teaching, and education services. These have been the traditional employment sectors and together employed over 20% of total paid employment during the period 2000-2008. However, the two sectors have registered negative growth in employment since 2002, suggesting that their role is becoming less significant as a future source of employment. Given that these traditional employment sectors have been the biggest providers of formal employment, there is apparent need to diversify sources of paid employment with a capacity to absorb large numbers of workers. The table further shows that formal paid employment which occurs mainly in the different sub-sectors of the services sector is growing. Modest employment growth was registered in armed forces (Police, Prisons Service, private security services).

However, given that Uganda's biggest number of recorded foreign workers abroad are offering security services, 40,000 by 2008 (Ministry of Gender, Labour and Social Development, 2008), growth in security services by Ugandans abroad could compensate for any shortfall in growth in the other employment sub-sectors. Other services disciplines, though known to be high growth sectors in terms of job creation, information remains scanty. However, previous reports such as the Services Export Strategy report (UEPB, 2006) pointed out that services continue to generate 90% of all jobs, although up to 30% of these are taken by foreigners owing to the skill gaps prevalent in the country. With regard to manufacturing employment, high growth is depicted but is still premised on a relatively small base and therefore the absolute numbers are still small. The sector will have to grow substantially in order for it to become a major source of paid employment opportunities in the long run.

The above employment data confirms that Uganda's labour market is still underdeveloped and employment status can only be traced by sector rather than by occupational or skill categories. Because of this, it is difficult to classify Uganda's labour force in accordance with the International Standard Classification of Occupations of the International Labour Organisation (ILO) as originally set out. Uganda currently has no system of classifying labour based on occupation or skill types.

Projections of Graduate Output from Higher Education Institutions 2008/09 to 2019

By 2008, Uganda had a total of 21 licensed universities, nine of which were chartered. Uganda also had a growing technical and vocational training sector whose enrolment levels were increasing. Many of these technical and vocational institutions started producing employable graduates by 2002. In all, there were over 132 public and private BTVET institutions by 2008. In terms of the labour market, annual labour supply is best measured by looking at graduates from training institutions. Using figures obtained from the survey and from key secondary data sources, annual graduate output from Uganda's training institutions was established and is presented below.

Graduate Output from Uganda's Universities 2002-2007

Uganda's universities produce a limited range of skill types with the overwhelming majority of the graduates being from the Humanities and few from the professional disciplines and the sciences. There are few graduates from the applied sciences such as Information and Communications Technology (ICT). Graduate output per university is presented in Table 2.9, below. The table shows that total annual graduate output grew from 6, 546 graduates in 2000 to 25,975 by 2008. Growth was at an average annual growth rate of 20.1% while the rates of a number of individual universities was much higher. The output growth rates of some universities exceeded 30% for the period. This graduate output growth from universities together with that of the other non-university tertiary institutions indicates major growth in skilled labour supply for the formal employment market.

Table 2.9: Graduate output from Uganda's Universities 2000-2007

University	2000	2001	2002	2003	2004	2005	2006	2007	2008	Av Annual Growth*
Makerere	5,016	4,849	6,561	6,880	8,131	12,764	10,327	10,178	12,589	14.4%
Kyambogo	-	-	-	-	3,540	2,862	2,021	5,906	4,134	28.4%
Mbarara	97	109	132	195	227	284	330	382	436	21.1%
Gulu	-	-	-	-	-	286	324	443	625	30.4%
Nkumba	309	431	439	500	839	736	589	797	883	23%
UCU		182	357	519	769	922	1435	910	905	32.6%
UMU	67	79	337	340	354	565	542	983	1159	63%
IUIU	287	377	323	322	447	620	597	712	790	15.1%
Kampala International	770	1,470	1,560	1410	2,157	670	1,440	1,168	2,322	33.3%
Kampala University	-	-	-	148	251	-	327	396	530	38.7%
Bugema	300	350	375	247	210	412	514	422	420	9.7%
Busoga	-	-	-	-	-	95	271	306	812	121%
Others	-	-	-	-	-	-	-	320	370	15.6%
Total	6,546	7,847	10,084	10,561	16,925	20,216	18,717	22,923	25,975	20.1%

Source: Compiled from the Survey of the Universities; * The rate is computed for the period data was available

Graduate Output from the Non-University Tertiary Education Institutions

Uganda had 132 Business, Technical and Vocational Institutions by 2008 (MOES, 2008) training Ugandan youth in a range of 12-15 blue collar skills. The most established blue-collar skills training undertaken included the following:

Table 2.10: Blue-collar skills Training Areas in Uganda

Electronics	**Electrical Installation**
Painting and Decoration	Welding and Fabrication
Motor Vehicle Mechanics	Metal Machining and Fitting
Auto Electrical Mechanics	Carpentry and Joinery
Brick Laying and Concrete Practice	Plumbing and Pipe Fitting
Weaving	Radio Servicing
Tailoring and Garment cutting	

Data from the BTVET sector indicated that on average, 2,685 skilled BTVET graduates were produced since 2004. While it is difficult to determine with precision the adequacy of these numbers for the local employment market, due to lack of statistics on demand, the general perception is that blue collar skills are still short for the demands of the local market. The exception to this is carpentry workers who seem to have been produced in larger numbers than is required by the market. Overall, output of blue-skill workers is on the increase by about 33.5% per annum since 2004. Given increased government investment in the BTVET sector and the passing of the BTVET Act in 2008, this increase is expected to continue over the next 10 years. Table 10 below summarises the graduate totals from the BTVET sector institutions for the period 2000-2008.

Graduates from Teacher Training Colleges and Colleges of Commerce

Another category of the non-university tertiary institutions are the teacher training colleges and the colleges of commerce. Uganda had 10 National Teacher Training colleges (NTCs) and over 60 Primary Teacher Training colleges (PTCs) by 2008. In addition to the teacher training colleges, the country

also had 5 public colleges of commerce and over 19 privately owned colleges of commerce. These together with the BTVET institutions constituted the tertiary education sector. The total number of graduates from the tertiary education sector are summarised in the table below. The table below shows that overall growth rate of graduates output from the non-university tertiary sector is declining at an annual average rate of 4.7%. More specifically, graduates from Primary Teachers Colleges(PTCs) and National Teachers Colleges (NTCs for secondary school teachers) are declining fastest at rates above 5% annually while graduate output from Uganda Colleges of Commerce (UCCs) is growing only modestly. The BTVET sector is the only whose output is growing at a faster rate of over 19%.

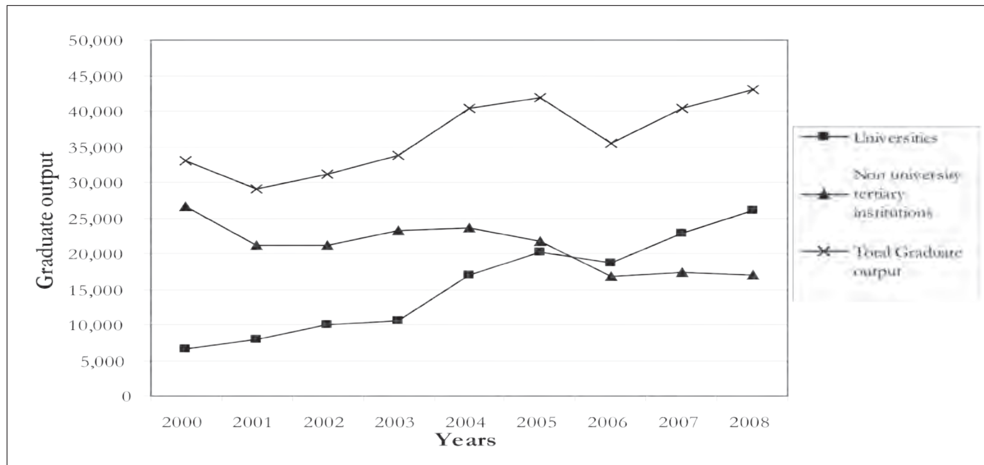
Table 2.11: Graduate Output from Non-University Tertiary Institutions, 2000-2008

Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	Av. Growth
UCCs	3344	3444	3548	3654	3764	3877	3994	4,114	4,234	2.9%
NTCs	5062	2180	4822	6982	5464	2318	712	0	0	-6.5%
PTCs	16,794	14,157	11,224	11,119	12,717	11,031	9,411	10,947	10,390	-5.0%
BTVET	1,324	1,386	1,451	1,520	1,592	4,525	2,604	2,304	2,399	19.2%
Total	26524	21167	21045	23275	23537	21751	16721	17365	17023	-4.7%

Source: Compiled from the survey of Non-University Tertiary Institutions, Uganda National Examinations Board (UNEB), Department of Industrial Training (DIT), BTVET Department - Ministry of Education and Sports, Kampala

Combining the graduate output from universities and the non-university tertiary institutions, data shows that Uganda's total annual graduate output from higher education increased from 33,070 in the year 2000 to 42,998 in 2008. Total output growth occurred at an average annual rate of 4% during the period. Figure 2.3 below shows the trends in graduate output over the period 2000-2008.

Figure 2.3: Growth in Graduate Output from Higher Education Institutions 2000 - 2008



Estimating Local Employment/Unemployment

Unemployment occurs when a person is available to work, seeking work, but the person is without work (Riddell, 1999; Zhang, 2005).However, the UN defines the unemployed as persons without work who have been actively searching for employment in the previous four weeks (ILO, 2006). According to Riddell (1999), the principle objective of measuring unemployment in an economy is to provide a measure of the extent of unused labour supply, which is a measure of the number of individuals available for work but are not employed. The prevalence of unemployment is usually measured using the unemployment rate, which is defined as the percentage of those in the labour force who are employed. The unemployment rate is found by dividing the total number of unemployed by the total labour force. Although different types of unemployment may be found, which principally relate to the underlying causes rather than any unique manifestations, the common denominator has been to look at the proportion of individuals in the labour bracket who are without jobs. Thus, the common type and measure of unemployment is the open unemployment type, which estimates the number of persons actively searching but are unable to find jobs (Kingdom and Knight, 2005).

Recent empirical literature suggests that measuring the open type of unemployment is not suitable for LDCs and grossly underestimates the level of unemployment. Kakwani and Son (2006) argue that a more suitable measure of unemployment in LDCs should take into account the weak labour

markets in those countries. Because demand for paid labour is very weak in LDCs, most LDCs have a large proportion of their labour force employed in the informal sector, which is characterised by providing low incomes for its workers. Incomes in the informal sector are often so low that workers are unable to afford the basic necessities of life for their families. The fact that workers in LDCs are unlikely to get any monetary support from the government when unemployed, they cannot afford to stay idle. They have to do some work to survive but often report themselves as employed. Consequently, the conventional measure of unemployment reported from labour force surveys tends to underestimate the true measure of unemployment in LDC countries. Thus, many LDC countries have low open unemployment rates but still suffer from massive poverty because of the low earnings of a large segment of their 'employed' workforce.

This study adopted a modified Kakwani and Son (2006) measure of unemployment which recognises the high rate of under employment in the informal sector. This measure estimates both the *open unemployment* and combines it with the level of *underemployment* in the informal sector to estimate unemployment. The measure defines underemployment as persons who earn below the *subsistence* wage[10] and is expressed as below.

$$U_a^* = 1 - \frac{1}{n} \sum \partial_{ia} (1 - r_i)$$

Where: U is the unemployment rate; r_i is the unemployment status of a person i; n the number of persons in the labour force and δ is the degree of employment of a person that is, fully employed or under employed if earning above or below the minimum wage respectively.

The Kakwani and Son (2006) Unemployment Index simply requires that an estimation be made of the number of persons earning below the minimum wage and then summed up with those openly unemployed to come up with a measure of unemployment suitable for developing countries. This study adopted a modified Kakwani and Son (2006) index.

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10 This applies very well where a local minimum wage has been set. Through a survey, it then becomes easy to estimate the proportion of workers earning below the minimum wage.

However, because of the absence of a minimum wage, the high incidence of casualisation[11] of labour reported, together with a relatively large informal sector, a slight modification was made in Kakwani and Son Index to accommodate the existing reality in Uganda's labour market. A new model was adopted that considers three key aspects of the labour market: skilled labour supply from education institutions which tends to be higher than job creation, the high rate of casualisation, and lastly the attrition (migration) from the informal sector into the paid employment market[12]. This model therefore estimates total unemployment to include three variables: graduate unemployment, the total casual workforce, and the informal sector workers unable to find or continue in informal sector employment in a given year.

Graduate unemployment, the sum of graduates produced from the education system in a given year that are unable to find jobs (gu_1) is estimated by the difference between total annual job creation jc_t and total *skilled labour supply* in a given year. Total *skilled labour* supply constitutes the total graduate output go_t and the immigrant work force in that particular year iw_t. Secondly, total casual workforce is the total number of casual workers (who earn below the poverty line) C_t and in this case estimated by the difference between total labour force in paid employment from the National Household Survey 2004/05 and the total labour force reported in this study. Thirdly the informal sector workers unable to find or continue in informal sector employment in a given year (m_t) was estimated using the rate of attrition computed from the informal sector data obtained from the National Household Surveys 2002/03 and 2004/05.

This model was considered to be more robust in capturing the under employed but also in capturing the effect of the dwindling size of the informal sector on the level of unemployment. The model employed in this study is illustrated below:

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[11] According to Austin (2004) casual labour in Uganda is temporary, earns very low pay (estimated at an average of UGX50, 000/= per month) that was equivalent to less than USD30 at the time. As a result of low wages, casual workers are in constant search for more gainful employment.

[12] As already indicated, the Uganda Labour Force Survey 2002/2003 reported that the level of casualisation stood at 9.7% of the total labour force. Casual labour is temporary, earns very low pay (estimated at an average of UGX 50, 000/= per month, an equivalent of less than US$ 30) and therefore are in constant search for more gainful employment, they cannot be considered as gainfully employed. Similarly, self employment in the informal sector is fast shrinking at an annual average rate of 3.4% releasing labour into the paid employment market.

$$U_t^{**} = \frac{1}{n}\sum_{i=1}^{n}\delta_i(gu_{it} + c_{it} + m_{it})$$

Where:

n: Is the total labour force

$d_i = 1$; if the ith person belongs to the category

0; otherwise

$$gu_t = \sum_{i=1}^{n}\delta_i\, gu_{it} = jc_t - (go_t + iw_t)$$

$$c_t = \sum_{i=1}^{n}\delta_i\, c_{it}$$

$$m_t = \sum_{i=1}^{n}\delta_i\, m_{it} = (IS_{t-1} - IS_t)$$

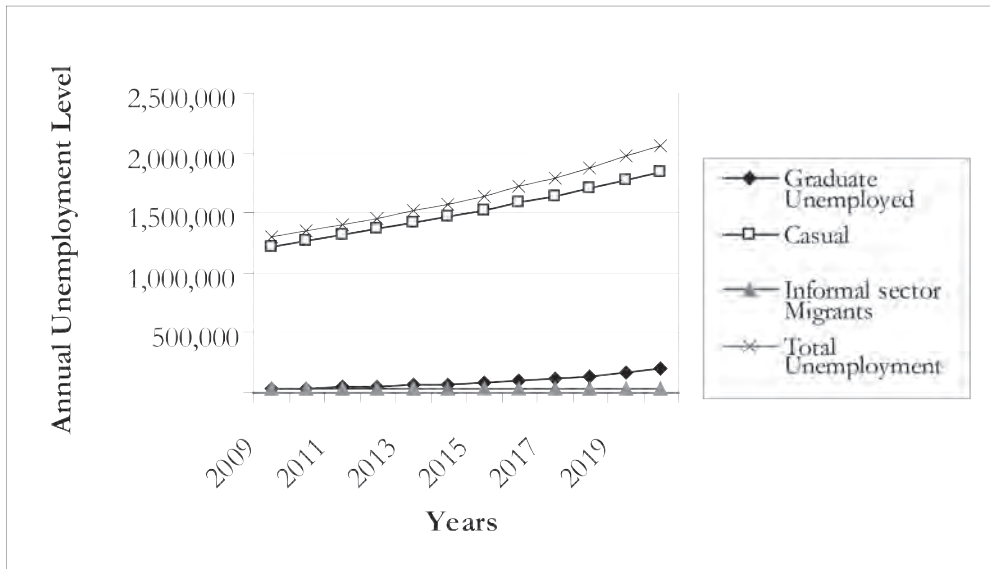
Using data on employment collected under this study, annual job creation was estimated for the period 2009-2020 using the Auto Regressive Integrated Moving Average (ARIMA). The estimates represented annual labour demand for paid employment during the period.

The results of the estimation are presented in Appendix 1. Similarly, data on annual graduate output for the period 2000-2008 collected under this study was used to estimate annual graduate output for the period 2009-2020.

Additional data on migrant labour, using data on work permits issued by the Immigration Department, was used and projections for the period 2009-2020 made. As already indicated, both sets of estimates are employed in the Auto Regressive Integrated Moving Average (ARIMA) estimation procedure. The ARIMA is more robust than the ordinary time series analysis as it combines both the effect of time as well as the variable itself in estimating future values of the variable. The latter two estimates represented labour supply for paid employment.

The detailed results of the projections are presented in Appendix 2. Projected unemployment levels for graduates (skilled labour) and the projected levels of casual labour and the informal sector unemployed are presented in Figure 2.4 below.

Figure 2.4: Projected Total Unemployment in Uganda, 2009 - 2020



The data shows that graduate unemployment is likely to increase from the level of 34,603 in 2009 to nearly 200,000 by 2020. The total casual workforce is likely to increase from the current level of 1.22 million in 2009 to over 2.0 million by 2020. Similarly, informal sector migrants who represent the informal sector unemployed will persist till 2020. These trends will continue to exacerbate the overall level of unemployment. Total unemployment will increase from approximately 1.3 million in 2009 to 2.1 million in 2020 representing an average increase of 4.3% per annum.

Exportable Labour Force Size and Viability of Labour Export

Exportable labour in this study is used to refer to labour that is in search of gainful employment but whose deployment outside the country would not negatively affect the local economy's output and competitiveness. To estimate the size of this kind of labour in a country with a weak labour market such as Uganda, it was imperative that all categories of labour are examined in terms of the level of unemployment, but also underemployment. Uganda currently has a high level of graduate output and a relatively lower level of job creation which has resulted into a high job deficit level estimated at 34,603 for 2009. This implies that the economy at present does not have the capacity to absorb its graduates from universities and tertiary education institutions.

This deficit constitutes a labour pool that could be exported for gainful employment abroad taking into consideration skill surpluses and deficits shown in earlier studies.

In addition to the relatively high level of graduate unemployment, Uganda also suffers from a high level of *"Labour Casualisation."* As already indicated, the Uganda Labour Force Survey 2002/2003 reported that the level of casualisation stood at 9.7% of the total labour force. Using the Uganda Bureau of Statistics data, this was estimated to be around 1.0 million in 2005/06 and approximately 1.2 million in 2008 (UBOS, 2003; UBOS, 2007).

Given that casual labour is temporary, earns very low pay (estimated at an average of UGX 50, 000/= per month, an equivalent of less than US$ 30) and workers are in constant search for more gainful employment, they cannot be considered as gainfully employed. They therefore constitute a pool of exportable labour. This category of labour would benefit from higher paying employment opportunities abroad. Thirdly, given that self-employment in the informal sector is fast shrinking at an annual average rate of 3.4% and releasing labour into the paid employment market, this situation exacerbates local unemployment and creates additional labour resources that are exportable. In view of the above, deliberate promotion of labour exports in Uganda seems to be a strategic option for mitigating the effect of the increasing job shortages currently experienced, and likely to worsen in the next ten years.

The above pool of unemployed labour constitutes a large labour resource from which labour exports could be effected to further benefit the economy. However, given that the local economy is dependent on cheap labour for competitiveness, not all casual workers are exportable without causing shocks to the local economy. A conservative estimate of 20% is assumed to be safe enough for casual workers to be withdrawn without destabilising the current economy. This estimate together with the graduate unemployed and those released from the informal sector gives an estimate of 320,232 for 2009 and 595, 901 for 2020 in line with the trend in unemployment. These figures represent the labour force size that potentially available for export, with potential to engender positive effects on household poverty and local economic performance. It is important to note that the above estimates of exportable labour for 2009 are more than double the current size of Uganda's total emigrants abroad estimated by the World Bank (2008) at 154, 697 in 2005.

This suggests that Uganda has the potential to triple remittance earnings with a more deliberate and pro-active labour export policy.

Market Analysis for Labour in High Demand Countries

The demand for labour from the south in the high demand regions of the world varies with the levels of economic growth but has generally been on the increase over the last decade. This demand has mainly been for the "3-D jobs"[13] as opposed to white collar jobs whose demand has remained static over the same period. The market conditions in selected high demand regions are summarized below.

Japan

The demand for migrant labour in Japan seems to be largely specialised, not in terms of skill but in terms of source. The most preferred source of labour are from Latin America but of Japanese ancestry, notably Fiji, Peru, Philippines, Brazil, as Malaysia, and Indonesia. The other major supply countries are Thailand, and Iran. Japanese firms have filled lower-paid, short-term jobs with overseas recruits. These new legal labourers, who have benefited from liberalised immigration laws for people of Japanese descent, are rising in number as the population of unauthorised workers, such as visa overstayers, dwindles.

Unemployment in Japan has steadily increased over the past decade, from 2.1 percent in 1991, to 3.4 percent in 1996, and then to 5.0 percent in 2001. Despite the bursting of the 'bubble economy" in 1991, the number of foreigners living and working in Japan continued to grow in the past decade. In March 2002, the Ministry of Health, Labour and Welfare estimated the number of foreign workers in Japan at the end of 2000 to be at least 710,000. This was up 6 percent from the previous year and accounting for just over 1 percent of the Japanese workforce. This figure includes approximately 100,000 professionals and other highly skilled workers, as well as 54,000 people holding "entertainer" visas. Excluded are permanent residents such as "old-comer" Koreans and a small segment of Brazilian Nikkeijin (Brazilians of Japanese descent).

Immigrant workers continue to bolster Japan's low-skilled and semi-skilled labour pool. In particular, South American Nikkeijin and visa overstayers make up the largest proportion of these workers. Added to this are trainees

[13] 3-D jobs refer to difficult, dirty and dangerous jobs.

and technical interns who participate in special government-sanctioned programmes. Each of these groups has carved out a unique niche in Japan's stressed economy. The number of South American Nikkeijin rose sharply in the early 1990s, encouraged in good part by the revised Immigration Control Law of 1990, which allowed second and third-generation persons of Japanese descent easier access to residential visas with no employment restrictions. Aggressive recruitment by employers also played a role. According to the Ministry of Justice, Brazilian nationals constituted the largest group, which grew to reach 250,000 in 2000, followed by Peruvians with a population of 46,000.

Visa Overstayers

Liberalising the admission rules for the Nikkeijin in 1990 was one policy instrument designed to halt the growth of unauthorised immigration; official estimates placed the number of visa overstayers at nearly 300,000 in 1993. The category of unauthorised immigrants also includes those who have arrived in Japan legally but who may be working without permission to do so, such as foreign students, as well as a much smaller group of immigrants who have arrived at Japan's shores illegally. The vast majority of visa overstayers came from other Asian countries, such as Korea, China, the Philippines, Thailand, Malaysia, and Iran, and took so-called "3K jobs" -- *kitsui* (demanding), *kitanai* (dirty), and *kiken* (dangerous). The estimated number of visa overstayers has decreased slowly. Most of the decrease has been in the number of Iranians, whose numbers dropped sharply from 40,000 in 1992 to 5,000 by 2001. There has also been a drop in the population of Thais and Malaysians with a total population of 230,000 at the beginning of 2001. However, visa overstayers still constitute a major group of foreign workers, according to the Ministry of Justice.

At its core, the trainee system is another mechanism for recruiting "unskilled labour." Despite the stated goal of fostering the transfer of technical skills, numerous studies have indicated that the majority of businesses accept trainees to lower personnel costs and to offset labour shortages. While the number of trainees appeared to reach a plateau in the mid-1990s, it increased by 36% between 1999 and 2000. According to the Ministry of Justice, of the 36,000 trainees registered at the end of 2000, 61% were Chinese, followed by Indonesians (12%) and Filipinos (8%). Keeping pace with the increase

in trainees has been the notable growth in the number of trainees applying for technical internships -- from 5,300 in 1996 to 12,400 in 1998 and then to 16,100 in 2000, –according to the Japan International Training Cooperation Organisation (JITCO). Trainees are not protected by labour standards and receive "allowances" that are often significantly lower than the minimum wage. Although technical interns are "workers" in the legal sense, they too have found their wages cut back due to a series of deductions unilaterally imposed by employers. JITCO statistics show that approximately half of the 16,100 prospective technical interns in 2000 were expected to receive a monthly wage of less than 120,000 yen (US$ 900), and those who could expect 150,000 yen or more accounted for only 3%. These figures are substantially lower than the average wages of Japanese workers, aged 20-29, in the manufacturing sector: approximately 240,000-280,000 yen for males and 190,000-210,000 for females, according to the 2002 Japan Statistical Yearbook. Growing product and price competition from abroad, particularly from China, is one of the factors driving the increase in the number of technical interns and trainees. While some businesses in Japan have relocated their production lines to China, others have had no choice but to maintain their facilities in Japan, retain their place in Japanese production and supply chain, and recruit young Chinese trainees. Nearly half of the technical interns are employed in the textile and clothing industries, the section of Japanese manufacturing that is most vulnerable to losing market share due to international competition. Other factors are at play in Japan's increasing demand for foreign labour-the prospect of a declining population, and labour such as shortages likely to be experienced in some economic sectors. This has raised possibilities of further admission for foreign migrant workers. Many Japanese businesses want Japan to open its doors wider to migrant workers, but most Japanese oppose more immigration.

Japan remains largely closed to unskilled guest workers. Ethnic Japanese from Brazil, trainees mostly from China (93,000 arrived in 2006), and foreign students fill many low-skill jobs in Japan, augmented by visa overstayers who work illegally. Legal foreign workers are dominated by entertainers; they were over half of the 81,000 foreign workers admitted in 2006 (Onishi, 2009).

Middle East

Foreigners account for more than two thirds of the residents of most countries in the region and up to 90 percent of the region's workforce. South and South East Asia –including Pakistan –are the preferred supply countries for foreign workers in the Gulf countries. Asian workers are preferred because they are willing to work for lower wages, under poor working conditions, and migrate without their families. As a result they tend not to settle and therefore perceived as posing fewer long-term immigration and security threats (Kapiszewski, 2006). While the private sector is more inclined to hire foreign recruits, nationals from the region prefer working in the public sector because it offers much higher salaries and more attractive financial benefits. Across the region, foreign workers continue to dominate the labour market forcing governments to design incentive frameworks to increase the employment opportunities for their nationals in the private sector. Low private sector wages have led to a segmented labour market in the Middle East. For instance, women constitute less than 10% of the native work force while foreign women are often 25% of the foreign workforce, and are employed largely as domestic helpers.

Jordan

Jordan currently hosts 400,000 foreign workers; three quarters of which are Egyptians. However, there is a high unemployment rate estimated at 15-25% of its 900,000 workforce. Most Jordanian workers are inclined not to take up 3-D jobs which are attractive to foreign workers. In general, competition for employment opportunities between foreign workers and Jordanians is in the low paying jobs while medical, engineering, administrative, and secretarial jobs have been closed to foreigners. There is a minimum wage for Jordanian workers. This has increased the preference for foreign workers in low paying jobs.

United Arab Emirates (UAE)

The UAE has a high demand for foreign workers especially in construction, restaurants, shops, and some factories. With a population of 6.4 million residents, 86 percent of the UAE's population (5.5 million) and over 97 percent of the private sector work force are foreigners (with over 200,000 being illegal). The UAE introduced measures making it compulsory for the private sector to hire nationals, including a ban on the recruitment of expatriates for jobs

that can be filled by nationals. In addition, incentives have been introduced to encourage companies which hire UAE nationals by giving them preference in awarding government contracts (Davidson, 2008).

Saudi Arabia

Saudi Arabia has a government controlled labour market with Saudi employers requiring permission from the state to import labour. The Saudi government continues to intervene in both the demand and supply side of the labour market, denying employers permission to import (e.g. secretaries) and offering young Saudis courses in how to be better workers. There are about three million Saudi workers and five million foreign workers in the country. The Saudi government has been implementing a programme to create more jobs for Saudis, by having Saudis take on jobs currently done by foreigners. Just like the UAE, the Saudi Government gives preference to companies who hire nationals in its contracts. Over 900,000 Saudis are employed in government jobs and hold most of the jobs in retail. Foreigners hold most jobs in construction, factories, and other services, approximately 90% of the nurses in Saudi Arabia are foreigners. The Saudi Manpower Council in 2003 decreed that foreigners should be reduced to 20% of the population and no nationality should be more than 10% of the foreign population. This implied that several million foreigners would have to leave Saudi Arabia with large reductions in the number of South Asians, Filipinos, and Egyptians.

Despite strict visa restrictions there are many Hajj[14] visa overstayers every year. Saudi Arabia is building four "economic cities" that aim to employ Saudis in white collar private sector jobs.

Kuwait

There are about 1.2 million foreign workers and their families in Kuwait, constituting 63% of Kuwait's 1.9 million residents. The Kuwaiti labour market is subject to a very strict public health regime which does not accept HIV positive migrants; all foreign workers found seropositive are immediately deported. Kuwait has attempted to make recruitment of foreign labour more expensive by forcing companies to increase health and other benefits for foreign workers and by raising visa and residence fees.

[14] "Refers to the Islamic pilgrimage to Mecca and the largest gathering of Muslim people in the world every year."

Israel

There are over 250,000 foreign workers in Israel working in various sectors of the Israeli economy, especially agriculture. Most foreign workers are from Romania, Thailand, the Phillipines, and various African countries. Most of the foreign workers overstay their visas and continue to live and work in the country illegally. Many of them enter fictitious marriages with Israelis to legalise their stay, with 3,000 such marriages are reported to take place annually. Palestine used to be a big source of foreign workers although their numbers have decreased by more than 6 since 1992; currently Thailand seems to be a preferred supplier.

The trends in the labour markets of the Middle East have several implications for labour exports from Uganda. First is that demand for foreign labour in the region is generally on the increase and there is a definite preference for foreign labour in the private sector. The demand is mainly for 3-D type jobs in construction, factories, care, hospitality services, and domestic helpers. There is a high demand for nurses in the region. These areas constitute the growth segments in this important export market and Uganda should position itself to exploit this opportunity. Another implication is that whereas Uganda's major export presence in the region is in the security services segment particularly in Iraq, –there is need to diversify into other areas on high demand especially the high growth segments above.

The European Union

The European Union had 500 million residents as of January 1, 2009, including 329 million in the Euro Zone. Germany is the most populous EU country with 82 million residents. The EU is estimated to have somewhere between 4-8 million unauthorised workers. Unemployment rose in Europe in the fall of 2008, and is expected to increase further in 2009. Countries with recent influxes of migrant construction workers, including Ireland and Spain, have rapidly shrinking construction sectors. As migrants are laid off, many are returning to their countries of origin. The Spanish government offered departure payments to unemployed non-EU foreigners who agree to leave and pledge not to return for at least three years. When the so-called A8 (accession) countries of Central Europe joined the EU May 1, 2004, the old EU-15 states were allowed to restrict the migration of A8 workers for up to seven years.

Only Ireland, Sweden, and the UK allowed A8 workers to enter freely for jobs. In 2008, 11 of the old EU-15 member states allowed A8 nationals' freedom of movement to seek jobs, but Germany, Austria, Belgium and Denmark did not over concerns of "serious labour market disturbances" due the freedom of movement.

The EU Parliament in November 2008 approved legislation that encourages member states to penalise employers of unauthorised workers, such as requiring payment of back wages, benefit contributions, and reimbursing governments for the cost of returning migrants to their countries of origin. Criminal penalties are recommended for employers who employed unauthorised workers in conditions of "extreme exploitation." The EC proposed EU-wide sanctions on employers of unauthorised workers in May 2007. In 2008 the EU launched an €15 million Joint Initiative on Migration and Development (JIMD) project to support NGOs that work with local governments in 16 African and Asian labour-sending countries to strengthen migrant rights, reduce the cost of remittances, and enhance the capacities of migrants to contribute to the development of their countries of origin. This initiative gives new impetus to the Blue-Card programme to attract skilled migrant workers.The Blue-card programme approved by the EU in November 2008 went into effect early in 2009. Blue-card holders must either have at least a Bachelor's degree or five years of professional experience in the industry or occupation in which they will work. Blue Cards are valid for up to four years, and the families of the holders can join them within six months. After 18 months in the EU country that first admitted them, blue-card holders may move anywhere in the EU to live and seek employment. Blue-card holders who lose their jobs have up to six months to find another job. The UK and Irish governments decided not to participate in the Blue Card programme, since they already have programmes that aim to attract highly skilled non-EU foreigners. The Blue Card provides a good opportunity to graduates from the developing world to seek gainful employment in the EU.

UK & Ireland

Between 2002 and 2007, some 2.5 million foreigners migrated to the UK and 750,000 British left. There were 3.7 million foreign-born workers employed in the UK in the first quarter of 2008, representing 12.5% of the 29.5

million total employment. Between September 2006 and September 2008, employment rose from 29.2 to 29.5 million, including an increase of 469,000 in foreign-born workers and a decrease of 149,000 in UK-born workers. Net immigration added 237,000 people to the UK in 2007, up from 191,000 in 2006; immigration peaked at 244,000 in 2004. Most immigrants who remain in the UK are from outside the EU. Immigration is projected to raise Britain's population from the current 61 million to 68 million by 2031. Most newcomers settle in England, which is set to surpass the Netherlands as the most densely populated country in Europe by 2009. Although there is domestic pressure for an annual cap on immigration, Public Policy Research Institutions have argued that more immigrants could fill jobs related to the Olympics of 2012 and reduce the severity of the 2008-09 recession. At the end of 2008, there were 800,000 Poles in the UK, most whom were employed in agriculture, construction, and service jobs. The UK operates a five tier immigration system. Tiers two and five of this system became effective in November 2008. Tier 2 non-EU foreigners must have a certificate of sponsorship issued by a UK employer registered with the government, and must obtain at least 70 points under a test that scores individuals on the basis of their English language skills, support funds, and personal attributes, including their education and prospective UK earnings. Tier five short-term students and temporary workers such as sports and entertainment teams must also have a UK sponsor and score at least 40 points, while Tier 5 Youth Mobility Scheme foreigners must score 50 points based on sponsorship, age and funds for their maintenance in the UK foreigners.

The British government maintains a labour "shortage list," giving extra points to foreigners arriving to fill jobs in labour-short occupations. In November 2008, the shortage list included occupations with 800,000 jobs (Whitehead, 2008). Britain raised the age at which foreigners can apply for a marriage visa to enter the country. In an attempt to stop forced weddings and immigration abuse, both partners in marriage must now be at least 21.

Sweden

Sweden received over 102,000 immigrants in 2008, a record high, pushing the foreign-born share of the 9.3 million population toward 14%. Foreign-born Swedish residents lag behind native-born Swedes in education and employment,

and many immigrants born in Africa are not employed despite high levels of education. One reason may be segregation; many foreign-born residents of Sweden live near other foreign-born residents. The Swedish government in December 2008 made it easier for Swedish employers to hire non-EU workers as employers no longer need certification from the Employment Service stating that Swedes, settled foreigners, and EU nationals are not available. Employers must advertise the job vacancy they want to fill with non-EU workers by offering wages and conditions equal to those in collective bargaining agreements (or at prevailing wages), and unions can object to the employer's request for non-EU workers. Non-EU workers receive renewable two-year work permits and, after four years of employment in Sweden, can apply for permanent residence status (Sullivan, 2008). Swedish unions have considerable influence in the Swedish government and they have embraced a limited-numbers, full-rights approach to labour migration. However, under the changed policy, unions can no longer prevent employers from hiring non-EU workers. The union-linked opposition Social Democratic Party claims the new law could lead to the exploitation of immigrants.

Germany

Germany's total labour market was reported at 40 million in 2008 including, 3.1 million jobless, an unemployment rate of 7.4%. The labour force of nearly 28 million employed German workers are covered by mandatory social insurance, including 1.8 million foreigners, almost 7%. Some 560,000 foreigners were unemployed in 2007, for a jobless rate of 20%, down from the peak 25% in 2005.

North America

US

The US unemployment rate rose to 7.2% in December 2008, the highest rate since 1994, as payroll employment shrank by almost 20,000 jobs per work day. Over 500,000 jobs a month were lost in November and December 2008, a total 2.6 million in 2008. The unemployment rate was expected to climb to nine percent in 2009 and could top the 10.8% reached during the 1981-82 recession. The current recession officially began in December 2007; the unemployment rate averaged 4.6% in 2007. Hispanic immigrants comprise

the biggest portion of the migrant force in the US and are the worst affected by the recession. Their labour force participation rate fell by 1% between the third quarter of 2007 and 2008. Over 11 million workers are presently jobless. The share of jobless Americans receiving unemployment insurance payments has been falling. Half of the jobless received UI benefits during the 1974-75 recession, 42% during the 1981-82 recession, and 37% in the Fall 2008.

US bars and restaurants employ 10 million workers; the 2008 recession led to shrinking employment in the sector for the first time in almost a decade, and layoffs have led to a glut of applicants in a sector that employs many newcomers. SnagAJob.com a website, reported in November 2008 that there were 36 applicants for every restaurant job posting, up from 22 applicants per posting in January 2008. The H-1B programme allows US employers to hire foreigners via an easy attestation process. The jobs H-1B workers fill must "require theoretical and practical application of highly specialized knowledge to perform fully." When the H-1B programme was being developed for inclusion in the Immigration Act of 1990, the consensus was that, in general, the US had enough workers, but not enough to fill jobs in fast-growing occupations that required training, such as science and engineering and health care occupations. For this reason, employers were allowed to simply assert or attest that they wanted to hire foreign "specialty workers" and were paying at least the prevailing wage to the foreigner. The US Department of Labour was obliged to approve the employer's application, and was not allowed to investigate whether employers were abiding by their promises unless complaints were received. To protect US workers, the number of H-1B visas was capped at 65,000 a year.

A November 2008 study reported that there were 1.3 million legal immigrants in the US who were not using the skills they acquired abroad, largely because many lack sufficient English or cannot get their foreign-earned credentials recognised in the US. Essential, low-skill jobs which defy mechanisation or outsourcing because they demand face-to-face contact, emotional links, or complex communication skills seemingly provide the best niche for immigrant workers in the US. About 76% of US jobs were in the services industry, but only 20% of them, 28 million in 2004, were service occupations in this category (NAICS codes 31-3900). Many low-wage jobs appear to defy easy mechanisation or outsourcing, including janitors, 2.7

million in 2004; waiters, 2.3 million; food preparation workers, 2.2 million; nursing aides and orderlies, 1.5 million; maids and cleaners, 1.4 million; and landscapers, 1.2 million (Jimenez, 2008)

Canada

Canada admitted 236,758 permanent resident immigrants and 115,470 temporary foreign workers in 2007. The Philippines was the number-one source of immigrants and migrants, accounting for 19,064 immigrants and 15,254 temporary workers in 2007. About two-thirds of the Filipinos are women, many of whom are employed as teachers, nurses and caregivers. Canada's point-selection system favors the admission of skilled workers and their families, while its temporary worker programmes favor the admission of unskilled workers. Between 2005 and 2007, the number of temporary foreign workers admitted to Canada rose sharply; almost a quarter went to Alberta. During the same period, the number of immigrants fell.

Between 240,000 and 265,000 immigrants are expected in 2009, including 156,000 admitted under the point system, 71,000 for family unification, and 37,400 in the humanitarian category. There are over 900,000 foreigners on waiting lists for Canadian immigration visas. After two years of employment in Canada as a temporary worker, an employer can sponsor the foreign worker for an immigrant visa, which allows settlement and family unification. Canada launched a new "experience" class to retain foreign students and guest workers as immigrants in response to the difficulty immigrants were having in finding jobs that use their education and skills. Applicants must have two years of Canadian work experience in managerial, professional, technical occupations or skilled trades to qualify, and foreign graduates of Canadian universities must have at least one year of full-time Canadian work experience after graduation to qualify.

Assessment of Uganda's Regulatory Framework for Export of Labour

Legal and Regulatory Framework

Uganda embarked on a process of streamlining export of labour (externalisation of labour as it is locally called) in only 2005. This process helped cement labor export laws. The government of Uganda Employment Act in 2006 and the

Employment (Recruitment of Ugandan Migrant Workers Abroad) Regulations in 2005. The Employment Act of 2006 focuses mainly on regulating employment relations in the country. The Act covers general principles, administration, jurisdiction, defines the employment relationship, wages, related notices, rights and duties in employment, discipline and termination, continuity of employment, severance and remedies. However, under section 3 (5), the act specifically states that, “Except where the contrary is provided, nothing under this act applies outside Uganda.” The act therefore was enacted squarely to regulate only domestic employment. There is nothing, implicit or explicit regarding the role of government in promoting employment beyond its borders as one of the strategies for mitigating domestic unemployment and under employment.

However, the Employment (Recruitment of Ugandan Migrant Workers Abroad) Regulations 2005 have four stated objectives. These are:

1. To promote full employment and equality of employment opportunities for all and to uphold the dignity of Ugandan migrant workers.
2. To allow deployment of Ugandans to countries which have existing labour and social laws or are signatories to international agreements protecting the rights of migrants.
3. To protect every Ugandan desiring to work abroad by securing the best possible terms and conditions of employment.
4. To provide a mechanism for issuing of licenses to recruitment agencies.

The Regulations provide for minimum capital requirements for recruitment agencies and specifies the tasks and duties that recruitment agencies must accomplish in order for their licences to be renewed. The Regulations also specify the standards of conduct, guidelines for business operations, the standards of performance expected, and the relationship with the government regulatory authority. They further specify the conditions under which the license of a recruitment agency may be suspended or cancelled or revoked. The law also provides for external recruitment by the labour department other than by the recruitment agencies and specifies minimum employment/welfare standards for Ugandan migrant workers. The law provides that as part of employment and welfare services, Pre-Departure Orientation Seminars shall be the responsibility of recruitment agencies.

However, the law does not seem to make such seminars mandatory although it provides that they can be conducted by other stakeholders such as NGOs, Embassies and Consulates. This is a fundamental weakness as Pre-Departure Orientation Seminars should ideally be mandatory and rigorously enforced consistent with best practice elsewhere.

Lastly, the Regulations provide for duties and obligations of the Ugandan migrant workers, reporting obligations of parties, a complaints procedure, offences, and penalties and for appeal.

From the above review, Uganda's existing legal framework on Employment and Externalisation of Labour provides for improved supervision and regulation of domestic employment as well as supervision and regulation of recruitment agencies involved in externalising labour. The law places prime responsibility for identification of external employment opportunities, recruitment and deployment, and for welfare of migrant workers either on the recruitment agencies or the migrant workers themselves. The law in its current form does not seem to provide for a facilitation or promotional role for the government. The law does not provide for strong institutional framework to handle temporary migration of Ugandan labour and to promote labour exports as a major source of foreign exchange and employment opportunities.

In addition, the regulations – apart from stating the obligations of recruitment and their principals abroad – do not provide for sanctions and penalties should any of the parties be found in breach. The law therefore does not adequately provide for enforcement. The law does not provide for a clear code of conduct for recruitment agencies leaving the fair treatment of workers at the discretion of the agencies. The law does not explicitly recognise the trade dimension of labour externalisation and as such does not provide for close coordination between the unit and the Ministries responsible for trade and trade diplomacy. The law in its current form suggests that the government of Uganda will play no facilitation, support, or promotional role and sees itself to merely supervise and regulate.

Because the first large scale opportunity in 2005 was for security services, the focus and emphasis has remained on security services and to one major country destination market: Iraq. There is a need to broaden government outlook to focus on exporting other labour categories and exploiting employment opportunities that exist in different markets. There is need for

government to prepare a broad coherent response to promote externalisation of labour, maximise remittance flows, and alleviate local unemployment and underemployment.

Assessment of the Institutional Framework

Uganda started to formally export labour in 2005 following the high demand for security guards by American forces in Iraq. It was when this opportunity to export security guards in large numbers that the government of Uganda started to take steps to create an enabling legal framework on externalisation of labour. The institutional framework for externalising labour in Uganda comprises a labour externalisation unit of the Employment Services Department in the Ministry of Gender, Labour and Social Development. The unit has the mandate to coordinate all stakeholders in the labour export process, develop guidelines, licensing, regulating, and monitoring recruitment agencies in Uganda.

This mandate is enshrined in the Employment Act of 2006 and the Employment (Recruitment of Ugandan Migrant Workers Abroad) Regulations in 2005.

The objectives of the unit are to promote full employment and equality of employment opportunities for all, allow deployment of Ugandans to countries which protect the rights of migrants, protect Ugandans desirous to work abroad, enable them secure the best possible terms and conditions of employment, and issue licenses to recruitment agencies.

Since its inception in 2005, the unit has prepared and enforced the rules and regulations governing the recruitment of Ugandan migrant workers abroad, licensed 16 recruitment agencies and overseen the deployment of up to 11,096 Ugandan Migrant workers in 5 countries (Iraq, the UAE, Sudan, Chinese Taipei, and Syria) earning an estimated US$ 6.4 million per month to-date.

A detailed institutional analysis of the unit was done to assess the capacity of the unit to achieve its mandate. The status of the unit is characterised by the following;

Gross Understaffing

Following the recognition by government of the increasing importance of remittances to the national economy, reforms were undertaken in 2004 at the Ministry of Gender, Labour and Social Development to create a dedicated unit to coordinate all labour export issues. The unit was designed to be a

division in the Employment Services Department with four full time staff members under an Assistant Commissioner. The unit was meant to evolve into an autonomous agency in the medium to long term. However, by 2009 the unit was still manned by one junior officer at the level of a Senior Labour Officer. The positions of Assistant Commissioner, Principal Labour Officer, and Labour officers were still vacant.

As a result much of the work of the unit as stipulated in its mandate is not being done. This continues to leave gaps in the coordination and supervision of the labour externalisation process.

Absence of a Programme Budget

The labour externalisation unit is supposed to be a Division within the Employment Services Department in the Ministry responsible for labour and employment. The unit is supposed to be one of the three Divisions in the department. However, the entire department of employment services currently receives an annual programme budget allocation of UGX 16 million disbursed on a quarterly basis. This implies that the unit receives about UGX 4 million annually for its programme implementation out of an annual budget of UGX 178 Million in 2009. The budget shortfall is so significant and the allocation too small for the unit to implement any activities including basic ones such as: awareness building of the labour export process and its requirements, sensitisation of recruitment agencies and their roles, verifying information presented by recruitment agencies and complainants, ensuring compliance by the recruitment agencies to the set standards and guidelines and undertaking labour export market intelligence. It is partly as a result of a very low programme budget that the unit cannot recruit additional personnel and therefore continues to operate at minimal capacity.

Lack of Administrative Autonomy

The creation of this unit was an administrative process within the Ministry of Gender, Labour and Social Development and as such there is no reference to it in the Employment Act. Moreover, the act makes no mention of externalisation of labour. The unit is supposed to have a steering committee to play an oversight role. The steering committee is supposed to be comprised of key stakeholders in labour externalisation. However by 2009, this committee was

not in place. The lack of statutory authority has denied the unit the opportunity to raise additional funding beyond its dismal allocation from its parent ministry.

Limited Coordination with other Government Agencies

Because the law does not recognise the trade dimension of labour externalisation, there is limited coordination between the unit and other relevant government departments in charge of trade and trade diplomacy, as well as skills development agencies under the Ministry of Education and Sports. The absence of the steering committee has exacerbated the limited coordination between the unit and other government agencies and stakeholders particularly with regard to promotion of labour exports.

The main strength of the unit is that it's being headed by a relatively experienced officer with adequate understanding of labour migration issues. The officer has created the current systems of the unit, prepared the regulations and guidelines, and has clarity of the future direction the unit should take to become more effective.

In addition to the above, the unit seems to enjoy some degree of recognition by policy makers within the government partly arising from the increasing importance of labour remittances to the national economy and the unit's role in labour externalisation.

Emerging Issues and Policy Implications

For Uganda to fully realise its full potential through labour export, a number of reforms need to be considered for implementation in the short and medium term. In the short term, there is need to take measures to strengthen the Labour Externalisation Unit in the Ministry of Gender, Labour and Social Development. This will involve increasing the programme budget for the unit up to 10 times from its 2009 levels. The unit needs to be strengthened with additional staffing of experienced personnel in labour migration and externalisation; the unit also currently requires 3 additional staff to fill the establishment. The unit needs to be strengthened by appointing an Institutional Steering Committee to facilitate decision making and improve inter-institutional coordination. It is expected that these measures, when implemented, will enable the unit to become a functional division within the Department of Employment Services of the Ministry of Gender, Labour and Social Development.

In the medium term, legal reforms should be made, particularly with regard to amending the Employment Act, 2006. This would give explicit statutory recognition to Labour Externalisation and provide for the creation of a competent authority responsible for labour externalisation and export.

The scope of the legal reforms should include strengthening the Employment (Recruitment of Ugandan Migrant Workers Abroad) Regulations to provide for sanctions and their enforcement and provide for mandatory pre-departure orientation seminars, a clear code of conduct for recruitment agencies and includes minimum staffing standards. The regulations also need to provide for mandatory site visits by the licensing authority to verify workers complaints while abroad and compliance with the terms and conditions by recruitment agencies and their principals. A mandatory levy may be considered as a possible funding option for the future.

Given the importance of remittances to the national economy as an export and an avenue for alleviating local unemployment and household poverty, the government needs to assume a promotional role with regard to labour externalisation. This promotional role needs to be recognised and emphasised in the Employment Act, and other relevant laws, in pursuit of this promotional role the government needs to consider the creation of an autonomous agency responsible for labour externalisation and export in the medium to long term.

Effect of Regional and Multilateral Agreements on Uganda's Export of Labour

Uganda is a signatory to a number of multilateral and regional agreements that have a direct or indirect effect on export of labour and outward temporary migration in general. The most prominent among them is the General Agreement on Trade in Services (GATS) of the World Trade Organisation (WTO). Others include the UN Convention on the Rights of All Migrant Workers and their Families and the UN Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children. The East African Community Common Market Protocol expected to come into effect at the beginning of 2010 and the COMESA Trade in Services Framework Agreement are likely to shape the environment for Uganda's export of labour at the regional level.

The General Agreement on Trade in Services and Labour Export

The GATS provides a framework for international trade in services and defines four (4) modes in which international trade in services can be provided. One of the modes, Mode 4, specifically provides for the Temporary Movement of Natural Persons across national borders with regard to the nationals of one country providing services in another. There are no provisions on labour mobility under the WTO Agreements.

However, movement of natural persons as service suppliers is covered by Mode 4 of the GATS which is defined as, "The supply of a service… by a service supplier of one Member, through presence of natural persons of a Member in the territory of another Member". This includes independent service suppliers and the self-employed, as well as foreign employees of foreign companies established in the territory of a Member.

The GATS Annex on Movement of Natural Persons Supplying Services under the Agreement contains two important limits on mode 4. Paragraph 1 of the Annex states that the GATS does not apply to, "Measures affecting natural persons seeking access to the employment markets of a Member, nor… to measures regarding citizenship, residence or employment on a permanent basis".

By not addressing the issue of employment of foreigners by local firms on the understanding that access to labour market is outside the scope of coverage under the GATS[15], the agreement falls short of its effective application by Uganda and other countries in the same category.

The GATS provides no guaranteed access for Mode 4 suppliers; access is instead determined by the nature of each Member's specific commitments. The General Agreement on Trade in Services in its present form tends to favor high-skill professionals and executives associated with Mode 3 and large multinational service providers. While Mode 4 covers service suppliers at all skill levels, these commitments have tended to be limited to higher skilled categories such as managers, specialists and professionals. Typically, Mode 4 commitments are quite restrictive, tending to favor intra-corporate transferees and often subject to economic needs tests. A WTO Secretariat Analysis

[15] Zutshi, B.K. & Richard S. (2002) *"Temporary Entry of Natural Persons as Service Providers: Issues & Challenges in Further Liberalisation under the Current GATS Negotiations"* Joint WTO-World Bank Symposium, Working Paper, Geneva, 11-12, April.

(S/C/W/75), which tabulated the number of Commitments, underscores these conclusions by worker category.

The analysis revealed the dominance of business visitors, senior executives, managers, and specialists with proprietary knowledge of company technology among the commitments made (94%), only 6% of them were in the category of workers. Access under Mode 4 is further constrained by MFN exemptions and licensing requirements, including recognition of qualifications, as well as other Mode 3 restrictions. This implies that whereas Uganda may have Mode 4 market access, such access is often pegged to commercial establishment requirements (Mode 3) that is subject to several restrictions.

There are no specific provisions in the GATS for facilitated entry, although individual country specific commitments may include measures to facilitate[16]. Many countries would want to leverage frameworks like the GATS and advance their export agenda. This underscores the relative shortcomings of the current GATS provisions in advancing Uganda's Mode 4 (Labour export) interests.

However, the GATS still remains the multilateral framework governing labour export despite its shortfalls and Uganda should seek to utilise it in its current form. The current GATS negotiations provide an opportunity for a review of these provisions to address the above concerns. Uganda together with other EAC partner states is negotiating a comprehensive economic partnership agreement with the European Commission which includes trade in services. This provides an additional opportunity for Uganda with an additional opportunity to improve its labour export possibilities to the European Union.

Uganda continues to have large numbers of its nationals abroad and as such is a signatory to multilateral agreements and conventions with a direct impact on the welfare of these nationals including the UN Convention on the Rights of All Migrant Workers and their Families and the UN Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children.

In conclusion, the GATS architecture is generally restrictive of labour exports especially of unskilled labour. However, for Uganda to export labour under the existing framework, it needs to be proactive and secure employment contracts for her nationals in advance. Uganda will need to explore innovative mechanisms of tracking employment possibilities in northern countries and

[16] Nielson, J. (2002) "*Current Regimes for Temporary Movement of Service Providers: Labour Mobility in Regional Trade Agreements*"

wherever export job prospects may be. Negotiating bilateral agreements with labour importing countries provides an alternative approach to securing labour export opportunities beyond the GATS limitations. Nevertheless, it will be important for Uganda to establish a system which guarantees the return of all its nationals who take advantage of the labour export market by seeking employment abroad on a temporary basis.

Effects of the East African Community Common Market Protocol on Uganda's Labour Export Environment

Uganda as a partner state of the East African Community is to be part of the East African Common Market Protocol, which took effect t in July 2010. The protocol provides for two important aspects that are likely to impact on employment, unemployment, and export of labour. These are Freedom of Movement of Workers in the region and the right for self-employed persons to seek employment across the common market as self-employed persons.

Freedom of movement of workers in the region is to be actualised by the phasing out of work permits and the elimination of the economic needs test (ENT) as a requirement for East Africans. This will widen employment possibilities for Ugandans to the four partner states of the EAC while at the same time fully opening up Uganda's labour market to the other EAC countries without the restrictive work permit requirements. A lot more people will be competing for fewer jobs, suggesting that Uganda will need to substantially grow its job creation capacity to keep unemployment at a low level. This is in part due to the fact that Uganda's relative labour productivity is lower than that of some EAC countries such as Kenya[17]. To maintain current levels of employment, job creation will have to increase by more than four times following the signing of the EAC common market. Similarly, maintaining current levels of employment will have to entail substantial investment in skills training (both to increase quantity and improve quality) in areas of high demand by the private sector.

The right for self-employed persons to seek employment across the common market as self-employed persons implies that the informal sector will be opened up for competition across East Africa. This right, together with the right to establish business across East Africa, are likely to displace some Ugandans

[17] For more details on this issue, refer to J E. Austin (2005)

from employment in the informal sector further accelerating the reduction of the number of Ugandans employed in the sector. The net effect of this is to exacerbate local unemployment and increase pressure to seek more gainful employment opportunities abroad for Ugandans. This will further raise the necessity to strengthen the labour externalisation infrastructure.

Discussion

This study supports recent empirical literature that suggests that measuring the open type of unemployment is not suitable for LDCs and grossly underestimates the level of unemployment. In particular, the results support Kakwani and Son (2006) who argue that measuring unemployment in LDCs, should take into account the weak labour markets in those countries. Because of very weak demand for paid labour, most LDCs have a large proportion of their labour force employed in the informal sector which provides very low incomes for workers. Often, incomes in the informal sector are so low that workers are unable to afford the basic necessities of life for their families. This, combined with the fact that workers are unlikely to get any monetary support from the government when unemployed, means they cannot afford to stay idle. They therefore have to do some work to survive but often still report themselves as employed. Weak demand for paid labour has also resulted into high levels of *casualisation*. Most workers are employed as casual labourers without formal employment contracts, are paid very low wages and often remain unpaid for long periods. As a result, casual workers suffer high levels of insecurity and are often summarily terminated without full compensation. The effect of this is the inability of such workers to ensure their economic wellbeing, a phenomenon earlier confirmed by Hussmanns et al. (1990) as common in some countries. Therefore, although employed, they are constantly searching for more stable and better paying jobs locally or abroad. The results of this study therefore seem to suggest that employment seeking behavior in LDCs is not limited to the openly unemployed but includes, almost to an equal measure, those that suffer different forms of underemployment.

Furthermore, this study attempts to estimate exportable labour and labour export potential from Uganda's labour force and confirms that Uganda has an excess supply of unskilled labour that it could effectively export without harming its output. Apart from being a ground breaking attempt, the study

confirms that LDCs such as Uganda continue to have some comparative advantage in the supply of unskilled and semi-skilled labour. They have the ability to encourage temporary migration of large proportions of their labour force without negatively affecting the local economies but instead generate positive economic benefits with significant impact on poverty levels.

With regard to the direction of labour trade flows, this study seems to confirm emergence of new patterns. Although the literature concentrates on and assumes predominance of South-North-South trade in labour. (i.e. between developing and developed countries) this study demonstrates that more markets have emerged that are not necessarily categorised as developed. This implies that labour shortages (of unskilled and semi-skilled) seem to defy classification of countries as developed or undeveloped. Instead they seem to occur anywhere, in any country, and will present pull conditions for labour import. This is partly confirmed by Panizon (2010) and the World Bank (2008, 2010) on remittances and migration which points to further analytical work in this area.

Finally, the results of this study suggest that although export of labour will ordinarily follow the pull factors which seem to play a bigger role in trade in labour, it's also true that countries that benefit from the trade are those that are export ready. This phenomenon makes export readiness a key element for harnessing export opportunities. The results of this study seem to point to the fact that whereas a large pool of exportable labour is a necessary factor it's not sufficient for effective labour export to generate remittance levels that may have visible impact on the local economy. According to Riddle, 2003 it is important to develop export readiness at three levels: country, sector and firm levels for effective export of services including labour services. Export readiness is critical to meeting market demands in export markets and entails an appropriate policy and institutional environment comprising a robust regulatory framework, effective export promotion, support schemes, and effective coordination among government institutions both domestically and abroad. This is important given the restrictions associated with temporary labour migration.

Limitations of the Study

This study was conducted in one African country, Uganda and relied on best practices from one country, the Philippines. The study would have benefitted from comparative data drawn from more African countries and best practices from other regions of the world particularly Central America, North Africa, and Eastern Europe.

Implications

Theoretical Implications

The main theoretical implication of this study relates mainly to the measurement of unemployment particularly for Least Developed Countries. Whereas the rate of unemployment in the developed countries is measured by dividing the total number of the unemployed by the total labour force, and therefore measures open unemployment that reflects the true unemployment conditions in those countries. Although this measure has also been adopted by the ILO, it seems not to accurately reflect unemployment conditions in Least Developed Countries. This measure of unemployment, that relies on job seeking behavior over a period, would need to include the casually employed and those underemployed in the informal sector to accurately reflect unemployment in LDCs. This is because both categories tend to exhibit active job seeking behavior in LDCs. Therefore, the existing international measure of unemployment may need to be reviewed to cater for unemployment conditions in poor countries.

Policy Implications

A number of policy implications seem to emerge from the study that require government attention and action. These implications relate to general policy orientation on labour and employment, legal and regulatory reform, institutional reform, as well as labour export promotion.

General Policy Orientation on Labour and Employment

Given that Uganda has substantial labour resources that are unemployed and in search of gainful employment, and given the importance of remittances to the national economy as an export and an avenue for alleviating local unemployment and household poverty, there is need for government to adopt a deliberate and proactive policy to promote export of labour. Therefore, labour

export should be treated as an economic policy and trade issue and not just as a labour and social issue.

Legal and Regulatory Reforms

- In order for Uganda to fully realise its full potential through labour export, a number of reforms need to be considered for implementation in the short to medium term. In the short term, there is need to take measures to strengthen the Labour Externalisation Unit in the Ministry of Gender, Labour and Social Development. The unit needs to be strengthened by appointing an Inter-Institutional Steering Committee to facilitate decision making and improve inter-institutional coordination. The unit also needs to be strengthened with additional staffing of experienced personnel in labour migration and externalisation. The unit requires an adequate programme budget to enable it effectively undertake planned activities. Budget levels need to be increased significantly by up to 10 times from current levels in order for the unit to have increased positive impact on labour externalisation. Full implementation of these measures will enable the unit to become a functional division within the Department of Employment Services of the Ministry of Gender, Labour and Social Development.
- In the medium term, legal reforms particularly with regard to amending the Employment Act, 2006 to give explicit statutory recognition to Labour Externalisation and provide for the creation of a competent authority responsible for labour externalisation and export. The scope of the legal reforms should include strengthening the Employment (Recruitment of Ugandan Migrant Workers Abroad) Regulations to provide for sanctions and their enforcement and provide for mandatory pre-departure orientation seminars, a clear code of conduct for recruitment agencies including minimum staffing standards. The regulations also need to provide for mandatory site visits by the licensing authority to verify workers' complaints while abroad and compliance with the terms and conditions by recruitment agencies and their principals. A mandatory levy may be considered as a possible funding option for the future.
- Instituting mandatory pre-departure seminars to brief departing workers on expectations in the country of destination including: information

on prospective employers, available savings instruments, the remitting process, how to plan for eventual repatriation, and their reintegration upon conclusion of their contracts.

- The development of an identification and reporting mechanism for Ugandan workers abroad. The current trading framework within which labour is exported has inbuilt systemic problems arising out of concerns by labour importing countries regarding illegal migration as a result of temporary workers overstaying their visas. These concerns in practice are barriers to labour export which would be addressed by such a mechanism. Developing such an identification system would address both the immigration concerns of labour importing countries, as well as facilitate effective operation of the welfare systems referred to above. As part of the needed reforms, Uganda needs to develop such a system that partially guarantees the return of her workers abroad in order to leverage on the market access advantages that accrue from it.
- In order to improve the management of the labour export process, lessons need to be drawn from the Philippine experience. Some of the measures that need to be undertaken include the effective regulation of private recruitment agencies to ensure that Ugandans preparing to go abroad as temporary migrant workers are not charged exorbitant recruitment and placement fees nor issued with false contracts. Establishing a dedicated officer within the Ministry responsible for Labour tasked to review overseas' labour contracts prior to migrant workers' departure will be essential. The Ministry of Foreign Affairs through Uganda's missions in countries of export interest need to monitor the treatment of the Ugandan workers and offer services for filing complaints on defective contracts and other labour related disputes.

Institutional Reform

- Given the importance of remittances to the national economy as an export and an avenue for alleviating local unemployment and household poverty, the government needs to assume a promotional role with regard to labour externalisation. This promotional role needs to be recognised and emphasised in the Employment Act, and other relevant laws. In pursuit of this promotional role, the government needs to consider the creation of

an autonomous agency responsible for labour externalisation and export in the medium to long term.

- In order to improve the management of the labour export process, lessons need to be drawn from the Philippine experience. Some of the measures that need to be undertaken include first, the effective regulation of private recruitment agencies to ensure that Ugandans preparing to go abroad as temporary migrant workers are not charged exorbitant recruitment and placement fees nor issued with false contracts. Establishing a dedicated officer within the Ministry responsible for Labour tasked to review overseas' labour contracts prior to migrant workers' departure will be essential. The Ministry of Foreign Affairs through Uganda's missions in countries of export interest need to monitor the treatment of the Ugandan workers and offer services for filing complaints on defective contracts and other labour related disputes.

Labour Export Promotion

- The measure is the setting up of protection mechanisms for Ugandan workers abroad through appropriate welfare systems and managed according to Ugandan law. Such mechanisms could include providing support services for Ugandan workers abroad such as: emergency repatriation in the event of an emergency or repatriation of the worker's body in the event of death, life insurance, welfare assistance, and re-integration preparedness. In the short run, a policy on re-integration for Ugandan workers abroad needs to be developed.
- The development of an identification and reporting mechanism for Ugandan workers abroad. The current trading frame work within which labour is exported has inbuilt systemic problems arising out of concerns by labour importing countries regarding illegal migration as a result of temporary workers overstaying their visas. These concerns in practice are barriers to labour export which would be addressed by such a mechanism. Developing an identification system would address both the immigration concerns of labour importing countries as well as facilitate effective operation of the welfare systems referred to above. As part of the needed reforms, Uganda needs to develop such a system that partially guarantees

the return of its workers abroad in order to leverage on the market access advantages that accrue from it.

- The need to minimise remittance costs through the formal channels, especially banks and money transfer agencies, which are presently high. This may involve requiring commercial banks and other agencies that provide foreign exchange transfer services to transparently post all costs related to a remittance transaction, thereby ensuring that remitters and their recipients are fully aware of the costs of various products. Such information can be provided by Government to all Ugandan workers abroad during the pre-departure orientation seminars and make such information publicly available.
- Data on employment and unemployment remains scanty and largely unavailable in the public domain in Uganda. There is need to strengthen data collection mechanisms with regard to outputs from education, job creation and employment/unemployment levels on an annual basis.
- Bilateral initiatives with potential labour importing countries need to be undertaken to secure employment opportunities for Ugandans abroad. Middle Eastern countries specifically encourage this approach with many sending countries.
- Encourage skills training in nursing and home care which are on high demand in the High Demand Countries especially for women workers.
- The labour export policy needs to balance between the size of exportable labour and its quality. The available pool of workers needs to be of a global standard who can work anywhere in the world. The potential labour being turned out of the educational system as a result of the presence of over 21 universities and tertiary level institutions should comply with global labour standards. These quality standards have to be benchmarked against the best practices available in the international community as well as the market requirements in the labour importing countries. Therefore, the linkages between the labour export strategy and the education sector need to be prioritised. The education system should be positioned to respond to both the domestic employment and labour exporting requirements.
- Establish an institutional framework for collection, analysis and dissemination of labour market information to stimulate local training in skills that may be on high demand in foreign countries.

- Encourage and support the private sector to invest in training and preparing Ugandan labour force –not only for 3-D jobs –but for professional as well as craftsman level jobs abroad.
- The Government of Uganda should take advantage of the current GATS negotiations to pursue the broadening of the GATS provisions in Mode 4 to allow for facilitation of labour mobility. Within the GATS framework, work with other affected parties to negotiate the possibility of delinking Mode 3 from Mode 4, to extend the same degree of flexibility currently available to intra corporate transferees to Independent Service Suppliers and other Mode 4 Service Suppliers. This would increase opportunities for labour export.
- Uganda's is likely to be at a disadvantage with in the EAC owing to its linguistic challenge of not speaking Swahili. This is the de-facto lingua franca for the East African Community together with its relatively low productivity and a generally poor work ethic. Uganda needs to further intensify Swahili language training at all levels and undertake initiatives aimed at promoting improvement in labour productivity and more positive work ethic. In addition to Swahili, Spanish, French, Chinese and Arabic are major international languages that need to be made a priority in the education system for Ugandan workers to adequately meet the market access requirements of the labour importing countries.
- The EAC Common Market Protocol specifically provides for a broad young workers exchange programme extending from students, trainees, as well as young graduates. Deliberate measures to leverage these provisions would allow Uganda to benefit from the transfer of technology and other soft skills that may be available in other EAC countries such as Kenya.

Firm Level Implications

Some of the firm level implications include the need for firms to undertake deliberate efforts with clear targets premised on structures tailor-made to identify employment opportunities abroad, recruit workers, deploy workers, respond to specific needs in the foreign employment market, direct and track inflows, maintain records of their workers abroad, offer welfare support workers while abroad, and reintegration when workers return are critical to successful labour export.

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Appendices

Appendix I: Projected Employment Levels per Sector, 2009-2020

Employment Sector	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Civil Service	75,647	76,555	77,473	78,403	79,344	80,296	81,260	82,235	83,222	84,220	85,231	86,254
Teaching & Education Services	194,346	202,508	211,013	219,876	229,111	238,733	248,760	259,208	270,095	281,439	293,259	305,576
Armed Forces[1]	32,080	35,160	38,535	42,234	46,289	50,732	55,603	60,941	66,791	73,203	80,230	87,932
Manufacturing	48,300	56,704	66,570	78,153	91,752	107,717	126,460	148,463	174,296	204,624	240,228	282,028
Legislators*,	1,091	1,190	1,299	1,417	1,546	1,686	1,840	2,007	2,190	2,389	2,607	2,844
Other	207,7596	2,260,424	2,459,342	2,675,764	2,911,231	3,167,419	3,446,152	3,749,414	4,079,362	4,438,346	482,8921	5,253,866
Total	351,463	372,116	394,890	420,083	448,041	479,165	513,922	552854	596,593	645,875	701,555	764,634

Legislators Include Senior Government & Political Leaders *

Appendix 2: Projected Annual Employment Creation per Sector, 2009-2020

Employment Sector	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Civil Service	897	908	919	930	941	952	964	975	987	999	1,011	1,023
Teaching & Education Services	7,834	8,163	8,505	8,863	9,235	9,623	10,027	10,448	10,887	11,344	11,820	12,317
Armed Forces	2,810	3,080	3,375	3,699	4,054	4,444	4,870	5,338	5,850	6,412	7,027	7,702
Manufacturing	7,159	8,404	9,866	11,583	13,599	15,965	18,743	22,004	25,833	30,328	35,605	41,800
Legislators*,	91	99	108	118	129	141	153	167	183	199	217	237
Other/ Casual**	168,041	182,828	198,917	216,422	235,467	256,188	278,733	303,261	329,948	358,984	390,574	424,945

Notes: Include Senior Government & Political Leaders *, Others: Include Casuals**, the figure on casuals is not used in the computation of graduate unemployment.

Appendix 3: Total Projected Graduate Output 2009-2020

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
University	31,196	37,466	44,997	54,042	64,904	77,950	93,617	112,435	135,034	162,176	194,773	233,922
Tertiary	16,223	15,460	14,734	14,041	13,381	12,752	12,153	11,582	11,038	10,519	10,024	9,553
Output	47,419	52,926	59,731	68,083	78,285	90,702	105,770	124,017	146,072	172,695	204,797	243,475

Appendix 4: Projected Total Annual Unemployment 2009-2020

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Graduate Unemployed	34,603	38,889	44,286	51,005	59,314	69,530	82,035	97,291	115,849	138,382	165,694	198,753
Casual	1,220,508	1,266,887	1,315,029	1,365,000	1,416,870	1,470,711	1,526,598	1,584,609	1,1644,824	1,702,206	1,772,206	1,839,550
Informal Sector Migrants	41,528	40,184	38,926	37,708	36,528	35,384	34,276	33,204	32,164	31,158	30,182	29,238
Total Unemployed	1,296,639	1,345,960	1,398,241	1,398,241	1,512,712	1,575,625	1,642,909	1,715,104	1,715,104	1,876,867	1,968,082	2,067,541

Chapter Three

The Effects of Investment Climate on Manufacturing Firms' Growth in Uganda

Aggrey Niringiye

Abstract

This study investigated the effects of investment climate factors on manufacturing firms' growth in Uganda using panel data. The low and stagnant levels of the manufacturing sector contribution to Gross Domestic Product in most African countries has been widely recognised to be an important policy problem. This study adopted Gibrat's Law of Proportionate Effect (LPE) and Learning model due to Jovanovic with some modifications to analyse investment climate factors that determine firm growth in Uganda. Results show that firm size, firm age, and average education are the main determinants of firm growth in a sample of Ugandan manufacturing firms. These results have important policy prescriptions to increase firm growth.

Keywords: firm growth, investment climate, manufacturing, Gibrat's law

Introduction

This paper investigates the effects of investment climate factors on manufacturing firms' growth in Uganda. The low and stagnant levels of manufacturing sector share in Gross Domestic Product (GDP) in most African countries has been widely recognized to be an important policy problem. It is imperative for manufacturing firms in sub Saharan Africa to have persistent profitable growth over time if they are to play an increasing and predominant role in economic growth and facilitating poverty eradication through fiscal transfers and income from employment and firm ownership. However, there is controversy on why the contribution of the manufacturing sector to Gross Domestic Product is so low and stagnant, and on what would be the appropriate policies to raise manufacturing firms' growth in sub-Saharan Africa. Although some studies

have been carried out on the determinants of manufacturing firms growth in sub-Saharan African economies, more studies are still required to shed more light on the firm growth factors. Recognising the importance of firms' growth, politicians, policy makers, researchers, and international development, agencies have devoted substantial resources to the creation and implementation of policies to assist firms' growth and in that way create employment and reduce poverty. One of the major objectives of the reforms in the manufacturing sector in Africa is to improve the investment climate. One of the potential benefits of such reforms to firms is that they may induce firm growth. In order to ensure effectiveness of these policies, it is imperative to understand what factors contribute to manufacturing firms' growth.

The notion that the manufacturing sector is a dynamic engine for growth can be traced to works by Lewis (1954), Kaldor (1966) and others. For instance, in a short period, beginning in the early 1960s, Taiwan, Korea, and Singapore raised their shares of manufacturing in GDP by more than 15% and their per capita incomes nearly quadrupled. The same has been true of countries like Malaysia, Thailand, and Indonesia, where the contribution of manufacturing to GDP increased and living standards have grown rapidly. These newly industrialising (NICs) countries were almost at the same level of development as most sub-Saharan African countries, including Uganda. sub-Saharan African economies have not followed the development pattern of a growing contribution of manufacturing to GDP. It has remained below 20% and has been persistent and stagnant since independence. Thailand, Malaysia, and Indonesia which had comparable shares of manufacturing output in GDP in the 1960s have increased their shares to 34.5%, 29.8%, and 27% respectively compared to Uganda, where the share has remained below 9% (see Table 3.1).

Table 3.1: Manufacturing Output as a Percentage of GDP

	1987	**1997**	**2007**
Thailand	24.3	30.2	34.5
Indonesia	16.9	26.8	27
Malaysia	19.8	28.3	29.8
Uganda	5.9	8.6	8.8

Source: World Bank (2008), World Development Indicators

The implications of low and stagnant share levels of manufacturing in GDP for economic transformation and modernisation, and ultimately for Ugandan standards of living, are serious, and to be an important policy problem across the continent. The crucial question here thus becomes, "what determines the successful growth of firms in Uganda?" This study takes up this important question and attempts to provide an answer using firm-level survey data sets from Uganda.

The main thrust of this study is empirical, contributing to existing evidence on investment climate factors that determine the manufacturing firm's growth in Uganda. This evidence that emerges from this study will be useful to politicians, policy makers, firm managers, and international development agencies that aim at propping the firm's growth in Uganda.

Literature Review

Gibrat's pioneering model of stochastic firm growth (1931) makes the key assumptions that firm growth rates are independent of initial firm size, and the variance of firm growth rates is also independent of firm size. If Gibrat's Law of Proportionate Effect (LPE) is correct, the implication would be that large firms are preferable in the context of private sector development given that they create more employment than small firms. The Learning Model due to Jovanovic contradicts Gibrat's LPE model (Jovanovic, 1982). The model stipulates that young firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, given that young firms are usually smaller than old businesses for the reasons discussed above, Jovanovic deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other large firm in the same sector over time.

The Jovanovic model has been extended by several researchers. One of the extensions to Jovanovic's model introduces human capital as an important determinant of firm growth (Pakes and Ericson, 1987). These authors argue that firms with more qualified and experienced managers are more able to stimulate and manage the growth process than those managed by people without qualifications and experience. As a result the higher the stock and

quality of human capital in a firm, the higher the chances that the firm will grow.

With the exception of Gibrat's LPE, all other theories of firm growth indicate that there are systematic factors that determine firm growth. The empirical literature on developed economies shows that the key determinants are size and age (Evans, 1987). This confirms Jovanovic's hypothesis but contradicts Gibrat's Law. In Africa, there are empirical studies that seem to confirm the importance of age and size for firm growth in Botswana, Kenya, Malawi, Swaziland, Zimbabwe, Ethiopia, Burundi, Lesotho, South Africa, and Swaziland (Mead and Liedholm, 1998; Mengistae, 1998; Sleuwaegen and Goedhuys, 1998; and McPherson, 1996; Aguilar and Kimuyu, 2001). In contrast, using the Ghana RPED data, Teal (1999) finds some support for Gibrat's Law, with firms of different sizes growing at the same rate, suggesting that there is no convergence.

Slow growth of firms in Africa has been explained as being the result of the lack of access to financial resources (McCormick et al., 1997; Biggs and Srivastava, 1996 and Nkurunziza, 2005). However, contradictory findings were obtained in a study covering four Southern African countries: Botswana, Malawi, Swaziland, and Zimbabwe, which showed that access to formal credit helped firms to survive only in Malawi (McPherson, 1996). In a study on investment behaviour in Cameroon, Ghana, Kenya, and Zimbabwe, it was found that firms in these countries rely heavily on retained earnings to finance investments (Bigsten et al., 1999). In this light, firms without the required internal capital abandon or postpone their investments, thus limiting a firm's growth opportunities. Human capital variables were also found to be important determinants of firm growth in Botswana, Lesotho, and Zimbabwe (McPherson, 1996). Ethnicity is another significant factor that has been shown to influence firm growth in Africa. Using RPED data set, Raturi and Swamy (1999), showed that large firms are mostly foreign–owned. For example in Zimbabwe, firms by Zimbabweans of European origin grow faster relative to those of Zimbabweans of African origin. These firms usually have better access to markets and factors of production than those in the hands of Zimbabweans of African origin.

Although the determinants of firm growth have been investigated, the literature suffers from several deficiencies. While there are many empirical

studies that focused on firm growth in advanced economies, such as Javanovic (1982), and Evans (1987), very few studies focused on the determinants of firm growth and more specifically on investment climate factors in sub-Saharan African countries. Although recent studies attempt to link determinants from different perspectives or dimensions (Baum, Locke & Smith, 2001; Covin & Slevin, 1997), their explanatory power is low due to the relatively small number of variables (Davidsson, Delmar, & Wiklund, 2006). It is therefore of special interest to examine the determinants of firm growth in an integrated way, and to identify the most important determinants of firm growth in Uganda.

A new survey data on manufacturing firms, conducted by World Bank (2006) in conjunction with Uganda Manufacturing Association Consultancy (UMACIS), provides information on a wide range of explanatory variables. It gives us an opportunity to investigate investment climate factors that determine manufacturing firms' growth in Uganda. We attempt to identify the most important investment climate factors from a wide range of perspectives within the framework of an integrated extended model. In addition, evidence on the key factors that determine firm growth in sub-Sahara African countries, namely firm size and access to credit, is mixed thus providing no clear guidance to policy makers. It is also important to carry out more studies to confirm the robustness of previous findings on the factors that determine firm growth in Uganda before generalising them. Finally, some of the studies reviewed could be misleading as their conclusions are based on results that are methodologically flawed. This study intend to use more rigorous methodology that addresses most econometric problems by exploiting the panel dimension of recent data collected by World Bank unlike previous studies that utilised cross sectional data.

Methodology

The Model

As a basic theoretical framework, our study relies on the Law of Proportionate Effect (LPE) by Gibrat (1931) and Learning Model due to Jovannovic (1982). Gibrat's LPE pioneering model of stochastic firm growth makes the key assumptions that firm growth rates are independent of initial firm size, and the variance of firm growth rates is also independent of firm size. The Learning Model due to Jovanovic stipulates that younger firms learn over time, which

helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones.

In classical works on firm growth in advanced economies (Evans, 1987), the model takes the following very simple form:

$$(\ln S_{t'} - \ln S_t) / d = F(A_t, S_t) + u_t \quad (1)$$

where S_t stands for size at time t,

A_t for age at time t, $d = t' - t$ (time difference), and

u_t is normally distributed with mean zero and possibly a non-zero constant variance and is independent of size and age.

Without other firm characteristic variables, the two key variables of size and age, are assumed to represent everything happening inside the firms. Size may represent the size of firm capacities and resources, and age may represent learning process in which firms uncover their true inefficiencies, accumulate capabilities, and conduct innovations (Jovannovic, 1982; Nelson and Winter, 1982). Such reasoning makes sense at least when we consider long term performance and growth of firms.

We extend the models of Gibrat (1931) and Jovannovic (1982), which traditionally focus on size and age alone (e.g. Brock and Evans, 1986), to an integrated extended firm growth model with additional explanatory variables: investment climate variables, firm level variables, and growth strategy variables, by taking advantage of richness of our data set covering diverse aspects of firm behavior, characteristics and business environment. Thus, for our purpose, equation (1) is modified as follows.

$$(S_{t+1} - S_t) / S_t = F(IC_t, R_t, G_t, C_t) + \gamma + \alpha_{it} + \varepsilon \quad (2)$$

Where,

IC_t stands for investment climate variables,

R_t stands for firm-level variables,

G_t for growth strategy variables,

C_t for other control variables, γ represents the firm fixed effects,

α_{it} is a set of time dummies defined separately,

ε is a random disturbance.

We estimate two econometric models: a basic age-size-growth model (equation 1); and an integrated extended growth model (equation 2), using stepwise regression procedure. We use stepwise regression analysis on a sample of firms, adding one more explanatory variable to the equation to identify the primary determinants of the firm's growth.

Discussion of variables

Dependent variable

Firm growth can be measured by several attributes such as turnover/sales, employment, assets, market shares, and profits. Among these measures, sales and employment are in particular broadly used indicators for growth (Ardishvili, Cardozo, Harmon & Vadakath, 1998; Davidsson, 1991; Delmar, 1997; Weinzimmer, Wiklund, 1998). This is because growth in sales and employment reflect both short-term and long-term changes in a firm and they are easy to obtain. Furthermore, compared to other indicators such as market shares, sales, and employment are more objective measures (Delmar, 1997). This paper defines firm growth as the relative change in a firm's number of permanent employees over a period of time. In the literature on developing countries, this measure is preferred to other proxies such as sales, given that it is less prone to measurement errors and it does not need to be deflated (Nkurunziza, 2004). Apart from the fact that it is a measure of economic growth, for the entrepreneur, it can serve as an indicator of his success and, for the company as a whole, it is a measure of the economic contribution of the firm to a common good (Dunkelberg and Cooper, 1982). In addition, since the manager in principle expects demand to stabilize before recruiting personnel, employment is theoretically a less volatile measure than sales (Delmar, 1997).

Independent variables

According to theoretical views and empirical research findings explained above, a large set of variables are used as regressors. Several authors (Grinyer et al., 1988; Miller and Friesen, 1984) consider it necessary to test the impact of a large number of variables simultaneously in order to create a more complete and realistic image of the firm growth phenomenon.

Investment Climate Variables

Investment climate variables are generally divided into subjective and objective measures. Subjective measures capture firm managers' own perceptions or

experiences, and thus are subject to some arbitrariness and incomparability across firms and countries. In this regard, the survey questionnaires ask the firms perception about the hard infrastructure (telecom, electricity, transportation) and soft infrastructure (problems in tax administration, custom clearance, business regulations, corruption). Using a rating index from 0 (no problem) to 4 (severe problem), we create a dummy variable of 1 (one) for each problem by looking at whether the firm rates a given problem as serious/severe, and 0 (zero) otherwise. If the firm answers that there are serious problems (3 or 4 in the rating scale) in each of the infrastructure indicators (3 areas in hard and 4 areas in soft), we assign the value of 1 or 0 otherwise.

Objective measures on the other hand include the following: borrowing interest rates, days to clear customs for exports and imports, number of days of power outages per year, days to get power connection, and days to get telephone connection once all the application procedures are completed by the firm. While firm growth is naturally affected by the surrounding economy- or location-level SOC capital (social overhead costs) or infrastructure (hard and soft investment climate indicators), the operating climate facing each firm should be the same regardless of the firms's own capabilities. Thus, we hypothesise that the impact of investment climate variables is not firm-specific or clearly observed at the firm-level, but rather at the regional or national level. To put it differently, investment climate contributes much to differences across firms in the same location or even to those in the same country but more so to cross-county differences.

Firm level variables

Physical capital is measured by the *ratio of value added to net book value* in dollars of machinery and equipment, which is also the accumulated stock of net fixed investment. *Human capital* will be measured in terms of both generic and specific human capital. Generic human capital is measured by the *average educational attainments of workers*. Specific human capital is measured by a dummy indicating whether workers in a firm have received *on-job-training* or not. *Managerial capital* will be measured by a dummy indicating whether the manager has the tertiary education or not.

Research and Development (R&D) capital is meant to try to indicate whether a firm has the capacity to develop the products with its own plans by conducting

in-house R&D (a dummy variable will be used for firms introducing a new production process or a new product). *Profit* could be a good proxy indicator of the financial resources of the firm. A more profitable firm can invest from retained earnings and has more potential to capture external sources of capital. More importantly, profits and retained earnings are especially more important as a source of financing in emerging economies without well-developed financial markets. Profitability is measured as the return on investment (net profit over total assets). Profits are measured as value-added, less wages and interest payments. A positive and significant relation is expected for this variable.

Managers were asked to respond whether the firm had good, intermediate or poor access to bank loans. A dummy variables (*FINGOOD*) was constructed to see if firms with good and intermediate access to financial resources have a differential growth performance with respect to firms that have a poor access to financial resources. A positive and significant relationship is expected for this dummy variable (*FINGOOD*). *Market share* and more specifically relative market share as viewed for this study serves as a proxy for some firm-specific relative competitive advantage resulting from learning effects and other firm specific assets. In addition, basic economic theory informs us that monopolies will prefer to restrict output in order to earn supernormal profits. We use a dummy variable indicating whether any of three main product lines have more than 60% of the market share. *Unionisation dummy* is used to capture firms that have workers that belong to a trade union. *Diversification* into several products gives firms more opportunities to sell in diverse markets, attain a larger number of customers, and reduce variability on sales. A larger demand directed to the firm and more stability would impact on larger rates of growth. To measure diversification by product the proportion of sales of the most important product was used (*DIVPROD*). A negative coefficient is expected to mean that the more diversified is the firm in products, the larger should be the rate of growth.

Growth Strategy Variables

As growth strategy variables, we consider the following variables; *Export Orientation* as exporting allows the firm to get an opportunity to learn from foreign buyers and let them be subjected to more tough quality controls

(Dahlman, et al, 1985). Exporting is not simply an act of making goods and selling them abroad but also a way to learn from foreign buyers and through quality control as argued by Dahlman, et al (1985). Thus, we can hypothesise that export-orientation is positively related to firm growth in developing countries. The second option would be to invite foreigners (*percentage of foreign owned shares*) directly into the firm as a major stakeholder so that they have incentives to provide help in managerial, production, and marketing know-how. The third option would be to introduce advanced or foreign technology/ knowledge (*purchase of new machinery*) in the form of machinery and equipment that embody them.

Control variables

As control variables, we consider *age*, *initial size* of the firm, *firm size* and *dummies for sectors* and *countries*. Besides the use of the continuous firm size variable we use dummies to represent the three groups of firm sizes, small (<50 employees), medium (50<100 employees) and large (100+employees) to detect variations in sensitivity of growth in the different size groups[18]. Following most recent findings allied with the Javanovic's model, we hypothesize that the size of the firm negatively affects the growth of the firm. For the *firm age*, two alternative proxies are used, first, a variable showing the years that each firm is under operation and second, a dummy variable that takes the value of 1 for firms with less than 5 years in operation, 2 for firms with more than 5 but less than 10 years in operation, and 3 for firms with more than 10 years in operation. Ugandan firms are young with an average of 14.4 years because of the country's short history of development.

The World Bank has been conducting investment climate surveys around the world since 2001. The standard questionnaire administered in these surveys has a number of sections covering firm characteristics, firm strategies, and perception about investment climate. The surveys cover a diverse range of sizes and activities, with stratified samples of several hundred firms from multiple locations in each country. Data is gathered through face-to-face interviews conducted with senior managers or owners and accountants. The current study uses data that was collected by the World Bank in 2003 covering a period of previous 3 years.

[18] Most studies in sub-Saharan countries categorize firms using this criterion (Nkurunziza, 2005).

To guarantee robustness of the results, we use instrumental variable regressions for a suspected endogenous variable. While there is no *apriori* reason to suspect the endogeneity of other variables, one can reason out that the fast growth firms have more capacity to build their physical capital, which might thus be endogenous. Thus, we use lagged value added capital ratio as an instrumental variable for physical capital. Following the instrumental variable procedure for panel data that Griliches and Hausman (1986) developed, we use lagged values of independent as choices for instruments to eliminate concerns about potential reverse causation problems.

Findings and Discussion

Descriptive Results

Summary statistics of major variables used in the analysis are presented in Table 3.2 and Table 3.3. The tables provide the summary statistics of the dependent and the explanatory variables. It reports the overall mean, standard deviations, minimum and maximum values, as well as the number of observations. The standard deviations of most variables are larger than the means, indicating a wide spread around the means. Size and age variables are expressed as natural logarithm. We carried out correlation analysis of independent variables and the largest correlation (between age and size) is 0.5. All the 300 firms can be classified into one of five sectors, with 122 firms in the agricultural sector, 54 in the furniture and wood sector, 40 in the construction and wood sector, 25 firms in the chemical and plastics sector, and 59 firms under other sectors(metals, textile and leather, paper, printing and publication).

Table 3.2: Summary Statistics for 2002

Variable	Observation	Mean	Std. Dev.	Min	Max
Growth rate of firms	293	.051096	.4517186	-.8571	6.714286
Diversification	289	62.34176	32.57425	.4	100
Invest in new machinery	300	.4733333	.5001226	0	1
Training	300	.2966667	.4575515	0	1
Unionized	298	4.441141	17.72389	0	100
Skilled proportion	293	65.19162	34.07132	0	100
Rate of return on investment	274	.158354	.8951554	0	13.9
Foreign ownership	300	.2266667	.4193747	0	1
African	242	.7396694	.4397244	0	1
Ln(Firm size)	279	1.141588	.6825563	0	3.778151
Export dummy	300	.1466667	.3543644	0	1
City location	300	.68	.4672556	0	1
Ln(Age of a firm)	281	.840093	.4561472	0	1.959041
Gender	241	.9460581	.2263732	0	1
Monopoly power	179	.1620112	.3694946	0	1
Education manager	298	.6879195	.4641219	0	1
Credit financing	300	9.206667	24.69826	0	100
Capacity utilization	265	55.78981	23.1676	1	100
Debt capital ratio	274	.0644032	.2215963	0	1.7424
Value added capital ratio	262	.3342566	1.195859	-2.864	7.853403
Efficiency	241	.4448174	.332852	0	1
Training	300	.2966667	.4575515	0	1

Table 3.3: Summary Statistics for 2001

Variable	Observation	Mean	Std. Dev.	Min	Max
Growth rate of firms	293	.051096	.4517188	-.857143	6.71429
Diversification	289	62.34176	32.57425	.4	100
Invest in new machinery	300	.4733333	.5001226	0	1
Training	300	.2966667	.4575515	0	1
Unionised	298	4.441141	17.72389	0	100
Skilled proportion	293	65.19162	34.07132	0	100
Rate of return on investment	274	.158354	.8951554	0	13.9
Foreign ownership Dummy	300	.2266667	.4193747	0	1
Ln(size)	279	1.141587	.6825562	0	3.77815
Export dummy	300	.1466667	.3543644	0	1
City location	300	.68	.4672556	0	1
Ln(age)	281	.8400928	.4561472	0	1.95904
Gender	241	.9460581	.2263732	0	1
Monopoly power	179	.1620112	.3694946	0	1
Education of top Manager	298	.6879195	.4641219	0	1
Credit access	300	9.206667	24.69826	0	100
Capacity	265	55.78981	23.1676	1	100
Debt/ capital ratio	274	.0644032	.2215963	0	1.7424
Value added/ Capital ratio	262	.3342566	1.195859	-2.86471	7.8534
Efficiency	241	.4448174	.332852	0	1
Training	300	.2966667	.4575515	0	1

Ugandan manufacturing firms in the sample were utilising 56% of installed capacity. This was higher than Tanzania with 51 percent, but lower than Kenya with 63% during the same period. The average level of education by the top

manager of manufacturing firms in Uganda is vocational training. The average age of the manufacturing firms is 13.2 years, not far from the median age of 14.4 years, implying that most of the firms are young. In addition, the average firm size is 78 employees.

Exporting is less common as only 15% of the manufacturing firms in Uganda participate in export markets compared to 25% in Tanzania and 57% in Kenya during the same period. The average value of lost production due to power outages or surges, as a percentage of total annual sales was 6% in Ugandan manufacturing firms compared to 9% in Kenya and Tanzania. As regards financing of new investment in machinery and equipment, only 9% of new investments are financed with credit from banks compared to 16% and 32% in Tanzania and Kenya respectively.

Regarding the three biggest obstacles to doing business in Uganda, crime and theft was reported by 32% of the firms, compared to 31% of the firms for inadequate access to credit. Insufficient demand for products was also reported by 20% of the firms compared to 25%t for inadequate infrastructure. Skilled labour shortage was reported by 15% of the firms as among the three major obstacles to operations compared to 25% in Tanzania and 29% in Kenya. Competition from imports was reported by 8% of the manufacturing firms as one of the three biggest obstacles of doing business in Uganda.

On average, 95% of the manufacturing firms are owned by males as majority shareholders. In terms of ownership, 23% of the firms wereforeign owned. The majority of the firms, as high as 68% are located in the major city. On average, 16% of firms interviewed can be described as having at least one local monopoly market, that is, at least one of their three main product lines possesses at least 60% of the Ugandan market. The average share in total sales of the major product was 62% implying that most firms are not highly diversified.

Table 3.4 presents the distribution of the growth of firms in the sample according to age, size, unionisation, level of diversification, accessibility to credit, gender, education of the manager, export status, location, foreign ownership, and year. It is important to note that there was reduction in the average growth rate of firms from 14% in 2001 to 5% in 2002. Around 24% and 40% of the firms in the sample experienced positive growth and compared to 21% and 16% of the firms that experienced negative growth in 2002 and

2001 respectively. In addition, around 55% and 44% of the firms in the sample did not experience any growth in 2002 and 2001 respectively.

Table 3.4: Descriptive Statistics

Variable	Average growth rate of firms in 2002	Average growth rate of firms in 2001
Foreign owned firms	.054(67)	.119(59)
Non Foreign owned firms	.050(225)	.144(213)
Firms located in main city	.073(200)	.152(184)
Firms located outside the main city	.0043(93)	.110(87)
Diversified firms (major product <50%)	.029(110)	.153(102)
Non-diversified firms (major product>50%)	.067(171)	.097(157)
Firms exporting	.041(43)	.270(44)
Firms not exporting	.053(250)	.113(228)
Firms owned by males	.025(223)	.146(206)
Firms owned by females	.117(13)	.267(12)
Managers with education above secondary	.043(201)	.140(186)
Managers with education equal and below secondary	.061(90)	.133(82)
Unionised	-.099(23)	-.020(23)
Non-unionised	.064(270)	.154(247)
Old firms(10+ years)	.020(101)	.0453(107)
Young firms(<10 years)	.030(180)	.199(165)
Credit access	.018(42)	.0544(40)
No Credit access	.057(251)	.0153(232)
Small size firms(<50 workers)	.066(241)	.141(216)
Medium firms(50-100 workers)	-.0175(21)	.286(24)

Variable	Average growth rate of firms in 2002	Average growth rate of firms in 2001
Large firms(100+ workers)	-.0126(32)	.008(32)
Overall	.051(293)	.138(272)

Figures in the bracket are the number of firms

The average growth rate of firms for the present sample of firms does not show much variation among most groups. There are, for example, no significant differences between the average growth rates of exporting and non-exporting firms, firms owned by foreigners and non-foreigners, firms with managers whose education is above secondary, and managers whose education is below secondary education level. However, firms owned by females compared to those owned by males, non-unionised firms compared to unionized firms, young firms compared to old firms, small firms compared to large firms, and firms located in the main city compared to those located outside the city, were more likely on average to grow faster. These descriptive statistics are consistent with what has been found for manufacturing firms in other sub-Saharan countries. We proceed next by analysing these mechanisms using econometric methods.

Regression Results

Table 3.5 presents regression results of variables that determine the rate of growth among Ugandan manufacturing firms. We use stepwise regression analysis on a sample of firms, adding one more explanatory variable to the firm growth equation to identify the primary determinants of firm growth. In each equation, we run the model with the traditional variables. The inclusion of control variables does not change the sign and statistical significance of the traditional variables. The model is correctly specified, as indicated by the p-values.

Table 3.5: Determinants of firm growth: GLS estimates for equations 1-10

Dependent variable: Growth rate

Variable	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Constant	.098 (2.08)**	.269 (1.77)*	.171 (5.06)***	.0894 (1.30)	-.273 (-1.29)	-.0263 (-.39)	.048 (.97)	.143 (2.36)**	.0939 (1.99)	-.0441 (-.50)
Ln(size)	.089 (2.61)***	.0769 (3.95)***		.0608 (3.3)***	.077 (4.2)***	.228 (4.92)***	.136 (3.95)***	.122 (3.44)***	.118 (3.58)***	.0897 (4.11)***
Ln(age)	-.142 (-2.79)***	-.143 (-4.26)***	-.103 (-2.76)***		-.127 (4.0)***	-.158 (-2.26)**	-.120 (-2.32)**	-.135 (-2.58)***	-.149 (-2.94)***	-.158 (4.17)***
Ln(size2)		-.0144 (-.90)								
Ln(age2)		.014 (.94)								
Median size firm dummy			.091 (1.68)*							

Variable	1	2	3	4	5	6	7	8	9	10
Large size firm dummy			-.039 (-.78)							
Median age firms dummy (5-<10years)				-.152 (-2.3)**						
Old firms (10+years)				-.235 (3.3)***						
Ln(average education)					.187 (2.22)**					.181(1.68)*
ΔValue added/ Capital						-.0191 (-2.20)**				-.0083(-.61)
Unionised							-.0035 (-2.38)***			-.00159 (-1.05)
Diversified								-.001 (-1.82)*		-.0008 (-1.21)

Variable	1	2	3	4	5	6	7	8	9	10
Credit financing									-.00015 (-1.89)*	-.00028 (-.31)
R2: Within	.130	.024	.0344	.026	.047	.245	.350	.230	.207	.161
R2:Between	.0287	.085	.0663	.054	.074	.006	.031	.032	.027	.060
R2:Overall	.0245	.064	.0240	.040	.055	.014	.032	.030	.026	.060
Wald chi2	13.38	25.35	13.38	17.81	27.45	30.60	20.50	16.16	16.19	31.72
Prob>chi2	.0039	.000	.0039	.0005	.000	.000	.0001	.0008	.001	.000
No. of observations	546	454	548	454	446	477	542	524	546	371

Note: The values in parentheses are the t-statistics. ***, ** and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Firm size is shown to be an important determinant of firm growth, a finding that is consistent with that of Singh and Whittington (1975) who found a positive relationship between firm size and firm growth in a study on manufacturing firms in UK. This finding contradicts both the Gibrat's LPE model, which predicts that firm growth is independent firm size, and Jovanovic model, which predicts that young firms grow faster than old ones. The existence of a positive relationship between firm growth and firm size and no association between firm size squared and firm growth suggest that that firm growth increases with size of firm until when a firm size threshold is reached and firm growth is no different from the growth of small firms. Regression results in equation 3 confirm this result because medium sized firms are shown to grow faster than small firms, but large firm's growth rates are not significantly different from the growth rates of small firms. This finding is also consistent with Bain (1956) argument that there is a Minimum Efficient Scale (MES) which is achieved when a firm attains a size corresponding with the minimum long run average cost. Firms with sizes smaller than the MES enjoy economies of scale until they reach the MES. However, all firms beyond the MES are characterised by constant returns to scale. However, MES may differ according to the type and level of technology for respective firms.

Firm age is shown to be consistently negatively associated with firm growth in Ugandan manufacturing firms. This finding is consistent with Jovanovic's model, which predicts a negative relationship between age and firm growth. This finding is also consistent with empirical studies that seem to confirm the negative relationship between firm age and firm growth in Botswana, Kenya, Malawi, Swaziland, Zimbabwe, Ethiopia, Burundi, Lesotho, South Africa, and Swaziland (Mead and Liedholm, 1998; Mengistae, 1998; Sleuwaegen and Goedhuys, 1998; Oliveira and Fortunato, 2008; McPherson, 1996; Aguilar and Kimuyu, 2001).The study also showed that old and medium aged firm's growth rates are lower than the growth rates of young firms. This is also consistent with the findings of studies in both Africa and Latin America which show that young medium scale firms are more likely to grow at high rates compared with medium scale firms that have been in existence longer (Parker, 1995). A study by Kantis and Koenig (2004) also revealed that the major expansion of dynamic enterprises occurs during their third year of operation. Firms may fail to invest sufficiently in existing or emerging technology, leaving them with relatively

outmoded equipment and hindering productivity levels relative to younger firms. Jovanovic (1982) explains this negative relationship between firm age and growth with a Learning Model in which a firm expands quickly at first, and then tapers off its growth as it approaches its optimal size. However, our results do not confirm a nonlinear relationship between firm age and growth.

Average education was shown to be positively associated with firm growth, suggesting that firm workers with higher average levels of education grow faster than firms with workers with low average levels of education. This finding is consistent with a finding by McPherson (1996) that found human capital variables to be important determinant of firm growth in Botswana, Lesotho, and Zimbabwe. This finding is also consistent with the argument by Pakes and Ericson (1987), that the higher the stock and quality of human capital possessed by a firm the higher the chances that the firm will grow.

Access to bank credit was shown to be negatively associated with firm growth, a finding that is consistent with a study covering four Southern African countries: Botswana, Malawi, Swaziland, and Zimbabwe by McPherson (1996) which showed that access to formal credit helps firms to survive only in Malawi. This finding suggests that credit harmed firm growth by increasing debt which may destabilise firms and eventually force them to shrink or collapse. It is also possible that some other factors within the firm such as managerial competence might explain poor understanding of the debt management. However, the negative association between access to credit and firm growth is weak as the association is not consistently significant under different model specification.

Firms with trade union workers recorded lower growth rates than those without workers who are union members. However, the negative association between unionisation and firm growth is weak. Similarly, value added per capital was shown to be negatively associated with firm growth, but the association is weak. The results also show a negative coefficient on diversification as expected to mean that the more diversified is the firm in products, the larger should be the rate of growth. Diversification effects the growth process positively by helping firms to cope with demand constraints on a specific product line and creating new opportunities for growth. However, the association between diversification and firm growth is weak.

The majority of explanatory variables that influence firm growth that were analysed had the expected signs. These include: gender, sector effects, export

participation, infrastructure problems, education level of the top manager, capacity utilisation, technical efficiency, theft and crime, monopoly dummy, ownership of firms by foreigners, location in the city, and loss of output due to power outages. However the coefficients of these variables are not significantly different from zero probably because of short panel (cohort) period.

Limitations

Although this study contributes to a better understanding of determinants of firm growth in Ugandan manufacturing firms, there are limitations to this study that should be acknowledged. Some data on some firms were incomplete and such firms were deleted from the data set. This data shortcoming might lead to some distortion of results. The size of such distortion, if any, is not possible to evaluate within existing data set. Our data set does not have sampling weights. In addition, our data set had recall data, yet it is well known that such data might be inaccurate, consequently resulting in the bias of our estimates. Another weakness of our data set is that the annual data covers a period of only three years for each individual manufacturing firm. However, increasing the span of the panel would increase the chances of attrition.

Policy implications

Accelerating manufacturing firms' growth holds the promise of economic growth and poverty reduction not only in Uganda but also in the rest of sub-Saharan Africa. Some policy implications emerge from the findings of this study. It is clear from the results that firm age, firm size, and average education are the main drivers of firm growth in Ugandan manufacturing firms. If the private sector is to be the "engine of growth" in the economy, then these factors need to be given serious attention. Apart from education, policy designs with direct impact on firm size and age are complicated. Empirical evidence from this study on the growth pattern of firms across the size distribution should guide government policy makers to target firms that make the best use of such assistance programmes. It is important for Ugandan policy makers to design policies that promote growth of small firms, extending incentives such as tax holidays that are currently being enjoyed only by medium and large firms. There is also need to extend the same preferential treatment to new startups and young firms irrespective of their size as their potential

to grow is high compared to old firms. The policy makers should simplify regulations and reduce costs for informal and new firms to register and help these firms to expand. Empirical evidence from this research can guide firm managers to focus efforts on the most important factors determining firm growth. For example, by increasing their human capital base in their firms. The government should increase funding to education, more especially to technical and professional development training institutions which produce educated workers who are in high demand by manufacturing firms.

Conclusion

The aim of this paper was to analyse the determinants of firm growth in Ugandan manufacturing firms. The study was based on descriptive and explanatory analysis using econometric modelling and analysis. It was deemed necessary to identify the determinants of firm growth in manufacturing as this sector is vital for growth and job creation, and need higher levels of growth than in the past. The regression results showed that firm size, firm age, and average education, were the main drivers of firm growth in a sample of Ugandan manufacturing firms. Access to credit, value added capital ratio, and unionisation, were shown to be negatively associated with firm growth but the association was weak. Most of the variables that were analysed such as gender, sector effects, export participation, inadequate provision of infrastructure, inadequate demand for produced products, location in the city, foreign ownership, education of the manager, and loss of output due to power outages had the expected signs but the coefficients are not significantly different from zero. In general, the results are consistent with comparable studies.

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Chapter Four

Service Quality Perceptions: A Case of Foreign Direct Investors to Uganda

Jotham M. Byarugaba

Abstract

Theory contends that service quality reflects how clients' expectations have been met or exceeded by the service experience. However, total service quality experience not only requires physically appealing tangible enablers but also requires intangible service quality enablers. This study investigated the influence of tangible and intangible enablers on expected and actual service quality among Foreign Direct Investors and/or their representatives (FDI clients) in the Ugandan investment environment. It is important to note that an FDI client interacts both with tangible and intangible service elements and that it is practically impossible to separate the two sets of enablers as a client interfaces with the service. It should be noted that tangible enablers may be animate or inanimate and intangible enablers reflect the experiences or benefits from the interface. Both types of enablers should enhance service quality realization by an FDI client.

Purpose and Approach of the study: To investigate the potential disparity between FDI clients' expectations and actual experiences of GOU investment services, the Gaps model was useful. The instrument used to source primary data from the sample was structured along the seven dimensions of service quality. The dimensions captured both tangible and intangible enablers of service quality as expected and experienced by FDI clients. A cross-sectional survey design was adopted. The regression analysis was used to test the hypotheses. Two independent variables were found to have no statistically significant influence on FDI clients' service quality perceptions. The paired samples t-test indicated the presence of Gap 5 among FDI clients in Uganda. Strategies were crafted and recommendations made to GOU investment officials for possible adoption to mitigate Gap 5 among FDI clients in Uganda. The study

setting was contextualized within the broader challenges of the Ugandan business environment in line with other chapters in this book.

Key words: Service expected, experienced, designed, quality, enablers.

Introduction

Uganda is no stranger to investment. One of a series of World Bank reports states that in 2009 alone, Uganda attracted Foreign Direct Investment (FDI) of up to US$ 799 million. The aforementioned money ended in key sectors that include agriculture, fisheries, forestry, manufacturing, and information communication technology (ICT) (http://www.ugandainvest.go.ug/index; Uganda Investment Authority 2009/2010)). The notion that The Pearl of Africa may not necessarily be a bed of roses for FDI clients is as intriguing as it is perceptual and requires a vibrant mindset in investment decision-making. Investment opportunities abound (http://www.ugandainvest.com), risks too still exist. The Government of Uganda (GOU) has won compliments for its macroeconomic management in recent years. It is currently revising a range of laws and regulations to create greater government accountability, open markets, and develop infrastructure to create a more attractive environment for FDI inflows.

The aforementioned strategies together with abundant natural resources provide good opportunities for FDI inflows to Uganda (Musila & Sigue, 2006; Clinton, 2009). For example, FDI flows into Uganda stood at US$ 368 million in 2007, lower than in both 2005 and 2006, but up drastically from 2001, when investment was US$ 150 million, according to the World Investment Report for 2008. The overall economy, meanwhile, continued to expand, growing 9.8% in the 2007/2008 Ugandan fiscal year and by at least 7% in 2008/2009. Business analysts believe Uganda has the potential for larger amounts of FDI, but emphasise that the GOU must address challenges related to the country's weak infrastructure, largely unproductive workforce, political interference in private sector and high levels of corruption, among other issues. The figures of unemployed graduates may be linked to the largely inappropriate education in Uganda as highlighted in Chapter Two. Though Ugandan mobile telephone services have improved greatly due to strong private sector investment,

electricity and road networks urgently need renovation and expansion to meet the FDI demands.

With an installed total capacity of just 300 megawatts (MW), Uganda's electricity network reaches only 20% of the population, and load shedding all over the country is common. The dilapidated road infrastructure has led to increases in transportation costs thus leaving the entire country, which is land locked, vulnerable to bottlenecks and disruptions. A major business challenge stems from the fact that a two-lane highway from Kenya remains the primary route for 80% of Uganda's trade. Uganda's dependence on this route was well demonstrated in late 2007 and early 2008 when election related violence in Kenya virtually halted trade into Uganda for more than two months, causing a spike in prices of all commodities. The GOU is making deliberate efforts to improve on infrastructure by renovating the roads, and laying a new fibre-optic cable for internet services along the eastern coast of Africa reaching Uganda. Further, Uganda has commissioned a 250-MW hydroelectric dam at Bujagali falls that has added to the national grid in 2013. Literature review shows that foreign investors' FDI decisions have been motivated by three traditional economic determinants differentiated as resource-seeking FDI, market-seeking FDI and efficiency-seeking FDI (Nunnenkamp, 2002). However, another potential determinant of decisions on FDI sectors of destination is the level of quality of service offered by GOU (policy makers) to the different foreign investors to the Ugandan economy. This implies that the traditional determinants of FDI flows notwithstanding, perceptions of quality of investment services by both foreign investors is another potential determinant of decisions on FDI sectors of destinations in the Ugandan economy.

Despite the GOU officials' efforts to create a good investment climate*, two key questions come to the fore:* Firstly, are FDI clients receiving investment services they expect from GOU officials? Secondly, what is the relative importance of service quality dimensions as determinants of FDI sector destination decisions in Uganda? The first question implies a potential disparity between FDI clients' expected and experienced service quality that impacts their investment decisions. The disparity may be in both tangible and intangible enablers of service quality as expected and experienced by FDI clients. The

second question implies a potential variation in relative importance of service quality dimensions in influencing FDI clients' decisions in regard to sector destination in Uganda.

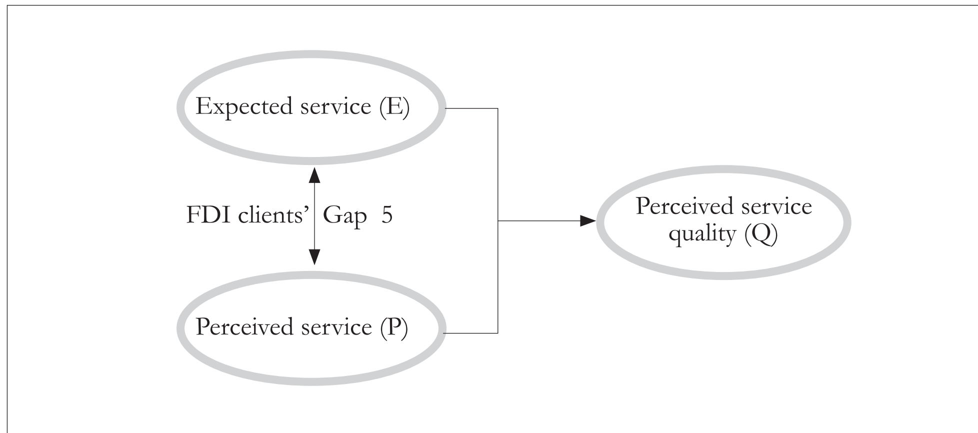
Literature Review

Services can be seen as economic activities, whose nature is not a physical product but rather in the form of deeds, processes, and performances (Zeithaml *et al.,* 2006; Zeithaml & Bitner, 1996). Because services can satisfy clients' needs, they are viewed as products representing a wide range of intangible offerings that clients value and pay for in the marketplace (Zeithaml *et al.,* 2006:5). Due to its non-physical nature, a service is generally consumed at the time of production. Notwithstanding service intangibility, it is important to note that services require both tangible and intangible enablers to be effectively delivered.

Despite being intangible, investment services like any other services are nonetheless able to provide added value to their FDI clients (receivers) in Uganda. The analysis of FDI clients' perceptions of service quality in this research is based on the client's Gap 5 of the seminal gaps model of service quality by Parasuraman *et al.* (1985). Gap 5 of the Parasuraman model, shows that there can potentially be a discrepancy between clients' expectations and actual experiences (perceptions) of the service as indicated in Figure 4.1.

Pizam and Ellis (1999:330) state that service quality (Q) is measured by subtracting the client's expectation scores (E) from client's perception scores (P). Therefore: Q = P-E as depicted in Figure 1. From the above equation, positive Q imply FDI clients have received satisfactory quality service. Negative Q on the other hand reflect that clients have not received good quality service since actual experiences are less than prior expectations. According to Zeithaml *et al.* (2006:33) and Zeithaml *et al.* (1990:46), clients' expectations establish a yardstick whereby actual service experiences (performances) are judged. It is important to note that clients' perceptions reflect the subjective assessment of their actual service experiences.

Figure 4.1: FDI clients' perceptions of service



Source: Adapted and modified from Zeithaml and Bitner (1996:103)

Service quality dimensions

Research shows that service clients do not perceive quality in a uni-dimensional way, but rather judge quality based on multiple factors relevant to the context (Tan & Pawitra, 2001:419; Zeithaml *et al.,* 2006:116-120; Zeithaml & Bitner, 1996:118). In their pioneering work, Parasuraman *et al.* (1985:47) identified ten dimensions linked to the measurement of service quality. Namely tangibles, such as reliability, responsiveness, competence, courtesy, credibility, security, access, communication, and understanding the user. Parasuraman *et al.* (1988) reduced the ten to five dimensions. Such tangibles included reliability, responsiveness, assurance and empathy (Buttle, 1996:9; Parasuraman, 2004:46; Zeithaml & Bitner, 1996:118; Zeithaml *et al.,* 1990). Using only five service quality dimensions has been criticised and therefore modified into functional or process quality alongside technical or outcome quality and image quality (Kang & James, 2004:267). Functional quality includes the former five dimensions by Parasuraman *et al.* (Kang & James, 2004:270; Santos, 2003:233; Zeithaml *et al.,* 1990). Technical quality on the other includes the consumption experiences, and image quality reputation of such experiences. Whereas the tangibles dimension captured tangible enabler aspects, the other four dimensions captured the intangible aspects of the quality of investment services experienced by FDI clients in Ugandan investment environment.

To harmonise Zeithaml *et al.* (1990) and Kang and James' (2004) definitions of service quality, seven dimensions of FDI service quality were used in this research. These tangibles included reliability, responsiveness, assurance, empathy, technical quality, and image quality.

Hypotheses pertaining to FDI clients' service quality

Service quality from the perspective of users (FDI clients) has been defined as the disparity between users' expectations (desires) and their actual experience with the service (Zeithaml *et al.,* 2006:33; Zeithaml *et al.,* 1990:19). It is perceived in the context of tangible and intangible enablers that constitute a total FDI client's service experience. Users' expectations are standards (reference points) that users bring into the service experience, and reflect what users believe should or will happen (Zeithaml *et al.,* 2006:33; Zeithaml & Bitner 1996:76). The user perceptions reflect the subjective assessments of the actual service experiences (level of satisfaction derived from service encounter) (Zeithaml *et al.,* 2006:34; Zeithaml & Bitner 1996:104). The theory of expectancy disconfirmation (disparity), that has been tested and confirmed in several studies, asserts that users purchase and/or consume services with pre-purchase/consumption expectations about anticipated experience (Imrie, 2005:377; Pizam & Ellis, 1999:328). In the context of investment services to FDI clients in Uganda, the question arises whether significant disparities exist between their expectations and actual experiences with the services. Seven independent variables hypothesized to have an influence on FDI clients' service quality disparities in Uganda are:

- **Advice from other FDI clients** can be defined as personal and sometimes non-personal statements made by parties other than the Government of Uganda investment officials conveying to FDI clients what the service will be. It is the piece of advice other FDI clients give to intending investors or their representatives as regards intangible and tangible enablers of investment services provided by GOU officials. The influence this type of advice has on both, expected and actual service, has been reported (Brink & Berndt, 2004:59; Zeithaml *et al.,* 2006:95). Advice from current service clients is perceived by new FDI clients as an unbiased source of information. Because of high credence and experience properties, advice

from current users is considered important in evaluating FDI services before consumption. Advice from other service clients is viewed as one of the determinants of potential disparity between clients' expected and actual service quality (Wangenheim & Bayon, 2004:1173; Zeithaml & Bitner, 1996:90; Zeithaml *et al.,* 1990:19). Based on the above evidence that advice from other FDI clients' impacts new FDI clients' expected and actual service quality, a hypothesis was formulated as follows:

> $H_{1.1}$: "advice" from other FDI clients on tangible and intangible service enablers influences "service quality" of new FDI clients.

- **Uganda Investment Authority Office setting** may be defined as the sum of all the variables or forces that have a positive or negative effect on the establishment, survival, growth and goal achievement of Uganda Investment Authority (UIA) as Government of Uganda (GOU) agency. Office setting comprises largely of tangible enablers. It is not clear to what extent the office setting influences FDI clients' expected and actual service. The office setting comprises internal and external sub-setting. The internal setting represents UIA's ambient conditions, spatial layout, functionality, signs, symbols, and artifacts that impact on service quality (Zeithaml *et al.,* 2006:328). The external sub-setting represents the market (micro) and macro (mega) variables that impact service quality (Bosch *et al.*, 2006:48-95; Chartered Institute of Marketing 2006:68-76). Service researchers have suggested that clients judge the quality of services based on their perceptions of the technical outcome provided, the process by which that outcome was delivered, and the quality of the physical setting of the service encounter point (Zeithaml *et al.,* 2006:333). For example, a restaurant patron will judge the service on her/his perceptions of the meal (technical outcome quality), how the meal was served, and on how the employee interacted with her/him (interaction quality). The décor and surroundings (physical setting quality) of the restaurant will also impact clients' (patrons') service quality (Zeithaml *et al.,* 2006:116). Since a considerable body of research concluded that office setting impacts clients' expected and actual service quality, it was hypothesised that:

> $H_{1.2}$: "Office settings" as tangible influence "service quality" of FDI clients.

- **FDI client needs** may hinge largely on the potential return on investment, thus the enablers are those factors that minimize costs and maximise returns (Zeithaml *et al.,* 2006). It should be noted that FDI clients' main interest is the return on service quality (ROSQ) investment. To adequately evaluate ROSQ, four assumptions are useful: quality is an investment, quality efforts must be financially accountable, it is possible to spend too much on quality, and not all quality expenditures are equally valid (Zeitham et al., 2006). Client needs as regards ROSQ are basically intangible financial motivators that lead an FDI client into the drive state for specific investments. Based on the above, the following hypothesis was formulated:

  $H_{1.3}$: "FDI clients' needs" as intangible ROSQ enablers influence their "service quality" perceptions.

- **Relationship with UIA officials** refers to the attempt by UIA officials to build and maintain a base of profitable clients (Brink & Berndt, 2004; Zeithaml *et al.,* 2006). These too are intangible enablers. Whereas the FDI clients benefit from such relationships by receiving greater value relative to what they expect from GOU officials, the officials benefit economically from having a substantial base of committed clients. Over time, the two parties develop a history of shared values and interdependence (Rootman, 2005). From the aforementioned theory that relationships have a potential impact on clients' service quality, it was hypothesised that:

  $H_{1.4:}$ "Relationship with GOU officials" as intangible enablers influences "service quality" of FDI clients.

- **FDI clients' awareness levels** refer to their cognitive experience of regarding the service in question. Evidence exists that knowledgeable clients are able to make effective and efficient decisions regarding service use (Rootman, 2006). It should be noted that awareness levels require intangible enablers to be satisfied. The literature indicates that client' knowledge levels of their roles in service co-creation and delivery impact on their service quality (Rootman, 2006; Zeithaml *et al*, 2006; Zeithaml & Bitner, 1996). Research findings from a study on satisfaction and quality indicated that the two constructs were independent but closely related and an increase in one was likely to lead to an increase in the other

(Sureshchandar, Rajendran & Anantharaman, 2002:363). Based on the above, it was hypothesised that:

> $H_{1.5}$: "FDI clients' awareness levels" as intangible enablers of investment services influence "service quality".

- **GOU officials' awareness of FDI clients' service needs** is probably the most critical step in delivering quality service and is closely linked to marketing research activities. GOU official awareness of FDI clients' needs is an intangible enabler that helps them deliver quality service. GOU investment officials need to perform intensive market research on FDI clients' expectations to gather information necessary for quality service designs that will meet clients' expected and actual service quality (Tsang & Qu, 2000; Zeithaml & Bitner 1996; Zeithaml *et al.,* 1990). The literature shows that clients' active participation in a marketing research enquiry on their expectations impacts their service quality (Zeithaml *et al.,* 2006). Parasuraman (2004) argues that service providers need to understand clients' desired and adequate expectations and how these relate to the zones of tolerance if they are to close the market information gap. Based on the above, the hypothesis pertaining to the impact of GOU officials' awareness of FDI clients' service needs on clients' service quality expectations was formulated as follows:

> $H_{1.6}$: "GOU officials' awareness of FDI clients' needs" is an intangible enabler that influences their "service quality" perceptions.

- **Past experience of FDI clients** refers to clients' previous exposure to the service in question. It should be noted that past experience is a composite of both tangible and intangible experiences with the service. According to Zeithaml *et al.* (2006), clients base on their previous experiences with the service to evaluate and predict subsequent service encounters. Past experience with the service represents a potential impact on clients' service quality (Zeithaml & Bitner, 1996; Zeithaml *et al.,* 1990). Evidence exists that past experience is not a universal phenomenon and not everyone perceives the same experiences due to differences in needs and objectives of clients (Pizam & Ellis, 1999). From the above, the following hypothesis was formulated:

$H_{1.7}$: "Past experience" with investment service influences "service quality" of FDI clients.

Hypotheses pertaining to FDI clients' Potential Service Quality Disparity

As shown in Figure 1, a potential disparity is hypothesised between FDI clients' expected, and actual services quality. The potential disparity is between expected and actual tangible and intangible enablers of service quality in the Ugandan investment business environment. The question as to whether the disparities are significant among FDI clients in Uganda comes to the fore. The theory of disconfirmation asserts that clients' concept of service quality depends on how well their experienced service matches their expected service (Ojasalo, 2001). Kang and James (2004) and Zeithaml and Bitner (1996) argue that process and technical outcome of quality may be judged (perceived) differently by clients. This research investigated whether a potential disparity exists between FDI clients' expected and actual service quality in the Uganda investment environment. From the above review on the potential disparities between FDI clients' expected and actual investment services, null and alternative hypotheses were formulated as follows:

$H_{2.0}$: There are no disparities between "expected" and "actual" investment services enablers of service quality to FDI clients.

$H_{2.A}$: There are disparities between "expected" and "actual" investment services enablers of service quality to FDI clients.

Methodology

Sampling procedure and sample size

Two sampling methods were used in this study: area sampling as the probability sampling method, and judgmental sampling as the non-probability sampling. Probability sampling was used in collecting quantitative data and judgmental in qualitative data collection. The minimum sample size was a function of the number of statements on the instrument times five (Veal, 2005). Veal's rule of thumb on the minimum sample size was upheld for an approximately 5000 FDI clients population in the Kampala Capital City Authority (KCCA)

area. Veal's rule states that the minimum sample size is equal to the number of statements on the instrument times five (in this 45 x 5 = 225 respondents). To measure variables of this study, interval data were collected from a sample of 215 respondents.

Quantitative data collection

A double column research instrument was used to gather quantitative data to measure variables pertaining to potential disparity between foreign investors' expected and experienced service quality. The instrument was constructed along the seven (7) dimensions of service quality. The statements to capture the dimensions were linked to a seven-point Likert-type interval scale anchored by "strongly disagree (1)" and "strongly agree (7)" (Kang & James, 2004; Zeithaml *et al.,* 1990). Individual foreign investors were the units of analysis as regards decisions on different FDI sector destinations in Uganda.

Four research assistants were employed in data collection from FDI clients. Because an area sampling as a probability method was used, each assistant was assigned one of the divisions of KCCA. Before commencing on these activities, a population of FDI clients and their contacts was obtained from Uganda Investment Authority (UIA) offices and a copy given to each assistant. Each assistant was facilitated with cell phone credits to randomly and systematically call respondents to whom they could deliver a questionnaire for quantitative data collection. Because of the heterogeneity of FDI clients, each assistant was instructed to ensure that different origins and different types and sizes of investments were included in the sample. In area sampling, it is important to ensure that each sampling area in sufficiently represented in the sample and this principle was upheld for this study. Later on, the same list was used to select FDI clients to participate in focus group interviews during qualitative data collection.

Regression Results

Empirical evidence motivates why "actual service" scales are the most applicable to assess service quality (Cronin & Taylor, 1992; Babakus & Boller 1992; Boulding, Kalra, Staelin & Zeithaml, 1993). On the basis of the aforementioned, only the "FDI clients' actual investment service" scales were used in the multiple regression analysis. Based on Table 1, the seven independent variables will be tested. The adjusted R^2 for FDI clients' model

summary of 0.502 reflects the model's goodness of fit for the population. The results in Table 4.1 indicates an R^2 that explains 50 percent goodness of fit for population and thereby making it comparable to other R^2s from equations with a different number of independent variables.

Testing of hypotheses (FDI clients)

H1.1: *"advice from other clients" influences "service quality" perception of new FDI clients*.

A statistically significant positive relationship exists between "advice from other clients" and "service quality" of new FDI clients when a significance of 0.07. H1.1 is not rejected. Therefore, the null hypothesis is rejected. Thus, there is sufficient evidence at the 90% level of significance to support the alternative (directional) hypothesis. This implied that advice from other FDI clients acted as an intangible enabler in influencing clients' service quality.

H1.2*: "Office setting" influences "service quality" perception of FDI clients.*

No statistically significant relationship was found between "office setting" and "service quality" perception of FDI clients with a significance score of 0.647. H1.2 is rejected. Therefore, the null hypothesis is not rejected. Thus there is insufficient evidence to support the alternative (directional) hypothesis. The UIA offices did not matter in FDI clients' Sector destination decision-making. Because of this, there was insufficient influence from office setting as tangible enablers on clients service quality.

Table 4.1: Regressions for FDI clients' independent variables.

FDI clients' Model summary				
Model	R	R square	Adjusted R square	Std. Error of the Estimate
	0.570	0.525	0.502	1.11079

FDI clients' Regression coefficients					
Model	**Un-standardized coefficients**		**Standardized coefficients**	**t**	**Sig**
	B	**Std. Error**	**Beta**		
1 (constant)	24	0.280	0.135	88.244	0.000
Advice from other FDI clients	0.665	0.365	0.135	1.823	0.070*
Office setting influences	-0.175	0.382	-0.036	-0.458	0.647
FDI clients' needs influence	0.055	0.424	0.011	0.133	0.895
Relationship with GOU officials	0.667	0.433	0.136	1.829	0.068*
FDI awareness levels of service	0.651	0.381	0.279	1.811	0.065*
GOU officials' awareness of FDI clients' needs	0.663	0.361	0.134	1.831	0.069*
FDI past experience with GOU officials' service	1.396	0.382	0.284	3.657	0.000***

*** = <0.01 * = <0.1

H1.3: *"FDI clients' needs" influence their "service quality" perceptions.*

No statistically significant relationship was found between "FDI clients' needs" and "service quality" perception with significance score of 0.895. H1.3 is rejected. Therefore, the null hypothesis is not rejected. There is insufficient evidence to support the alternative (directional) hypothesis. Thus there was insufficient influence from client needs as intangible enablers of service quality.

H1.4: *"Relationship with GOU officials" influences "service quality" of FDI clients.*

A statistically significant positive relationship "relationship with GOU officials" and "service quality" of FDI clients with a significance score of 0.068 was found. H1.4 is not rejected. There, the null hypothesis is rejected. There is thus sufficient evidence at the 90% level of significance to support the alternative (directional) hypothesis. Thus there was sufficient influence of relationships with providers that they influence service quality of FDI clients in Uganda investment environment.

H1.5: *"FDI clients' awareness levels" of investment services influence "service quality".*

A statistically significant positive relationship between "FDI clients' awareness levels" and "service quality" was found at 0.065 level of significance. H1.5 is not rejected. Therefore, the null hypothesis is rejected, there is sufficient evidence at the 90% level of significance to support the alternative (directional) hypothesis. The finding implied that a significant influence on service quality was exerted by FDI clients' awareness levels of investment services in as enablers in the Uganda investment environment.

H1.6: *"GOU officials' awareness of FDI clients' needs" influences their "service quality" perceptions.*

A statistically significant positive relationship between "GOU official's awareness of FDI clients' needs" and "service quality" at a level of 0.069 was found. H1.6 is not rejected. Therefore, the null hypothesis is rejected. There is thus sufficient evidence at the 90% level of significance to support the alternative (directional) hypothesis. The finding reflected a significant influence of provider awareness as enablers to client service quality.

H1.7: *"Past experience" with investment service influences "service quality" of FDI clients.*

A statistically significant positive relationship between "past experience" and "service quality" at a level 0.000 was found. H1.7 is rejected. Therefore, the null hypothesis is rejected. There is sufficient evidence at the 99% level of confidence to support the alternative (directional) hypothesis. This implies that past experience as an intangible enabler reflected significant influence on clients' service quality.

Paired Samples T-Test

Equal variances were assumed for the t-test due to pooled estimates of variance of scores from the same FDI respondents for the two service quality perception mindsets. The paired sample statistics indicate that the means are 24.74 (expected services) and 29.15 (actual service) with a mean difference of -4.40930 and significance of 0.000. Given that the threshold value for significance is $p \leq 0.05$, the t-test results in Table 4.2 indicate that the disparity between FDI clients' expected and actual investment service quality (FDI clients' Gap 5) in the Uganda investment environment is significant as is further substantiated by the illustration in Figure 4.2. Because FDI clients interfaced with tangible and intangible enablers to experience the total service, the paired sample t-tests reflected a composite position of respondents' mindsets, hence a disparity between both types of enablers.

Table 4.2: Paired samples t-test between FDI clients' expected and actual service

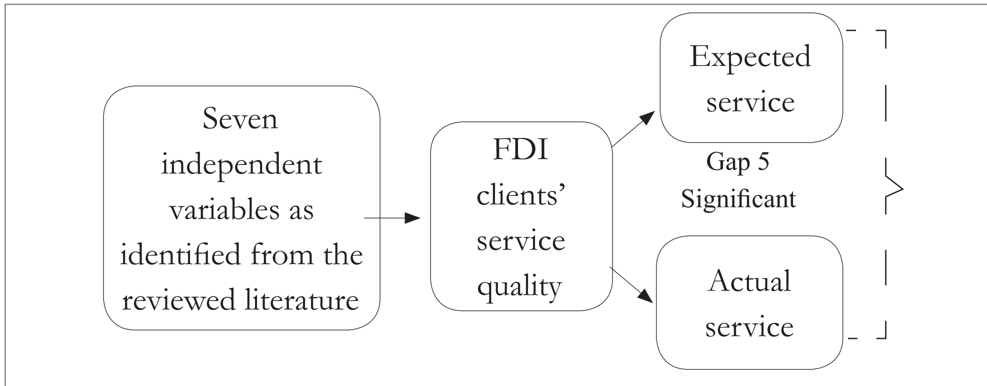
Paired samples t-test								
	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 hb-ha	-4.40930	5.76891	0.39344	-5.18481	-3.63380	-11.207	214	0.000

Paired samples statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair1	hb	24.7395	215	4.91964	0.33552
	ha	29.1488	215	5.58671	0.38191

Significance level $p \leq 0.05$.

Figure 4.2: Paired samples t-test results on FDI clients' Gap 5



This result implies that FDI clients in Uganda do perceive a difference between the services they expected and the actual service rendered by GOU official in UIA.

Testing hypotheses for the dependent variable

H2.0: *There are no disparities between "expected" and "actual" investment services to FDI clients.*

Table 4.3 reveals that there is a significant difference between FDI clients' "expected" and "actual" service quality at 0.00 level of significance. H2.0 is not rejected. Therefore, the alternative (directional) hypothesis is rejected. There is sufficient evidence at 99% level of significance to support the null hypothesis. The test revealed that there were significant differences between expected and actual service quality and both tangible and intangible enablers were responsible for this. The contributions may vary though.

Descriptive results

Table 4.3 shows findings on views of FDI clients as regards actual service quality experience. They were captured on 7-point Likert scale anchored on "strongly disagree (1)" and "strongly agree (7)". For purposes of knowing the relative importance of each service quality dimension in FDI Sector destination decisions, a ranking of the service quality dimensions was performed.

Table 4.3: Findings of FDI clients' views on actual service experiences on a 5-point Likert scale

Service quality dimension	FDI clients' views	Frequency	Percent	Valid percent	Cumulative percent	Dimension ranking
Reliability	Agree	130	61	61	100	1
	Other views	85	39			
Responsiveness	Agree	111	51	51	100	4
	Other views	104	49			
Assurance	Agree	108	50	50	100	5
	Other views	107	50			
Empathy	Agree	119	55	55	100	3
	Other views	96	45			
Technical quality	Agree	101	47	47	100	7
	Other views	104	53			
Image quality	Agree	106	49	49	100	6
	Other views	109	51			
Tangibles	Agree	123	57	57	100	2
	Other views	92	43			

Based on the frequencies of each dimension, the majority of the sampled respondents (130 out of 215) stated that they base the decision to invest in a specific sector destination on the reliability of the service from GOU officials. It should be noted that the reliability dimension falls under intangible service quality enablers. The second in the importance dimension was evidence of service in the form of tangible enablers (92 respondents out of 215). It also came out clearly that FDI clients based the decisions on service empathy as an intangible service quality enabler to make decisions on sector destinations. Rankings on other enabler dimensions of service quality are indicated in Table 4.3.

Table 4.4: FDI clients' countries of origin

FDI clients' country	Frequency	Percent	Cumulative percent
America (USA)	3	1.4	1.4
Bangladesh	2	0.9	2.3
Brugalia	2	0.5	2.8
Bukinafaso	1	0.5	3.3
Bulindi	1	0.5	3.8
Canada	2	0.9	4.7
China	9	4.2	8.9
Congo	1	0.5	9.4
Denmark	1	0.5	9.9
DRC	3	1.4	11.3
Egypt	5	2.3	15.6
Eritrea	2	0.9	16.5
German	4	1.9	18.4
India	61	28.4	46.8
Indonesia	1	0.5	46.3
Ireland	1	0.5	46.8
Israel	2	0.9	47.7
Italy	3	1.4	49.1
Japan	5	2.3	51.3
Kenya	40	18.7	70.2
Korea (south)	4	1.9	72.1
Libya	2	0.5	72.6
Malawi	1	0.5	73.1
Malaysia	2	0.9	74.0
Netherlands	3	1.4	75.4
Newzeland	1	0.5	75.9
Nigeria	4	1.9	77.8
Pakistan	9	4.2	82.0
Portugal	1	0.5	82.5

FDI clients' country	Frequency	Percent	Cumulative percent
Rwanda	3	1.4	83.9
S Africa	9	4.3	88.2
Saudi Arabia	4	1.9	91.1
Somalia	1	0.5	91.6
Southern Sudan	1	0.5	92.1
Switzerland	2	0.9	93.0
Tanzania	1	0.5	93.5
Tunisia	1	0.5	94.0
Turkey	3	1.4	95.4
UAE	3	1.4	96.8
Ukraine	3	1.4	97.7
UK	4	1.8	98.5
Zambia	1	0.5	99.0
Zimbabwe	1	0.5	99.5
Missing	1	0.5	100
Total	215	100	

Table 4.4 shows FDI clients' countries of origin. The findings indicate a global view as regards FDI clients' countries of origin. India with a frequency of 61 of the 215 respondents representing 28.4% is the biggest contributor of FDI clients to Uganda. Kenya with 40 respondents (18.7%) takes the second position. Other major countries of origin included China and Pakistan each with 9 respondents (4.3%).

Discussion

The primary objective of the study was to investigate *two key questions come to the fore:* Firstly, are FDI clients receiving investment services they expect from GOU officials? Secondly, what is the relative importance of service quality dimensions as determinants of FDI sector destination decisions in Uganda? The first question implies a potential disparity between FDI clients' expected and experienced service quality that impacts their investment decisions. The disparity also reflected differences in influences of different tangible and intangible enablers of service quality in the Ugandan investment environment.

The second question implies a potential variation in relative importance of service quality dimensions in influencing FDI clients' decisions in regard to sector destination in Uganda.

A comprehensive literature review was carried out. Relevant secondary sources were used to generate statements for the FDI clients' research instrument and design the hypothetical model. The analysis of secondary sources on FDI clients' service quality perceptions revealed the variables for the research and the hypothesised relationships between the variables. Seven independent variables were identified to impact on the dependent variable (service quality to FDI clients) in the investment environment in Uganda.

Of the seven independent variables, five were found to have statistically significant relationship with the dependent variable, implying they were important influencers of clients' service quality. One of the five "FDI clients' past experience" was found to have a relationship at 99% level of confidence while, "Advice from other FDI clients, relationship with GOU officials, FDI awareness of the needs, and GOU officials' awareness of FDI clients' needs" were significant at 90% level. This finding implies that in the investment environment in Uganda, previous service encounters matter a lot in sector destination decision-making.

A number of sources in the services marketing literature have indicated that when the service clients' expectations exceeded reality, a negative disconfirmation has occurred. A negative disconfirmation implies that the client is dissatisfied with the service experience. It is means that the service received is considered inferior. It also means that service quality enablers are weak, whether tangible or intangible. A negative disconfirmation is also known as a service disparity. In this investigation, the negative t-test result (hb-ha= -4.40930) implied that FDI clients were dissatisfied with investment service experiences. It may also explain the low numbers of FDI clients from most of the countries, the global representation notwithstanding. This acts as a wakeup call to GOU investment officials in their service delivery practices.

Limitations to the research

Despite the necessary precautions taken to ensure that the requirements of a good research project were met, such as reliability, validity and generalisability, this study experienced some limitations. FDI clients' busy business schedules led to limited time to score their opinions in our questionnaires. In addition, some of the questionnaires were incomplete most probably for the aforementioned time shortage.

Implications

Theoretical implications

The application of service quality dimensions in clients' decision making processes in regard to consumption of service offerings seems to vary from client to client and from client group to client group. To the FDI clients in Uganda, service reliability and empathy were the most important dimensions. Other studies in the telecommunications and health sectors have indicated other dimensions as the most important. Service quality theory then seems to be applied differently in different service sectors. This means that service quality dimensions cannot be assumed to have universal applications. Further, service quality is an interplay between tangible and intangible enablers a service client interfaces with in the interactive service encounter. Enablers too vary from encounter to encounter in service settings.

Policy implications

The statistically significant relationship between "FDI clients' past experience with GOU" and "service quality" of FDI clients implies that GOU officials should ensure that they act right on the first encounter with their FDI clients. The non-significant relationship between "office setting" and "service quality" also indicated t-value. This may imply that UIA offices do not only show serious tangibility effects as a service quality dimension but also are viewed by FDI clients as of no consequence to their sector destination decision-making process.

UIA needs to do something to improve on its office settings. The paired samples t-test result indicated that FDI clients were dissatisfied with GOU investment officials' service quality. This has negative multiplier effect in terms of negative advice from other FDI clients which in turn may slow down FDI

flows into Uganda. UIA may have to train its staff to reverse this mindset among FDI clients. Given that services contribute a significant part of the GDP, policy makers need to rethink how FDI clients' negative mindset on service quality may play in Uganda's business environment.

Managerial implications

The management in UIA needs to train their staff in client/customer care practices as a mitigation effort to close FDI clients' very vivid Gap 5. One effective way would be to establish an internal Customer Satisfaction Index(CSI). This tool seeks to answer the key question, 'How are we performing today'? Its operationalisation is by way of structured questionnaires on key customer satisfaction variables across the major points of interface with customers. The regression scores suggest that UIA management needs to improve their office setting as the result suggest the office do not have a significant effect on FDI clients Sector destination decision-making processes. The management needs to use service recovery mechanisms to ensure that they correct and learn from earlier mistakes as a way of ensuring delivery of quality service. Issues of client complaints should be taken seriously. Although no specific question was asked about corruption, the negative mindsets on investment service quality could be implied. This requires an undercover investigation to unearth it and improve on delivery of quality investment services.

Conclusion

The primary objective of this paper was to establish whether FDI clients were receiving quality investment services they expected from GOU officials. The findings on this objective were that FDI clients were not receiving quality investment services they expected from GOU investment officials. Secondly, the paper was to establish the relative important FDI clients attached to the various service quality dimensions. The findings indicated that "FDI clients past experience" and "empathetic services" to FDI clients were the most important dimensions.

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Chapter Five

Governance of the Commons: Co-management Vs Public Private Partnership for Supply Chain Competitiveness in Uganda's Liberalised Fishing Industry

Michael Mugabira and Richard Chivaka

Abstract

This paper builds on the classic work written by R. Quentin Grafton (2000) on three major forms of property regimes for common property resources, (see Grafton 2000 'Governance of the Commons: A Role of the State?'). The paper focuses on sustainable competitiveness of common resources, subjected to degradation and depletion, thus leading to Hardin's 1968 famous analogy, 'Tragedy of the Commons'. This paper extends Grafton's analysis and adds value to the debate by: (1) approaching governance of the commons through the lens of value chain governance framework; (2) focusing on the effectiveness of the role of the state via a Public Private Partnership (PPP) arrangement with lead firms in the supply chain; (3) bringing the perspective of a developing country – Uganda, situated in sub-saharan Africa through a case study; and (4) highlighting some of the gaps in prescriptive management of community rights models reported in the literature.

The findings of this study reveal that a state and local community management of the commons, referred to as co-management model, did not achieve the desired supply chain competitiveness and resource sustainability as envisaged by its proponents the development partners.

Keywords: Supply chain Governance; Market Forces; Public Private Partnership; Co-management; Sustainable Competitiveness; Common Property Resources; Fisheries- Uganda

Introduction

Grafton (2000) discusses private rights based property regimes. He argues that private rights based property regimes *(res privatae)* use market prices for accessing and harvesting rights over the yield from a common resource pool. He presents a successful case study of the British Columbia's Halibut Fishery, where the resource users were licensed with a private property system known as individual vessel quota (IVQ), which permitted them to harvest a given percentage of the total allowable catch (TAC) per fishing season. He states clearly that under this arrangement, the state was the custodian of the fisheries resource on behalf of the Canadians. A similar arrangement exists within Uganda's fisheries; where the Government of Uganda is the custodian of the resource (MAAIF, 2004). The difference is Uganda does not issue private property rights such as IVQs for common resource management, in a free market economy.

Market forces are considered as one of the most innovative governance models for making markets work better for developing countries. It is a broad framework governance theory understood in the context of neo-liberal ideology comprising of trade liberalisation, 'free trade', 'getting prices right', privatisation of public enterprises, and reduced role of the state in the economy (Schurman, 1996; Stiglitz, 1996). The assumption behind the theory is that long-term economic growth will be achieved through the pursuit of short-term efficiency gains (Schurman, 1996). This neo-liberal school hardly contrasts Adam Smith's '*invisible hand*' analogy: markets lead to efficient outcomes, thus contributing to the welfare of the whole society.

Given such appealing arguments, in the early 1990s, the Ugandan Government under the leadership of President Museveni embraced the market forces model through a World Bank and IMF programme of reform known as Structural Adjustment Programs (SAPS). The reforms included divestiture of state enterprises, lifting of price controls, liberalising capital markets, and setting up a statutory body responsible for attraction of foreign direct investment known as Uganda Investment Authority (UIA).

As the free market theory holds, the reforms produced impressive growth results, among outstanding results in other sectors. About a dozen fish processing firms emerged in the country in the last ten years accounting for a total investment value of more than US$ 10 million. This growth in capital

investment resulted in a 25% growth in fish export earnings for Uganda. For example rates grow from a dismal 4,751 tons or US$ 5,308 million in 1991 to 36,600 tons or US$ 143,168 million in 2005, reflecting a contribution of 12% of the Gross Domestic Product (GDP) to the country.

Despite the popularity of the free market policy regulatory framework among Western-leaning policy makers, a few studies and analyses of its effect on long-term survival of the commons in global commodity supply chains have been undertaken (Schurman, 1996; Dubbink & Vliet, 1996; Campbell, Mcllgorm & Tsamenyi 1997; Loucks, 2007). This paper is an attempt at responding to the call by Economic Commission for Africa (2001) and Food and Agricultural Organisation (2002), for increased research on the role of markets and common property resources. Specifically, this paper undertook a comparative analysis of two property regimes. These were the co-management versus public private partnership with regard to restoring equilibrium of common property resources (capture fisheries); and to enhance competitiveness, within a frame work of market forces.

While this study may not be an authority on forecasting the future health of Uganda's economy (or similar developing countries, without further careful qualifications), it provides invaluable insights by opening up the debate on the appropriate policy regulatory and governance model suitable for the sustainable explotation of the commons in a developing economy.

The study set out to explore the following research questions:

(a) What is the appropriate harvest rate that can restore equilibrium in fisheries for sustainable competitiveness?

(b) To what extent does efficiency relative to gain distribution affect incomes of supply chain participants both at macro and micro levels?

(c) Which property regime can be appropriate in governance of the commons for sustainability of the fisheries resource in Uganda?

Sustainable Competitiveness

Competitiveness remains a contentious and yet a vibrant public debate issue for growth by both practitioners and academicians. There are various schools and assertions about the concept. Krugman (1994:30) argues that, 'Obsession with competitiveness at national level is not only wrong but dangerous'. Other studies contend that, despite its widely acknowledged importance, the concept

itself is highly misunderstood (The Asian Development Bank, 2003; Claudia, 2007; Kohler, 2006; Kovacic, 2007). This sentiment was also acknowledged by The World Economic Forum in its Global Competitiveness Report 2004-5, that measures country or block level of competitiveness. On the other hand, Porter (2004) views competiveness as a major pathway for national economies to benefit from market liberal reforms. However, despite the disagreement between Krugman and Porter, both considered authorities on the subject, they agree that it is firms that compete, and not nations. However, supply chain management literature takes a different perspective on the issue of competitiveness.

Christopher (1992), Christopher & Towill (2001), Lummus & Vokurta (1999), and Chivaka (2005) assert that supply chains compete, but not firms. In other words, value is created or lost in the context of the inter-company processes that span the entire supply chain. This study intends to build on this idea by asserting that supply chains compete, but not firms. The sustainable competitiveness of Uganda's fisheries supply chains, which operate within the globalised liberalised economy, is analysed, interpreted and reported upon in the context of the supply chain processes.

There is a dearth of empirical studies on competitiveness assessment of agro-supply chains in developing countries, especially sub-Saharan Africa. Some available studies are from Asia (Sagheer & Yadav, 2009), Europe (Henchion & McIntyre, 2005; Bilalis, Alvizos, Tsironis & Wassenhove, 2007), Latin America (Zylbersztajn & Filho, 2003). In developing countries like Uganda, the majority of players belong to the unorganised informal sector; this renders access to first-hand information cumbersome (Sagheer & Yadav, 2009). This may contribute to the scarcity of empirical studies, hence the relevance of this study.

Competitiveness at supply chain level according to Rao & Holt 2005 means improved efficiency, quality improvement, product improvement, and cost savings. The Government of Uganda through the Competitiveness and Investment Climate Strategy measures competitiveness through sustained increase in productivity, efficiency and innovation throughout the commodity/service supply chain, and emphasizes the need for shared understanding of joint and collective action between and amongst the private and public sector actors (Ministry of Finance Planning & Economic Development, 2007). A divergent view is shared by (Kovacic, 2007; Omel & Varnik, 2009) by adding on

profitability as a measure of competitiveness. This implies that competitiveness is a multi-dimensional construct. However, this study will limit itself to the objective of the supply chain; which is meeting customer/consumer product expectations in terms of four reliability attributes: *quality, quantity, cost ,* and *timely deliverables* offered together with better services (Lysons & Farrington, 2006; Mugabira, 2008). The four product reliability dimensions define the concept known as *effectiveness*. Further, Lysons & Farrington (2006) emphasise that it is both effectiveness and efficiency that make a supply chain competitive. Efficiency is the ratio of input/output (International Centre for Tropical Agriculture, 2004; Albu & Griffith, 2005); thus enabling the production of superior goods and services at low cost than competitors or rivals (Kakani, Rajesh & Sehgal, 2001; ADB, 2003; Wysokinska, 2003). Therefore, efficiency is achieved through value creation by the elimination of waste or *'muda'* along the supply chain. Fredrick & Gereffi (2009) have identified equity as another dimension for sustainable value chain competitiveness. Equity is the fairness in distribution of economic rents and/or benefits among actors and/or entrepreneurs along the value chain. Mugabira's (2008) study revealed unfairness in the distribution of economic benefits among actors along Uganda's international fishing supply chain. This study will take into account the dimension of equity in addition to effectiveness and efficiency.

This paper investigated fish stock sustainability in the context of sustainable competitive dimensions of reliability in quantities and corresponding revenues generated from Nile Perch fish catches and exports at the macro level. This enabled the study to ascertain the Optimum Sustainable Yield for long-term revenue generation and survival of the commons in the current turbulent global competitive free-markets economy.

Property Regimes for Common Property Resources – The Case of Uganda

Common Property Resources

Worldwide, fisheries are considered to be common property resources (FAO, 2002). Common property resources are those where no individual has exclusive property rights, and they include village pastures, community forests, village ponds, water bodies, and similar natural resources. According to Schlager E.

& Ostrom E. (1992), Rupasingha A. & Boadu F. (1998), encyclopedia website, the term Common Property Resources (CPRs) is synonymous with 'the tragedy of the commons' in an article published by Hardin in 1968. *Tragedy of the Commons* was defined to be a form of economic social trap involving a conflict between resource users and the common resource. This theory is traced back to Thucydides (460-395 BCE) and Aristotle (384-322 BCE) who generally observed that, what was considered common to everybody had the least care tended upon it. The theory was then picked up by Lloyd in 1833 who studied the nature of herdsmen in the scramble for the common pasture grounds. He observed that herdsmen who used a common pasture land had a tendency of enlarging their stocks. However, if unchecked, the enlarged herds would exceed the capacity of the grazing grounds leading to overgrazing.

Gordon (1954) introduced the concept of common property resources, when he studied the relationship between low earnings and over-fishing among Canadian fishermen. Then in 1968, Hardin is credited with introducing this idea in an article "the tragedy of the commons", thus opening up an on-going academic debate for over the past 30 years. The tragedy of the commons by Hardin referred to grazing rights in a hypothetical village of commons. The article was based on the following assumptions: individual self-interests override the interests of the community as a whole; the environment is limited; the resource must be collectively owned and freely open to any user.

Extending Hardin's (1968) assumptions in the context of fisheries, these three factors in totality are said to contribute to an economic decline of profitable fisheries due to an upsurge of more fishermen trying to maximise resource rents (FAO, 2002). The FAO report further argues that every new boat a fisherman adds to a common resource pool gains him almost +1, whereas consequences of fish depletion are shared by all, and his loss amount to a fraction of -1. However, Berkes (1985) and Durrenberg & Pallson (1987) as cited in FAO report (2002) contend that most fisheries are not in reality open access common property resources as portrayed by Hardin's (1968) article. They argue that either government or the local community exercised control and therefore individual interests have to be aligned to collective community interests.

In Uganda, most of the fisheries belong to government and they are regulated by the Fisheries Act 1964 as amended the Fish Act. Cap.197".

(MAAIF, 2004). This Act mandates the Department of Fisheries Resources (DFR) has the power to regulate the fishing sector on behalf of the Uganda Government in terms of control of fishing, conservation of fish, purchase, sale, marketing and processing of fish and any other matters that may arise. However, in order to fully understand and appreciate the detailed discussions around different property regimes, it is necessary to briefly discuss the value chain governance framework for the following reasons. First the supply chain is composed of both chain actors and non-chain actors, playing different roles in the flow of the products and information. Second, the chain actors wield different levls of power depending on their position in the chain link. Third, chain governance shapes market structures and property regimes of common property resources. The relevance of this framework can be due to the fact that a variable within the different property regimes (for example characteristics and the value creation processes within different property regimes) can only be understood when one uses the supply chain governance framework as a lens through which these regimes are evaluated, interpreted, contrasted, appreciated and applied.

Supply Chain Governance Framework

Fisheries, a common property resource, has been found to be vital for the survival of the rural, micro, and medium entrepreneurs (DFID, 2002; MAAIF, 2004; World Bank and the EU cited in LVFO 2005; Aggarwal, 2006; DFID & GTZ, 2007). In Uganda CPRs contribute 12% of GDP (MAAIF 2006). Similar studies elsewhere do not negate this finding. For instance, India earns an annual income of US5 billion (approximately 12%) as household income for the rural households (Beck & Nesmith, 2001). This amount was considered to be about two-and- a- half World Bank lending to India in the fiscal year 1996; about twice foreign direct investment flows and more than twice the amount of official development assistance to India in same year (Beck & Nesmith, 2001).

A number of pathways to increase earning power and sustainability among the commons exist, but the most prominent and sustainable one is based on the framework of chain governance theory (Gereffi et al., 2005). Chain governance is traced back to the framework of Global Commodity Chains (GCC), developed by Gary Gereffi & Miguel Korzenienicz in the early 1990s. Gereffi & Korzenienicz (1994) framework is centred on four key structures

that shape GCCs (input-output, geographic, governance, and institutional). The notion of governance among the four key structures has received much attention by several authors. Governance of the supply chain is defined as, 'Authority and power relationships that determine how financial, material, and human resources are allocated and flow within the chain' (Pietrobelli & Saliola 2008: 950). In this context, chain governance highlights two critical aspects: (i) *what is produced,* and (ii) *how it is produced*. Sturgeon (2008) contends that there has been a shift from commodity chain to value chain due to the need for value adding activities in the chain. Therefore, the GCC framework has shifted to the GVC (Global Value Chains) framework. Specifically, a key distinction arises on who drives and governs the global supply chain linkages between buyers and producers. Researchers understand GVCs as sets of inter-firm networks which connect primary producers, manufacturers, suppliers, and sub-contractors in global industries to each other and ultimately to export markets (Gereffi et al., 2005; Ponte & Gibbon, 2005).

Gereffi et al., (2005), identify three determinants of firm-level coordination: (i) transaction complexity, (ii) transaction codifications and (iii) supplier capabilities. The determinants of firm-level coordination were associated with the five generic coordination patterns and/or chain governance structures as follows: *simple market linkages* - governed by price; *modular linkages* – where complex information pertaining to transactions is codified and often digitised before passing over to highly competent suppliers; *relational linkages* – where tacit information is exchanged between buyers and highly competent suppliers; *captive linkages* – where less competent suppliers are provided with detailed instructions; *hierarchy linkages* – linkages within the same firm, governed by the managerial fiat.

In addition to the chain governance structures, power distribution is another important aspect shaping supply chain governance. Perrow (1981) asserts that power is an integral part of economic life. Borrowing an adage from the rule of the jungle, the weak animals are swallowed by the powerful ones This holds true in the daily economic life of mankind. The effects of power or lack of power can be discerned at all levels in the supply chain. Non-firm chain actors including national policy and regulatory bodies, multi-lateral institutions such as World Trade Organisation, can shape supply chains through various degrees of enforcement of rules. Consumers have purchasing power, by

determining whether to buy or not. Workers also have power in cases where they are organised into strong and active trade unions.

At the firm level, power is wielded in different ways and amounts by various actors in the supply chain. These are categorised into lead firms and supplier firms (Sturgeon, 2008). Lead firms are buyers and they wield the purchasing power. Buyers place orders, specify standards, deliveries, buying price etc. Hence can potentially appropriate higher economic rents. Suppliers may also wield power in the supply chain if they possess market and technological dominance (Gereffi et al., 2005). This has been found to take place especially in high-tech industries such as electronics, auto mobiles etc. (Gereffi et al., 2005; Ponte & Gibbon, 2005; Sturgeon, 2008). With respect to commodity chains and/or natural resource based sectors, primary producers have been found to lack power, ultimately effecting appropriation of economic rents (Mugabira, 2008; Peppelenbos, 2008). The effects of power distribution are also linked to the quality of institutions governing natural resources (Douhan & Henrekson, 2008), which determine the efficacy of property regimes.

The next paragraph discusses the different property regimes through a framework of supply chain governance to achieve sustainable competitiveness of common property resources.

Community Rights Based Property Regimes and/or Co-Management

Grafton (2000) asserts that community rights based property regimes *(res communes)* effect behaviour by using social norms and reciprocity to help ensure that individuals behave in the interests of the identified community. He also presents Ostrom's (1990) commons set of principles for the successful community management of CPRs, as described below:

(a) Well-defined geographical boundaries for the resource
(b) Rules of access and withdrawal that are acceptable by community and which are tailored to the resource and institutions
(c) Monitoring and enforcement of rules with graduated sanctions against transgressors
(d) Resolution mechanisms for disputes among members
(e) Participation of most resource users in changes to collective rules
(f) Recognition by outside authorities of collective rights.

These conditions will be discussed later in relation with co-management in Uganda. As mentioned in the introduction to this paper, historically, fisheries resources have been managed under a centralised management strategy (MAAIF, 2004). With the market forces under play, the state-based management regime strategy was not successful, resulting in the exacerbated use of illegal fishing gears and harvesting of large quantities of immature fish. With the fisheries resource facing extinction, the Government of Uganda through the Department of Fisheries (DFR), introduced co-management.

Co-management is defined as a partnership between the state and the user groups under which the responsibilities and roles are shared for effective management of the resource. The Government of Uganda passed a law for implementation of co-management, known as the Statutory Instrument No. 35 'Beach Management' Rules 2003. The broad objectives of the Statute are to:

(a) Provide a legally empowered institutional framework that brings together all fisheries stakeholders, including the poor and marginalized, and actively involve them in decision-making for sustainable management of fisheries resources

(b) Provide fisheries stakeholders with an officially recognised organisation role in partnership with local governments and the state in the co-management of fisheries resources in accordance with prevailing policies and laws

(c) Improve the welfare and livelihood of people in fisheries dependent communities through improved planning and resource management, good governance, democratic participation, and self-reliance.

Under this arrangement, communities living at fish landing sites were organised under Beach Management Units (BMUs). Through participatory elections, communities under BMUs elected local committee leaders to manage the resource. The stakeholders on the committees were elected in line with the BMU guidelines involving boat owners, boat crew, fish mongers, and other categories, with at least three members being women.

Despite the introduction of co-management in Uganda's capture fisheries, the degradation and resource depletion never receded contrary to the good intentions of involving the communities. The possible reasons, for the situation will be provided in the field finding notes under results section.

State Rights Based Property Regimes and/or Public Private Partnership

Grafton (2000) states that state rights based property regimes *(res publicae)* apply a rules based approach to effect individual behaviour. He presents a balanced picture of state intervention for resource sustainability. Citing Bromley & Chapagain (1984), and Pradhan & Parks (1995), he shows examples where centralised control of common property resources by the state was a failure. He cites the nationalisation of forest land by Nepalese Government in 1957 that led to deforestation. Another example cited was the nationalisation of land in Senegal in 1964 that resulted into over-grazing. Both examples of resource degradation are associated with open access since neither local communities nor individuals cared for the resource. Against this background of state failure property regimes, associated with weak enforcement and corruption by public officials, renders state based property regimes ineffective (Grafton, 2000).

Despite the failure of state property based regimes, Grafton (2000) contends that the state has a role to play in management of CPRs. He argues that property rights whether private, community, or state based produces a mix of rights among individuals, firms, communities and the state. A mixture of these rights produces institutional costs associated with coordination in the governance of CPRs. He cites an institutional cost, such as provision of reliable information concerning the state of the resource and the environment. He argues that this activity is too expensive to be undertaken by private individuals or communities; it is mainly the state that can support research of this nature. This paper builds upon Grafton's (2000) argument, that the role of the state in CPRs should be more of a facilitator, rather than exercising full authority. The role played by the state can be appreciated under the public-private partnership arrangement that emerged due to the persistence of immature fishing in Uganda. The reasons behind the vice of immature fishing were linked to corruption by enforcers, weak enforcement of regulations, and lobbying of politicians by lead firms in the fish value chain (Ponte, 2005).

With the situation of immature fishing in Uganda getting out of hand, the sector started experiencing fish shortage supplies and as a result some processing factories closed shop. The processing factories, perceived to be lead firms in the supply chain, undertook collective action measures through

their umbrella association known as Uganda Fish Processors and Exporters Association (UFPEA). UFPEA, a private body, initiated a meeting with DFR (an arm of the state) and set up a joint task force, with penalties and sanctions for its members involved in the vice of purchasing immature fish. All members were required to contribute a fee periodically to facilitate the task force activities of monitoring and enforcement. This type of arrangement provided a point of departure for the establishment of a public private partnership model. The collective action arrangement, undertaken by lead firms positioned neither upstream nor downstream within a framework of supply chain governance, exercises power in shaping the operations and functioning of the chain.

The involvement of the government through a statutory institution to work in conjunction with the private sector is also referred to as a hybrid institutional arrangements (Berkes, 2004; Loucks, 2007). This represents a balance in power. Power that could not be achieved between the state and communities under co-management, but can be achieved between the state and lead firms that hold power, as supply chain governance theory postulates. Conversely, the power of communities is weak and they can hardly cause effective change in resource management operating in a globalising market.

The balance of power between private and public entities is synonymous with the metaphor 'golden eagle model' introduced in this study representing the left and right wings of an eagle. Such a model can propel nations to achieve competitiveness in global markets and thus realise their desired dreams. As an eagle cannot soar to greater heights without both wings, similarly developing nations, may not be able do so without injection of the critically needed investments (provided through lead firms).

Methodology

The study provides evidence using cross sectional data in the upstream supply chain involved in Uganda's liberalized fishing industry. The study was built on three types of information: quantitative data, qualitative data, and policy reviews. Similar data was gathered from different sources for 'triangulation' in order to strengthen data quality.

Six local governments were selected randomly among the 24 surrounding the three major lake water bodies of Victoria, Kyoga, and Albert. The focus of the study was on small players in the upstream supply chain (fishermen, boat owners, and factory suppliers). All these categories were reached at the landing sites BMUs, and participation was based upon those who turned up that day for business transactions (Sumaila and Louise, 2007). A total sample of 480 respondents had been targeted to be accessed by face to face survey questionnaire. However, 453 respondents (94.3%) were surveyed, which is quite high compared to an average of 50 – 70% by many studies (Crean and Wisher, 2000). Focus Group Discussion technique was applied to BMU executives and Fish Traders separately, while Key Informant Interviews were designed for Policy Executives and Factory Processors. The variable for fish sustainability and corresponding sustained competitiveness was investigated by collecting mainly quantitative data from reports spanning for a longitudinal period between 1980 and 2009. Items in the main survey instrument were subjected to reliability test using Cronbach's alpha coefficient (Cronbach, 1967; 1970), and variables that scored below 0.7 were deleted and replaced, for rendering consistency in commercial studies (Berthon, Ewing and Napoli, 2008). The validity test was done by four peer review members selected from industry and academics. The results of the study are presented in the following section.

Results

Harvest Rates for Equilibrium (Sustainable Yield)

This section presents the results of the investigation undertaken to assess the competitiveness and sustainability of fisheries' supply chain in Uganda. This was done by examining the sustainability of the supply chain in terms of meeting supply market objectives of reliability in quality assurance 'harvesting

legal size of fish', quantity 'rate of exploitation relative to fish bio-mass replenishment', and consistency in revenue earnings and supplies delivery.

Trend of Fish Harvest and Export Volumes at Macro Level

Table 5.1: Fish Capture and Fish Exports Data for all Water Bodies between 1991 and 2009

Capture for all Water Bodies			
Year	**Quantities '000 tonnes'**	**Quantities (Fillet-Tonnages)**	**Value US$ '000'**
1980	165.9	N/A	N/A
1981	167.8	N/A	N/A
1982	170	N/A	N/A
1983	172.1	N/A	N/A
1984	199.2	N/A	N/A
1985	171.1	N/A	N/A
1986	202.9	N/A	N/A
1987	167.84	N/A	N/A
1988	214.25	N/A	N/A
1989	213.61	N/A	N/A
1990	245.22	N/A	N/A
1991	219.57	4,751	5,308
1992	224.1	4,831	6,450
1993	276.8	6,037	8,807
1994	218.94	6,563	14,769
1995	227	12,971	25,903
1996	218.4	16,396	39,781
1997	218.4	9,839	28,800
1998	217.1	13,805	34,921
1999	229.51	13,380	36,608
2000	219.5	15,876	34,363
2001	220.72	28,672	80,398
2002	221.89	25,169	87,574
2003	241.81	25,110	86,343
2004	402.57	30,057	102,917
2005	416.75	36,614	143,168
2006	362.2	36,461	145,837
2007	369.3	31,681	124,711
2008	364.8	24,965	124,436
2009	366.6	21,501	103,372

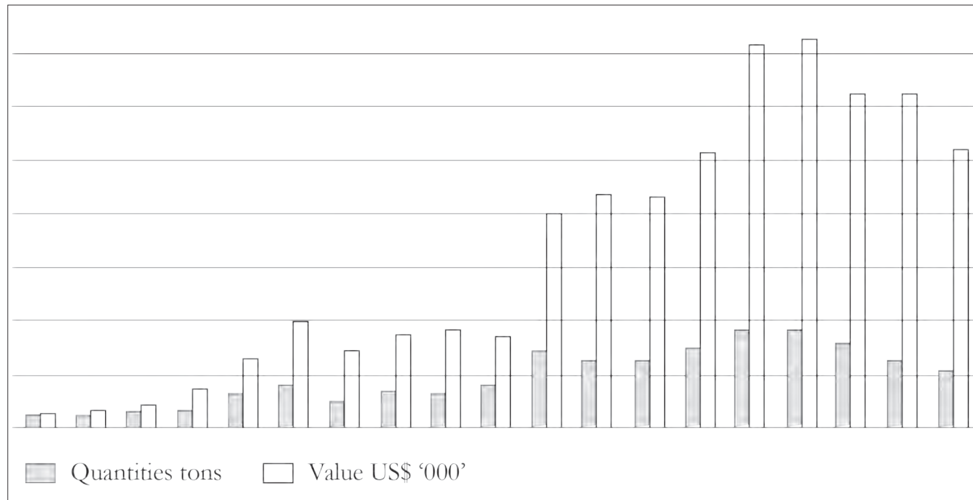
Source: MAAIF, 2010, UBOS 2010

Note: Data for regional exports not included

Reliable fish data management is still a challenge in Uganda's fisheries sector. Records discussed here are based on the Nile Perch because it is a major commodity for exports that represents over 32% of catches (LVFO, 2006). On the basis of this data, the recommended Maximum Sustainable Yield (MSY) for Uganda's water bodies was estimated to be 330,000 tonnes [all fish species] and 60,000 tonnes [unprocessed] as a set annual export quota (MAAIF, 2004; NEMA, 2004/5). The 60,000 tonnes of fish exports yields approximately 24,000 tonnes of fish fillets per year (Ponte, 2005; Uganda Program for Trade Opportunities, 2007). This data was confirmed by interviews with fish processors. Table 5.1 presents data for fish exports from Uganda for the period of 1991 – 2009.

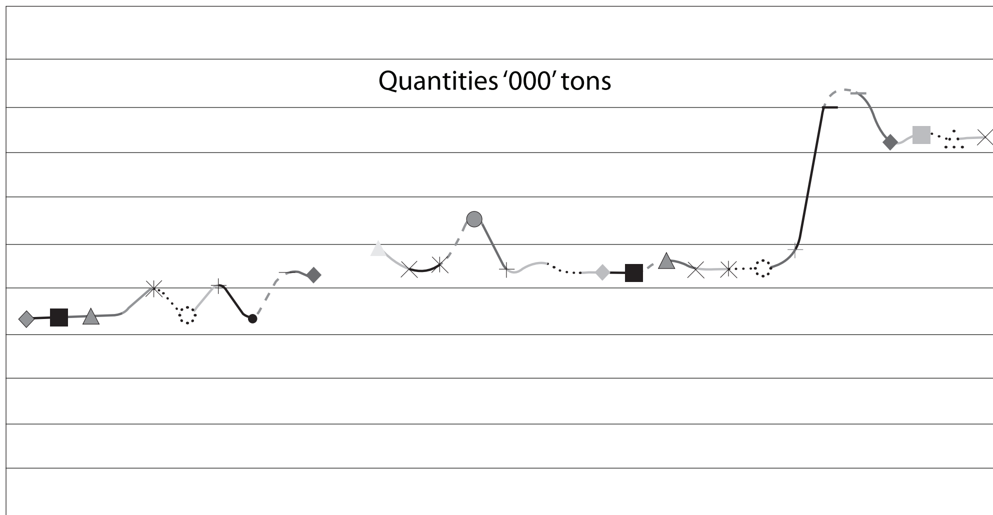
Data presented in Table 5.1 assisted in analysis of the maximum sustainable yield and/or maximum average yield with corresponding sustainable export quantity. This was achieved by examining harvest rates pre-processing & export period (1980-1990) in relation with post-processing & export period (1991- 2009).

Figure 5.1: An illustration of volume of fish exports and value 1991/2009



Source: Data extracted from Table 5.1

Figure 5.2: Time series data for fish landed '000 tonnes(1980-2009)



Source: Data extracted from Table 5.1

Results from Table 5.1 and Figure 5.1 show both the volume and values of fish exports since 1991 when the industry was liberalised and investors started entering the sector. From 1991 to 1996 there was a steady increase in volume and value of fish exports, only to experience a sudden drop in 1997 with a slow growth rate up to 1999. The mid-decline was due to the EU ban over quality issues. This impact was felt in the industry because EU is the biggest purchaser (approx. 70%) of the commodity. When the industry complied by installing HACCP quality control procedures, the EU lifted the ban and growth in exports resumed from early 2000 to 2006, with slight increase in volume accompanied by the tripling in value of earnings.

On the other hand, Table 5.1 and Figure 5.2 show quantities of fish landed for all Uganda's water bodies for the period 1980 to 2009. The figure shows a general stable trend with minor fluctuations with the peak being in 1990, yielding 245,000 tons. This was followed by a slight decrease in harvest, which stabilised within the 220,000 tons range for the following two years. In 1993, the yields spiked to 276, 800 tonnes and then followed by a sharp drop to 220,000 tons from 1994 to 2002. A modest recovery in 2003 was then followed by a sudden and sharp increase in the following two years to values above 400,000 tons. It should be recalled that 2003 was the year when factory processors lobbied the policy makers and President Museveni to allow the capturing and

processing of immature fish. Though on paper the decision was reversed after a public outcry, the sudden increase in fish harvest figures as shown in above appear to confirm that immature fishing went on unabated.

A comparison of figures presented in Table 5.1 against the estimated MSY of 330,000 tonnes reveals interesting results. Studies have shown that the Nile Perch biomass in 2002 was approximately 41% (Bahigwa & Keizire 2003 cited by Ponte 2005) and in 2005/2006 was 38% (LVFO 2006) in Lake Victoria, the major water body. If we use an average of 40% to depict the Nile Perch biomass, we get approximately 132,000 tons of the Nile Perch biomass. LVFO, (2006) showed that 70%t of the Nile Perch was below the recommended size of 50 cm for harvest. Hence, 30% of [132,000] are considered mature fish resulting in approximately 40,000 tonnes of mature fish, including fish meant to maintain reproduction. Therefore, the set figure of 60,000 tonnes for export seems to be on the higher side and this partly explains the origin of conflicts in the industry.

More specifically, the harvesting of immature fish may have caused scarcity as volumes of fish exports [see Fig 5.1] increased to 28,672 tonnes in 2001 then falling back to 25,000 tonness the following two years [2002 to 2003]. The data reveals that the manageable volumes of fish exports could range from 15,000 – 17,000 tonnes of processed fish, which would be equivalent to between 37,500 – 42,500 tonnes unprocessed fish [see table 5.1 for years 2000 & 1996 maximum yield]. These figures can be considered optimum and hardly contradict estimates of 130 tonnes per day as quota allocation for factories in Uganda (IADC 2002 cited by Ponte 2005). If this is converted at a basis of 300 - 360 days in a year, it yields 39,000 - 46,800 tons of unprocessed fish, which is equivalent to approximately 15,000 - 18,000 tons of processed fish.

Therefore, the current presumed MSY figures [330,000 tonnes- harvest] and 60,000 tonnes export may have been arrived at more by educated guesswork, given an assumption that an estimated 70,000 tonnes of unprocessed fish (21%) was classified under illegal, unregulated and unreported and smuggled to neighboring countries (MAAIF, nd). According to Figure 5.2, an annual harvest of 220,000 tonnes appears to be more consistent overtime, suggesting that this could be the MSY for Uganda's waters and therefore a reliable indicator of the harvest quantity for sustainable competitiveness in the fisheries industry.

Supply chain Assessment of Efficiency and Economic Benefits at Macro and Micro Levels

Prior observations have been quite centred on unequal distributive economic effects (value sharing) in the supply chain (Nyeko *et al.,* 2005; Ondongkara *et al.,* 2005). There is hardly any study that has assessed the losses incurred both at macro and micro levels due to inefficiency in the utilisation of resources, save for a study by Okwach *et al.* (2005) that examined the loss incurred by using beach seines at micro level. This study does not disagree with unequal distribution of economic benefits, but continual dwelling on this issue has caused accusations and counter accusations, blinding us from examining our internal market failures. For instance when we posed a similar question to various respondents, as to why there was a general outcry from fishing communities on unfairness in the distribution of economic benefits in a 'booming golden' enterprise, the following were the responses:

Quotes from field data relating to distribution effects along the supply chain

> "Fishermen are rich amidst poverty; their problem is that they lack guidance in saving and credit culture". *District Fisheries Officer*

> "Middlemen are taking the biggest share; they buy 'lowest prices/credit/fail to pay' from fishermen and sell at good prices to factories due to intensive competition among processors". *Factory Production Manager*

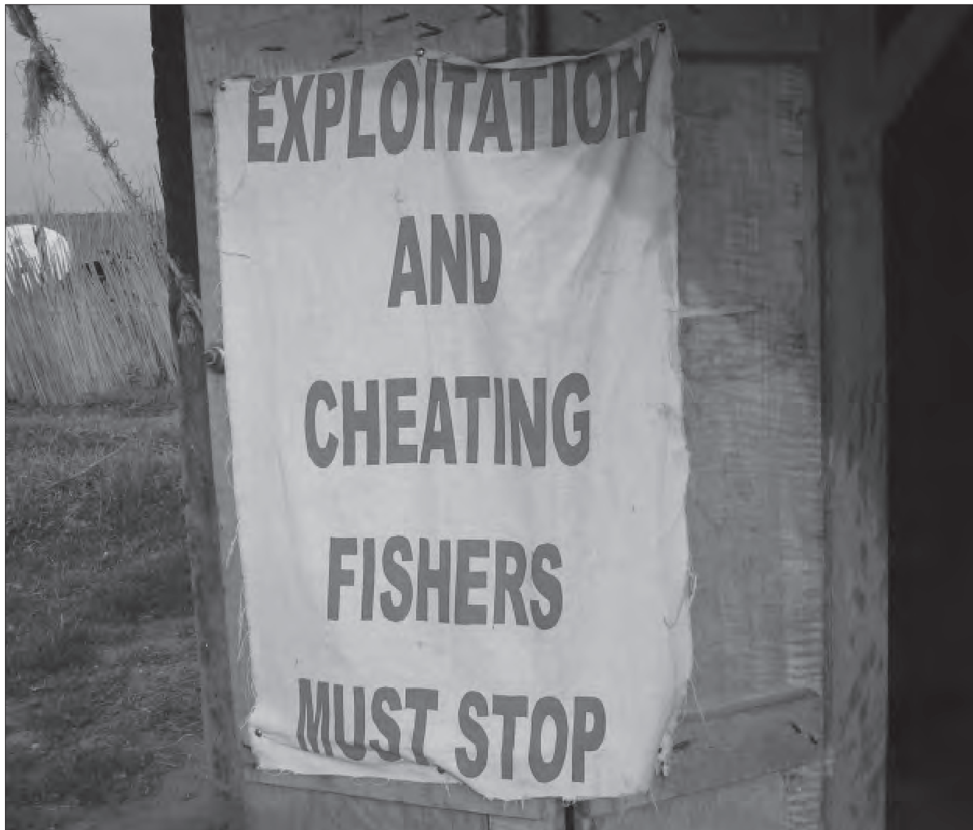
> "Factories are cheats!!! They grade fish in 3 categories A,B,C each with a different price. Category C is classified reject but is not returned to you. If you insist on the return of rejects, they give you back the fish but without the fish bladder. Also they do not give us genuine delivery notes and payments take months and at times we are not even paid. The government should do something to save us from this exploitation". *Factory supplier*

> "Buyers in EU set a price tag". *Chief Executive Officer - processor factory*

> "Operating under market forces or trade liberalisation, means you are not supposed to disturb the system. Therefore, unless they cooperate, that is when they can increase their bargaining power in the market". *Chief Executive Officer of one of the Fisheries Public Agencies*

The statements alluded to the fact that there was hardly any centre in the supply network willing to shoulder responsibility. The Ugandan fish exporters felt exploited by their foreign buyers when they cited that fish prices were set by buyers [foreign market] meanwhile the factory suppliers felt being exploited by factory processors and the trend went on up to fishing communities (see placard in fig 5.3:). However, all in all these accusations and counter accusations gave a pointer to a situation of a market failure. The purpose of this study is not to continue with this kind of debate. Based on the Nile Perch, this study focuses on presenting data that explains the inefficiency and corresponding economic losses, both at macro and micro levels, incurred from 2004 to 2006 during the peak of immature fishing, as presented in Table 5.2 and 5.3 respectively.

Figure 5.3: Placard displayed (suggesting exploitative relationships) at one of the BMU offices



Source: Field data

Table 5.2: Loss of Income due to inefficiency in fish supply chain at Macro level (Nile Perch)

Quantity/Income in US$ '000'	2004	2005	2006
Q1 tonnes (Fillet processed)	30,057	36,614	36,461
I1 (Export income from fillet)	102,917	143,168	145,837
Q2 tonnes (Unprocessed fish for fillet exported)	75,142.5	91,535	91,152.5
Q3 tonnes (Immature fish)	52,599.75	64,074.5	63,806.75
Q4 (Immature number of heads)	105,199,500	128,149,000	127,613, 500
Q5 tonnes (Potential fish that could mature to legal size)	210,399	256,298	255,227
Q6 tonnes (Total potential tonnage of unprocessed fish)	232,941.75	283,758.5	282,572.75
Q7 tonnes (Total potential fillet)	93,176.7	113,503.4	113,029.1
I2 max & min (Potential income generated)	465,883.5; (max) 372,706.8 (min)	567,517; (max) 454013.6 (min)	565,145.5; (max) 452,116.4 (min)
I3 max & min (Loss of income I2 – I1)	362,966.5; (max) 269,789.8 (min)	424,349; (max) 310,845.6 (min)	419,308.5; (max) 306,279.4 (min)

Data Sources: MAAIF (2009) & UBOS website (2008) for rows 1 & 2.

KEY: *Q – Quantity, I – Income,* Q_1 = Fillet in tons (processed); I_1 = Value generated from Q_1 in USD; Q_2 = Raw materials in tons (un processed fresh fish) – obtained from Q_1 whereby fish yield in form fillets is estimated to be at 40 percent of raw material (UPTOP; 2006; UIA, nd; Ponte, 2005) and field interviews; Q_3 = Immature fish in tons – estimated to be 70 percent biomass (LVFO, 2006) and field data mainly captured by nets of mesh size 4 inches and below (see fig 6); Q_4 = Immature number of heads from Q_3 at 500g – majority of fish was 500 gas per interviews with fish factory processors. Also scientific study on mesh sizes in LVFO report (2000) by Asila et al., confirmed that nets of mesh size 4 inches captured fish of not more than 500 g; Q_5 = Immature fish in tons from Q4 if allowed to mature to legal size of 50 cm – it weighs at least 2 kg (Ponte, 2005; Asila et al., in LVFO report 2000) and field data. Nile Perch of this size (50 cm) was found to be sustainable because it was not so destructive to other species in the eco-system (Asila et al., in LVFO report 2000); Q_6 = Total tonnage of unprocessed fish (Q_5 + 30% of Q_2 considered as mature fish); Q_7 = Fillets in tons (processed material from Q_6); I_2= Income generated from Q_7 at maximum and minimum – price range of US$ 4 - 5 per kg of fillet was captured during field data with factory processors including observation of some commercial quotations.

I3 = Loss of income (I2 – I1) at maximum and minimum.

Note: Dollar exchange rate 1 US$ = 1700 UGX as per Bank of Uganda (BOU), February 21, 2008.

Results in Table 5.2 revealed that the fisheries sector had a potential of bringing in an income of more than US$ 500 Million [Uganda Shillings 850 billions] if the fish harvested [Nile Perch] was allowed to mature to the legal recommended size of 50 cm. However, due to a poor regulatory environment that resulted in harvesting immature fish, the country only earned in the region of US$ 140 Million per year for both 2005 and 2006 fiscal years, resulting into a loss of more than US$ 400 Million in each year *(Note: immature fish of 500g takes a period of 9 – 12 months to mature to legal size).* According to Uganda's budget for 2007/08, Uganda shillings 1,201 billion was expected to be funded by Development Partners. Therefore, we can conclusively say that the annual loss in export earnings of about US$ 500 million represents more than 70% of Uganda's budget support by Development Partners. Thus this painted a picture of a market significant failure, since such a potentially huge percentage in fish export earnings could be used to support the budget.

A further analysis of the study looked at losses incurred at micro levels. During field interviews, respondents acknowledged that in a good season they could harvest between 5 – 20 kg per trip [mainly non-motorised] and 20 – 50 kg per trip [mainly motorised]. A statement from a fisherman about catches is captured below to assist in triangulation of the findings:

> "I have been in the fishing business on this lake [Lake Victoria] for 22 years. When I began fishing, I used to have 10 fishing nets and would catch at least 100 kgs of different fish species. Today I have 70 nets, but I only catch less than 50 kg" (fisherman*, The New Vision*, Wed, Feb 6, 2008).

The statement suggests an increase in fishing effort by seven fold with corresponding returns decreasing by 50% in form of catches. This implied that although fishermen were able to generate some profits, this is achieved at a significant cost of investment. Therefore, with reference to Gordon's (1954) model of managing 'tragedy of the commons', this scenario points to a picture of mixed feelings among resource users. Though we asked the respondents to indicate their income and expenditure so that we could gauge how many were breaking even, we could not rely on such data, because fishermen and small business operators are reluctant to reveal their true incomes to avoid potential tax implications. In addition, the fishermen rarely maintain any credible records. The challenge posed by poor record-keeping and reluctance to reveal a true picture of income and expenditure is not unique to Uganda. Smith's

(2006) study about fishermen in United Kingdom, revealed a similar pattern. In order to overcome the potential construct validity problems arising from lack of credible records, this study relied on the range of fish prices at BMUs [Uganda Shillings 1,800 – 2,500 per kg] to estimate the fishermen earnings and losses incurred due to inefficiency in harvesting. Also, in order to increase the reliability of our findings, we relied on the monthly fish catches data from the study done by NAFIRRI (Ponte, 2005) which indicated that motorised boats yields ranged from 400 – 900 kg, while those of non-motorised fishers were between 130 – 250 kg. The fishing grounds were considered to be 2 - 4 hours away from the landing site, suggesting that fishers were able to deliver daily catches. Data on economic losses due to inefficiency is presented in table 5.3 in detail;

Table 5.3: Loss of Income due to inefficiency in fish supply chain at Micro level 'Boats'

Quantity/Income in Shillings	Motorised (Kg)	Non-motorised (Kg)
Q_1	900; max 400 min	250; max 130 min
I_1	1,935,000; max 860,000 min	537,500 max 279,500 min
Q_2	630; max 280 min	175; max 91 min
Q_3	1260; max 560 min	350; max 182 min
Q_4	2520; max 1120 min	700; max 364 min
Q_5	2790; max 1390 min	775; max 439 min
I_2	5,998,500; (max) 2,988,500 (min)	1,666,250; (max) 943,850 (min)
I_3	4,063,500; (max) 2,128,500 (min)	1,128,750; (max) 664,350 (min)

Source: Field data and NAFIRRI data (2002) extracted from Ponte (2005)

KEY: Q_1 = fish monthly catches; I_1 = Income generated from Q1- average price at landing sites UGX 2,150/=; Q_2 = Immature fish – 70 percent of fish (Q_1) captured is considered immature; Q_3 = Number of heads of immature fish at 500 g – generated from Q_2; Q_4 = Weight of immature fish from Q_3 if allowed to mature at size 50 cm weighing 2 kg; Q_5 = Total weight of fish (Q_4 + 30 percent of Q_1 considered mature); I_2 = Income generated from Q_5; I_3 = Loss in income ($I_2 - I_1$).

Results in Table 5.3 show that motorised boats had the capacity of monthly earnings ranging from Uganda shillings 3 – 5 million (US$ 1,765 – 2,950) while non-motorised ones earned 1 – 1.7 million (US$ 588 – 1,000) with accompanying losses in the range of Uganda shillings 2 – 4 million (US$ 1,176 – 2,352) for motorised and 0.65 – 1.1 million (US$ 382 – 647) for non-motorised boats respectively. The stakeholders for each boat trip were an average 3 employed fishermen 'barias' who go fishing and a boat owner 'entrepreneur' or investor. During the time of this study, there were three systems of wage distribution between employees (fishermen) and entrepreneur (boat owner). The first one was a 50 – 50%, the second was 75 – 25% and the last is where the boat owner bought fish from his/her fishermen based on visual inspection rather than using a weighing scale. Then the boat owner would take fish to the weighing scale and the value of the weight differential is his/her share. The third system seems strange with respect to the common share system in fisheries worldwide. However, the system was devised to incentivise fishermen through guaranteed sale, to always bring fish to the entrepreneur rather than sell fish in waters, in which case the boat owner could get nothing since fishermen would constantly report no catches. In all the three wage systems, the routine operational costs were deducted first since most of the times the boat owner had to finance the trips. Non-motorised boats on average used Uganda shillings 3,000 (US$ 1.8) per trip whereas motorised boats used an average of Uganda shillings 30,000 (US$ 18) depending on distance and capacity. The significant difference in operational costs between non-motorised and motorized boats was due to high fuel costs which were at Uganda shillings 2,500 (US$ 1.5) per litre with an average difference of Uganda shillings 400 (US$ .24 cents) from urban centers.

Therefore, on the basis of the above data, a motorised boat owner would be able to earn UGX 1.0 - 2.5 million (US$ 588 – 1,470) and the *'barias'* each would earn UGX 330,000 - 830,000 (US$ 194 – 488) per month as

opposed to their current earnings of UGX 500,000 (US$ 294) and 160,000 (US$ 94) respectively due to inefficiency. These calculations have been done after deducting a monthly operational cost of UGX 900,000 (US$ 529) for motorised boats and it meant that currently a boat that was capturing 400 kg was not breaking even. For non-motorised, the boat owner would earn UGX 426,925 - 788,125 (US$ 251 – 464) and the 'barias' each would receive UGX 142,308 - 262,708 (US$ 837 – 155) per month contrary to current figures of UGX 189,500 - 223,750 (US$ 111.5 – 132) and the 'barias' UGX 63,166 - 74,583 (US$ 37.2 – 43.9) per month due to inefficiency respectively. All the calculations were based on 50% share system and for non-motorized UGX 90,000 (US$ 53) were deducted as monthly expenditures.

Strikingly the current earnings reflected a similarity with those of NAFIRRI study (Ondongkara, 2002 cited by Ponte, 2005) for motorised and non-motorised boat owners respectively. However, Ondongkara treated crew 'baria' earnings UGX 35,000 (US$ 21) to be the same for both motorised and non-motorised despite stating that it was a share system. It is also evident that the calculated crew earnings were far below the boat owners earnings because the crew receives almost an equivalent of boat owner and they divide among the 3 members and this would have given UGX 145,667 (US$ 86) for each 'baria' on motorised and UGX 62,300 (US$ 37) for each *baria* on non-motorised boats contrary to the UGX 35,000 stated. Further, it was not mentioned in the study whether or not operational costs were taken into account. Whichever basis of calculation was applied by Ondongkara, this study has established that motorised boats could hardly break-even if the monthly catches were at an average and/or below 400 kg.

Supply Chain Efficiency Assessment Vs Value Sharing: Comparative Income Analysis

With respect to efficiency, findings have revealed that Uganda's fish supply chain is inefficient as evidenced by the losses of income linked to harvesting and dealing in juvenile fish. The ratio of expected earnings to actual earnings is approximately 4:1(US$ 565,145:145,837) at macro level and 3:1(UGX 1,666,250:537,500) at micro level (see Tables 5.2 & 5.3 respectively). Contrasting these ratios with what would be expected earnings by equal distribution of economic benefits sheds light to were more efforts would be needed. Our field

findings including Ponte (2005) revealed the following prices of Nile Perch: wholesale prices in EU in range of Euros 4.5 – 5 per kg [US$ 6.5 – 7.2]; retail prices varied significantly within EU member states. In Holland, supermarket chains Nile Perch was being packaged in 200 – 400g yielding Euros 20 per kg. In Italy wholesale prices were Euros 4.8 per kg, while retail prices were about Euros 9.9 per kg. Researchers interviews with factory processors established that prices [international market] for fish fresh fillet were in range of US$ 4 – 5 and frozen fillets US$ 4 – 4.5 per kg (FOB Entebbe) This information was verified by invoice inspection during this study. Based on wholesale prices, the ratio of expected earnings to actual earnings is in the range of [minimum 1:1.6 and 1:1.4 maximum] that is (US$ 4:6.5; and US$ 5:7.2) for Uganda: EU, Nile Perch exports respectively.

This implied that correcting deficiencies by harvesting the legal size of Nile Perch offered better economic benefits than focusing on re-dressing unequal distributive economic benefits in the supply chain.

Performance of Co-management Rights Property Regime

The role of the regulatory agency (DFR) was assessed in terms of the co-management arrangement with BMUs. Variables under examination were drawn from the Provisional Fisheries Sector Strategic Plan of Uganda (MAAIF, nd) and other related studies in fisheries sector for comparison and contrast (FAO, 2004; IISD, 2005; Wagenaar & D'Haese, 2007; Crean & Wisher, 2000). The four roles examined were: responsibility for fish management; level of enforcement of conservation measures; linkage with donors/communities/ other government departments to improve business operational environment; fairness in application of immature fish law to business community members.

Responsibility for Fish Management

We asked the respondents (N=453) whether they were aware of the existence of DFR, BMU and NAFIRRI. All respondents acknowledged being aware of the BMUs, 73.85 were aware of the existence of DFR and 57.3 were not aware of the existence of NAFIRRI. Respondents were then asked to identify responsibility centres under co-management of the following conservation measures in Table 5.4.

Table 5.4: Results for Co-management arrangements

	Functions in fish conservation	DFR/DFO	BMUs	Others [specify	Do not know
a.	Estimation of fish stock in the lake	54.96 (249)	18.98 (86)	3.09 (14)	15.67 (71)
b.	Deciding on conservation measures to be used	57.17 (259)	46.35 (210)	1.10 (5)	2.80 (13)
c.	Enforcement of fish regulations	46.79 (212)	62.47 (283)	0.60 (3)	2.20 (10)
d.	Assurance of fish quality	49.22 (223)	46.57 (211)	0.44 (2)	5.51 (25)
e.	Policy planning	40.39 (183)	37.74 (171)	0.22 (1)	15.01 (68)

Source: Primary Data

Note: Number of respondents varied per question; -Frequency counts in parentheses

Results in table 5.4 reveal that BMUs had an upper hand in enforcement of fish regulations (62.47) while DFR had much responsibility in estimation of fish stocks in the lake (54.96). This portrays a picture whereby the function of fish stock assessment being more of scientific and technical nature, required those with necessary knowledge, whereas enforcement was more of a community responsibility that could be carried out by BMUs themselves since they knew each other well. Participants perceived that the rest of the functions had to be managed based on a consultative approach of power sharing. As we go further in the next sections we will assess whether this was the case.

Level of Enforcement of Conservation Measures

Respondents were asked to rate how the following fish conservation measures were being enforced in the fisheries sector (see Table 5.5).

Table 5.5: Results for level of enforcement of conservation measures (percentage frequencies)

	Extent of application of fish conservation measures	Highly applied	Limited application	Not applied
A	Gear restrictions – controlling illegal fishing gears/practices	32.82	54.40	12.78
B	Limiting number of fishermen in the lake	5.52	24.28	70.20
C	Restricted entry into fish breeding grounds	17.88	33.11	49.01
D	Limiting number of fishing vessels/boats on the lake	7.33	20.22	72.45
E	Availability of data on number of fleets and their catches	31.25	45.31	23.44
F	Enforcing the ban on harvesting immature fish	28.54	55.53	15.93

Source: Primary Data

Results in Table 5.5 reveal that limiting the number of fishing vessels and fishermen on the water bodies was not entirely enforced (72.45 & 70.20) respectively. Limited application was observed, enforcement of the ban on immature fishing and control of gear restrictions (55.53 & 54.40). Lastly, restricted entry to fish breeding grounds was not entirely done (approximately 50) while data collection was at limited application (45.31).

Failure to regulate number of fishers and fishing vessels demonstrate that fisheries in Uganda have open access. Despite the involvement of local communities [BMUs] into resource management, enforcement on ban of immature fishing, control of fishing gears [see fig 5.4, below of illegal gears used openly] and access to fish breeding grounds, are areas that were found highly wanting. In addition, data collection for effective assessment of catches in relation to stocks was found to be far lacking.

Figure 5.4: Line of Boats with Monofilament nets (illegal gear) packed at BMU

Source: Field Data

Fairness in Application of Immature Fish Law to Business Community Members

We then asked respondents to assess the fairness of application of enforcement laws especially among the business community members and the results are presented in table 5.6.

Table 5.6: Results showing fairness in application of immature fish law

	Fairness in application of immature fish law to stakeholders	Percentage frequencies		
		Highly favored	Somehow favored	No favors
a	Industrial processors	36.97 (156)	21.8 (92)	41.23 (174)
b	Fishermen	5.97 (27)	36.28 (164)	57.75 (261)
c	Male fish traders	7.54 (34)	37.69 (170)	54.77 (247)
d	Female fish traders	12.16 (54)	39.86 (177)	47.98 (213)
e	Factory agents/suppliers	24.15 (106)	28.25 (124)	47.60 (209)

Source: Primary Data, Note: number of respondents varied per question. - frequency counts in parentheses

Results from Table 5.6 revealed that fishermen faced the most harassment by law enforcers (57.75) while traders (male, female and factory agents/suppliers) scored an average treatment by law enforcers. Industrial processors happened to enjoy favorable treatment from law enforcers as results for highly favored and no favors are strikingly similar (approx. 40).

We corroborated these findings with interviews by FGDs [BMU Executives, Traders/Fishermen, Women Fish Traders]; DFO's; Factory Processors; Executives of Government Agencies in Fisheries Sector. The results are presented below;

Quotes from field data relating to enforcement activities

"Sustainability is a problem because politicians and high profile people are involved in the fish trade and harvesting, whereby BMU's are unable to intervene. Monofilaments are supplied by government agents who are untouchable". *BMU Executives*

"Lack of cooperation among players is responsible for illegal and immature fishing. For instance if other factories refuse to buy immature fish others buy because they have a '*mayinja'* (untouchable high official person in government). If factories cooperated and stopped buying immature fish, definitely illegal fishing would be eliminated because there would be no market for it". *BMU Executives*

"Immature fish is on demand in international markets and as such, factories demand the same. There is also a circular by the Commissioner that prohibits us carrying out patrols on roads to check factory vehicles". *District Fisheries Officer.*

"Free market is the best system – liberal environment; however strong people should not destroy the weak, if this is guaranteed [liberal environment] then it is ok". *Chief Executive Officer Government Fisheries Agency*

"URA frustrates us by not stopping the importation of illegal nets 'monofilament', because they earn taxes from these consignments". *Chief Executive Officer Government Fisheries Agency*

"Co-management is not doing well due to absence of natural laws [indigenous knowledge]. The Chinese and Japanese developed their economies because of traditional laws. If you have things you have been doing well, and instead of building on them, we just keep on changing [reforming] and in the end of the process we have no roots". *Chief Executive Officer Government Fisheries Agency*

"BMUs were put in place as parallel bodies as opposes to a co-management system. The system of top-down is still prevalent, BMU's are supervised by the Chief Administrative Officer and they [BMUs] can report directly to the Commissioner. We gave them a lot of activities such as revenue collection, enforcement etc., than they can handle". *District Fisheries Officer*

> "BMUs came from above and were given authority cards, so the Community sees BMUs as another authority, rendering service to government not for the communities and this cripples their effectiveness". *District Fisheries Officer*

> "Capacity to implement laws is not available mainly due to lack of funding. BMU committee members are also part of the illegal practices. Therefore turning them into Police is also a challenge albeit some small achievements have been done". *Cheif Executive Officer Government Fisheries Agency*

> "There is a lot of corruption and that is why illegal fishing is still prevalent. The law enforcers always target the poor fishermen and get their nets, but they get money from the rich fishermen. The BMU's are not working as Fisheries used to do, so we suggest they should be removed, they even sell illegal gears". *Traders/Fishermen*

> "There is no co-management, because there is a big gap between BMUs, Marine Police and Fisheries department. Marine police has even an upper hand because they collect a monthly fee from BMU's to allow illegal activities". *Women Traders*

> "Open access has led to many fishers and boats entering the lake. There is a need to review this approach" *BMU Executives*

> "The government has made an investor to be above everybody. When we inform government about any illegal activities say buying immature fish or pollution, they send us people with guns warning us that anybody seen near factory premises will be prosecuted". *BMU Executives*

> "The fisheries sector is far centuries ahead of DFR management systems, therefore we no longer manage but we do postmortem to bridge the gaps". *District Fisheries Officer*

The responses above indicate that 'immature fishing' remained a big threat to the survival of the fisheries sector at both 'macro' and 'micro' levels. The responses also revealed that 'power asymmetry' existed where by big players had an upper hand in influencing policy trends into their favor. This result supports prior literature (see power relations under supply chain governance theoretical framework section), and especially Ponte's (2005:15) conclusion as stated below.

> In late 2003, MAAIF even suspended the application of the 'Immature Fish Law' under pressure from the President Museveni. Exporters had convinced the President that Europeans have an appetite for small fish fillet, and that Kenya and Tanzania do not prohibit (or do not enforce) the catching and trading of

immature fish. In apparent response to a public 'uproar' (by conservationists, MPs, and academics), the government retracted the lift, re-imposed the ban on immature fish two weeks later (*The New Vision*, 9 December, 2003).

This statement provides the background for discussing the letter issued by the Commissioner for Fisheries/Chief Fisheries Officer, dated 15th March, 2007, addressed to Authorised Officers, Enforcement Agencies and District Officers and copies distributed to Ministers and Permanent Secretary in MAAIF and all District Resident Commissioners. The contents of the letter are reproduced in Box 3 below:

Contents of a letter in relation to enforcement activities

Posture for MCS during onland operations

I write to direct immediate cessation of un-coordinated on-land operations under the **Fish Act, Cap 197 Laws of Uganda** related to enforcement of the Fish (Immature Fish) Instrument, 2002.

Any agency or person intending to enforce the above must clear with the Chief Fisheries Officer upon presenting:

(a) Operational plan indicating personnel involved for identification and status of **Authorisation under Fish Act** including informers;

(b) A budget for the operation and proof of funding prior to the operation;

(c) Strategy and posture deployed and documentation of procedures for enforcement.

These measures have been taken to promote accountability; prevent harassment of bona fide businessmen and pre-empt tendency towards corrupt practices by enforcers. Any agency or persons deviating from these procedures will receive no support from this office and could be prosecuted individually for any infringements by the public.

The above letter by the **Chief of Fisheries** had the following implications to the sector:

- The letter targeted on-land operations only (favouring big players), implying that small timers who extract fish from water 'the fishers' where still subjected to the law.
- Big players have powers to influence policy in their favor and therefore enforcers had no powers to inspect factory trucks anymore. This implied

that the market playing field was not fairly competitive, since the 'weak' or poor had no voice.

- Co-management was rendered useless because BMUs and Communities were not involved in discussing this new development. This thwarted their expectations of power sharing arrangements. Therefore co-management was still a top-down approach and being a donor driven package, rendered its success in balance (Nunan, 2006).
- A requirement of obtaining authority from the Chief Fisheries Officer after producing an operational plan including proof of funding casts doubt on the effectiveness of enforcement. Given the fact that since these are illegal activities, enforcers could not be expected to wait approvals from government bureaucratic procedures. In addition, government hardly releases any funding to the respective agencies, hence this, clearly signified 'a trap' of failing law enforcement and protection of the big players.
- This greatly explains the recent poor performance of the fisheries sector in form of declined income from fish exports [for period of July 2006 – July 2007] by 19.8 from the previous year for both international and regional trade (BOU, 2007), and possibly the recent closure of Uganda Marine Products due to failure to break even. At the time of the company's closure, it owed 60 fish suppliers over Uganda shillings 600 million (US$ 350,000) while 100 workers had missed salary for last two months (*Daily Monitor,* 13 November, 2007).

Performance in Relation to Public Private Partnership Property Regime

The continued decline in fish catches that resulted in frequent factory shut downs caused members of UFPEA to undertake collective responsibility and stop the vice of immature fishing. On 17 July, 2007, the UFPEA members together with the Chief of Fisheries signed a memorandum of understanding for sustainable fisheries, in which they agreed that all factories should not buy fish below 16 inches [40 cm though recommended is 50 cm] length. Consequently they set up a self-policing mechanism in conjunction with DFR to apprehend [implementation started September/October, 2007] any member who was found to violate the agreement through penalties such as temporary suspension from operations. This kind of intervention confirmed earlier

statements and supply chain theoretical framework: that power belongs to factories and therefore they influence trend of decision making. Such Private Public Partnership initiatives paints a bright future for sustainability of the fisheries sector, as opposed to the co-management approach that was a donor-driven package, which failed to yield expected benefits, despite having been launched way back in 1999 (Imende *et al.,* 2005).

A case is presented below where the research team found a donor project sign post at one of the BMUs funded by EU, LVFO and GOU bearing information on sustainability. Based on the content of the sign post, we posed a question to the BMU Executive during an FGD as follows; '*How come illegal fishing prevails yet a Donor sign post with information on sustainability measures exist?'*

The response from the BMU executive is revealing, as stated below:

> "The problem is that people do not come for meetings. So long as prices are good the fisherman's concern is to bring kilogrammes [of fish] for cash. However, if the factory says that we are not buying this size of fish, the fishermen listen".

The statement points to areas where donor efforts and funding need be emphasised. Factories wield a lot of power in the fish supply chain and therefore they determined the governance model for the sector. Co-management was a donor-driven idea (Nunan, 2006), with good intentions of enhancing sustainability of the resource mainly for the poor 'communities' who entirely depend on the fish for their livelihood. The problem with this kind of approach is the continued replication of donor-driven participatory pre-packaged models to different fisheries (Ponte, 2005), without proper assessment of the environment in terms of political, economic and social governance in place. The case of Uganda has shown that without the recent intervention by UFPEA [power movers in the supply chain], the fisheries sector was soon joining the list of failed fisheries in the world (FAO, 2005). This would create dire negative consequences to the national economy and a multitude of more than 700,000 people who depend on fisheries as source of employment for their survival.

Discussion

What led to the failure of co-management and success of public private partnership?

Over the years, an appropriate innovative governance model for pro-poor markets has been the centre of contention among scholars, practitioners and the international agencies. Evidence from this study (see Table 5.1, Figure 5.1 and 5.2) indicated a great variance in supply reliability in terms of: quality [70% under- size fish], quantities [doubled, from sustainable yield of 220,000 to 420,000 tons per year], and prices [almost tripled between 2000 and 2004]. The net effect of these variances suggests a failure of Uganda's ability to maintain its image in global commodity markets, and thus a market failure. The purpose of co-management was to contain the vice of immature fishing with the aim of maintaining equilibrium of the sustainable yield. But results of this study indicated that, instead immature fishing accounted for 70% of total fish harvest, and the level of sustainable yield was overshot by 100%.

The results indicate a weak enforcement of fishing regime as portrayed by the open landing of fishing boats with illegal gears on the official landing sites. The boats mainly landed immature fish to serve the growing demand of the export market. This further demonstrates the weakness of the co-management in an environment where the right to fish is not matched by anybody taking the lead in ensuring the sustainability of the fish resources. Some of the explanations of failure can be traced to Ostrom's principles proposed for successful co-management. For Uganda's case though, some principles were adhered to while establishing co-management, others were lacking. For instance, there was no commitment from the state to enforce regulations as portrayed from the Chief of Fisheries letter, which are supported by sentiments from field findings. This type of approach was contrary to Ostrom's principle 'Recognition by outside authorities of collective rights'. Further, Ostrom advocates for clear geographical boundaries, and yet this principal was also lacking since BMUs had no clear geographical boundaries. To make matters worse, another area that was unique with co-management in Uganda is democratic elective process for the BMU committees. Most of the leaders elected were those who owned illegal gears and/or participated in illegal fishing activities. There was no vetting of candidates for elective offices. Interestingly, Ostrom's proposed principles seem silent on the criteria and/or the process for the formation of leadership

under co-management. Yet, according to our field findings, BMU leadership contributed a lot to illegal fishing.

The situation was further compounded by the complex cultural mix arising from an influx of fishers from different parts of Uganda, who were attracted by the booming trade of fish. The major challenge encountered here was how best to identify potential BMU officer bearers with long-term interests for the sector to take up leadership positions.

However, the threat to the survival of the sector, as evidenced by continued drop in income (19.8% in 2007) and closure of some processing fish firms (BOU, 2007), led to reforms championed by lead firms in the supply chain i.e., exporters, to re-dress the problems through collective action.

On 17 July, 2007, the lead firms organised as UFPEA members (private sector) in conjunction with Chief of Fisheries - DFR (public sector) agreed that all factories should not buy fish below 16 inches [40 cm though the recommended is 50 cm length]. The lower limit of 40 cm instead of the 50cm was selected in order to allow factories to continue to operate as it was felt that imposing the ideal 50cm limit would dramatically reduce fish supply, given the time it takes for fish to mature. Consequently they set up a self-policing mechanism to apprehend any member who was found to violate the agreement and, who could face penalties that included temporary suspension from operations. Also BMUs (co-management structures) which were found to be non-compliant were to be de-registered or closed in line with Statutory Instrument No. 35 'Beach Management' Rules 2003.

The use of an interagency security organ was set up and all members agreed to contribute a monthly fee of one million Uganda shillings (US$ 600). The interventions are working albeit with some challenges; especially the new found regional market for immature fish trade in countries such as Democratic Republic of Congo and South Sudan. Though the reforms are still in their infancy, they are being scaled up to cover the East African region. While the period of observation is not long enough to draw conclusive policy recommendations, the preliminary success of this form of intervention can be evidenced with the progressive decline of fish export volumes (see Table 1). From, 2006 through 2007 (interventions started) to 2009, Table 1 revealed a progressive drop in fish exports by an average of 23% annually. This is tending towards the 20,000 tonnes considered as optimum quantity of processed fish fillets for export. This demonstrates the commitment for collective action by

lead firms against immature fishing, at their level of the supply chain. On the other hand, from Table 1 we see a general total harvest in the region of 360,000 tonnes declining from 420,000 tonnes, representing 15% decline. The slow decline towards to 220,000 tonnes (considered as sustainable yield), can be attributed to the continuation of immature fishing, that found an alternative regional market especially Democratic Republic of Congo and Southern Sudan, as cited above. This is further, evidence of failure of co-management (where it is still happening) by the BMUs, which have continued to allow the vice of immature fishing to persist at their primary level of extraction at the supply chain.

Conclusion

This research was about a comparison between co-management versus public private partnership model for supply chain competitiveness in Uganda's liberalised economy.

The study set out to explore the following research questions: (i) What is the appropriate harvest rate that can restore equilibrium in fisheries for sustainable competitiveness? (ii) To what extent does efficiency in comparison to gain distribution affect incomes of supply chain participants both at macro and micro levels? (iii) Which property regime can be appropriate in governance of the commons for sustainability of the fisheries resource in Uganda?

In answering the first question, the study concluded that the regulatory agency (Department of Fisheries Resources) pursued a strategic stretch approach (reacting to market conditions) rather than a strategic fit (matching resources with demand). The sustainable levels of fish harvest (optimum sustainable yield) were found to be 220,000 tonnes of which at most 45,000 tons as raw material of Nile Perch could sustain the export market. This finding suggested that only six competitive fish processing firms would have been licensed for Nile Perch exports rather than the 17 firms.

With regards to the second question, despite the prevailing argument in the GVC literature that distribution of gains is a major hindrance to supply chain competitiveness, this study found out that Uganda's competiveness in the fisheries sector was mainly due to inefficiency caused by the vice of immature fishing. This vice of immature fishing accounted for a loss of income approximately US$ 500 million annually.

Regarding the third question, the study found out that an appropriate regime that could cause a sustainable competitiveness for the fisheries sector was a Public Private Partnership (State & Lead Firms in supply chain) compared to co-management (State & Local Communities).

The study has contributed to both theory and policy. While the GVC theory attributes governance of supply chains to only lead firms, this study found out that with respect to governance of common property resources, the state has a role to play in conjunction with lead firms. With respect to policy, the study revealed that development partner's packages cannot be replicated in other environments without careful consideration of the culture, political, and socio-economic considerations. This possibly explains the failure of co-management 'a development partners' package for the governance of Uganda's fishing sector.

Limitations and Directions for Future Research

The study provides insightful ideas on what kind of property management regime is applicable for common property resources operating in global supply chain markets. However several limitations of the study need to be acknowledged: the respondents in the study were selected basing on availability on the day of field interviews, the industry lacks a central register for identification of respondents, and data management on catches is still a challenge. This raises the question of reliability.

There is a need for more research on effective leadership formation and dynamics, under the co-management arrangements. This is an area which is quite under- looked and not clearly discussed within Ostrom's principles for successful co-management.

This study has contributed to new knowledge, by proposing a new outlook of designing common property management models basing on specific environment, as opposed to replication of other models. The objective is to provoke future researchers to move from abstract to applied models.

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Chapter Six

Challenges to the Growth of Capital Markets in Underdeveloped Economies: The Case for Uganda

Samuel Sejjaaka

Abstract

Despite the universal recognition that stock exchanges are the most pragmatic and cost effective method of raising capital, firms, especially private sector firms in underdeveloped economies have consistently shunned the stock exchanges. As a result, most of the IPOs that have occurred on the exchanges in underdeveloped markets have been state driven, rather than market driven. This indeed surprising because where these IPOs have been carried out, the offers have, in the majority, been oversubscribed.

This study uses expert interviews of key informants to develop a conceptual model for examining the various factors for the private sector's failure to use stock markets as a financing vehicle. A hypothetical model is then developed for testing using the results of literature review, expert interviews and focus discussion groups. Panel data across the years 2003 – 2007 was then collected regarding the study variables and used to test the hypothetical model.

Four models to examine why firms in emerging markets have failed to prepare themselves for floatation on stock markets are tested using static panel regression analysis. The models involve the use of different proxies for IPO readiness including publication of accounts, share transferability, board control, and a composite variable for IPO readiness. The models show that age, auditor type, disclosure, and size are significant predictors of IPO readiness. In addition legitimacy of the board through inclusion of independent non-executive leading shareholders, and increased market activity significantly point to improved IPO readiness or efforts for a firm to look to stock markets as a legitimate source of income and financing.

From a policy prescription point of view, IPO readiness must be seen as a maturation process and will only be achieved as firms become older and the costs of information gathering fall. But legislation can be used to reduce the costs of information availability by compelling firms that meet stock market listings to file financial statements with a central authority (probably the USE) whether they are interested in going IPO or not.

There is also a need to improve levels of disclosure by firms because these firms occupy an important place in the business space. As firms' disclosure improves, so will their readiness to go IPO. Lastly firms need to legitimize their business so as to increase their acceptability as investment vehicles for mobilising private savings.

Key words: Stock exchanges, caital markets, underdeveloped economies

Introduction

Stock exchanges are a modern focal point for raising cheap long term capital and for the mobilization of savings. They also help increase transparency in the privatisation process by encouraging wider share ownership. Stock exchanges improve efficiency in resource allocation through a competitive mechanism. They increase liquidity and provide risk capital for trail blazing ventures (Wang and Ang, 2004). They help release idle funds for investment because they generally provide higher rates of return than alternative investments. When successful, activity in the market provides a strong impetus for economic growth (Wagacha, 2000b). Despite these advantages, the growth of the stock exchange in Uganda has been relatively slow and has received a poor response from private companies wishing to raise capital.

The Uganda Stock Exchange (USE) started operations in January 1998. Since its inception the USE has listed only 9 equities, 3 of which were cross border listings. All the local listings were a result of government divestiture of all or part of its interest in formerly nationalised companies. Despite the oversubscription of the initial public offers (IPOs) for the local listings, there have not been any flotations or IPOs involving private initiatives/local companies since the inception of the USE. This implies that businesses/ entrepreneurs, other than public enterprises (PEs) which were listed mainly for structural adjustment reasons, are not taking advantage of the USE as a vehicle for raising capital. Trade volumes remain relatively low (October

2008 = US$ 965,500) and the total market capitalisation is about US$ 2,487m. Furthermore, out of the total market capitalisation, only US 671m is accounted for by local listings. Thus developments in Uganda are generally in contrast to international emerging market trends. For example between 1980 and 2000, emerging markets grew by over 430% overall and volumes increased from US 4b to US 4trillion over the same period (Blommestein, 2003). In another context, it can be noted that investment opportunities in sub-Saharan Africa have been expanding greatly with over 522 firms listing stock on exchanges by end 2007. This is in contrast to the 66 or so that were listed in 2000 (Santiso, 2007).

The advantages of well-developed markets are legion. The development of a dynamic market automatically increases the level and sophistication of financial intermediation in an economy while offering to the investing public a myriad of financial products. Such markets promote economic growth through increased access to savings and risk diversification. A typical market comprises of several institutions including banks, insurance companies, mutual funds, mortgage firms, and finance companies which all contribute to resource mobilization. As a result, governments can also finance their deficits while reducing fiscal pressure on the banking system. This can help bring down the cost of capital by reducing the risk faced by the financial system.

Despite of all these apparent benefits stock exchanges, countries in sub Saharan Africa (SSA) have continued to perform dismally. Several reasons have been advanced for the poor performance of stock markets, and these include interest rate policy, taxation system, legal and regulatory framework, lack of expertise, and lack of technological progress (Wagacha, 2001a). These reasons cannot hold up to critical scrutiny because of the successful IPOs that have been carried out. Furthermore, it would be cheaper to raise capital on the stock exchange, thus lowering the cost of capital, and, IPO costs are tax deductible. The reasons for a poor response to IPO activity must therefore lie in other areas.

Private firms are also privy to the benefits of stock exchanges, but seem to have avoided the stock market as means of raising capital. There also seems to be a concern that the risks associated with the required disclosure for IPOs are not adequately compensated by additional returns. The objective of this paper is to examine the factors impeding the growth of the USE as a vehicle for

raising capital by private firms. Why are local private firms and entrepreneurs not raising additional capital through the IPO route?

Literature Review

A Theoretical Framework

Most of the extant literature on theories of why firms go public hinges on the costs and benefits of public versus private ownership that confront private firms (Rosen, Smart and Zutter, 2005). Various models have been developed to show the types of benefits and costs that influence the IPO decision. One of the earliest models by Zingales (1995) attempts to show how an original seller sells shares in a competitive market, thereby capturing the surplus associated with an increase in the value of cash flow rights associated with a future change in control. The owner retains enough shares to retain voting control so that he can subsequently extract some of the eventual buyers' private benefits. The optimality of an initial IPO is conditional on a subsequent buyer's ability to increase the firm's cash flows. In this instance the IPO serves as a precursor to the firm being acquired. In an alternative model (Mello and Parsons, 1998) it is argued that the firm's owner receives valuable information from dispersed investors. This information is to the effect that the value that an owner can obtain from the sale of a controlling interest is much higher than that currently held. Going public reveals information as to whether a sale to new owners increases firm value thereby allowing the original owner to extract a larger fraction of the surplus.

Another model by Chemmanur and Fulghiere (1999) predicts that a firm goes public when information gathering costs are low or when enough information about the firm has been accumulated in the public domain. Subrahmanyam and Titman (1999) posit that outside investors acquire information about the firm that insiders lack; this information can be used to improve the firm's investment decisions. When outsiders can discover this valuable information at low cost, the firm will go public, otherwise it remains private. A corollary to this argument is that as firms grow older, information gathering costs reduce because information about their activities becomes widely available in the public domain. This may be a result of their size, which imposes political costs, hence improved disclosure or dissipation of their ownership.

However, most firms in developing country environments are able to hide information, especially regarding their true tax position. As a result, it is very difficult for potential investors to obtain a good feel of their actual performance and hence *ex ante* financial health. The tendency then would be to believe that the fact that an IPO is being made is an indicator of poor financial stability.

Pastor and Veronesi (2003) model the optimal IPO timing decisions of private firms. Firms decide when to exercise a real option to go public and the value of this option rises when expected market returns fall, when aggregate profitability is high, and when uncertainty about future aggregate profitability rises. Their model predicts that IPO waves caused by declining expected market returns are preceded by high market returns. IPO waves, driven by increased aggregate profitability, follow periods of high market returns. This implies that firms will opt to go public at specific points in time when market activity favors a high IPO price, i.e. when the market is bullish.

Boot, Gopalan and Thakor (2003) envision entrepreneurs trading off the benefits of greater 'elbow room' when running a private firm against the higher cost of capital associated with greater managerial autonomy. The empirical predictions of this model are tied to variations in restrictiveness of corporate governance regimes. Lack of data on private firms however creates a significant obstacle in attempting to test these models in an underdeveloped economy. Most unregulated private firms are closely held corporations with no legal obligation to make public disclosures regarding their financial performance. Their governance structures are also constrained by the level or extent to which management is separated from ownership. Usually, there is no distinction between the two, making it difficult to construe a classical principal-agent relationship.

Why do Firms go Public?

There are several explanations as to why firms go public. Conventional wisdom suggests that the public offering represents a stage in the growth phase of a firm (Jain and Kini, 1999, Mikelson et al., 1997) at which it attempts to raise cheap additional funds through the IPO. In the post IPO phase, the firm can evolve into one of three basic states. It can survive as an independent firm, fail outright, or get acquired and lose its current identity (*ibid.*).

The paucity of empirical evidence, especially for IPOs, is primarily due to the difficulty of obtaining data on private firms. Without data on the *ex-ante* and *ex-post* characteristics of both public and private firms, drawing conclusions about the factors that influence the going-public decision is treacherous (Rosen, Smart and Zutter, 2005). What is clear is that in more developed markets, private firms with growth prospects eventually go public to finance investments, all other factors being constant. This however does not explain the existence of several large successful private firms with further growth prospects. Rosen *et al.* (2005) carried out an *ex ante* and *ex post* comparison of banks that went public and those that remained private and found that firms that went IPO had been growing faster, earned higher profits and employed more leverage than non IPO banks. IPO banks were riskier and had invested more of their assets in loans. The IPO appeared to be the first stage in the sale of the firm and such banks that had gone public were more likely to be acquired or become acquirers themselves. In the post IPO period, the banks studied exhibited deteriorating performance as measured by return on equity and assets. The study also found empirical support for the notion that banks went public following a period of high stock market returns, implying that the IPO decision was also influenced by market direction. If the market was bullish, then IPO activity was more likely than when it was bearish.

Another explanation in the literature suggests that firms go public not to finance growth, but rather to rebalance their accounts after a period of high investment and growth (Rydqvist and Hogholm, 1995). This finding, which is based on empirical data for Italian, Swedish, and Spanish companies, is rather surprising because it is counterintuitive. One would expect that firms would have no need to go public, having raised capital from elsewhere for growth and expansion. Once growth opportunities have been extinguished, the need to go public so as to raise additional capital disappears.

Going public represents the first stage in the sale of the firm (Zingales, 1995). Firms make an IPO in order to obtain a market valuation for their assets, which facilitates the sale of the firm either gradually through reduction of ownership or immediately (through an acquisition). A stock market listing enables companies to know the value of their investment at any time and thus provides a yardstick for evaluating management efficiency. Again the evidence in support of this explanation is mixed. Brennan and Franks (1997), using a

sample of UK IPOs, find that almost two thirds of shares of the IPO issuing firms were sold to outsiders within seven years of the IPO. Mikkelson et al. (1997), using a sample of US IPOs report a substantially lower 29% turnover in control for established firms, and a 13% turnover in control for start-ups. Many IPO issuers however include anti-takeover provisions to deter such acquisitions.

According to other authorities, the reason cited for public offering is that entrepreneurs see their growth prospects levelling off and seek to divest their holdings prior to failure. Firms in this category would experience a slowdown in activity in the post IPO years before eventually failing. Typically, one third of IPOs fail. This provides support to the argument that entrepreneurs with superior information divest through an IPO in anticipation of subsequent failure (Jain and Kini, 1999). This proposition is extremely tenuous because it makes several outrageous assumptions. One, it assumes that entrepreneurs are exiting business and are not conscientious. Two, it ignores the fact that regulators have a continued stake in maintaining public trust in the market and engage in a drawn out process of due diligence to establish the business prospects/risks and profitability of the company. Three, it assumes that the investing public is easily gullible, and that the market is rather inefficient, i.e. that prices do not incorporate known information about future business prospects of IPO firms.

Advantages of Going Public

Theoretically, there are several advantages that would accrue to firms that go public. First is the prestige and status gained by the firm as a result of the perception that business operations meet prudential requirements. This increased esteem in the public is based on the fact that listing requirements are quite stringent and involve adherence to the listing regulations issued by the Capital Markets Authorities.

Secondly, the stock market provides a cheap source of capital, compared to other known sources. Borrowed funds attract interest rates ranging from 30% to 16% annually. The costs of an IPO, which are a 'one off' cost range between 14% to as little as 5% depending on the magnitude of the IPO. Thus for any firm wishing to raise additional capital, the stock market provides a clearly more attractive route, barring other externalities.

Experience shows that several entrepreneurs do not possess the requisite managerial skills necessary to run the business over the long haul. Entrepreneurs are 'hunters' rather than 'skinners'. Hunters lose interest in the venture once the business is up and running, but skinners have an eye for detail and order. A company which is traded on the stock exchange therefore stands a better chance of attracting professional management.

Stock markets provide entrepreneurs with capacity to explore multiple investment ventures, by increasing their potential liquidity. Since shares of public companies are freely tradable, an entrepreneur who wishes to explore alternative investments obtains far greater latitude in raising cash from their financial asset portfolio. Quoted shares also offer the investing public an attractive and fairly safe avenue for earning a return on savings. A number of tax incentives can be gained by a company being publicly quoted. In Uganda there is no capital gains tax and stamp duty. Dividends for listed companies are taxed at 10% at source compared to unlisted company dividends that are taxed at 15%.

Contextual Limitations of Theory and Literature

Most of the discussion of the IPO decision is premised on two fundamental issues. One is that there are no macroeconomic bottlenecks. Two that there is an efficient or well developed market for trade in financial assets. Another issue, on which the IPO decision is premised, although this is not so critical, is the assumption of a degree of sophistication in the firm's disclosure and governance aspects. These assumptions cannot be taken for granted when examining the case of underdeveloped markets. A corollary to this argument is that firms in a developed market have only one choice set, that is the decision to go public or not and the costs associated therewith. On the contrary, firms in underdeveloped markets have choice sets to consider, when making the decision to go public.

Stock markets in underdeveloped economies are generally creations of policy rather natural organic growth. The origin of markets in developed economies is clearly linked to the industrial revolution and the growth of mass production. Such sophistication in production required more specialized management, hence the separation of ownership and management which led to the evolution of financial markets. In underdeveloped countries, this

is clearly not the case. Markets have been legislated into place without any relation to the level of economic sophistication. Underdeveloped economies are faced with a host of structural and political bottlenecks that constrain market development.

Market development has thus been detached from the nature and size of the economy. Poor fiscal policy management, an elementary monetary policy (no yield curve), and a restricted demand because of poor equity supply all conspire to curtail market development. There are also low levels of public trust. This is due to political instability and continual erosion of purchasing power resulting from excessive public expenditure deficits in developing countries.

As an example of the lack of competitiveness in financial markets, in most underdeveloped countries of sub Saharan Africa, the pension sector is dominated by one statutory monopoly. Such monopolies hold up savings while paying returns far below market rates. In Uganda, the National Social Security Fund (NSSF) dominates the market and holds in excess of US$ 500m on which it pays a return of only 7%. Compare this with a prime rate of 11% offered by the Central Bank.

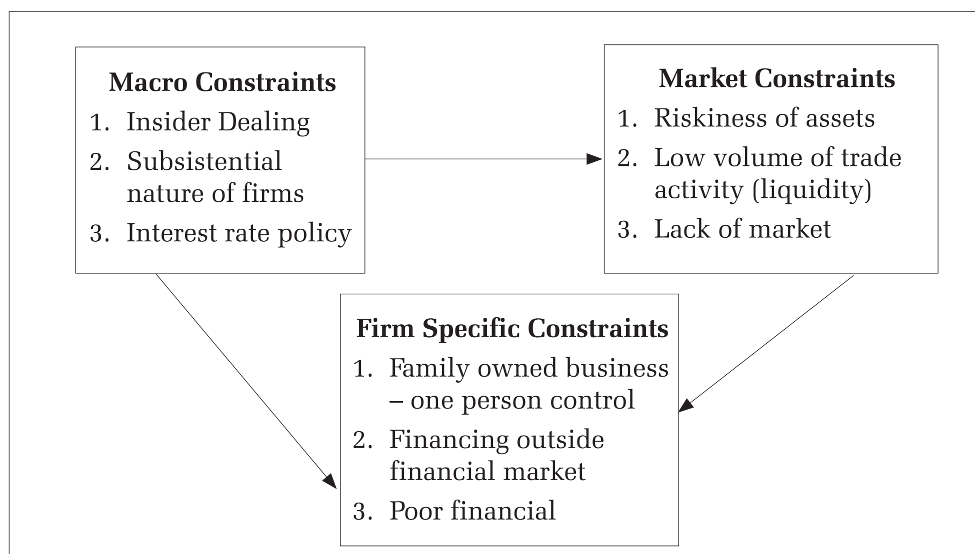
It is often argued that people in underdeveloped countries have poor savings habits. This ethnocentric view of savings habits in underdeveloped countries is untrue. Rather, savings habits are constricted due to the lack of savings opportunities in the formal market. Formal markets are dominated by the banking sector which dismally fails to offer the variety of financial instruments that would encourage savings in underdeveloped markets. Savers are therefore more adjusted to investment in non-financial assets such as land, farm animals, and housing. All these factors have a restrictive effect on the growth of capital markets.

Methodology

The first part of this study involved exploratory interviews of key experts and an extensive literature review. The objective was to assess content and analyse the issues that could be used in a focus discussion group (FDG) and for purposes of an empirical survey of firms' readiness for IPOs'. Several key stakeholders were interviewed in an unstructured manner to develop a conceptual framework. The results of the expert interviews resulted in the development of the following conceptual framework.

The factors hindering growth of capital markets can be divided into three areas, based on the key informant responses to the interviews. First are macro constraints relating to the underdeveloped nature of the economy. Second are market specific constraints, and third are firm specific constraints. These factors are summarised in the following conceptual model. The factors are discussed in greater detail thereafter.

Figure 6.1: Conceptual Framework of Global Constraints to Private Sector IPOs in Underdeveloped Economies



Source: Key Informant Interviews

Macro Specific Constraints

One of the most widely acknowledged macro constraints to capital market development is what is known as 'insider dealing' in public affairs. The conduct of public affairs is characterised by 'cronyism' which creates economic rent seeking opportunities that negate benefits of proper business conduct. The entrenched culture of 'cronyism' is reflected in the large potential for direct self-dealing and abuse of privilege to enrich relatives and friends. Such an approach to managing public resources restricts opportunities for investment by firms that cannot give kickbacks. Alternatively, investors who would like to benefit from such economic rent seeking behavior, would not contemplate making an IPO because of the attendant governance issues.

In addition, as a result of resource scarcity, most firms in under developed countries are micro businesses whose *raison d'être* is limited to subsistence of the owners on the fringes of the formal and informal sectors. Such firm morphology creates a wide resource dispersion which cannot lead to any meaningful growth, because consolidation is not even possible.

Interest rate policy is cited as one of the reasons that resources for IPO issues are scarce. Because governments are major borrowers who provide financial institutions with risk free positions through bond issuance, potential stock market investors are not interested in investing in unknown firms in the stock exchange. This argument may be valid for smaller firms. In cases of denationalised firms, where all significant performance fundamentals have been properly balanced, the IPOs have been oversubscribed. There is however no evidence as yet pointing to successful firms failing to raise capital on the stock exchange. In other SSA countries such as Kenya, private firms have listed successfully.

Structural problems relating to the historical context of the development of underdeveloped economies is another oft cited reason for lack of private sector response in terms of listing. The origin of capital market IPOs was privatisation. However there was minimal capital market involvement in the privatisation process until late in the process. In the case of Uganda, the first IPO based on privatisation did not take place until 2001, yet the restructuring and divestiture program started as far back as 1993. Thus privatisation preceded market development rather than vice versa. This has deprived most underdeveloped economies of the opportunity to participate and appreciate the benefits of owning financial assets as opposed to physical assets.

Market Specific Constraints

While privatisation has occurred as a result of the divestiture of public assets, for some of the privatised assets, the level of riskiness has remained especially high, where one large investor has retained a controlling interest. One oft quoted example in Uganda is the The New Vision Publishing and Printing Company which is 80% government controlled. The CEO of this company was forced out of office after the president expressed dissatisfaction with the

company's 'anti' government stance. The New Vision is the widest circulation newspaper in the country and is quoted on the USE.

During the interviews it was noted that one of the main benefits of flotation on the stock exchange was the liquidity that market players would be able to derive from investing in financial assets. Participants should be able to value their portfolio and to adequately manage their risk exposure. However, the reality of underdeveloped markets is the low volume of activity. At the Uganda Stock Exchange, only one counter was fairly active. Investors seemed to have a 'buy and hold' mentality. There were also few institutional investors active in the capital market. Further, there are no venture or equity funds on the USE, a factor pointing to lack of financial depth in the market.

Market efficiency was also identified as a constraint to market growth. The trading floor operated an open cry system in which settlement was on a T + 5 day basis. There was no central depository system and trading was manual. As a result the level of market efficiency was lower than that of other markets. The enabling law for constitution of a central depository system and electronic trading has not been in place by parliament. The USE has acquired all the necessary tools for computerised trading but there are still structural problems to its implementation.

Market completeness was also cited as a constraint to market growth. Investors did not have at their disposal the wide range of instruments for investment, hedging as well as funding such as bonds, equity securities, and derivatives. All these affected the level/volume of activity on the market.

Firm Specific Constraints

Most of businesses operating in underdeveloped economies are family owned. The owners are reluctant to lose control, and abhor being in the public domain. This is complicated by the short term orientation of investors; based on historical past of country. Most investors keep a lot of funds tied up in physical assets rather than direct business ventures as a result of the potential for instability that characterises third world countries. Most investors believe that in case of instability, physical assets are more enduring and would not need excessive rehabilitation to put them back into use or to liquidate them.

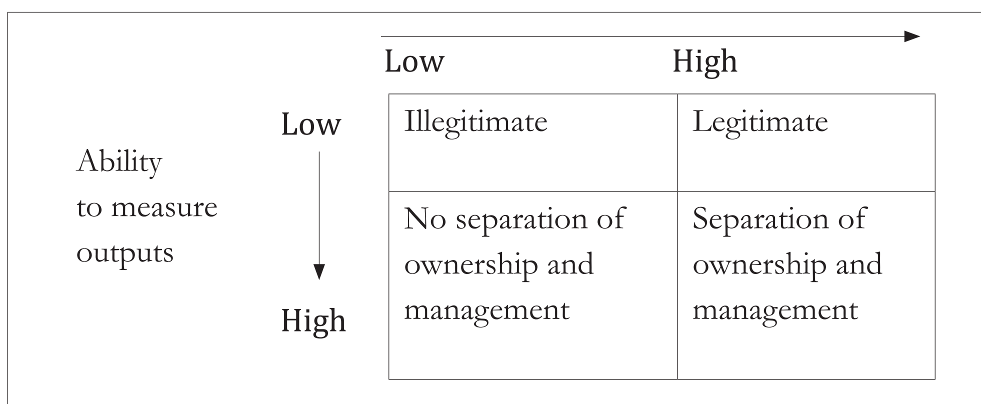
Several firm owners who were interviewed acknowledged that they had foreign sources of financing as opposed to local mobilization. Uganda's

FDI currently stands at about US$ 280m as opposed to Kenya US$ 100m, showing that several investment opportunities were being externally financed, compared to the larger Kenyan economy. There appears to exist a network of firms lending to related parties, which eliminates need to source capital through stock markets. This is especially critical in view of the exchange rate differentials between world financial markets and the local financial market. Funds borrowed internationally can be acquired for as low at a cost as low as 8% (LIBOR+3) while funds borrowed in local currency were at a cost as high as 26% in several instances. Several investors thus do not have the incentive to raise finance locally.

There may also be a poor understanding of finance capital and cost of money as most entrepreneurs do not seek professional advice. The cost of borrowed capital ranges between 16% - 26% while the cost of equity, as a one off, may be about 5% - 14% depending on the amount being raised. In subsequent periods the cost of capital raised through share offers is a function of profitability. IPO costs are also tax deductible.

Most private firms are black boxes (type I) in which there is no separation of ownership and management. The governance structures are weak and there is a paucity of independent board direction. There is also a high level of non-disclosure and poor financial record keeping. Most of these firms financial statements would not pass the USE's listing requirements. Furthermore, a large number of firms (type II) are not the specific source of income; rather they are a legitimating front for illegal activity. In this case, the risks associated with additional disclosure are not adequately compensated by additional returns, and the urge to undergo a due diligence analysis is lacking.

Figure 6.2: Type I and Type II Firm Specific Constraints to IPO



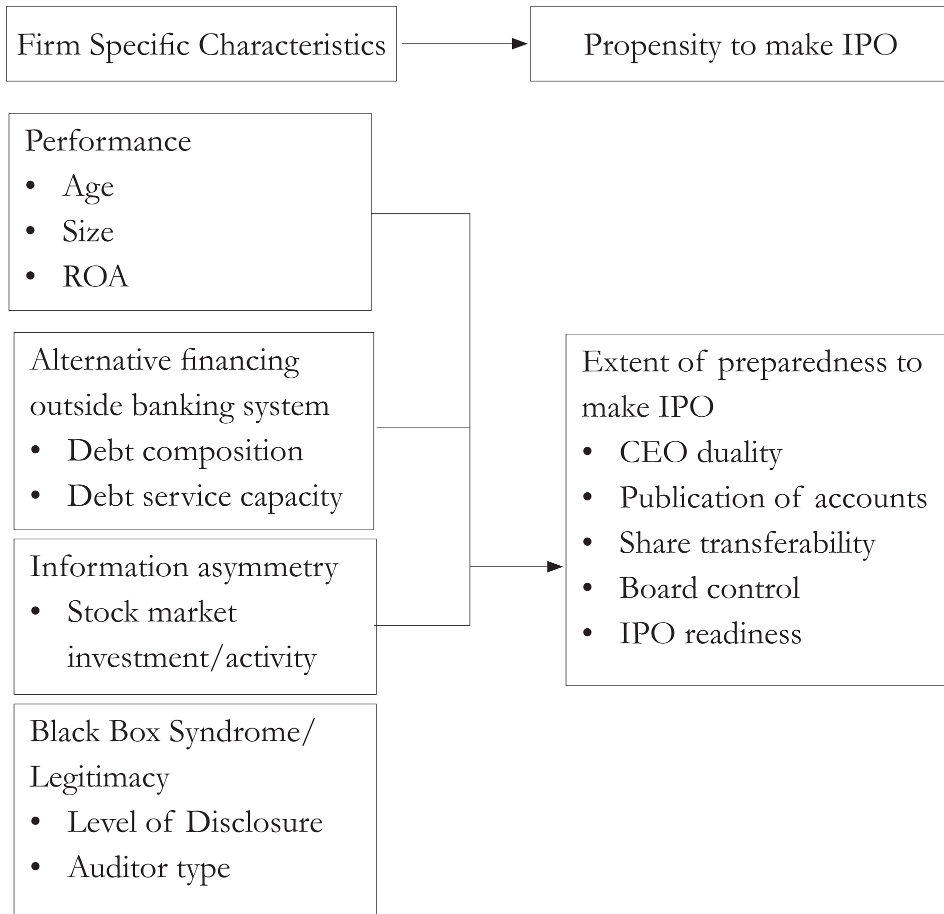
Source: Interview data

Another factor hindering capital market development at the firm level was identified as poor growth prospects for firms in underdeveloped economies. This has further led to a reduced willingness to make IPOs because the reduced level of business activity leads to firms taking up rent seeking positions which would be unfavorable to openly governed businesses. Thus several firms have remained closed up to the public.

In the second part of the study key stakeholders were brought together to form focus discussion groups (FDGs) which critically reviewed the variables identified at the first stage. The discussions in the focus discussion groups involved an analysis of three key issues. These were (1) whether there was an adequate understanding of stock market operations and how firms could leverage financing from such markets, (2) whether the firms' business was capable of meeting the listing requirements and (3) whether firms could bridge the expectations gap between the market and potential investor vis a vis any potential IPOs they were likely to make. The FDG contacts also led to the identification of measurable attributes that could be used in a model for the prediction of IPO readiness.

First it was agreed that measurement of IPO readiness was specific to firms since there had been quite a number of successful IPOs and macro-economic constraints were not necessarily insurmountable for firms that met USE listing requirements. Second, it was agreed that on the basis of the foregoing discussions, a conceptual schema outlining the nature of firm specific dimensions was derived as in Figure 6.3 below.

Figure 6.3: Conceptual Framework of Firm Specific Constraints



Source: Focus Group Discussions

On the basis of the foregoing conceptual model and review of literature (for example Chen and Jaggi, 2000; Yang-Pin and Wei, 2006) on firm specific attributes, the following criterion and predictor variables were identified and are used in the regression model. The column for hypothesised sign shows the direction of the proposed relationship between the criterion and predictor variables.

Table 6.1: Criterion and Predictor Variables

Variable Name	Definition	Proxy	Hypothesised sign
Ceochrma	Chief executive officer doubles as chairman	Dummy variable (1 = no, 0 = yes)	Criterion
Acpublis	Firm i published accounts in time period t	Dummy variable (1 = yes, 0 = no)	Criterion
Sharetra	Share transferability in time periof t (1 = yes, 0 = no)	Dummy variable (1 = yes, 0 = no)	Criterion
Bodctrl	Extent to which firm board is controlled by single person/group	Percentage of shares held by majority shareholder + related parties	Criterion
Ipordy	Readiness of firm i to make IPO in period t	Log(CEO is chairman + accounts published + share transferability + board control)	Criterion
Age	Age of the firm i in time period t	year business started	+
Timintra	Ability to service debt obligations in each time period	times interest ratio	-
Bigfour	Dummy variable for auditor type (big four = 1, non-big four = 0)	Big four auditor	+
Dscore	Level of disclosure in time period t	Disclosure compliance (percentage)	+
Logsale	Log of sales revenue for firm i in time period t	Log of sales	+
ROA	Return on total assets	PAT/Total Assets	+

Variable Name	Definition	Proxy	Hypothesised sign
Finstruc	Proportion of debt financing to total capital employed	(Total Debt)/Total Assets	-
Legit	Legitimacy of the business	No. of independent directors/Board size	+
Infoasym	Knowledge of stock market activity	Log(total assets /total value of intangible investments+ 1)	-

$$Ceochrma_{it}, Acpublis_{it}, Sharetra_{it}, BodCtrl_{it}, Ipordy_{it} = \beta_{0t} + \beta_1 Age_{it} - \beta_2 Timintra_{it} + \beta_3 Bigfour_{it} + \beta_4 Dscore_{it} + \beta_5 Logsales_{it} - \beta_6 ROA_{it} - \beta_7 Finstruc_{it} + \beta_8 Legit_{it} - \beta_9 Infoasym_{it} + \mu_{it}$$

Research Design and Sampling Criteria

This study involved the use of a cross sectional time series design, whereby data regarding a specific historical event was collected covering a five year period (2003 – 2007). Since a firm making an IPO must meet certain listing criteria, it was necessary to focus on firms with a potential to go IPO. These firms were to be found in the category of large taxpayers, for which a population of 353 large taxpayer organisations was established. A review of the population however showed that several of these organisations were either already traded firms, branches of foreign firms or public sector organisations. It is assumed that firms that did not, prima facie, meet the listing criteria cannot consider making an IPO. This is because they would be rejected by the regulator and would in fact not be in a position to meet the costs of compliance for listing. The list was therefore recast to 227 (64%) eligible firms. Again due to the absence of legal compliance requirements for public filing of financial statements (Yang-Pin and Wei, 2006) it was not possible to use a random sample because of the risk of rejection, hence a purposive sample was adopted.

A target sample of 115 firms was identified on the basis of judgment. These firms had to have been in existence before 1997 and based on their tax identification number (TIN), must have been profitable for at least three years with audited accounts. The identified firms were individually approached by the lead researcher with a letter and a copy of the questionnaire, requesting

them to participate in the study. Several firms rejected the request to provide information citing confidentiality and distrust. Thirty six firms responded positively, implying a 31.3% response rate. However, the data provided by two firms was rejected on the basis of incompleteness and these were eliminated. The data from the accepted 34 firms yielded 170 cases over a five year period which were used in the analysis.

Data Analysis and Reporting

The data collected from the survey was analysed using SPSS™ version 15.0 and STATA 9.0. Descriptive statistics were computed to obtain a feel of the data. Correlations of the model variables were also computed and four static panel regression models were fitted to examine the relationships between the variables and the extent to which the independent variables were good predictors of the criterion variable – IPO readiness.

Discussion of Findings

Descriptive Statistics

Table 6.2 below shows the descriptive statistics for the total sample. The results show that the average age of the firms included in the sample was 17.30 years (SD = 11.451), with the least mature firm being 3 years, while the oldest was 43 years. About 31% of the firms in the study had published accounts but only 3% had transferable shares. The average firms' debt was about two times the total assets, suggesting that firms were using various sources of financing to raise capital. However there was very huge variation in the reported debt of firms (from 0.1 times to 73 times the total assets). This showed that either the firms sources of financing were not formal (black box firms) because the payments of interest were also modest or profits were booked as debt infusions to avoid tax payments.

Table 6.2: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Age	3	43	17.97	11.451
Ceochrma	0	1	.46	.500
Timintra	-5.851	192.000	3.93769	17.440119
Acpublish	0	1	.31	.464
Shartran	0	1	.03	.170
Bigfour	0	1	.51	.501

	Minimum	Maximum	Mean	Std. Deviation
Dscore	.25	1.00	.6776	.15133
Logsales	-.60	2.30	1.0257	.49399
ROA	-.47	2.83	.1093	.25420
Finstruc	.01	73.01	1.8378	6.04848
Bodctrl	.00	1.10	.8145	.29486
Legit	.00	1.00	.3176	.39911
Infoasym	-2.2323	.6679	-.689607	.4813934
Ipordy	-.30	.48	.1550	.22238

The average level of disclosure by the firms in the study sample was about 68% (SD = 15%), implying an inability to meet all listing requirements by a large number of firms. Furthermore, the level of stock market activity for firms (logged) in the study as a proxy for information asymmetry is also negative (X = -.69). This implies that the firms in the study sample had minimal stock market involvement, a strong indicator of lack of knowledge or simply distrust.

Another variable of interest was legitimacy proxied by percentage of independent directors on the board. The statistics show that on average only 32% of the directors for all firms were independent directors. This implied that firms were closely held and the majority shareholder had the largest say in what direction the business took. The variable for IPO readiness also had a very low mean (.16), implying that most of the firms in the sample were not ready to go IPO.

Correlations

Table 6.3 below presents the Pearson correlations for the study variables. The results show that there is a significant positive correlation between ipordy (IPO readiness) and account publication, share transferability, auditor type, disclosure, sales, size represented by the log of sales, and legitimacy at $p < 0.01$. These results are as expected because as age, size, and legitimacy increase the level of disclosure is also expected to increase, hence IPO readiness improves (Chen and Jaggi, 2000; Sejjaaka, 2005). Sales are related to size and indeed large firms tend to disclose more. Another important finding is the positive relationship between IPO readiness and information asymmetry ($r = .222$, $p < 0.01$) which shows that firms that exhibit a high level of market activity are more likely to exhibit a higher level of IPO readiness. This is in conformity with Jin and Philip, 2003. However we find no correlation between IPO readiness and profitability, financial structure, and legitimacy.

Table 6.3: Correlations of Predictor and Criterion Variables

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Age (1)	1													
Timintra (2)	.138 (.092)	1												
Ceochrma (3)	.160(*) .041	-.078 .333	1											
Acpublish (4)	.054 (.490)	-.046 (.565)	.409(**) .000	1										
Sharetra (5)	.356(**) (.000)	-.041 (.609)	.048 .540	.262(**) (.001)	1									
Bigfour (6)	.097 (.219)	-.070 (.383)	.455(**) .000	.164(*) (.033)	.171(*) (.027)	1								
Dscore (7)	.128 (.104)	-.022 (.781)	.539(**) .000	.613(**) (.000)	.180(*) (.019)	.370(**) (.000)	1							
Logsales (8)	.104 (.187)	-.250(**) (.002)	.189(*) .015	.059 (.451)	-.034 (.662)	.518(**) (.000)	.334(**) (.000)	1						
ROA (9)	-.135 (.087)	-.008 (.926)	-.174(*) .025	.131 (.092)	-.047 (.546)	-.068 (.384)	-.036 (.643)	.174(*) (.025)	1					

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Finstruc (10)	-.144	-.049	-.137	.159(*)	-.039	-.130	-.023	.127	.883(**)	1				
	(.068)	(.544)	.079	(.041)	(.622)	(.094)	(.772)	(.104)	(.000)					
Bodctrl (11)	-.290(**)	-.114	-.283(**)	-.321(**)	-.516(**)	-.265(**)	-.318(**)	.044	.094	.105	1			
	(.000)	(.173)	.001	(.000)	(.000)	(.001)	(.000)	(.601)	(.261)	(.207)				
Legit (12)	.115	-.107	.546(**)	.318(**)	.310(**)	.506(**)	.386(**)	.156	-.100	-.092	-.214(**)	1		
	(.156)	(.188)	.000	(.000)	(.000)	(.000)	(.000)	(.051)	(.213)	.252	(.009)			
Infoasym (13)	-.125	.075	-.027	.271(**)	.125	-.332(**)	.014	-.468(**)	.290(**)	.324(**)	-.116	.013	1	
	(.115)	(.352)	.733	(.000)	(.109)	(.000)	(.861)	(.000)	(.000)	.000	(.165)	(.877)		
Ipordy (14)	.088	-.221(**)	.782(**)	.731(**)	.213(**)	.400(**)	.686(**)	.328(**)	.072	.071	-.066	.535(**)	.222(**)	1
	(.291)	(.008)	.000	(.000)	(.010)	(.000)	(.000)	(.000)	(.389)	(.395)	(.430)	(.000)	(.007)	

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Figures in brackets denote significance

The results show that there is a positive relationship between age, publication of accounts, auditor type, disclosure and legitimacy, and CEO duality. Alternately there is a negative relationship between board control and CEO duality, implying that as the role if CEO is separated from that of chairman, the likelihood of 'one man' control of the board diminishes. Another interesting finding is the significant negative relationship between *age, account publication, share transferability, auditor type and disclosure,* and *board control* ($p < 0.01$). As the influence of a single shareholder decreases, all the other variables improve, underlining the importance of overcoming autocratic control if a firm is to go IPO. Indeed as age improves, share transferability also improves. The implication of these positive correlations is that as firms mature, it is likely that their control also passes to more people, who are eventually likely to take a firm through the IPO route as a means of exiting their shareholding.

This means that firms in Uganda are not yet mature for IPO activity. The positive correlation between information asymmetry and IPO readiness is unexplainable because it was hypothesised that as information asymmetry decreased, firms' readiness to go IPO would increase.

Regression Results

Regression results for the total usable sample are presented using four models. All the models are based on a static panel regression formulation in which different dimensions of IPO readiness are regressed against the predictor variables. The five criterion variables modeled are account publication, share transferability, board control, and IPO readiness (Table 6.4 below). IPO readiness is a composite variable consisting of the first four variables.

For all five models, disclosure is found to be a significant predictor for four of the five models. In the case of CEO duality, when the board chairman is not the chief executive officer, we note that auditor type, disclosure, and legitimacy are significant predictors of the firm's IPO readiness ($r = 50\%$, $p > 0.01$). When account publication is used as the criterion, disclosure is the only significant predictor ($t = 8.69^{***}$). The model explains 50% of the criterion variable. This implies that there is a strong positive relationship between disclosure and account publication. This is not surprising because firms that are subject to regulation are more likely to disclose more and also will most probably be required by law to publish their accounts in a widely circulated media.

When share transferability is used as a measure of IPO readiness, age (t = 4.95***) and legitimacy (t = 1.96*) are the most significant predictors. When the criterion variable is board control, age, auditor type, and disclosure it is significant at the $p<0.01$ level while size is significant at the $p < 0.10$ level. Based on the negative coefficients, we can see that firms with diluted board control are likely to be older firms, have a big four auditor, and also be fairly large even though the latter may not be so significant.

Lastly, when a composite measure of IPO readiness is applied as the criterion variable, ability to service debt, disclosure, size, legitimacy, and information asymmetry are significant predictors of IPO readiness. Importantly, we observe a negative coefficient for information asymmetry (β = -.386, t = -5.96***) implying that as information asymmetry decreases, IPO readiness increases. In all models, we observe that profitability (return on assets or ROA) and financial structure are not significant predictors of IPO readiness however it is measured.

Table 6.4: PANEL Regression Models I - V

	Ceochrma (Fixed effects)	**Acpublis (Fixed effects)**	**Sharetra (Fixed effects)**	**Bodctrl (Fixed effects)**	**Ipordy (Fixed effects)**
Age	.0001364 (0.05)	.0026694 (1.00)	.0061236 (4.95)***	-.0065922 (-3.15)***	.0006366 (0.58)
Timintra	-.0012055 (-0.66)	-.0016794 (-0.97)	-.0010609 (1.32)	-.0005897 (-0.44)	-.0020228 (-2.91)***
Big four	.2701953 (3.23)***	.0669428 (0.85)	.0505367 (1.38)	-.1800775 (-2.95)***	.0261329 (0.82)
Dscore	1.248125 (5.10)***	2.009313 (8.69)***	.0766036 (0.71)	-.4839049 (-2.69)***	.7152577 (7.60)***
Logsales	-.025003 (-0.27)	-.0900542 (-1.03)	-.0477621 (-1.18)	.1262353 (1.86)*	.0807138 (2.26)**

	Ceochrma (Fixed effects)	Acpublis (Fixed effects)	Sharetra (Fixed effects)	Bodctrl (Fixed effects)	Ipordy (Fixed effects)
ROA	-.3012945 (-1.08)	.0688264 (0.26)	-.0107683 (-0.09)	.0405687 (0.20)	.0105827 (0.10)
Finstruc	.0036895 (0.32)	.009901 (0.91)	.0013046 (0.26)	.0000134 (0.00)	-.0005566 (-0.13)
Legit	.2977252 (3.21)***	.0587488 (0.67)	.0799728 (1.96)*	.0391113 (0.58)	.1394502 (3.92)***
Infoasym	.0608948 (0.74)	.1168869 (1.50)	.0412154 (1.14)	-.0690292 (-1.04)	.1275973 (3.66)***
Constant	-.4994266 (-2.98)***	-.9822327 (-6.20)***	-.1003303 (-1.36)	1.160602 (9.40)***	-.3860841 (-5.96)***
R-Squared (overall)	0.5010	0.5014	0.2610	0.2517	0.6416
F-statistic	15.09	15.06	5.31	4.80	25.77
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0000

All regressions include a constant. T statistics are in brackets

*** significant at $p < 0.01$

** significant at $p < 0.05$

* significant at $p < 0.10$

All models are based the panel data for the 34 firms in the study sample for a period of five years (2003 – 2007 inclusive). The detailed regression statistics are shown in appendix two of this report. Because we are unable to determine whether the omitted variables differ between cases but are constant over time or vice versa, we run Hausman tests to compare fixed models with random effects models. Hausman tests the null hypothesis that the coefficients estimated under both random and fixed effect models are the same (Stock and Watson, 2003). In this case the P-values returned by the Hausman tests are significant $p < 0.000$, meaning that there is no significant difference between random and fixed effects models.

Conclusion

Capital markets are essential to the financial sector as part of modernization because developed markets promote economic growth through increased savings mobilization, and spreading of risks in enterprises. Capital markets also help finance the public sector borrowing requirement (PSBR) while reducing fiscal pressure of debt redemption if maturity periods of securities are lengthened. Governments can also raise long term funds through the capital market and enhance the creation of a robust yield curve. In the case of private held firms, capital markets provide a low cost source of financing for risky ventures. Furthermore, if owners wish to opt out of the business, capital markets provide the most logical way of shedding their interest in the business. However, their development in SSA continues to be slow, especially the private sector.

Market development is a process and will take time. There are several impediments to rapid growth but these are unavoidable. First, listing requirements are onerous but need to be so because capital market integrity is a necessary condition for market growth. Secondly, the private sector needs to make a 'buy in' and understand the relevance of capital markets in dissipating business risk and providing latitude in the magnitude of investment that can be achieved through savings mobilization. Third, is the need for professionalism in business management and the need for sophistication in disclosure. There are a number of policy implications from this study that if considered can be the basis of growing capital markets in underdeveloped economies.

Policy Implications

For firms to go IPO or to operate to a higher global business standard there is a need for legislation obligating firms of a given size to file financial statements with a designated public body. This requirement is now standard in several emerging market jurisdictions such as Taiwan (Yang-Pin and Wei, 2006). This filing requirement should not be confused with the tax authority reporting that firms are required to undertake annually, but must be seen as part of market confidence building process. Such a policy requirement would make information regarding firm performance more readily available as a basis for macro-economic planning. Large firms, even though privately held, are 'public-interest' companies, which by enjoying common property resources

should be enjoined to show their corporate responsibility through disclosure of their performance. There is already ample evidence that firms that provide more disclosure enjoy a relatively lower cost of capital.

The results show that IPO readiness is partly a maturation process. As a firms' age increases, its critical 'IPO-relevant' variables also seem to improve. This is probably due to the fact that older firms are better managed and therefore have a much better performance. Older firms are also less likely to be controlled by the founder and therefore for the disparate stakeholders to continue co-owning the business, a higher level of transparency is inevitable. Since most Ugandan firms are young, they will eventually go public as their ownership becomes more dispersed and they experience improved corporate governance. This should take place in tandem with growth of the USE itself which is just ten years old. As listing becomes more widely appreciated through educational efforts, firms are also more likely to go the IPO route.

Third is the need to improve the disclosure regime of firms as part of the process of increasing IPO readiness. The empirical results show that adequate disclosure is a very important determinant of a firm's preparedness for an IPO. Firms need to be assisted to improve disclosure if they are interested in going IPO. There are other benefits associated with increased disclosure such as lower cost of capital (Botosan, 1997). There is adequate empirical evidence to show that firms that disclose more information have lower borrowing costs. This is necessary to make firms more competitive in a global environment.

This study focussed on firms that are visible and have a record of operation because these are the only firms that would have a likelihood of making an IPO. Firms that are opaque, avoid paying taxes, or follow accounting practices that reduce their taxable profits are *prima facie* unlikely to be IPO candidates. Pursing such firms for IPO possibilities is an exercise in futility. In any case, even formally existing firms with a potential for going IPO are not obligated to make disclosures to the public.

The incentives for a firm to remain closely controlled may override the benefits of going public hence the inadequate disclosure. Given the existence of huge economic rents in underdeveloped economies, firms or entrepreneurs with proprietary information have a tendency to extract those economic rents as fast as possible, hence they have a short term business perspective. To a large extent therefore, many firms are type I firms: the actual source of their

business prosperity is unclear and there is no separation of ownership and management. They are not ready to 'undress' for the market and be courted by the investing public. In such circumstances, longevity of the business is rare.

The fourth policy implication of the findings in this study is that firms that wish to be IPO ready must increase their legitimacy. Legitimacy in this study has been proxied by the extent to which the board includes independent non-executive directors (Chen and Jaggi, 2000). Firms have an immediate and far reaching impact on the communities in which they operate. As a result, eminent members of their communities included on their boards would be a positive indicator of their continuous commitment to those communities, the extent of responsible business practice, and environmental aptitude. However, the level of independent non-executive directors' involvement is about 30%, meaning that the communities in which the firms operate do not have a say in the businesses which daily impact their lives. In fact, the largest firms in the country are on record as having refused to provide data for this study.

Policy change can result in significant improvements in market development. An increase in incentives to direct local savings away from real assets to financial assets would result in availing more funds for investment. An increase in liquidity by developing secondary market capacity would also further increase the synergies for growth. Thus there is a need for a concerted effort to grow capital markets by shaping attitudes to go IPO.

It was expected that information asymmetry would be a key predictor of the lack of IPO readiness of Ugandan firms. In this study it was proxied by the level of intangible investment in the balance sheets of firms in the study sample. On average firms' investment in intangibles did not exceed 10% of total assets and this was consistent across the board ($\sigma = 0.2$). If this proxy is an indicator of the extent to which firms are involved in the markets, then it is evident that their belief in markets is quite limited and they are not viewed as a practical source of capital.

Limitations and Areas for Future Research

The main limitation of this research has been the paucity of data. Private firms are not obliged to disclose to the public their operating results and financial positions, unless they are regulated. Thus in this study it was not possible to use a random sample *despite having a well-defined population*. In other

studies, academics have had the luxury of analyzing firms *ex post and ex ante* IPO conditions (Rosen *et al.,* 2005), but this is not possible in nascent markets. Thus the analysis that has been carried out involved use of longitudinal panel data and three types of models to increase the robustness of the results. The results of this study could be improved through a bigger sample so that a comparison can be made between regulated and unregulated firms for better policy prescriptions.

With regard to empirical testing, it is evident that the current theoretical models are not very useful in examining the case of underdeveloped economies. This is because the extant models, which are principally cost/benefit aligned, assume that all universal conditions are optimal, that is the economy and market are optimally regulated and efficient. Because of this, the key decision faced by owners of the firm is whether to go public or not. However in the case of underdeveloped economies, we have to develop a model that contends with economic and political issues, market sophistication issues, and firm (governance) specific issues. We may develop macro models for in-between country analyses, or micro models for specific market condition analyses, but the key focus remains constraints, rather than the opportunity, faced by firms in underdeveloped markets. Specifically, the decision faced by the owners of the firm must address utility of the decision to go public at the three levels identified in the conceptual framework.

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Appendix

Appendix I: Panel Regression Results (fixed effects)

Model I: Panel Regression for CEO Duality

.xtreg ceochrma age timintra bigfour disclosu logsales roa finstruc legit infoasym, fe

Fixed-effects (within) regression	Number of obs = 149
Group variable (i): finyear	Number of groups = 5
R-sq: within = 0.5015	Obs per group: min = 28
between = 0.0891	avg = 29.8
overall = 0.5010	max = 31
	F(9,135) = 15.09
corr(u_i, Xb) = -0.0111	Prob > F = 0.0000

ceochrma	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
Age	.0001364	.0028208	0.05	0.961	-.0054423	.0057152
Timintra	-.0012055	.0018346	-0.66	0.512	-.0048338	.0024228
Bigfour	.2701953	.0837122	3.23	0.002	.1046382	.4357523
Disclosu	1.248125	.2447752	5.10	0.000	.7640348	1.732215
Logsales	-.025003	.0922154	-0.27	0.787	-.2073766	.1573707
Roa	-.3012945	.2794754	-1.08	0.283	-.8540109	.2514219
Finstruc	.0036895	.0114593	0.32	0.748	-.0189734	.0263525
Legit	.2977252	.0927617	3.21	0.002	.114271	.4811794
Infoasym	.0608948	.0825454	0.74	0.462	-.1023547	.2241442
_cons	-.4994266	.1676523	-2.98	0.003	-.8309913	-.1678619
sigma_u = .01715523						
sigma_e = .3704906						
rho = .00213948 (fraction of variance due to u_i)						
F test that all u_i=0: F(4, 135) = 0.06				Prob > F = 0.9938		

Model I: Panel Regression for Accounts Publication

.xtreg acpublis age timintra bigfour disclosu logsales roa finstruc legit infoasym, fe

Fixed-effects (within) regression	Number of obs = 149
Group variable (i): finyear	Number of groups = 5
R-sq: within = 0.5010	Obs per group: min = 28
between = 0.6730	avg = 29.8
overall = 0.5014	max = 31
	F(9,135) = 15.06
corr(u_i, Xb) = -0.0178	Prob > F = 0.0000

Acpublis	**Coef.**	**Std. Err.**	**t**	**P>|t|**	**[95% Conf. Interval]**	
Age	.0026694	.0026646	1.00	0.318	-.0026005	.0079392
Timintra	-.0016794	.001733	-0.97	0.334	-.0051068	.0017481
Bigfour	.0669428	.0790774	0.85	0.399	-.089448	.2233337
Discore	2.009313	.2312229	8.69	0.000	1.552025	2.466601
Logsales	-.0900542	.0871098	-1.03	0.303	-.2623305	.0822222
Roa	.0688264	.2640019	0.26	0.795	-.4532882	.590941
Finstruc	.009901	.0108248	0.91	0.362	-.0115071	.0313092
Legit	.0587488	.0876259	0.67	0.504	-.1145482	.2320459
Infoasym	.1168869	.0779752	1.50	0.136	-.0373241	.2710979
_cons	-.9822327	.1583701	-6.20	0.000	-1.29544	-.6690255
sigma_u = .01595681						
sigma_e = .34997797						
Rho = .00207448 (fraction of variance due to u_i)						
F test that all u_i=0: F(4, 135) = 0.06			Prob > F = 0.9933			

Model II: Panel Regression for Share Transferability

. xtreg sharetra age timintra bigfour disclosu logsales roa finstruc legit infoasym, fe

Fixed-effects (within) regression	Number of obs = 149
Group variable (i): finyear	Number of groups = 5
R-sq: within = 0.2615	Obs per group: min = 28
between = 0.5681	avg = 29.8
overall = 0.2610	max = 31
	F(9,135) = 5.31
corr(u_i, Xb) = -0.0529	Prob > F = 0.0000

Sharetra	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
Age	.0061236	.0012378	4.95	0.000	.0036755	.0085716
Timintra	-.0010609	.0008051	-1.32	0.190	-.0026531	.0005312
Bigfour	.0505367	.0367343	1.38	0.171	-.0221124	.1231857
Discore	.0766036	.1074113	0.71	0.477	-.1358228	.28903
Logsales	-.0477621	.0404656	-1.18	0.240	-.1277905	.0322664
Roa	-.0107683	.1226383	-0.09	0.930	-.253309	.2317725
Finstruc	.0013046	.0050285	0.26	0.796	-.0086403	.0112494
Legit	.0799728	.0407053	1.96	0.052	-.0005298	.1604754
Infoasym	.0412154	.0362223	1.14	0.257	-.030421	.1128519
_cons	-.1003303	.0735685	-1.36	0.175	-.2458262	.0451656
sigma_u = .00474575						
sigma_e = .16257718						
Rho = .00085137 (fraction of variance due to u_i)						
F test that all u_i =0: F(4, 135) = 0.02				Prob > F = 0.9990		

Model III: Panel Regression for Board Control

. xtreg bodctrl age timintra bigfour disclosu logsales roa finstruc legit infoasym, fe

Fixed-effects (within) regression	Number of obs = 143
Group variable (i): finyear	Number of groups = 5
R-sq: within = 0.2511	Obs per group: min = 26
between = 0.8468	avg = 28.6
overall = 0.2517	max = 30
	F(9,129) = 4.80
corr(u_i, Xb) = -0.0320	Prob > F = 0.0000

Bodctrl	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]
Age	-.0065922	.0020946	-3.15	0.002	-.0107363 -.002448
Timintra	-.0005897	.0013278	-0.44	0.658	-.0032167 .0020373
Bigfour	-.1800775	.0610686	-2.95	0.004	-.3009031 -.0592518
Discore	-.4839049	.1795808	-2.69	0.008	-.8392099 -.1285999
Logsales	.1262353	.0680454	1.86	0.066	-.0083943 .2608649
Roa	.0405687	.2025161	0.20	0.842	-.3601144 .4412518
Finstruc	.0000134	.0083201	0.00	0.999	-.016448 .0164749
Legit	.0391113	.0678739	0.58	0.565	-.0951789 .1734015
Infoasym	-.0690292	.0665768	-1.04	0.302	-.2007531 .0626948
_cons	1.160602	.1234799	9.40	0.000	.9162944 1.40491
sigma_u = .00479219					
sigma_e = .26756811					
rho = .00032067 (fraction of variance due to u_i)					
F test that all u_i=0: F(4, 129) = 0.01	Prob > F = 0.9998				

Model IV: Panel Regression for IPO Readiness

. xtreg ipordy age timintra bigfour disclosu logsales roa finstruc legit infoasym, fe

Fixed-effects (within) regression	Number of obs = 143
Group variable (i): finyear	Number of groups = 5
R-sq: within = 0.6426	Obs per group: min = 26
between = 0.5689	avg = 28.6
overall = 0.6416	max = 30
	F(9,129) = 25.77
corr(u_i, Xb) = -0.0565	Prob > F = 0.0000

ipordy	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
Age	.0006366	.0010981	0.58	0.563	-.0015361	.0028093
Timintra	-.0020228	.0006961	-2.91	0.004	-.0034001	-.0006455
Bigfour	.0261329	.032017	0.82	0.416	-.0372134	.0894793
Disclosu	.7152577	.0356748	7.60	0.000	.5289787	.9015367
Logsales	.0941505	.0105827	2.26	0.025	.0101303	.1512972
Roa	.0807138	.106175	0.10	0.921	-.1994871	.2206525
Finstruc	-.0005566	.004362	-0.13	0.899	-.009187	.0080738
Legit	.1394502	.0355849	3.92	0.000	.0690447	.2098558
Infoasym	.1275973	.0349048	3.66	0.000	.0585372	.1966574
_cons	-.3860841	.0647379	-5.96	0.000	-.5141696	-.2579985
sigma_u = .01045819						
sigma_e = .14028037						
rho = .00552729 (fraction of variance due to u_i)						
F test that all u_i=0: F(4, 129) = 0.13	Prob > F = 0.9695					

Chapter Seven

Pitfalls of Informal Business Management in Uganda: The Case of Small and Medium Enterprises

Joseph Mpeera Ntayi, Sarah Eyaa, Flavian Zeija, and Gerrit Rooks

Abstract

The study focused on examining the pitfalls of informal business management among Small and Medium Sized Enterprises (SMEs) in Uganda given that these pitfalls often lead to buyer-supplier conflict that endanger the survival and continuity of the SMEs. The study was motivated by the desire to establish the rationale for the informal management of exchange relationships in Uganda and examine the process of managing conflict that arises from the informalities. The study established that contractual terms and conditions in contracts governing business dealings are not well articulated, creating a lot of conflict in the buyer-supplier relationships. Findings further revealed that when faced with conflict majority of the SMEs do not know what to do. While some seek redress from the Police and Local Councils, only a few go to the commercial court. SMEs that go to court find court procedures lengthy, costly and time consuming. However, the study established that Alternative Dispute Resolution (ADR) is timely and cost efficient. The level of unethical behaviour by suppliers towards SMEs is also very high as evidenced by incidents of lying, exaggeration, and breach of contract. The study also found out that SMEs do not make formal contracts with their suppliers despite the low levels of trust that they have in them.

These findings raise implications for Government bodies such as the Ministry of Trade, Industry and Cooperatives, Ministry of Tourism, Wildlife and Antiquities, the Uganda National Chamber of Commerce and Industry (UNCCI), the Commercial Court, Private Sector Foundation Uganda (PSFU) as well and private bodies such as the Uganda Manufacturing Association (UMA) and the Uganda Small Scale Industries Association (USSIA). Some of these implications include creating awareness of arbitration and other forms of ADR; creation of a special

desk at the commercial court for SMEs; teaching SMEs and suppliers the importance of formal contracts and how to write them; providing legal help to SMEs; training SMEs and suppliers in ethical business behaviour; and building the capacity of the police and local councils to handle dispute resolution.

Key words: Contract enforcement, transaction, conflicts, SMEs, ethical behaviour, alternative dispute resolution and contract management.

Introduction

Uganda's private sector is dominated by Small and Medium Enterprises (SMEs), which account for majority of the entire business firms. Their commercial activities represent average 75% of Uganda's annual Gross Domestic Product (GDP). They employ over 80% of the total workforce in the country and produce largely for the domestic market. The sector is predominantly informal, with ownership and management fused, without clearly defined systems, structures, policies and procedures characteristic of big companies and multinationals. This informal corporate practice has several implications for SMEs, notable of which is their relationship with their suppliers. These SMEs are run under typical supply chain practices, where the rule of the game is what the seller gains the buyer must lose, that is, the *"we win – you lose"* type of game.

Recognising the importance of contractual discipline and contract enforcement in Uganda's SME buyer-supplier relationship is important in promoting business growth. Business growth is difficult in countries where the courts of law are slow. In Uganda dispute resolution in courts of law takes long time, yet the number of cases arising from business disputes continues to pile, damaging buyer-supplier relationships further. According to the Justice Law and Order Sector (JLOS) Progress Report (2008), there is a cumulative growth of backlog cases because the rate at which cases are disposeds does not match the rate at which new cases emerge. As a consequence of this in many developing countries, sub-optimal contract enforcement by formal legal institutions in the economic system becomes rigid and inflexible. Buyers and suppliers therefore tend to select trusted business partners and are very reluctant to switch between partners. For instance, the number of cases pending in the High Court as at 30th July 2009 was close to 120,000 and those disposed of were only 20,000. Yet some of them (the disposed ones) had been carried

forward from 2006 (Justice Law and Order Sector Report, 2009). Several initiatives to improve commercial dispute resolution have been undertaken in Uganda under the Arbitration and Conciliation Act in 2000 (Cap 4 Laws of Uganda). The Act created a specialist statutory body which would guide the country on the use of alternative dispute resolution (CADER).

Although these are important steps, there are some clear restrictions in the effectiveness of alternative dispute resolution (ADR) institutions in Uganda. First, from the report of the committee on Legal and Parliamentary Affairs on the Arbitration and Conciliation (Amendment) Bill (2007), it is clear that the ADR Act is not being used adequately. Secondly, it is clear that there are marketing problems associated with it (Justice Kiryabwire, 2005). Commercial parties often do not find the way to ADR institutions. The Justice Law and Order Sector in its Sector Investment Plan (SIP II) intends to promote the use of ADR in addition to solve the problem of back log of cases given the fact that ADR has not been effectively used.

To effectively enforce contracts and improve buyer-supplier relationships there is need for adequate quantitative and qualitative information. We need to know how often disputes occur during commercial transactions, the origin of the disputes, the process of dispute formation, the arbitration methods that can be applied to resolve disputes, and the emotional reaction of SMEs to disputes. However, there is up to now no large scale systematic knowledge about dispute resolution in buyer-supplier relationships in Uganda and emotional outcomes of the dispute resolution.

The Business Environment and SMEs in Uganda

Uganda is a developing nation located in the eastern part of the African Continent. It is a low – income country that is agriculture based. The current population is estimated to be 37 million people as at June 2013, and the Gross Domestic Product (GDP) per capita is about US$ 995. The economy has shown solid growth over the last 15 years, with annual GDP growth averaging around 5%. Uganda has an extensive SME sector which accounts for approximately 90% of the entire private sector employing more than 2.5 million people, making it one of the largest employers in the country. The Small and Medium Enterprise (SME) sector in Uganda is extensive with an estimated 1,069,848

SMEs in urban and rural areas. SMEs are the prime source of new jobs, playing a vital role in income generation.

> ..In the case of Uganda, the definition of SMEs is based on the number of full time employees, the capital investment and annual sales turnover of a business enterprise. In fact the minimum requirement for the categorisation of the enterprises is based on fulfilment of any two of the criteria outlined.Thus: **Small Enterprise**: An enterprise that employs from 5 to 50 people, with annual sales turnover and/or total assets of up to UGX 360 million. **Medium Enterprise**: An enterprise that employs from 51 to 100 persons, with annual sales turnover and/or total assets of over UGX 360 million, but not more than 30 billion (MoFPED, 2011, page, 4).

The ownership of the enterprises is almost equally distributed between gender, with males owning 47.6% of the SMEs and the females 52.6%. According to the Uganda Small Scale Industries Association (USSIA), SMEs are spread across all sub-sectors of the economy with the majority operating in the informal sector. SMEs face peculiar constraints that are not common with large companies in Uganda. They face numerous constraints in their access to finance and markets, and are disproportionately effected by regulatory barriers. One crippling challenge facing SMEs is in the area of corporate governance, which is vital for providing strategic direction, leadership, and profitable growth to the business.

Corporate Governance

The majority of SMEs in Uganda are owned and managed by families, usually with the founder owner being the chief executive. Often there is hardly any separation of ownership from management. This scenario means that professional management is rarely hired; structures and systems are almost non-existent, while policy and procedure depend on the thinking of the owner-manager who is the chief executive. As a consequence, SMEs suffer debilitating terms of trade while dealing with their suppliers. This is the central focus of this chapter in which finings on SME – supplier relationships are present. The study findings revealed the following key features among Ugandan SMEs, in dealing with their suppliers:

Informal Business Relationships

There is no clear description of the relationship between SMEs and their suppliers; neither are their obligations in the exchange relationship clearly spelt out. The terms of trade and payment are usually cash basis or credit by oral agreement.

Personal Trust

Personal relationships play a key role in SME-supplier relationships. This is premised on the age-old African tradition, where people keep their word, with mutual trust between the committing parties. The challenge is adapting this practice to changing times, as business relationship and commercial transactions become more impersonal, driven by the *win-lose* motive, with each side seeking to extract maximum value from the other at minimal cost.

Oral Agreements

Personal trust begets the phenomenon of oral agreements. These oral agreements, as was revealed by the study findings, are a source of constant friction between SMEs and their suppliers. Besides not being binding on either party, this arrangement is prone to such human weaknesses as forgetfulness, deceit, and related practices, rendering enforcement difficult in the event of dispute. Arising out this is the difficulty in enforcing contracts. This is because these informal relationships have no specific terms of transaction nor do they define the nature if relationship between the contracting parties, namely the SMEs and their suppliers. In standard practice, such relationships take one of the following forms:

Vendor-Purchaser

Under this arrangement, the supplier has no obligation after the goods have been purchased. It is as good as a person purchasing a good from a hawker.

Manufacturer-Distributor

There may be variations in specifics depending on the industry, but the central provision of this relationship is that the manufacturers and the distributor are in a mutually reinforcing relationship. It is a value chain, where each one has a clearly defined stake, with responsibilities, obligations and rewards defined. This relationship cuts across industries, from motor vehicles to soft drinks and pharmaceuticals. It is so structured and close-knit that oftentimes there is

joint planning and sharing of resources, including office space and manpower. Key features of this relationship include:

- A distributor has a defined territory, which may a country, or a region within the country.
- The terms of purchase are specified: either on consignment, commission, bank guarantee, or cash payment upfront.
- The terms of transportation from the factory to the market are defined.
- The terms and form of payment are clearly spelt out.
- The terms of product promotion are specified.
- The manufacturers' warranty and guarantee are usually passed on to the distributor in specific details.

Distributor-Wholesaler

The wholesaler operates a territory smaller than and within the distributor's territory. The relationship between the distributor and the wholesaler depends of the terms the distributor has from the manufacturer. Terms such as territory, warranty, transportation, and delivery form and terms of payment are clearly spelt out. There is still a high degree of mutuality between the distributor and the wholesaler.

Wholesaler-Retailer

The retailer is the last frontier in the chain, close to the consumer. The retailer runs a territory smaller than and within the wholesaler's territory. The business relationship between the wholesaler and retailer is less formal, but with a mutual interest.

Commission Agency/Stockist

This varies and may be between manufacturer and commission agent, or wholesaler and commission agent. One key feature here is that the agent rarely invests cash into the business. Goods are supplied by the manufacturer or distributor, as the agent sells and remits the funds, less their commission. As the study findings of this chapter reveal, the informal nature of SME management and transactions in Uganda hardly permits the definition of their relationship with their suppliers, along any of the above terms as is in structured business relationships.

Research Design, Sampling and Data Collection Methods

In order to answer the research questions generated for the study, a large scale comprehensive cross-sectional design survey among Ugandan small and medium firms was undertaken. The study adopted the concurrent mixed methods design, applying both the qualitative and quantitative techniques were applied (Creswell & Plano Clark, 2007). The target population of the was 45,832 SMEs categorized under the following industrial groupings: manufacturing, construction, hotels and restaurants, education, wholesale, and retail trade. This survey collected data from a sample of 1,151 SMEs drawn from the above listed sectors.

Geographical Scope

The study covered SMEs located in the urban areas of the central region of Uganda. This decision was consistent with the observation of Uganda Investment Authority (2010) which reveals that more than 45% of the SMEs in Uganda are concentrated in the central region due to its cosmopolitan nature. All the five divisions of Kampala namely Makindye, Nakawa, Central, Rubaga and Kawempe were covered. Other districts in the central region that were covered are: Masaka, Mpigi, Mukono and Wakiso. In these districts, the study specifically concentrated on the urban centres, namely Masaka Municipality, Mpigi Town Council, Mukono Municipality, and Wakiso Town Council respectively. The study covered SMEs which were registered with USSIA, UMA and the Uganda Registration Services Bureau.

To determine a sampling frame, the list of SMEs was obtained from Uganda Small Scale Industries Association (USSIA), Uganda Manufacturers Association (UMA) and the Uganda Registration Services Bureau. The respondent firms were selected using stratified and simple random sampling. Stratified sampling was used because SMEs are categorized according to industrial grouping. From each stratum a sample representing the population was chosen using simple random sampling. Data was collected using a fixed response format questionnaire which was made up of closed and open ended questions. Respondents were managers who deal with the purchasing function because of their knowledge of the subject matter in the survey instrument

Presentation of findings

In this section we present the findings of the study. The first part of this section describes the characteristics of the respondent firms.

Response Rate

We collected 802 usable questionnaires from the respondents firms, representing 41.55% response rate as shown in the table below. The data collected from the field were entered into the SPSS software for analysis.

Table 7.1: Response rate

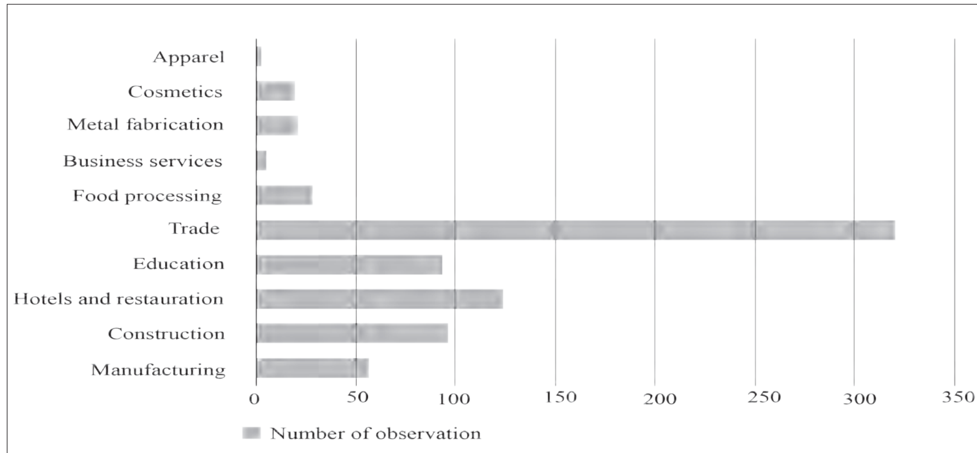
Central Region	Area covered	Sampled SMEs	Usable Questionnaires
Kampala	Central Division	230	113
	Kawempe Division	145	73
	Makindye Division	150	83
	Nakawa Division	120	56
	Rubaga Division	100	45
Masaka District	Masaka Municipality	364	123
Mpigi District	Mpigi Town Council	250	88
Mukono District	Mukono Municipality	371	101
Wakiso District	Wakiso Town Council	300	120
	Total	1,930	802

Characteristics of the Respondent Firms

Categorisation of Firms by Sector

The trade sector had the highest number of respondents (41.7%). This was followed by hotels/ restaurants (16.1%), education (12.2%), construction (12.6%), manufacturing (7.4%), food processing (3.6%), metal fabrication (2.8%), and cosmetics (2.6%). Apparel (0.3%) and business services (0.8%) had the lowest number of respondents. These results are shown in the figure 1 below:

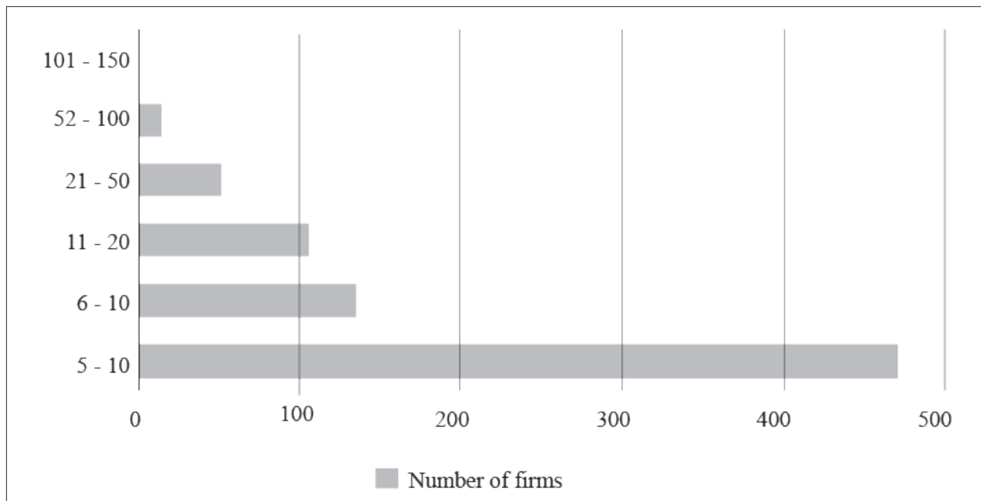
Figure 7.1: Categorisation of Firms by Sector



Number of Employees

This survey covered businesses that employed up to 150 employees. The majority of the firms (60.3%) were very small and had only 0-5 employees. This was followed by a smaller group of firms that employed between 6-10 people accounting for 17%. The following groups may be considered to be medium firms, the first category of firms in this group 13.7% of the firms employed between 11-20 while 6.5% employed between 21-50. This group was followed by two relatively small categories of firms with 1.9% and 0.3% employed 51-100 and 101-150 employees respectively. Figure 7.2, below shows a graphical presentation of this information.

Figure 7.2: Number of Employees



Number of Suppliers in the Firms

On average, SMEs in Uganda have about five main suppliers per product line. However, the number of suppliers per product line may vary greatly from one SMEs to another. About 30% of the SMEs have 10 or more suppliers. On a monthly basis, a typical supplier supplies items worth about 750.000-1.000.000 UGX, per product line. This is on average about 35% of the total purchase volume of a Ugandan SME. About 10% of purchases are over 5,000,000 UGX per product line. Most of the buyers (39%) receive weekly deliveries from the supplier while 23% receive deliveries daily from suppliers. The average relationship between the buyers and suppliers had lasted for 3 years. Average distance between buyer and supplier was 9 kilometers. However, 1% of the suppliers were located at a distance of more than 100 kilometers away from the buyer.

Contracts between Buyers and Suppliers

One of the main findings of our survey is that majority of the SMEs (83.4%) use oral agreements in their dealings with suppliers. Only a very few (16.6%) use written contracts.

Mutual Understandings (Implicit Contracts between Buyers and Suppliers)

Although the majority of the SMEs do not use written contracts in their business transactions, some implicit contracts between the two parties, consisting of mutual understandings, do exist. For example some SMEs build relationships of growing mutual trust based on open and fair business dealings. Quite often, SMEs discuss and agree on the best solutions for unexpected events like delays in delivery, damage in transit, delayed payments and related challenges. In depth interviews revealed SME activities of sharing information aimed at maintaining healthy relationships with their business partners.

Despite the presence of mutual understanding, situations of dispute resolution usually result into divergence of the two parties' perceptions of what should happen. However, this notwithstanding, respondents revealed that they had a mutual understanding on the roles of each party, responsibilities of each party, and how each party is expected to perform. This requires clear and frequent communication that results in promoting shared understanding between the two contracting companies. Failure to develop communication

channels may result into frustrating and/or embarrassing situations. Such embarrassing situations usually take weeks, months, or even years to resolve thereby worsening business dealings. Clear and frequent communication between two contracting parties helps in detecting and addressing potential contractual conflicts at an early stage.

Case on Contracting

As indicated in the earlier sections of this chapter, most of the SME business contracts are oral. Such contracts are subject to a cognitive meeting of the mind, cognitive capacity to recall (memory efficiency and precision), and consistency in dealing and/or interacting with similar business partners. The success of this form of contracting largely depends on the frequent interactions and handling misunderstandings promptly. This is necessary since, delayed and unresolved misunderstandings have serious consequences and can leave contracting parties feeling dissatisfied with the business transactions, yet buyers need suppliers and suppliers need buyers. Misunderstandings in oral contracts are a result of differences in constructing meaning derived from linguistic knowledge and 'world' knowledge (experiential). Hereunder we present a case of a business transaction which brings out issues of informal meanings and constructed meaning.

> **Case A**: "……Our business dealings are governed by oral contracts. Our business partners the Chinese, do not know English and those who try to speak it are not accurate with the language. This makes formal contracting hard. As a result we have decided to adapt a transactional business relationship. This involves moving into their premises and physically identifying the products we are interested in. We ask our suppliers to give us a price list. This list guides us in making purchase order decisions especially during price fluctuations. ….the goods supplied usually have a lengthy expiry date. We have had two serious problems with two major suppliers i.e. Kakira Sugar Works and Britania Allied Industries. Britania gave us expired biscuits and refused to replace it. Kakira has now taken a month without supplying us with sugar. The company is unreliable in delivering supplies. Britania, we tried to explain to them and even showed them the expired biscuits supplied to us, but they completely

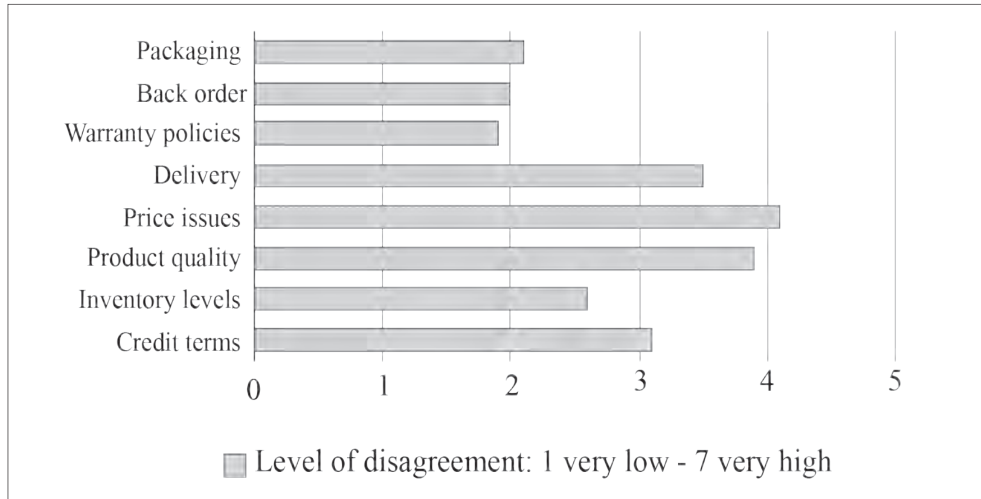
> denied responsibility. They said that we may have bought them from somewhere else. These two companies think that they are very important and powerful and that's why they take us for a ride. And indeed may be they are too great. We are too small to successfully take action against them. We therefore ignored these two cases and bore the loss. For Britania we decided to throw the biscuits away. But we haven't stopped purchasing from them because their goods are on demand. We are dissatisfied with the two cases. We feel very bad getting such an embarrassment."

The above findings support, Bhardan (2001) and Soysa and Jutting (2006) who contend that informal dealings are important in developing countries where formal law is relatively weak. As seen from the above discussions, informalities are associated with both problem creation and problem solving. This is further supported by World Bank (2007) enterprise survey which has rated Uganda at over 70% informality index as against the regional average of 63.8% and a global average of 63.2%. It is worth noting that SME business decisions are made in a setting of conflicting signals from owner managers, thus creating ethical dilemma. All these factors force SME's to compromise their moral standards due to the existing moral climate. This comprise is weighed against the consequences at stake in business.

Nature and Magnitude of Disagreement Between Buyers and their Suppliers

To investigate the level of disagreement and the occurrence of problems in Ugandan supply chains a number of questions were asked of the respondents. Although on average the level of disagreement is rather low, compared to other issues, disagreements on pricing issues, product quality, and delivery are higher. For all the sectors surveyed, pricing issues ranked high (M=4.05), followed by product/service quality (M=3.89, S.D=2.04), thirdly delivery time (M=3.54, S.D=2.01), fourthly credit terms (M=3.06, S.D=1.84), and fifthly inventory levels (M=2.56, S.D=1.56). Although packaging (M=2.10, S.D=1.57) followed in ranking, this dimension was not applicable to the construction, metal fabrication, apparel, and business services. Back orders (M=1.98, S.D=1.40) and warranty policies (M=1.91, S.D=1.22) ranked last for all sectors. These results are shown in the figure below:

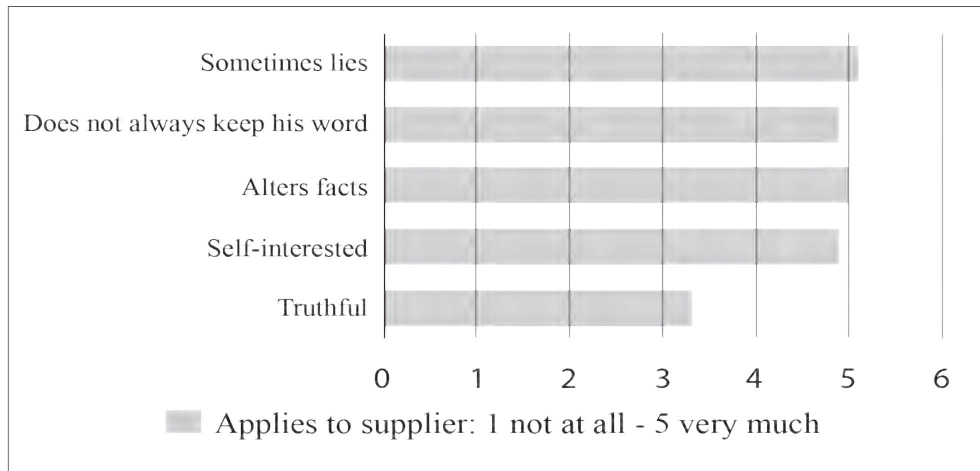
Figure 7.3: Disagreement between SMEs and Suppliers



Level of Ethical Behaviour

Ethics refers to the philosophy of human conduct, with emphasis on the standard of moral character set up by a society. "Business ethics considers the gap between companies' ethical actions and behaviour in ongoing business operations and the marketplace's/society's perceptions of the companies' ethical actions and behaviour in their business operations (Svensson, 2009; .261)." Ethical behaviour is defined as that which follows the right principles, as defined by a given system of ethics or professional conduct" (Brock, 2013). Generally speaking, ethical issues influence business transactions which are characterised by trust, negotiations, bargaining, transfer of goods, services, and money. However, ethical issues influence such transactions. In this study, respondents were requested to indicate on a seven point scale (1=not at all, 7=very much) how frequently they got involved in the ethical behaviours listed. According to our results, SMEs and their suppliers on average show reasonably high levels of unethical behaviour. The tendency to exaggerate supplies contrary to the terms of the contract had the highest mean (Mean = 5.29). Sometimes the supplier exaggerates his/her offer in order to get what he/she really needs from the buyer. The second high ranking unethical behaviour was lying (Mean = 5.10). On occasion, the supplier had lied about certain things in order to protect his/her interests. This unethical conduct was followed by the practice of altering of facts relating to business transactions (Mean = 5.02). These results are shown in the figure 7.4 below.

Figure 7.4: Ethical Behaviour of SMEs and their Suppliers



Suppliers also frequently alter facts in order to get what they need. The supplier has sometimes promised to do things and that they did not do. The mean response for truthful (Mean = 3.33), reveals the opaqueness of the suppliers. Additionally self-interests (Mean = 4.92, SD= 1.71) and failure to keep their word (Mean = 4.88, SD= 1.92) were found to exist in buyer-supplier contracts.

Cases of Unethical Behaviour

SME owner managers revealed that, in an effort to achieve value for money, SMEs do pre-qualify suppliers who are trustworthy and reliable. The supplier screening and validation exercise is done using referrals and market research. However sometimes SMEs prefer to deal with companies whose ethical record is clean. Most of the business transactions are informal and based on trust. The changing face of business in Uganda has forced a number of SMEs to start a system of signing agreements with new suppliers. Some SMEs have experienced unethical cases ranging from outright theft, cheating, breach of the gentleman's agreement, distorting data, purposefully confusing transactions, making false threats and promises, cutting corners, cover ups, deceiving and misrepresenting. Results from qualitative interviews presented in Case 1 below, further confirm the existence of unethical behaviour in SMEs.

Case 1: "… We have recently tasted the sour part of the business. The name of the client is confidential but has of recent supplied a faulty

machine and chemicals which were not compatible with the machine. We called and the suppliers who dispatched a team of technicians to prove our claims. They agreed to replace the machine, though they haven't yet done it but we know they are going to do it according to what they said. In order to avoid inconveniences and double losses, we have made sure that we do what is expected of us and in time. I have ever had a dispute with a supplier; in the Buganda road court. We had to go to court many times to testify against him. It takes a lot of time and some of us do not have time to follow the cases up. Our feelings after dispute were not all that good since our work remained unattended to for some time.

Themes obtained from interviews revealed that informalities among business relationships in Uganda are characterised by business traditions and customs, personal trust, strong social ties, affective commitment, relational contract and moral values which are unwritten, socially shared and enforced outside the officially sanctioned business laws. Informal business relationships carry the business community's prevailing perceptions of the business world, accumulated wisdom, practices and customs of the past and current set of values. These have been maintained from one generation to another through various transmission mechanisms such as imitation, oral tradition and teaching. Case 2 below illustrates this point.

Case 2: REPORT FROM ALLIAZ PHARMARCY: "….We have been using informal contracts in our business transactions for a very long time. When our suppliers fail to deliver as per our informal agreement, we look for a replacement. We do not entertain poor quality or late deliveries since it affects our business negatively. However, if the supplier delivers drugs later after we have obtained deliveries from alternative suppliers, then the supplier has to provide the drugs on credit and be paid later when they are bought. But if they expire before the whole consignment is sold, it's not really our fault. They have to take back the drugs at their own expense. We stop dealing with suppliers who completely fail to deliver drugs unless they have genuine reason for failing to supply. It is the responsibility of the supplier to check with us and ascertain if we have adequate stocks. The price of the drug should be affordable and

> bearable. We stock more drugs in case we expect scarcity of a drug in the following months. We also stock drugs in anticipation of epidemic outbreak like hepatitis. When the drug is out of stock, the supplier should have variety of brands of drugs depending on the geographical location of manufactures say England, South Africa, China, and America. This is because our patients/clients have specific brands they like. This is a common instance, here one is requested to supply a drug and takes long without any communication and after getting a drug somewhere the same person then brings the drug yet we already got the drug.

Formal contracts only accounted for 16.6%. These formal contracts are intended to create order and harmony among the contracting partners. This is consistent with the views of the Nobel Prize Winner Williamson (2000) who avers that contracts support the concept of order advocated for using contracts is a governance effort to create order, lessen conflict and realise gains.

Out of the proportion making up formal contracts, clauses covering price (Mean=1.03), terms of payment (Mean=1.05), quality aspects (Mean=1.12), quantity aspects (Mean=1.11), delivery time (Mean=1.29) were not clearly catered for and/or articulated in the contract. These areas as indicated earlier were breeding grounds for conflict. This is consistent with Durkheim (1933), who noted that the biggest challenge of contracts rests in making a contract that is comprehensive, catering for each of the components in the business transaction. However, clauses covering warranties (Mean=1.50, SD=0.503), dispute resolution (Mean=1.74, SD=0.44), sanctions on late payment, (Mean=1.55, SD=0.50) and sanctions on late delivery (Mean=1.62, SD=0.49) were clearly spelt out.

Transaction Specific Conflicts and their Resolution

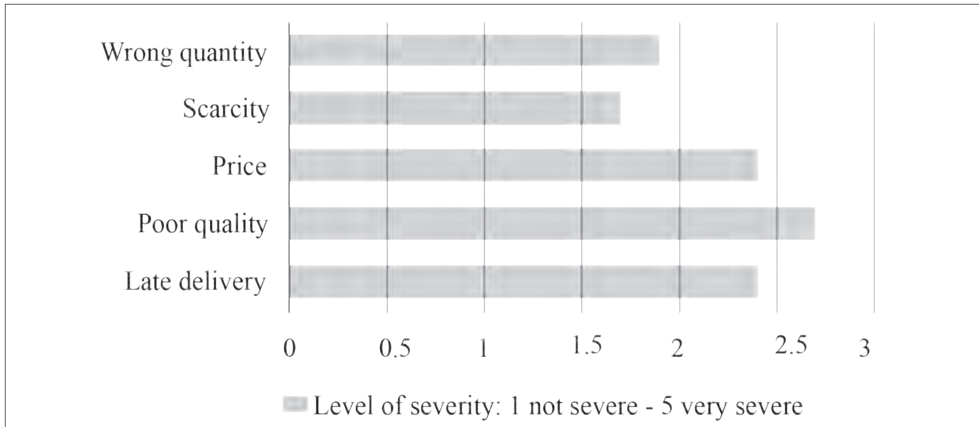
Introduction

In the previous section we presented conflicts in the supply chain. In this section we focus on transaction specific conflicts. Respondents were asked to mention the most recent (non-trivial) problem they experienced in a transaction with the supplier. On average, problems had occurred about 2 months before the survey interview. The problems mentioned in their order of importance were: poor quality, late delivery, price, wrong quantity and scarcity. These

findings are consistent with Kiryabwire (2001) who noted that growth in the private sector has resulted in a corresponding increase in disputes associated with delivery of goods not fit for the purpose or goods which are inconsistent with description; non delivery of goods non-payment for goods and services given and contract interpretation. Kiryabwire (2001) further avers that the value of these disputes must be worth billions of shillings clogging up the smooth flow of trade.

When asked to rate the severity of conflict for each of the items listed above on a seven point Likert scale with 1=not severe and 7=very severe, respondents gave varying answers. Ideally, a mean of 7 would mean that the business relationship is severely affected in such a way that business continuity is impacted or affected negatively, while 1 would mean an incident that has little impact on normal business continuity and can be easily handled by the business partners. In this study we observed that the more important quality, delivery, price, and quantity are to business success, the higher the severity of conflict. Figure 8 reveals that quality was the most sensitive fault-line around which conflicts occurred with the highest mean of 2.75. This mainly resulted in severed business relationship. This was followed by late delivery and price with a mean of 2.42 and 2.41 respectively. As can be seen transaction conflicts relating to quality, late delivery and price increase the severity of a conflict. This is mainly because interferences along these three fault lines greatly affect the survival of business negatively. The severity of a conflict is affected by the frequency and duration of encounters between business partners, the level of emotional encounters, and the extent to which the business partners can discuss the problem. Delivery of wrong quantity did not pose any serious threat for the contracting business partners.

Figure 7.5: Severity of the Problem Faced

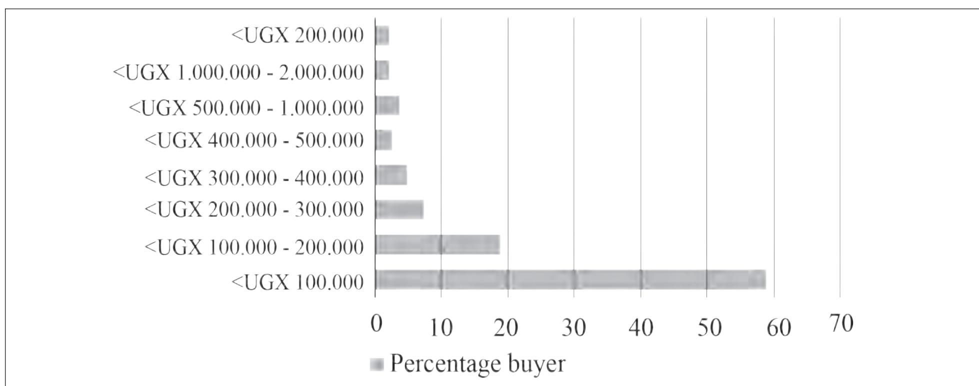


This study established that more than 4% of the most recent problems are quite substantial (larger than two million Uganda Shillings) as revealed by the bar graph above otherwise the estimated damage is trivial.

Estimated Damage Caused by the Problem

By and large most of the problems are rather small in terms of financial damage. Note however, that many of the buyers are small in size. A large fraction of the buyers experienced problems that were more substantial. About 40% of the problems were associated with damage larger than 100,000 Ugandan Shillings. More than 4% of the most recent problems are really substantial (larger than two million Uganda Shillings as shown in the table below.

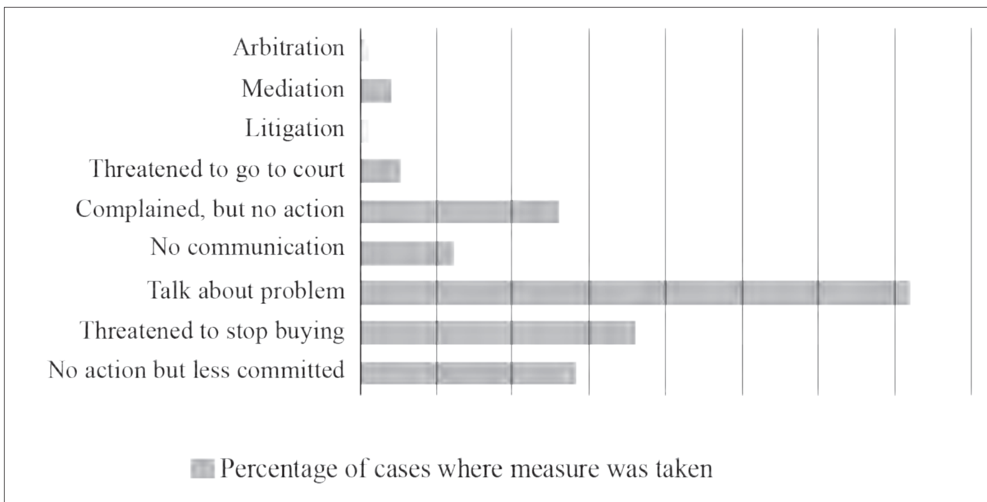
Figure 7.6: Estimated Damage Caused By Problems



Problem Solving / Conflict Resolution

Majority of SMEs expressed attempts to solve contractual problems and/or resolve conflicts in five major ways: talked about the problem (72%); threatened to stop buying (38%); complained but no action (27%) and no action but became less committed (29%). See Figure 10 below for details. Figure 10 reveals that arbitration, litigation, mediation, and threatening to go to court contribute less than 10% of the measures taken to solve business contractual problem. The decisions to exit a business relation without communication constituted 11%. Of critical importance is the role assumed by mediation in problem solving compared with litigation and arbitration. Threatening to stop buying is a normative practice which can enforce compliance because parties benefit from fulfilment of basic social need such as dependency and belonging

Figure 7.7: Measures Taken to Solve the Problem



Cases on Conflict Resolution

Results from in-depth interviews reveals that contract compliance is enforced through informally blacklisting non-compliant SME's, negative gossip, verbal disapproval, alienation or exclusion from a business network. Under this arrangement contract compliance and flexibility is enforced by peer pressure or network members. This pressurises buyers and suppliers to perform as per their informal agreements. It should also be born in mind that pressure to perform, relational norms, and buyer's power have an impact on the firm's likelihood to behave opportunistically. Often unethical behaviour occurs

because of pressure on meagre resources, limited competencies of business partners, and the demands of the supplying organisation organisations. This study revealed that in most of the business dealings, SME's suppliers were required to supply on time without any down or timely payments from buyers. In almost all transactions, payments to suppliers were delayed by the buyers. Most of the buyers tried to fidget and make payment to the supplier after realizing that they need the next batch of supplies. 89% of buyers reported substantial amount of financial pressure on contractual obligations.

> **Case 5**: "…. In order to build confidence and trust among those served, we just replace what has gone bad and we resolve the issue without going to court of law neither local council. If the problem is not so big we just leave the supplier and the problem works out itself. If there is no documentation in business transaction there is no need to go to court. We ignore the conflict and maybe they are financially stressed and experiencing a lot of losses, I look for another business buyer or supplier, whichever is applicable at that time. Serving customers diligently, trustworthiness, faithfulness in all our business transactions. Service delivery and timely accomplishment of our tasks and respect for each other are key business tenets. In many times it pays to ignore the problem and trust in God."

Handling Disputes in Ugandan supply chains

The study shows that out of 180 SME's that sought dispute resolution (Table 7.2), 18.3%reported the problem to an official body while the remaining 81.7% worked at resolving the dispute through informalities. Those who sought assistance from an official body reported to: Local Councils -36.6%, Police -36.6%, District Leaders/ Authorities -4.9%, Commercial Court -12.2% and others - 9.8%. 65.2% of those who sought assistance from official bodies received assistance as opposed to 34.8% who were not assisted.

Attempts to Resolve Buyer-Supplier Disputes

This section presents results on what buyers contemplated doing to resolve the buyer-supplier disputes. Results from factor analysis revealed a Kaiser- Meyer-Olkin (KMO) measure of Sampling Adequacy of 0.819 and a Bartlett's Test

of Sphericity with a P≤0.01 which is consistent with the recommended KMO cut off point value of 0.60 and Bartlett's Test of Sphericity of P≤0.05. For the number of components to be determined, we used Catell's scree plot, which involves plotting the Eigen value against each component number and observe the point at which the graph becomes horizontal. The Scree plot revealed 5 component factors that could be retained. Factor analysis results produced 5 factors interpreted as: threatening to pull out of the contractual undertaking, threatening to take court action, solving disputes using mutuality, buying time and complaining (CC) to the supplier, accounting for 54.10 percent of the variance in what SME's contemplated doing in solving disputes.

Threatening to Pull out from Buyer-Supplier Relationship

Threatening to pull out from buyer-supplier relationship ranked first accounting for 16% of the variance. Five items item scales were loaded on this factor with factor loadings of over 70% .These factors were:

- the dispute strongly reduced our enthusiasm to buy the suppliers' products (83.3%),
- this resulted in giving the supplier consideration by telling them that we intended to leave (quit) the relationship (82.5%),
- the buyer threatened to stop buying from the supplier (81.9%), and
- started making plans to look for another supplier (78.7%),
- this resulted in a behaviour of the supplier becoming less vigorous in buying and recommending the supplier's products (74.8%).

The above accounts explain why many buyers quietly withdraw from a business relationship. It may also explain why the mortality rate of SMEs in Uganda is quite high. It is also worth noting that many SME buyers do not retain suppliers for a relatively long time. This study revealed that the average relation between buyer and a supplier was about 3 years. This does not enable SMEs to develop the conducive atmosphere required to support exchange and promote long term process of interaction. This is contrary to Roehrich, Spencer & Valette-Florence (2002) who argue that the atmosphere of a relationship determines the degree of stability within which exchanges occur. "This atmosphere can be described in terms of the power dependence relationship which exists between the companies, the state of conflict or co-operation and overall closeness or distance of the relationship as well as by the companies' mutual expectations."

(IMP Group, 2002:28) To a large extent, much of the degree of stability of a relationship depends on the existence of norms (Gundlach & Achrol, 1993). Two item scales were dropped because they did not have a minimum cut off point of 0.5. These statements were: we expressed our unhappiness to the supplier and other suppliers regarding the supplier's action (0.395) and although we did not voice our displeasure, our motivation to purchase from the supplier's product significantly decreased (.379).

Table 7.2: Rotated Component Matrixa

	Component				
	Threatened to pull out	**Court action**	**Seeking harmony**	**Buy time**	**Emotion**
The act strongly reduced enthusiasm to buy the suppliers' products	.833				
We gave consideration to telling the supplier that we intended to leave the relationship	.825				
We threatened to stop buying from the supplier	.819				
We started to make plans to look for another supplier	.787				
We became less vigorous in buying and recommending the supplier's products	.748				
We expressed our unhappiness to the supplier and other suppliers regarding the supplier's action	.395				
Although we did not voice our displeasure, our motivation to purchase from the supplier's product significantly decreased	.379				
We threatened to go to the courts	.689				
We contemplated going to the courts	.679				

	Component				
	Threatened to pull out	**Court action**	**Seeking harmony**	**Buy time**	**Emotion**
We discussed the possibility of arbitration with the supplier	.626				
We discussed the possibility of a mediator with the supplier	.625				
We internally discussed the possibility of arbitration	.614				
A mediator helped resolving the problem by suggesting mutually acceptable changes	.584				
An arbitrator helped resolve the problem	.487				
We tried to solve the problem by suggesting mutually acceptable changes		.835			
We discussed the problem in a positive manner with the supplier to identify ways to alleviate the negative impact on our firm		.818			
We talked constructively to the supplier about how we felt about the action in order to improve the situation		.771			
We waited patiently for the problem to work itself out without complaining to the supplier			.720		
We said nothing about the act and remained loyal to the supplier			.625		
We gave the supplier the benefit of the doubt and did not say anything to the supplier about it				596	
We complained to the supplier but took no action about the matter					.621
We expressed to the supplier our outrage and displeasure about the act					.508

	Component				
	Threatened to pull out	Court action	Seeking harmony	Buy time	Emotion
I just quit the relationship		.407			-.432
Percentage of variance explained	16.44	13.16	10.40	7.82	6.28
Cumulative percentage of the variance	16.44	29.60	40.00	47.82	54.10
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.					

Taking Action

The second factor which accounted for 13.16% of the variance was termed – threatening to take action. Contemplating (.689) and threatening to take grievances to the court of law (.679) were major issues of concern for buyers. Boyle et al., (1992), has revealed that requests, legalistic pleas, and threats are associated negatively with relationalism while promises are associated positively with relationalism. Given the nature of item loadings, Uganda's SMEs prefer to use a combination of threats and discussion methods in handling contractual disputes.

In most cases, buyers discussed the possibility of following arbitration procedure (.626) and the possibility of utilising a mediator to resolve their grievance with the supplier (.625). Another item scale that loaded on this factor was that a mediator helped resolving the problem by suggesting mutually acceptable changes (.584). However one item scale - an arbitrator helped resolve the problem (.487) did not significantly load on this factor because it had a factor loading less than the cut-off point of 0.5.

Seeking Harmony

Seeking harmony was the third factor accounting for 10.40% of the variance. This entailed efforts that buyers had undertaken to reach mutually-satisfactory compromise with suppliers. This included talking constructively to the supplier and describing how they felt about the action (77.1%). This aimed at improving inter-firm cooperation. Additionally the two cooperating firms tried to solve contractual problem by suggesting mutually acceptable changes (83.5%). This

was done through discussions of problems attendant to the contract with the supplier in a positive manner with a possibility of identifying ways to alleviate the negative impact on the buyer firm (81.8%). Solidarity norms enable parties to project exchange into the future when resolving conflict from adaptation pressures and to ideally maximise the joint value of the exchange (Palay, 1984; Heide and John, 1990). This was a method of attempting to avoid a situation described by Brenner and Molander (1977). Brenner and Molander (1977) have stated that under excessive pressure to deliver results, parties to the contract may be willing to compromise institutional values to fulfil their contractual obligations. Through such pro-social interactions described above, parties to a relationship establish relational norms that govern exchanges without reference to explicit contracts. This is consistent with Lusch and Brown (1996) who hold that relational norms fill gaps in explicit contracts and formal understandings, and are manifest in relational behaviours.

Buying Time

The fourth approach to dispute resolution was buying time. This factor accounted for 7.82% of the variance. This is an interesting factor since time is of essence in resolving contractual disputes. One possible explanation for this behaviour is the fact that Ugandan courts are perceived to be too slow and costly in enforcing contractual provisions. Under such situations, buyers would prefer to use personal connections and social institutions to govern market transactions as compared to the use of more formal institutions (North,1990; Li, Park, and Li, 2003; Peng, 2003). (Williamson, 1996) has revealed that contracts mitigate some of the inefficiencies that arise from exchange hazards, namely asset specificity and uncertainty. Buyers indicated that they waited patiently for the problem to work itself out without complaining to the supplier (72%). Buyers said nothing about the act and remained loyal to the supplier (62.5%). They gave the supplier the benefit of the doubt and did not say anything to the supplier about it (59.6%). Given the above results, it is evidently clear that some buyers sometimes fail to air out their grievances. The level of informalities in Ugandan SME is great. This may be attributed to social influences in Uganda which discourages the use of a legal system and contract law. This points to the need to set up a social institution that governs and guides exchange partners of the SMEs so that they behave in

a mutually beneficial and supportive fashion. This is consistent with McNeil (1980) and Poppo and Zenger (2002) who contend that social institutions direct the behaviour of exchange partners based on a common understanding of cooperative norms and collaborative activities. Social institutions can, for instance, offer punishment to enforce contractual obligations by refusing to deal with a trading partner in the future and/or driving the partner out of the network. This mechanism is likely to be highly effective because establishing and maintaining one's network reputation is critical in uncertain environments (Johnson, McMillan, and Woodruff, 2002; Zhou et al., 2003). Research further indicates that network membership offers legitimacy and therefore helps businesses secure access to capital as well as commerce, since network membership influences partner selection (Nee, 1992; Keister, 2001).

Expressing Negative Emotion

The final factor was expressing emotions accounting for 6.28% of the variance. Buyers complained to the supplier but took no action about the matter (62.1%). Buyers expressed to the supplier their outrage and displeasure about the act (50.8%). This was done but did not quit the relationship (43.2%), a factor which did not load significantly on this factor. Reasons for expressing negative emotions include

(a) fear of the unknown due to having to start new contractual relationships with new suppliers,

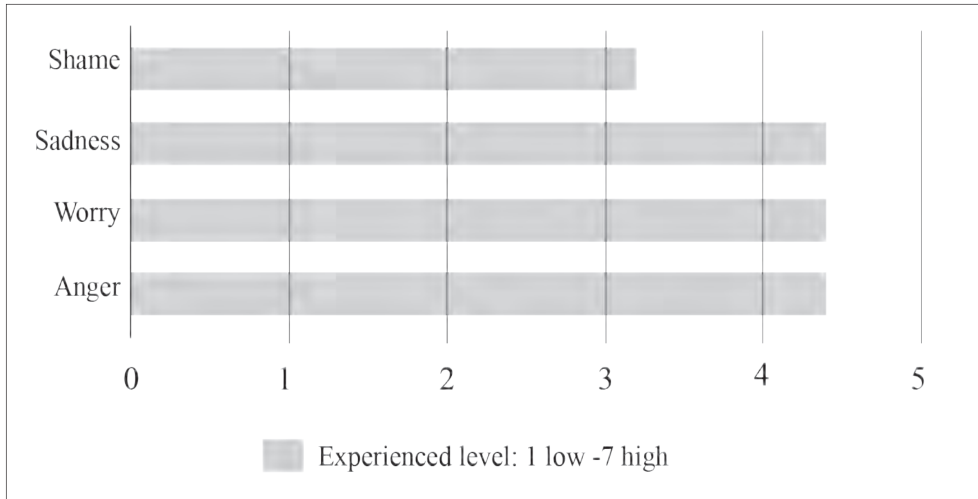
(b) uncertainty on the continuity of supplies by the supplier

(c) loss of confidence in the supplier

Emotions after the Conflict

Respondents were asked to indicate the emotions they experienced as a result of contract breach. Anger, worry and sadness ranked highest while shame ranked lowest.

Figure 7.8: Emotions Experienced as a Result of Breaching a Contract



Opinions on Alternative Dispute Resolution (ADR)

Respondents were asked to provide their opinions on the awareness of ADr Majority of the respondents (85%) revealed that they were not familiar with arbitration as method of dispute resolution. Additionally buyers who were aware of ADR said that they had little information about arbitration process. Figure 7.9 shows that the majority of those who are familiar with arbitration as a method of conflict resolution believe that it is costly. Cost was perceived as a combination of financial and time investment in the legal suit.

Figure 7.9: Perception on Cost of Arbitration

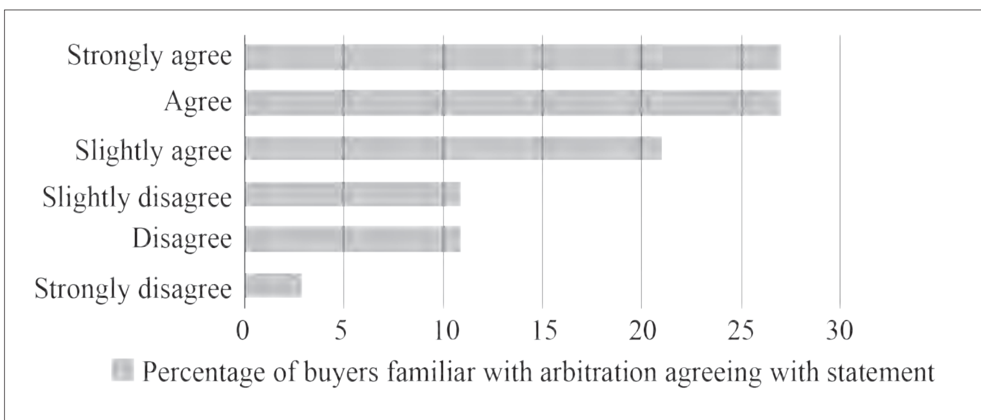
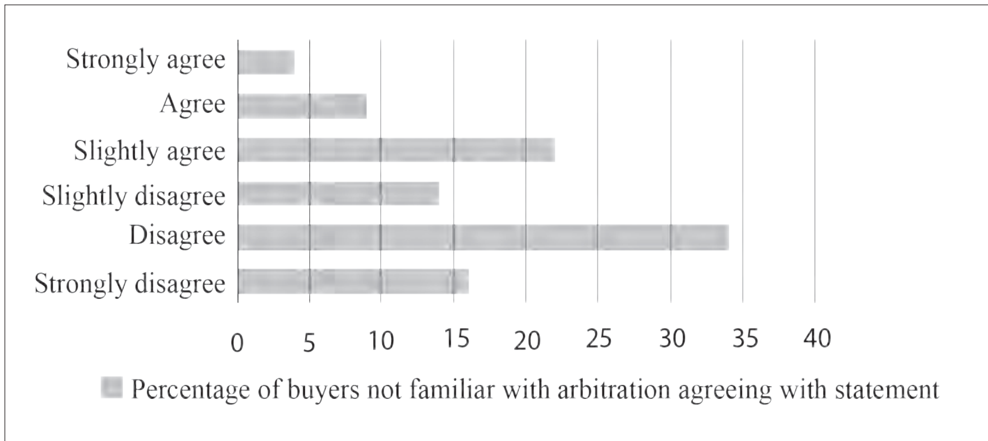


Figure 7.10: Opinion About Duration of Arbitration

Majority of the respondents did not believe that arbitration is time consuming.



Alternative Dispute Resolution (ADR)

We conducted an exploratory factor analysis, and a principal component analysis, in order to determine the underlying dimensions of Alternative Dispute Resolution (ADR). The chosen solution with 10 principal components was constructed using the Varimax rotation technique and can explain 55.94% of the total variance. In this study we considered the rotated factor loading of 0.5 as a threshold. The ranking of factor 1-10 reflect the declining Eigen values. Kaiser-Meyer-Olkin Measure of Sampling Adequacy, Bartlett's Test of Sphericity and Scree Plot were selected as technical criteria for determining the number of factors. The Kaiser-Meyer-Olkin criterion with Eigen values greater than unity was chosen as the minimum requirement. The ten components resulting from the factor analysis (Table 7.3 in annex) are described below as follows:

Factor 1

Perceived Usefulness of ADR An SME that scores high on the use of ADR feels comfortable using ADR methods when faced with a contractual dispute compared to following the courts of law. Here, enforcing formal contracts following court procedures is considered hectic and time wasting. Using ADR is highly correlated with the statement that the use of courts consumes a lot of business time (.800). ADR is also generally associated with lower costs (.826). SMEs view ADR as a cost saving approach to resolving contractual

disputes. Despite this view, SMEs do not have qualified personnel who keep track of transactional costs and other historical costs associated with past transactions and/or conflicts. Respondents believe that the court system in Uganda is ineffective at settling commercial disputes (.515). This means that SMEs would always prefer exploring alternative dispute resolution methods prior to filing a court suit (0.640). The general feeling is that, ADR promotes review of the terms in the contract which are freely negotiated and agreed upon with other parties before the contract is enforced (.692). It was further observed that the use of ADR is correlated with the statement that the culture within this organisation is to promote the use of alternative methods of dispute resolution (.782). This implies that ADR can be a value and norm of an organisation. Accordingly, ADR encourages autonomy to the parties involved and minimises judicial intervention.

Factor 2

Exposure and interaction with CADr This factor deals with the SMEs exposure and interaction with Centre for Arbitration and Dispute Resolution activities. Exposure highly correlated with the statements; we know about the existence of the Centre for Arbitration and Dispute Resolution (.693), our business keeps in contact with the Centre for Arbitration and Dispute Resolution (.563), and we have good relations with the Centre for Arbitration and Dispute Resolution (.595). This simply means, SMEs that intend to use ADR's develop interest in the CADr They collect material such as the Arbitration and Conciliation Act of 2000. Similarly Exposure and interaction with CADR was highly correlated with statement like, "We know about the Arbitration and Conciliation Act of 2000" (.757), "*The Arbitration and Conciliation Act 2000 is an appropriate law in handling disputes*" (.609), and "*We have benefited from the Arbitration and Conciliation Act 2000*" (.716). Exposure and interaction makes SMEs aware that disputes do not necessarily have to be resolved in an adversarial method of dispute resolution. Questions like, '*Our legal team is involved in the drafting of the contracts'* (.414), *'Our company has allocated sufficient financial and human resources to support alternative dispute resolution efforts'* (.396) and *'We use the Decision Analysis Aids- a process that helps our company make an informed judgment about liability and damages'* (.333); did not significantly correlate with exposure and interaction. This means that SMEs have not committed resources

to managing contractual disputes. They lack competencies to effectively handle buyer-supplier conflict. Attendant to this issue is the fact that law firms in Uganda need to be trained in issues relating to the nature of cases so that they give proper advice to the clients instead of always filing cases in court. Lawyers do not like ADR, which the commercial court tries to exploit before a case goes for full hearing. They claim that ADR makes them lose income given the fact that when they appear in court, they are paid for per fifteen (15) minutes. Judging from the various complaints, lawyers try to make ADR in the commercial court difficult so that the case can go on for full hearing where they earn more.

Factor 3

Institutional support for ADR This factor measures whether the SME has developed an organisational framework to handle contractual disputes or not. Institutional support was highly correlated with statements like, "t*he culture within this organisation is not to ignore conflicts with suppliers* (.673) *but to promote resolving conflicts outside the court system*" (.615). In deciding whether to use alternative dispute resolution SMEs consider the type of dispute at issue (.598), whether the dispute is one of the recurring type (.539), the estimated transaction costs in terms of outside counsel, experts etc. (.569) and the indirect costs of the dispute (.529).

Factor 4

Costs - Expensive. This dimension captures the concept of how costly the courts of law in Uganda are. Costs were highly correlated with statements like, '*Court cases take a lot of time to be disposed of'* (.835) and that, *'Court Judges ask for a lot of money to dispose of business cases'* (.784). Additionally, there is a general perception from SME's that judges are corrupt. This is in agreement with the Global Corruption Barometer of 2009 which ranked the Judiciary in Uganda among the institutions in Uganda that are perceived as the most corrupt (Transparency International, 2009). The National Integrity Survey Report (2008) released by the Inspectorate of Government Uganda ranked the Judiciary as the most corrupt together with the Police Force. This also may be partly correlated with increasing costs of litigation in Uganda. This is partly linked to the delays in disposing of court cases. This factor of costs brought together items like, "*If you do not have money no judge will be willing to*

touch" (.762) and/or expedite your case (.719). Respondents also revealed that their companies did not have time and money to pursue a court case (.710). The traditional litigation process is associated with delays and prohibitive high costs. The following present a summary of ideas from an in-depth interview.

Litigation

Response time and cost

> …, conflict resolution mechanism by courts of law would be preferable and very effective if courts of law were quick to respond to our suits. Going to court would be the most logical thing to do because the supplier must be compelled to honor his obligation. The only problem we face as businessmen is that we never sit down to write meaningful and detailed agreements spelling out the obligations for each party. Our suppliers are not straight forward, when you complain, they refuse to respond to the complaint and instead make you to walk until you give up. …. Ugandan court is laborious and time consuming; it makes you move from one place to another and besides it involves a lot of expenses. It is really costly and only big businesses can afford such. I think that Judges are lazy; they come to office late, work for very few hours and eventually go on leave. Judgments take long to be written and when your lawyers pester the Judges by writing to them, in most cases you lose the case. Can you get justice from such a rotten institution? I wish the name of the ministry is changed from Justice to injustice.

Corruption

> ..I think it's good to involve court. If it's implemented by court and the judge who is consistent and impartial, you get a fair deal. I am afraid, some judges are corrupt. They delay making judgments, thereby forcing you to bribe them to do their work on time. I remember our original documents which we submitted in court got lost and yet photocopies were not admissible in court. The whole court process involves a lot of corruption. That is why I prefer going to the police. They ask you to give them paper, ink, transport and tea etc. if you facilitate them appropriately, they can compel the supplier to comply. These police officers actually settle some business cases properly.

Factor 5

Consensual Alternative Dispute Resolution. This dimension corresponds to informal, non-confrontational and more consensual approach in the resolution of disputes. Consensual ADR highly correlated with statements like, *"My company and the supplier favor consensual alternative dispute resolution"* (.820). SMEs

were generally in favor of negotiating their own settlement with the help of an independent intermediary. This is reflected in the loadings of the statement that outside counsel is an incentive for our company to resolving conflicts with our suppliers (.587).

Factor 6

Expertise. This factor measures whether the SME tends to use internal staff or external staff to handle conflicts with suppliers. Expertise correlated highly with statements like, "*our organisation has hired a fulltime staff (internal mediator) to handle conflicts with our suppliers*" (.747), "*Whenever our company has a conflict with a supplier, we schedule a meeting with an external conflict resolution practitioner/provider*" (.654) and "*Whenever we have a grievance with a government department we take it to the ombudsman office*" (.548).

Factor 7

Mediation. This factor brought together items suggesting that SMEs use external mediators to resolve conflicts with suppliers (.751). "*We always explore alternative dispute resolution methods after filing suits*" (.584) *"Our Company lost a lot of money because of the delays by the court to handle our cases"* (.493). "Our legal team is involved in designing of dispute resolution programs" (.343)

Factor 8

Company collaboration and Training: Dispute resolution and training is provided for companies in Uganda (.758). Companies also revealed that they usually collaborate with the opposing supplier to determine dispute resolution procedures and/or neutrals (.693)

Factor 9

Litigation: This factor brought together items. "*My company and the supplier favor litigation*" (.663) and, "*Our company participates in the industry alternative dispute resolution commitments*" (.491).

Factor 10

Industry Support: Alternative Dispute Resolution (ADR) training/education is provided in the industry (.735). "*We use the Early Case Analysis- a process administered within the first two months of a case that helps to develop strategy, limit discovery and chart the use of alternative dispute resolution approach* (.547). Clear guidelines exist

in industry regarding the selection of external neutrals in alternative dispute resolution methods (.396).

Conclusions and Recommendations In this section, we present the conclusions that we draw from the findings of our study. We also raise recommendations for areas that need to be addressed.

Conclusions

We make the following conclusions from the findings of our study:

(a) Majority of the SMEs use oral and informal contracts in their dealings with suppliers. From their experience, seeking redress in case of oral and informal contracts is not easy as there is no accurate evidence of the contract terms that was made between the parties. Majority of the SMEs indicated that they believed that employing the services of a lawyer is expensive and they can hardly afford given their low income levels.

(b) Majority of the respondents were not familiar with arbitration and how it was implemented as a method of dispute resolution. Those who were not familiar with ADR think that it is cheap and time saving contrary to those who have used the same method who believe that it is expensive and time consuming. This implies that the few who are familiar with ADR are hesitant to use it again because they believe it is costly and takes a long period of time to resolve conflicts.

(c) There is a high level of unethical behaviour amongst suppliers. This includes activities like exaggeration of supplies contrary to the terms of the contract, exaggeration of offers in order to get the firm to make a purchase, lying about products and delivery time, lying in order to protect his/her interests, alteration of facts, and failure to do what they promise. The high level of unethical behaviour leads to a loss of trust of suppliers. Despite the unethical actions of suppliers, SMEs still do not make formal contracts with them.

(d) In the contracts that SMEs make with their supplies, aspects of pricing, terms of payment, quality, quantity, and delivery were not well articulated. This becomes breeding ground for conflict between the buyer firms (SMEs) and suppliers. Given the fact that these aspects were not well articulated, it becomes very hard to seek redress when things go wrong as roles and responsibilities of each party are not clearly outlined.

(e) SMEs often experience problems with their suppliers on a number of aspects. The problems experienced in order of their severity are aspects relating to quality, late deliveries, price, quantity and scarcity. Problems relating to the quality of products were the most frequent in majority of the respondent firm.

(f) Majority of SMEs seeking solutions to problems with their suppliers reported to Police (36.6%) and Local Councils (36.6%)while very few (12.2%) reported to the commercial court. The implication here is that majority of the SMEs are not very familiar with the commercial court as an avenue for resolving the problems that they face with their suppliers.

Recommendations

We make the following recommendations from our findings and conclusions:

(a) The Commercial Court should undertake an awareness campaign to market Alternative Dispute Resolution (ADR) as a method of conflict resolution in business dealings. This can be done through the various forms of media. Marketing the ADR will change the attitude of people towards arbitration. Other forms of ADR and also inform them of their application in resolving business disputes. During the awareness campaigns, stories of the success application of ADR should be told to win the trust.

(b) Furthermore, in relation to awareness, the Commercial Court should work together with institutions such as Uganda Small Scale Industries Association (USSIA), Uganda Manufacturers Association (UMA), Uganda National Chamber of Commerce and Industry (UNCCI) and Private Sector Foundation Uganda (PSFU) to access the SMEs and market ADR to them. This can be done by ensuring that representatives from the commercial court attend events organized by these entities. This demands that the Commercial Court should build a good relationship with these entities.

(c) The commercial court should create a desk to handle matters of business disputes in the SME sector. This will make SMEs feel well catered for and will no longer fear approaching the commercial court for solutions to problems related to their business dealings.

(d) SMEs need to be taught the importance of using formal contracts opposed to oral and implicit contracts that make it hard to seek redress in case of problems. The task of teaching them this can be undertaken by the commercial court and through the previously mentioned trade associations. While teaching them the importance of formal contracts, they should also be taught how to write contracts, with emphasis on the vital clauses of a good contract and contract management. SMEs should be encouraged to have legal officers to oversee contracting issues if they can afford. For SMEs that cannot afford to employ legal officers, USSIA, UMA, UNCCI or PSFU with the help of the commercial court should create a legal desk that will address the concerns of SMEs in aspects of contracting.

(e) The commercial court should consider designing model/sample contracts for SMEs. These contracts can then be adapted by the SMEs for different business dealings / situations. The standard/sample contracts will give the SMEs somewhere to start in the area of formal contract development. In the future when capacity has been built, the SMEs can come up with their own contracts.

(f) It is important that suppliers and the SMEs attend trainings in ethical business practices in order to open their eyes to the dangers of unethical business practices. The trainings can be organised by the trade associations or suppliers and SMEs can attend short courses/ training in ethics on their own initiative.

(g) Suppliers should also be made aware of the importance of making formal contracts with their buyers. This task can be undertaken by the trade associations, given that their members both suppliers and buying firms.

(h) Majority of the respondents who were seeking redress for their problems reported to the Police and Local Councils (LCs). This shows that the SMEs are more familiar with the Police and LCs in the area of dispute resolution as compared to the commercial court. The Commercial Court should therefore work together with the Police and LCs to build their capacity in the area of ADR so that when faced with problems, firms have options of the commercial court, the police or LCs.

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Table 7.3: Rotated Component Matrix for Alternative Dispute Resolution (ADR)

	Component									
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Alternative Dispute Resolution method is a cost saving approach to resolving conflicts with suppliers	.826									
Alternative Dispute Resolution method is a time saving approach to resolving conflicts with suppliers	.800									
The culture within this organisation is to promote the use of alternative methods of dispute resolution	.782									
In deciding whether to use Alternative Dispute Resolution methods, we consider the amount of money involved	.773									
Formal contracts are hectic and consume business time	.713									
The terms in the contract are freely negotiated and agreed upon with other parties before the contract is enforced	.692									
We always explore Alternative Dispute Resolution methods prior to filing suit	.640									
Alternative Dispute Resolution is viewed as a cost saving approach to resolve conflicts	.610									
The court system in Uganda is ineffective at settling commercial disputes	.515									
We know about the Arbitration and Conciliation Act of 2000		.757								
We have benefited from the Arbitration and Conciliation Act 2000		.740								

	Component									
	1	2	3	4	5	6	7	8	9	10
We know about the existence of the Centre for Arbitration and Dispute Resolution		.716								
The Arbitration and Conciliation Act 2000 is an appropriate law in handling disputes		.693								
We have good relations with the Centre for Arbitration and Dispute Resolution		.609								
Our business keeps in contact with the Centre for Arbitration and Dispute Resolution		.595								
Our legal team is involved in the drafting of the contracts		.563								
Our contracts are formally drafted/written		.414								
Our company has allocated sufficient financial and human resources to support alternative dispute resolution efforts		.396								
We use the Decision Analysis Aids- a process that helps our company make an informed judgment about liability and damages		.333								
The culture within this organisationorganisation is not to ignore conflicts with suppliers			.673							
The culture within this organisationorganisation is to promote resolving conflicts outside the court system			.615							
Our business often encourages solving disputes outside court			.613							

	Component									
	1	2	3	4	5	6	7	8	9	10
In deciding whether to use alternative dispute resolution our organisation considers the type of dispute at issue			.598							
In deciding whether to use alternative dispute resolution our organisation considers the estimated transaction costs in terms of outside counsel, experts etc.			.569							
In deciding whether to use alternative dispute resolution our organisation determines whether the dispute is one of the recurring type.			.539							
In deciding whether to use alternative dispute resolution our organisation considers the indirect costs of the dispute			.529							
Court cases take a lot of time to be disposed of				.835						
Court Judges ask for a lot of money to dispose of business cases				.784						
If you do not have money no judge will be willing to touch your case				.762						
If you do not have money no judge will be willing to expedite your case				.719						
Our company does not have time and money to pursue a court case				.710						
My company and the supplier favour consensual alternative dispute resolution					.820					
My company and the supplier favour consensual alternative dispute resolution					.814					
Outside counsel is an incentive for our company to resolving conflicts with our suppliers					.587					

	Component									
	1	2	3	4	5	6	7	8	9	10
Our organisation has hired a fulltime staff (internal mediator) to handle conflicts with our suppliers						.747				
Whenever our company has a conflict with a supplier, we schedule a meeting with an external conflict resolution practitioner/provider						.654				
Whenever we have a grievance with a government department we take it to the Ombudsman office						.548				
Our organisation uses external mediators to resolve conflicts with suppliers							.751			
We always explore alternative dispute resolution methods after filing suit							.584			
Our company lost a lot of money because of the delays by the court to handle our cases							.493			
Our legal team is involved in designing of dispute resolution programs							.343			
Dispute resolution and training is provided for companies in Uganda								.758		
Our company usually collaborates with the opposing suppliers to determine dispute resolution procedures and/or neutrals								.693		
My company and the supplier favour litigation									.663	
Our company participates in the industry Alternative Dispute Resolution commitments									.491	
Alternative Dispute Resolution training/education is provided in the industry										.735

	Component									
	1	2	3	4	5	6	7	8	9	10
We use the Early Case Analysis- a process administered within the first two months of a case that helps to develop strategy, limit discovery and chart the use of alternative dispute resolution approach										.547
Clear guidelines exist in industry regarding the selection of external neutrals in Alternative Dispute Resolution methods										.396
Percentage of the variance explained	12.07	8.46	6.46	6.30	5.60	3.70	3.53	3.40	3.36	3.07
Cumulative percentage of the variance	12.07	20.53	26.99	33.29	38.88	42.59	46.11	49.51	52.87	55.94
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.										
a. Rotation converged in 17 iterations.										

Chapter Eight

Globalisation Threats to and Opportunities for Foreign Direct Investment: Lessons for Uganda and Other Low Income Countries

Mutunzi Ahmed Kitunzi

Abstract

Virtually all countries are competitively pursuing globalisation as one of the major strategies for attracting Foreign Direct Investment (FDI). However, the Low Income Countries such as Uganda attract a lot less FDI inflows than the Middle and High Income Countries. This variance in the FDI attainable by the various country-groupings is apparently due to the observation that globalisation levels and processes lead to inequalities especially related to businesses, trade, aid, and financial capital flows over time among the Low, Middle and High Income Countries. This study investigates the relationship between the levels of economic, social and political globalisation and FDI to identify globalisation threats to and/ or opportunities for enhancing FDI inflows as lessons to benefit Low Income Countries such as Uganda.

The study was designed as a cross-sectional, desk-top research that applied a triangulation of descriptive and inferential statistics to analyse the correlation between FDI inflows and the levels/indices of economic, social and political globalisation for 125 countries. Data for the indices of economic, social and political globalisation was obtained from the KOF Globalisation Index (2011) while data on FDI was from UNCTAD/World Investment reports. Units of analysis were countries and economic/GNI per capita groupings of countries

Results from the descriptive statistics, Pearson Product-Moment correlations and regression analyses carried out indicated that generally there is a statistically significant positive relationship between inbound FDI and the levels/indices of a country's economic globalisation, Actual economic flows, economic restrictions, social globalisation, personal contacts, information flow, cultural integration, and political globalisation. Thus a country is likely to register greater FDI inflows as she improves

her levels/indices of the fore-stated predictor variables. It was noted that low levels of globalisation pose threats to FDI while higher levels present opportunities for enhanced FDI. Hence, in order for countries, especially the Low Income Countries such as Uganda, to realize greater FDI inflows, specific measures were recommended for improving their levels/indices of economic globalisation, actual economic flows, social globalisation, personal contacts, information flow, cultural integration, and political globalisation as they reduce economic restrictions.

Key words: Economic Globalisation, Social Globalisation, Political Globalisation, Foreign Direct Investment

Introduction

This paper presents a comparative analysis of the statistical relationship between Foreign Direct Investment (FDI) and the levels of globalisation for 125 countries, to identify globalisation lessons for enhancing FDI flows to low income countries such as Uganda. The paper is organised as follows: Section 1 serves as an introduction and covers the context and main objectives of the study, the specific objectives, and key research questions of the study, the operational and contextual definition of the concepts, and the scope of the study. Section 2 presents the literature reviewed, the conceptual framework, and hypotheses of the study. Section 3 covers the methodology, while Section 4 presents and discusses the results. Section 5 concludes the paper.

Context and Main Objective of the Study

Globalisation is one of the current major strategies for attracting Foreign Direct Investment (FDI) in many countries (Nunnenkamp, 2002). However, globalisation levels and processes lead to inequalities related to businesses, trade, aid, and financial capital flows over time among the low, middle and high income countries (Addison & Heshmati, 2004). The major factors that have been identified by most studies as being influential to FDI inflows are mainly internal country-specific strengths/weaknesses. These are arising from: natural and artificial resources, market potential and access, national competitiveness derived from the quality and magnitude of infrastructure, labor, technology, global image, social stability, economic and political environs, policy, legal and regulatory frameworks effecting especially FDI, macro-economics, the private sector, trade and industry, and the National development plans and priorities;

among others (UNCTAD, 2009). This study, however, focuses on the influence of globalisation on FDI inflows.

Since 1999, Uganda and other low income countries have generally attained low levels of globalisation and have as well registered meager proportions (less than 10%) of the global FDI inflows compared to the middle and high income countries (UNCTAD, 2009). The sizeable variance in the FDI inflows attained by the low and high income countries can thus be partially attributable to the disparity in the levels of globalisation generally notable in each category of these countries. Hence, the main objective of this study is to investigate the relationship between FDI inflows and the levels of globalisation for various countries. The study findings identify globalisation threats to and/or opportunities for FDI as lessons for Uganda and other low income countries. The key research question was thus: "What is the statistical relationship between FDI inflows (measured in millions of USD) and the levels of globalisation (measured as globalisation indices) of the various countries of the world?

Specific Objectives and Research Questions

The specific objectives of the study were:

1. To find out the statistical relationship between the levels of economic globalisation and FDI inflows of the various countries.
2. To explore the statistical relationship between the levels of social globalisation and inbound FDI attained by the various countries.
3. To examine the statistical relationship between the levels of political globalisation and FDI inflows realised by the various countries.

The specific objectives stated above respectively translated into the following key research questions:

1. What is the relationship between the levels of economic globalisation and FDI inflows of the various countries?
2. What is the relationship between the levels of social globalisation and inbound FDI attained by the various countries?
3. What is the relationship between the levels of political globalisation and FDI inflows realised by the various countries?

Operational and Contextual Definition of Key Concepts

The key concepts of the paper, stated in bold letters below, were operationally and contextually define as follows:

Foreign Direct Investment: (abbreviated as FDI and also stated as: FDI inflows/ Inbound FDI), refers to any investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). This operational definition of FDI was directly derived from that given by OECD (2008), and UNCTAD (2009).

Globalisation: In this report, globalisation refers to the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information, ideas, capital, and goods. This definition was directly derived from the KOF Globalisation Index (2011). Thus contextually, globalisation should be conceptualised as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence. More specifically, globalisation in the context of this paper and according to the KOF Globalisation Index has three dimensions defined as:

- Economic Globalisation, characterised as long distance flows of goods, capital, and services as well as information and perceptions that accompany market exchanges. Data for economic globalisation applied for this study does not, however, consider the ownership of MNCs, especially resulting from internal transfers with subsidiaries, and how that might complicate the analysis and use of the trade index.
- Political Globalisation, characterised by a diffusion of government policies.
- Social Globalisation, expressed as the spread of ideas, information, images, and people. High Income Country refers to a country whose gross national income per capita is equivalent to US$ 12,196 or more. This definition is exactly as that given by the World Bank (2009). KOF Index of Globalisation is an overall index calculated by the Swiss think tank (KOF) to measure the economic, social, and political dimensions of globalisation that was introduced in 2002 (Dreher, published in 2006)

and is updated and described in detail in Dreher, Gaston and Martens (2008). Low Income Country (LIC) refers to a country with a Gross National Income (GNI) per capita equal to or less than US$ 995 billion. This definition is exactly as that given by the World Bank (2009).

Middle Income Country (MIC) refers to any country Gross National Income per capita is between US$ 996 and US$ 12,195. This definition is exactly as that given by the World Bank (2009).

Scope of the Study

The thematic scope of this study comprised of net foreign direct investment inflows as established by UNCTAD, the globalisation index, economic globalisation, social globalisation, and political globalisation as established by the KOF Index of Globalisation, (2011).

The geographical scope of the study covers 125 countries located on the various continents/regions of the world and recognised by the World Bank and UNCTAD. Of these 125 countries, 37 are categorised as high income countries, 65 are middle income countries, and 23 are low income countries.

The time scope of the study stretched from calendar year 1999 to year 2011 with a focus on year 2008 as this is the most recent/latest year with the most updated data on globalisation. However, some references to periods before 2002 have been made to substantiate some of the study's observations. The choice of this time scope (1999 – 2011) is based on the fact that the concept of globalisation began in 1999 with the launch of the World Trade Organisation and its significance has increasingly influenced the social, economic and political affairs of virtually all countries in the world (Dreher, 2006).

Review of Related Literature

Trends of Globalisation and FDI in Low, Middle and High Income Countries

According to the KOF Index of Globalisation (2011), the levels of economic, social and political globalisation have generally been highest in the high income countries and lowest in the low income countries from 1999 to 2008. Likewise, the high income countries have always generally registered the biggest proportion of the global FDI inflows, followed by the middle income

countries. Meanwhile the low income countries attain less than 10 percent of such flows between 1999 and 2010 (UNCTAD, 2010).

Uganda's Globalisation and FDI Profile

According to the KOF Globalisation Index (2011) database, Uganda's globalisation trends and development have been steadily improving between 1999 and 2008 as shown in Table 8.1 (a) below.

Table 8.1 (a): Uganda's Trends of Globalisation and FDI inflows from 1999 to 2008

Year	Economic Globalisation Index	Restrictions Index	Social Globalisation Index	Personal Contact Index	Information Flows Index	Cultural Proximity Index	Political Globalisation Index	Overall Globalisation Index	FDI Inflows (Millions of US$)
1999	34.8	45.4	19.9	21.6	25.5	11.6	48.8	32.7	140
2000	37.9	51.2	20.6	21.2	28.0	11.5	49.0	34.2	181
2001	41.0	53.6	20.3	22.1	29.7	7.7	49.3	35.3	151
2002	38.9	53.0	22.6	22.9	32.9	10.3	50.5	35.7	185
2003	44.5	55.9	23.7	23.0	35.3	11.2	51.0	38.3	202
2004	50.7	63.3	23.3	24.3	35.3	8.6	68.7	45.0	295
2005	44.1	52.9	23.9	22.9	38.4	8.3	69.4	43.0	380
2006	44.4	52.5	23.2	23.7	38.0	5.7	71.5	43.3	644
2007	46.9	55.5	24.4	24.1	39.3	7.5	72.8	45.0	733
2008	48.3	56.8	25.2	23.1	44.1	5.9	74.3	46.2	787

Source: KOF Globalisation Index (2011) and UNCTAD (2009)

Table 8.1 (a) above shows that Uganda's improvement in its globalisation process between 1999 and 2008 is directly proportional to the increase in the FDI inflows registered over the same period. This observation ostensibly

alludes that a country is bound to realise greater FDI inflows as it improves its globalisation status.

Trends and Development of Globalisation and FDI Inflows

According to the KOF index of globalisation (2011) and UNCTAD (2009), virtually all countries in the world have experienced greater and increasing level of globalisation and FDI between 1999 and 2010. However, levels of globalisation and inbound FDI registered by the low income countries have been the lowest, followed by those of the middle income countries, while the high income countries have enlisted the highest levels over the same period respectively. According to Dreher et al (2008), since 1999 the low income countries have generally shown a lowest levels of economic, social and political globalisation, while the high income countries have had the highest levels. Likewise, the value of inbound FDI registered by the low income countries has been the lowest compared to that attained by the middle and high income countries since 1999 (UNCTAD, 2009). Table 8.1 (b) below shows the trend (increment) of of FDI inflows attained by the economic groupings of countries between 2005 and 2009.

Table 8.1 (b): FDI Inflows Attained by the Various Economic Blocks of the World: 2005 – 2009 (Millions of US Dollars)

Region	2005	2006	2007	2008	2009
World	985 796	1 459 133	2 099 973	1 770 873	1 114 189
Developed Economies	624 529	970 098	1 444 075	1 018 273	565 892
Europe	509 148	628 420	988 422	551 059	378 388
North America	130 465	296 897	374 371	379 830	148 540
Developing economies	330 166	434 366	564 930	630 013	478 349
Africa	38 197	55 382	63 092	72 179	58 565
sub-Saharan Africa	25 961	32 232	38 307	48 081	40 279
Latin America & Caribbean	75 955	94 557	163 612	183 195	116 555
Asia & Oceania	216 014	284 426	338 226	374 639	303 230

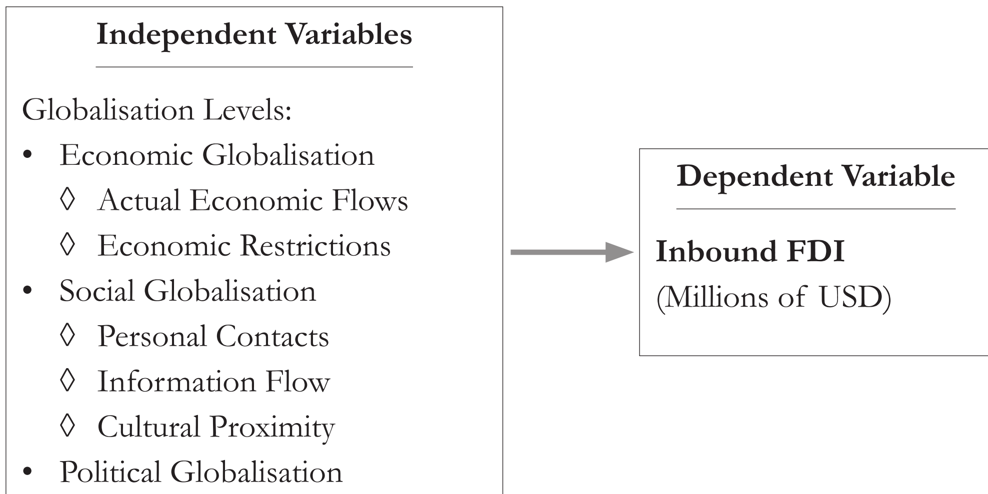
Source: UNCTAD, FDI/TNC database, 2009

Table 1b above shows that world over, and in each and every economic block/grouping of countries, the FDI inflows have been increasing since 2005. Such empirical facts indicate an apparent proportional and statistically significant relationship between the levels of globalisation and FDI attainable by a country.

The Conceptual Framework of the Study

The conceptual framework of the study was as illustrated by Figure 8.1 below

Figure 8.1: The Conceptual Framework of the Study



Source: Adapted from KOF Globalisation Index (2011) and UNCTAD/World Investment Report (2009)

Figure 8.1: Above illustrates the inter-relationship of the predictor and criterion variables that were investigated in the study.

Hypotheses of the Study

The following null hypotheses were tested in order to realise the objectives of the study:

$H0_1$: There is no statistically significant relationship between the levels of economic globalisation and FDI inflows.

$H0_2$: There is no statistically significant relationship between the levels of social globalisation and FDI inflows.

$H0_3$: There is no statistically significant relationship between the levels of political globalisation and FDI inflows.

Methodology

The study was conducted as a cross-sectional desk-top survey (secondary research) principally applying a triangulation of quantitative research techniques that included descriptive statistics, correlations, and regressions to analyse the empirical relationship between inbound FDI and various indices of globalisation.

Research Design (Components)

The purpose of the study was to test the basic research hypotheses. The type of investigation carried out was correlational to discern the relationship between FDI and globalisation. The time horizon of the study was cross-sectional focusing 2008 calendar year because this was the year with the latest/most recent quantitative data on the variables of the study. The units of analysis were countries and groups of countries based on Gross National Income per capita categorised as Low Income Countries, Middle Income Countries, and High Income Countries. The study setting was non-contrive (natural/empirical) and the extent of the researcher interference was minimal/none as the study was of a secondary research (desk-top) type. The research paradigm was POSITIVISM as the study principally based on quantitative techniques.

Study Population and Sampling

The study population comprised 183 countries that are identified and recognized by both UNCTAD (2009) and Dreher (2006). Out of these 183 countries a sample of 125 countries was purposively selected aiming at emerging with only countries that had all the relevant data for the variables of the study.

Type and Sources of Data

The study was principally based on quantitative type of secondary data. Data on the independent variables (i.e. globalisation) was generally derived from the KOF Globalisation Index (2011) database (KOF, 2011). Data on FDI (the criterion variable) was sourced from various *World Investment Reports* compiled by UNCTAD. Choices for the data-sources were hinged on the observation that these data sources provided authentic, scientific, empirical, well-researched, reliable, and relevant data for the study.

Analysis of Data

Data was analysed using a triangulation of quantitative research techniques that included descriptive statistics (with a focus on frequencies and particularly the mean and standard deviations) and inferential statistics (principally entailing regressions and Pearson Product-Moment Correlations). These techniques were applied using computer software known as Statistical Package for the Social Science (SPSS) Version 16.

Reliability and Validity

The reliability and validity of the study was ensured through triangulation of research techniques and basing the study on scientific, authentic, well-researched empirical data derived from renowned professional research sources.

Measurement of Variables

The measurements of the criterion and explanatory variables of the study were exactly as presented by the UNCTAD/*World Investment* Report (2009) and the KOF Globalisation Index (2011) respectively.

The criterion (dependent/inbound FDI) variable was, thus measured in millions of US dollars on a net basis (namely capital transactions' credits less debits between direct investors and their foreign affiliates). FDI inflows with a negative sign that feature in this study indicate that at least one of the three components of FDI, (namely equity capital, reinvested earnings, or intra-company loans), is negative and is not offset by positive amounts of the other components, or represent instances of reverse investment or disinvestment (UNCTAD, 2009).

The independent (predictor) variables were measured in exactly the same way they were estimated from their source (the KOF Globalisation Index (2011). Hence, indices of the variables and sub-variables of globalisation, as given in the in the KOF Globalisation Index (2011), were the ones used as predictor variables for this study. These variables and indices were estimated as explained below.

Calculation Methods for the Globalisation Indices

In constructing the indices of globalisation, each of the variables introduced above was transformed to an index on a scale of one to a hundred, where one hundred was the maximum value for a specific variable over the period

1999 to 2008 and one was the minimum value. Higher values denote greater globalisation. The data was transformed according to the percentiles of the original distribution. The weights for calculating the sub-indices were determined with the help of principal components analysis for the entire sample of countries and years. The analysis partitioned the variance of the variables used in each sub-group. The weights were then determined in a way that maximised the variation of the resulting principal component, so that the indices captured the variation as fully as possible. The same procedure was applied to the sub-indices in order to derive the overall index of globalisation.

The dependent (predictor) variables were weighted and measured according to the KOF Globalisation index (2011) as illustrated in Table 8.2 in the annex.

It is vital to note that while developing the Economic Globalisation index, the KOF Index of Globalisation authors did not consider nor discuss the implications of ownership of MNCs and how that can complicate the use and analysis of the trade index. This is one notable down-side of the data on the predictor variables that was used for this study because most MNCs tend to supply resources to their subsidiaries and in return also receive resources (i.e., internal transfers). As a result, countries with MNCs are expected to experience larger inflows and outflows, which would boost the trade index simply due to what would be internal transactions rather than FDI.

Results and Discussions

The results presented below begin with the findings from the descriptive statistics, followed by those from the Pearson product-moment correlations and end with the outcomes from the linear regressions. In each sub-section, the findings are presented and discussed according to the order of the specific key research questions and hypotheses of the study and end with an overall summation of results.

Descriptive statistics results

The descriptive statistics of the predictor and criterion variables were generated for the economic (GNI per capita) groupings of the sampled countries and were presented according the key research question as stated below.

Research Question 1:

What is the relationship between the levels of economic globalisation and FDI inflows of the various countries?

The descriptive statistics (mean and absolute figures) for the indicators of economic globalisation and FDI inflows for the sampled Low, Middle and High Income Countries were as shown in Table 3 below.

From Table 8.3, it is evident that the sampled high income countries had the highest mean of economic globalisation indices (with 81.02) followed by the Middle Income Countries (with 61.64) while the sampled Low Income Countries had the lowest average (i.e. 43.18). In a similar order, the sampled Low Income Countries registered the lowest average FDI inflows (US$ 2164.87), followed by the middle Income Countries (with US$ 7637.88). High Income Countries attained the highest averages of US$ 26162.65 million. These results uphold the observation by UNCTAD (2009) that High Income Countries attract greater FDI inflows than their counterparts greatly due to their comparatively reforms that avert economic restriction. Such findings empirically imply that a country is bound to realize greater FDI inflows as it improves her global ranking on economic globalisation through increasing her actual economic flows and reducing economic restriction. Thus these findings negate the null hypothesis: $H0_1$ and instead indicate that there is a statistically significant relationship between the levels of economic globalisation and FDI inflows.

Table 8.3: Descriptive Statistics for the Indices of Economic Globalisation and FDI

Variable	Statistic	Low Income Countries	Middle Income Countries	High Income Countries
Economic Globalisation Indices	Mean	43.18	61.64	81.02
	Maximum	68.11	85.71	96.80
	Minimum	27.23	25.69	57.71
Actual Economic Flows Indices	Mean	43.72	63.05	81.67
	Maximum	76.26	93.48	99.42
	Minimum	19.37	22.22	43.55

Variable	Statistic	Low Income Countries	Middle Income Countries	High Income Countries
Economic Restrictions Indices	Mean	42.41	60.11	80.38
	Maximum	61.82	89.26	95.55
	Minimum	21.21	26.25	48.06
FDI Inflows	Mean	2164.87	7637.88	26162.65
	Maximum	41554.00	108312.00	316112
	Minimum	1.00	30.00	20030
Observations	Number	23	65	37

Source: Researcher's analysis based on Empirical figures provided by the KOF Index Globalisation (2011) and UNCTAD (2009)

Research Question 2:

What is the relationship between the levels of social globalisation and inbound FDI attained by the various countries?

The descriptive statistics (mean and absolute levels) of the indicators of social globalisation and FDI inflows of the sampled low, middle and high income countries were as shown in Table 8.4 below.

Table 4 shows that, of the three sampled group of countries, the low income countries had the least averages of social globalisation indices (i.e., 26.93) and thus the lowest mean indices for personal contact (26.84), information flow (45.15), and cultural proximity (7.29). In contrast, the high income countries had the highest mean indices for social globalisation (i.e. 77.89) followed by the middle income countries with an average of 49.89. In the same order the sampled high income countries emerged with the greatest mean FDI inflows (i.e. US$ 26162.65 million) followed by the middle income countries with a mean of US$ 7637.88 million, while the low income countries registered only an average of US$ 2164.87 million. These results concur with the observation by the World Bank (2009) that low income countries generally need to seriously implement economic and social reforms so as to catch up with the middle and high income countries in regard to the globalisation and investment levels.

Table 8.4: Descriptive Statistics for the Indicators of Social Globalisation and FDI

Variable	Statistic	Low Income Countries	Middle Income Countries	High Income Countries
Social Globalisation Indices	Mean	26.93	49.89	77.89
	Maximum	45.95	85.41	92.36
	Minimum	17.67	21.01	46.06
FDI Inflows	Mean	2164.87	7637.88	26162.65
	Maximum	41554.00	108312.00	316112
	Minimum	1.00	30.00	20030
Personal Contact Indices	Mean	26.84	45.71	76.06
	Maximum	49.28	75.00	93.87
	Minimum	13.29	10.45	42.73
Information Flow Indices	Mean	45.15	70.22	87.59
	Maximum	77.50	97.80	98.56
	Minimum	34.43	44.85	65.22
Cultural Proximity Indices	Mean	7.29	31.40	68.90
	Maximum	32.09	85.62	94.78
	Minimum	1.00	1.00	8.47
Observations	Number	23	65	37

Source: Researcher's analysis based on Empirical figures provided by the KOF Index Globalisation (2011) and UNCTAD (2009)

The findings in Table 8.4 indicate that low social globalisation indices inhibit FDI inflows while high social globalisation indices present opportunities for attracting greater FDI inflows. Hence, these findings do not support the study's null hypothesis: $H0_2$ but instead indicate that there is a statistically significant relationship between the indices of social globalisation and FDI inflows.

Research Question 3:

What is the relationship between the levels of political globalisation and FDI inflows realised by the various countries?

The descriptive statistics of FDI inflows and the indices of political globalisation for the sampled low, middle and high income countries were as shown in Table 8.5 overleaf:

Table 8.5: Descriptive Statistics for the Indices of Political Globalisation and FDI

Variable	Statistic	Low Income Countries	Middle Income Countries	High Income Countries
Political Globalisation Indices	Mean	72.05	74.06	84.16
	Minimum	58.37	43.51	36.46
	Maximum	92.46	93.68	98.43
FDI Inflows	Mean	2164.87	7637.88	26162.65
	Minimum	41554.00	108312.00	316112
	Maximum	1.00	30.00	20030
Observations	Number	23	65	37

Source: Researcher's analysis based on Empirical figures provided by the KOF Index Globalisation (2011) and UNCTAD (2009)

From Table 8.5 above it is evident that the sampled high income countries have the highest mean indices for political globalisation (i.e., with 84.16), followed by the middle income countries (i.e., with 74.06) while the sampled low income countries have the lowest averages (i.e., 72.05). The average FDI inflows registered by the respective country groupings are commensurate to the levels of the mean political globalisation indices. The variance of the mean political globalisation indices among the sampled low, middle and high income countries is, however, not as big as that among the FDI averages for the respective groups of countries. This is perhaps because of the generally recommendable political reforms that have occurred in most parts of the world as analysed by the World Bank (2009). Hence, low levels of political globalisation qualify to be considered as threats to FDI inflows and the converse is true. The findings in this sub-section contradict the study's null hypothesis $H0_3$ stated in section 2 above and, instead support the postulation that there is a statistically significant relationship between the levels of political globalisation and FDI inflows.

In order to sum up the results stated above, descriptive statistics illustrating the relationship between inbound FDI and the general globalisation indices for the sampled low, middle and high income countries were generated and the findings were as shown in Table 8.6 below.

Table 8.6: Descriptive Statistics for the Variables of General Globalisation and FDI for the Sampled Low, Middle and High Income Countries

Variable	Statistic	Low Income Countries	Middle Income Countries	High Income Countries
General /overall Globalisation Indices	Mean	44.45	60.38	80.64
	Minimum	33.53	38.51	54.89
	Maximum	57.19	85.71	92.60
FDI Inflows	Mean	2164.87	7637.88	26162.65
Observations	Number	23	65	37

Note: The data in Table 6 above is deliberately skewed to cater for the relative proportions of the low, middle and high income countries in the world (World Bank, 2009)

Table 8.6 above shows that the sampled low income countries have the smallest actual and mean overall globalisation indices (i.e. 33.53 and 44.45 respectively) while the high income countries have the biggest actual and average globalisation indices of 92.60 and 80.64 respectively**.** In the same order, the high income countries have the highest mean FDI inflows of US$ 26162.65 million, followed by the middle income countries (with a mean of US$ 7637.88 million) while the low income countries have the lowest mean of FDI inflows (i.e. US$ 2164.87 million). These findings tally with the observations by the World Bank (2009) that high income countries have implemented the highest levels of economic, social, and political reforms for facilitating globalisation.

The results imply that low levels of globalisation present threats to FDI inflows while higher levels present opportunities for greater FDI inflows. This buttresses the basic postulation of the study that there is a statistically significant relationship between the levels of globalisation and the monetary value of inbound FDI attainable by any country.

In order to substantiate the results given by the descriptive statistics above, other tests using correlations and regressions were conducted and the findings are presented in the subsequent sub-sections below.

Correlation Results

Pearson Product-Moment correlations were to establish the statistical relationship between FDI, the predictor variables, and sub-variables of globalisation. The results obtained were as illustrated in Table 8.7 below.

Table 8.7: Pearson Product-Moment Correlation Coefficients for the variables of Globalisation and FDI

	Economic Globalisation Indices	Actual Economic flows Indices	Economic Restrictions Indices	Social Globalisation Indices	Personal Contact Indices	Information flow Indices	Cultural Proximity Indices	Political Globalisation Indices	General/ Globalisation Indices
FDI Inflows (US$ millions)	.126	.036	.197*	.284**	.123	.178*	.416**	.298**	.275**

Notes: *** Correlation significant at the 0.01 level (2-tailed); * Correlation significant at the 0.05 level (2-tailed) and Number of Observations= 125*

Source: Researcher's analysis based on Empirical figures provided by the KOF Index Globalisation (2011) and UNCTAD (2009)

From Table 8.7 above, it is evident that there is a positive correlation between FDI inflows and all the predictor variables and sub-variables of globalisation as all the correlation coefficients were positive. However, the only predictor variables and sub-variables that proved positive and statistically significant in their correlation with FDI were led by the of cultural proximity indices (with $r = .416, p<0.01$), followed by political globalisation (with r = 0298, $p<0.01$) then social globalisation indices (with $r = .284, p<0.01$) followed by the general/ overall globalisation indices (with $r = .275, p<0.01$) then economic restriction indices (with $r = .197, p<0.05$) and lastly came the information flow indices (with $r = .178, p<0.05$) . Such results were possibly because components of these predictor variables and sub-variables whose correlation with FDI has proven statistically significant were also identified by UNCTAD/*World Investment Report* (2009) as critical perquisites for enhancing FDI inflows.

The predictor variables and sub-variables whose correlation with FDI proved weakest and statistically insignificant were led by the actual economic flows indices with r = .036, followed by personal contact indices (with *r = .123*) and economic globalisation indices with *r = .126*. The weakness and insignificance of such correlation is perhaps attributable to the observation by Asiedu (2002) that virtually all countries have equally important reforms in respect to the components of indices for economic globalisation, actual economic flows and personal contacts and so such factors no longer provide a competitive edge in attracting FDI.

In summary, the results from correlations generally proved that there is a statistically significant relationship between FDI inflows and the predictor variables of globalisation save for the indices of economic globalisation, actual economic flows and personal contacts.

Regression Results

In order to corroborate the results given above, linear regressions of FDI inflows against each of the predictor variables and sub-variables were carried out and the findings were as summarised in table 8.8 below.

Table 8.8: Results Summary for Regression of FDI against Variables of Globalisation

Predictor Variable	R- Square (r2)	Regression Standardized Beta coefficient & Significance levels of the F statistic
Economic Globalisation Indices	.016	.126
Actual Economic flows Indices	.001	.036
Economic Restrictions Indices	0.39	.197*
Social Globalisation Indices	.081	.284**
Personal Contact Indices	.015	.123
Information Flow Indices	.032	.178*
Cultural Proximity Indices	.173	.416**
Political Globalisation Indices	.089	.298**
General Globalisation Index	.076	.275**

Notes: ** Denotes significance at 0.01 level, and *Denotes significance at 0.05 level

Source: Researcher's analysis based on Empirical figures provided by the KOF Index Globalisation (2011) and UNCTAD (2009)

Table 8.8 above shows from the regressions executed, the only predictor variables that significantly explain variances in FDI inflows were led by the indices of

cultural proximity (with $r^2 = .089$ & $p<0.01$) followed by political globalisation indices (with $r^2 = .089$; $p<0.01$), then social globalisation indices (with $r^2 = .081$ and $p<0.01$), followed by general/overall globalisation indices (with $r^2 = .076$ & $p<0.01$), then economic restrictions indices (with $r^2 = .039$ & $p<0.05$), and lastly the Information Flow Indices (with $r^2 = .032$ and $p<0.05$). Respectively, these results imply that: at over 99% of the time/chance, a unit change (increase/decrease) in the cultural proximity indices significantly explains 17.3 % of unit variance (increase/decrease) in FDI inflows; at a probability of over 0.99, 8.9% variance in inbound FDI has been significantly explained by a unit change in the political globalisation indices; at more than 99% probability, 8.1% of changes in FDI inflows has been significantly cause by a unit change in the social globalisation indices; 7.6% of the variance in FDI has been reliably explained by a variance in the globalisation indices at a probability level exceeding 0.99. At over 95% of the chances, a unit change in the Economic Restrictions Indices explains 3.9 % of unit changes in the FDI inflows; and 3.2% of the variance in FDI inflows is significantly explained by a unit variance in the Information Flow indices at a probability rate exceeding 0.95.

The predictor variables that did not prove to significantly affect (explain) changes in the FDI inflows were: actual economic flow indices (with $r^2 = .001$, and p = 0687), personal contact indices (with $r^2 = .015$ and p = .173), and economic globalisation indices (with $r^2 = .001$, and p =.162). It is however important to note that although these predictor variables did not prove to significantly explain the variances in FDI, they were all positive R-square values and positive beta coefficients which implies positive, though week, relationships between these variables and FDI.

In a nutshell, the regression results generally proved that the predictor variables and sub-variables of globalisation significantly explain the variance in FDI inflows save for the actual economic flow indices, personal contact indices, and the economic globalisation Indices.

Conclusions and Recommendations

Conclusions

The results presented generally proved that there is statistically significant relationships between inbound FDI and the indices (variables and sub-

variables) of economic globalisation, social globalisation, political globalisation, and the general/overall globalisation.

The descriptive statistics indicated that countries with higher levels/indices of economic, social, political and general/overall globalisation attain greater FDI inflows than their counterparts. Results from the descriptive statistics proved that there is a statistically significant relationship between FDI inflows and each of the predictor variables, thus disqualifying all the null hypotheses of the study.

The results from correlations generally proved that there is a statistically significant relationship between FDI inflows and the predictor variables of globalisation save for the indices of economic globalisation, actual economic flows and personal contacts.

Results from regression analysis generally proved that the predictor variables and sub-variables of globalisation significantly explain the variance in FDI inflows save for the actual economic flow indices, personal contact indices, and the economic globalisation indices.

By and large, findings showed that lower levels/indices of economic, social, and political globalisation pose threats to FDI inflows while higher levels/ indices present opportunities for enhancing FDI inflows. Inbound FDI is generally statistically related to the levels/indices of economic globalisation, social globalisation and political globalisation.

Recommendations

Basing on the findings and conclusions above, it is recommended that all countries, and especially Uganda and other Low income Countries, relentlessly and competitively implement the following measures pertaining to economic, social and political globalisation so as to realize greater FDI inflows.

Recommendations for Economic Globalisation

Regarding economic globalisation, we recommend that individual countries, especially the Low Income Countries to always competitively reduce economic restrictions by decreasing and/or eliminating hidden import barriers such as unclear tariffs, lowering the mean tariff rates, reducing taxes on international trade, and liberalising capital accounts. As a way of improving the actual economic flows, it is recommendable for countries, especially Uganda and other Low Income Countries, to competitively facilitate increment of international

trade, FDI stocks, portfolio investments, and income payments to foreign nationals.

Recommendations regarding Social Globalisation

We recommend relentless increment of personal contacts by facilitating the enhancement/boosting :1) the international telephone traffic (the sum of international incoming and outgoing telephone traffic 2) increase transfers (increase the sum of gross inflows and outflows of goods, services, income and financial items without a quid pro quo), 3) improving international tourism by facilitating an increase in the sum of arrivals and departures of international tourists, 4) attracting more foreigners to live alongside the citizens of country, 5) facilitate increase in the number of international letters sent and received per capita. We also recommend persistent increment of information flows through facilitating increment of: 1) the number of internet users, 2) share of households with a television set, and 4) international trade in newspapers and periodicals. Lastly we recommend that countries, especially the Low Income Countries, should competitively increase cultural integration through facilitating international trade in books and pamphlets, and easy establishment of globally recogniable brands of stores/shops, groceries, restaurants/hotels, hospitals, schools, recreation and convenience centers among others.

Recommendations for Political Globalisation

Regarding political globalisation, we recommend that, in order to realise greater FDI inflows, countries such as Uganda and other Low Income Countries, should competitively improve their respective political globalisation status by: 1) facilitating establishment of more embassies, consulates and high commissions in their territories, 2) attaining membership in as many international and inter-governmental organisations as possible, 3) increased participation in the U.N. Security Council Missions by contributing competitively more personnel to such missions, and signing /entering as many international treaties as possible.

Recommendations for Further Studies

Future studies should apply panel data modeling and Granger-causality tests to further investigate the relationship between FDI inflows and the levels of globalisation so as to corroborate and substantiate the findings of this study.

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Annex

Table 8.2: Components and Estimation of the Globalisation Index (Weights for the Indices and Variables)

Index of Globalisation			(100%)
	Indices and Variables		Weights
A.	Economic Globalisation		[37%]
	i) Actual Flows		(50%)
		International Trade (Sum of exports & imports as percent of GDP)	(19%)
		Foreign Direct Investment, flows (percent of GDP)	(20%)
		Foreign Direct Investment, stocks (percent of GDP)	(24%)
		Portfolio Investment (percent of GDP)	(17%)
		Income Payments to Foreign Nationals (percent of GDP)	(20%)
	ii) Restrictions		(50%)
		Hidden Import Barriers	(22%)
		Mean Tariff Rate	(28%)
		Taxes on International Trade (percent of current revenue)	(27%)
		Capital Account Restrictions	(22%)
B.	Social Globalisation		[39%]
	i) Data on Personal Contact		(33%)
		International Telephone Traffic	(26%)
		Transfers of goods, services, income & financial items (percent of GDP)	(3%)
		International Tourism (sum of arrivals & departures of international tourists)	(26%)
		Foreign Population (percent of total population)	(20%)
		International letters (per capita)	(25%)
	ii) Data on Information Flows		(36%)
		Internet Users (per 1000 people)	(36%)

Index of Globalisation			(100%)
		Television (per 1000 people)	(36%)
		International Trade in Newspapers (percent of GDP)	(28%)
	iii) Data on Cultural Proximity		(31%)
		Number of McDonald's Restaurants (per capita)	(43%)
		Number of Ikea (per capita)	(44%)
		International trade in books and pamphlets (percent of GDP)	(12%)
C.	Political Globalisation		[25%]
		Embassies in Country	(25%)
		Membership in International Organisations	(28%)
		Participation in U.N. Security Council Missions	(22%)
		International Treaties	(25%)

Note: The indices on economic, social and political globalisation as well as the overall index are calculated employing the weighted individual data series instead of using the aggregated lower-level globalisation indices. This has the advantage that data enter the higher levels of the index even if the value of a sub-index is not reported due to missing data.

Source: Dreher et al (2008)

Chapter Nine

Corporate Entrepreneurship and Performance of the Telecommunications Companies in Uganda

Audrey Kahara-Kawuki

Abstract

This study sought to establish whether corporate entrepreneurship has an influence on the tremendous growth of the telecommunication companies and also to document the case studies of the three companies Celtel, MTN, and UTL who were the active telecommunication service providers by the time of the study. Results reveal that in today's globally competitive environment, the challenge facing telecommunications companies is how to sustain the organisation amidst the dynamic and volatile changes. Additionally, corporate entrepreneurship has been recognized as a means for enhancing innovativeness and the performance of telecommunications companies in Uganda. These results have policy implications which are contained in the paper.

Key words: entrepreneur, corporate, entrepreneurship, leadership, network, innovation.

Introduction

Background

Uganda presently has over 4 million mobile phone subscribers, three service providers, and two additional ones laying infrastructure, about to commence operations. The telecom sector has been one of the high growth sectors in the economy quickly becoming the largest contributor of tax to government in the last 4 years. While telecommunications was an important sector in the economy, there were only about 40,000 fixed line subscribers in 1993. The

phenomenal growth to over 4 million subscribers in 2007 in less than 15 years is an indication of the importance of the sector.

Telecommunication services prior to 1993 were provided by the Uganda Posts and Telecommunications Corporation (UPTC) a wholly-owned government company. UPTC provided telecom services through landlines which was the traditional method of telephoning until the invention of mobile telephones. It also ran the postal service's along with a post bank. In 1987, the Uganda government announced major economic policy changes that allowed free market forces in the economy. Prior to that, the economy had been dominated by parastatals in the key economic activities, especially infrastructure. While government intentions were made at that time, there was no enabling legal framework to facilitate the private sector entering the different industries. Different laws were enacted in different sectors to allow the private sector to enter the industry. The enabling law in the telecom sector was enacted in 1996.

Prior to this policy, the Uganda Posts and Telecommunications Corporation (UPTC) Act of 1983 had made the corporation both the operator and the regulator and it was therefore difficult for new entrants into the industry. For a long time, telecommunications was associated with UPTC with inefficiency, high costs, and services provided to only a few organisations and individuals. Owning a phone line both in office and home was a prestigious thing. As stated, there were about 40,000 landlines in 1993 with a population of about 20 million people.

In 1993, government licensed Celtel as the first private service provider in mobile telephony. The major specific policy in the telecommunication sector came in 1996, when government announced a policy reforming the sector with a view to increasing the penetration and level of telecom services in the country through the private sector. The policy was expressed through the enactment of the Uganda Communications Act in 1997 and the policy objectives were:

a) To increase tele-density from 0.28 line per 100 people to 2.0 lines per 100 people by the year 2002.
b) To improve communication facilities and quality of services.
c) To increase geographical coverage and distribution of services.
d) To have an independent regulator.

As a result of this law, the UPTC was split into Uganda Telecom (UTL), Uganda Posts Ltd (UPL), Post Bank Ltd and Uganda Communications Commission (UCC) as the regulator. UTL remained as a wholly government owned company providing telecommunication services until June 2000 when it was privatised.

51% of its shares were sold to a consortium of investors. While Celtel dominated the market for five years before the licensing of MTN, it was able to grow subscribers only up to about 12,000 by 1999. However MTN, which began in earnest in 1998, was able to grow over 100,000 subscribers within a period of one year of its operations.

By the end of 1998, there were three service providers with UTL primarily in landlines, and Celtel and MTN in mobile telephones. UTL was licensed to provide mobile telephone services in 2003. Presently, MTN has over 2 million subscribers while UTL and Celtel have approximately 1.3 million and 882,000 subscribers respectively. Two new service providers have been licensed; Hits Telecom and Warid Telecom.

The growth of the telecom sector in Uganda in such a short period of less than ten years has been phenomenal. The rise in the number of subscribers from about 45000 in 1993 to over 4.5 million in 2007 reflects a high level of entrepreneurial activity in the sector. In economics literature, growth in an economy is associated with economic policy, capital, and labour. In a liberalised economy as has been the case in Uganda since the early 90s, entrepreneurship literature attributes growth of an economy to entrepreneurial activities that entail business start-up and job creation (GEM, 2002, Balunywa, 2007). While Schumpeter (1942) attributes the growth of an industry to innovations and competition. Kirzner (1973), one of the leading scholars of entrepreneurship supports the school of thought that attributes growth to entrepreneurship. He argues that it is the entrepreneur who spots opportunities and exploits them. This results into economic activities and economic growth. Schumpeter (1942) attributes growth of industries to innovations that are created by entrepreneurs. Entrepreneurs are persons who start businesses, mobilise resources, take risks, and create value (Kirzner, 1973).

The entrepreneur is defined as a person who perceives opportunity (Drucker, 1986) and exploits it to make a profit. They bring together resources, create organisations, instigate production activities, and moves resources from low value to high value areas. In the process, the entrepreneur creates

jobs, creates value, and causes growth in an economy. (Say, 1924, McClelland, 1960, Chell, 1990). The entrepreneur was seen as an individual because of the behavioural attributes leading an organisation to soaring growth. However, with the phenomenal growth of size of companies especially the multinational companies, the individual could not be seen yet the companies were growing (Kanter, 1983, Pinchot, 1985). Researchers started wondering whether there was an individual who was acting entrepreneurially in the organisation, giving rise to the concept of the entrepreneur or whether the organisation could act entrepreneurially without identifying a single person. This led to the birth of corporate entrepreneurship. This is at times referred as *intrapreneurship*, meaning innovation within an entreprise. Entrepreneurship has been conceptualized as a process that can occur in organisations of all sizes and types (Burgelman, Academy of Management Review, 8, 32–47, 1983; Miller, Management Science, 29, 770–791, 1983; Gartner, Academy of Management Review, 10, 696–706, 1985; Kao, Entrepreneurship, creativity and organisation, 1989). The increasing growth of multinational and even individual companies long after the retirement, death, or even exit of the founder has led to research in understanding corporate entrepreneurship. Many multinational banks, oil companies, car manufacturing, and others are continuously expanding their activities and yet no single entrepreneur is visible. This study sought to document the case of the phenomenal growth of the companies exploring the concept of corporate entrepreneurship.

Problem Statement

Since the liberalisation of the telecom sector in Uganda, there has been phenomenal growth within the sector. The number of subscribers of both fixed and mobile phones went up to about 60,000 in 1996 to over 4.5 million in 2007. Before the liberalisation of the sector, its contribution to GDP and taxation was minimal. Today, the sector is the largest taxpayer to government with MTN ranking the tp taxpayer for two consecutive years Out of Uganda Shillings four (4) trillion, the sector contributed 10% of the total. MTN took over from Shell, an oil company that had dominated tax contribution for over 20 years. The sector's contribution to GDP is now approaching 5%. Direct and indirect employment in the sector has gone up to over 200,000 jobs (UCC Report, 2005-2008). The intangible benefits this sector has brought

include cost reduction in doing business (time and money) by limiting physical movements between suppliers and customers, producers and suppliers (UCC Report, 2005-2008).

Purpose of the Study

To establish the role of corporate entrepreneurship in the phenomenal growth in the telecom sector in Uganda.

Objectives of the Study

(a) To study and document the growth patterns in the telecommunication companies.
(b) To study the strategies used to stimulate growth in these companies.
(c) To study and understand how competition stimulates entrepreneurship in large organisations.
(d) To create a case on corporate entrepreneurship in telecommunication companies that can be used for teaching management, marketing strategy and entrepreneurship.

Research Questions

(a) What are the growth patterns of the three companies?
(b) What strategies did they use to grow?
(c) How has competition stimulated entrepreneurship in the three companies?

Literature review

Introduction

The study of entrepreneurship has tended to focus on the individual as the entrepreneur, making the individual the unit of analysis (Rosa and Scott, 1996; Balunywa, 2007). There is no agreement on what the entrepreneur is or does. Many scholars have described what they do, their behaviour and roles in an economy (Schumpeter, 1934; 1942; Say, 1926, McClelland, 1961; Storey, 1994 and Chell, 1985). The word entrepreneur first appeared in the French language and was used in military expeditions at the beginning of the 16th century (Sills, 1968). The entrepreneur was also seen as an adventurer and risk taker. Cantillon cited in Webster (1977) is reported to be the first person to use the word entrepreneur in 1725. He used it to refer to economic

activities and referred to the entrepreneur as a person who bought factors of production at a certain price, hoping to sell them in the future at an uncertain price. Cantillon thus presented the entrepreneur as a risk taker. Say (1924), a French economist defined an entrepreneur as the agent who unites means of production. He argued that an entrepreneur shifts economic resources from an area of low productivity to one with higher productivity and greater yield.

Schumpeter (1959) refers to an entrepreneur as a person who destroys the existing economic order by introducing new products and services, by creating new forms of organisation, or exploiting new raw materials. Schumpeter says that the function of an entrepreneur is that of innovation and economic development. Drucker (1985) and Balunywa (2007) support Schumpeter by describing an entrepreneur as a risk taker and innovator. Kirzner (1979) says entrepreneurs are people who perceive and seize opportunity. Drucker (1985) describes an entrepreneur as a person who always searches for change, responds to it, and exploits it as an opportunity. Balunywa (2007) describes an entrepreneur as a person who sees things differently and creates value from that difference.

The theoretical underpinnings for entrepreneurship are drawn from different theories that have emerged to explain the concept of the entrepreneur, the entrepreneurship process, and entrepreneurial motivation. These include the economists view, sociologists, and psychologists' views (Aldrich and Zimmer, Stevenson and Sahran, 1989; Campbell, 1982; Chell, 1985; Kilby, 1985 and Shapero, 1985).

Economists explain entrepreneurship from the profit point of view. They argue that entrepreneurial activities are driven by economic incentives. People start businesses and do those activities that give them economic gain (Papaneck 1962, Harris 1970, Drucker 1985, Campbell 1992). These are confirmed in a study by Balunywa (2007). The psychological approach puts emphasis on personality and behavior of the person. McClelland is a leading proponent of this view that is, entrepreneurs are driven by the need to achieve and independence among others, to start and exploit business. The sociologists view explains entrepreneurship as emerging from the socio-economic conditions of individuals. Using the individual as an entrepreneur, sociologists tend to seek explanations in traits or behaviour.

Intrapreneurs and Corporate Entrepreneurs

Early research and entrepreneurship literature tended to restrict the meaning of entrepreneurship to individuals. Leading scholars like Schumpeter to restrict their interpretation to an individual. Cantillon (1921), Say (1924), McClelland (1961), Glade (1967), Vespere (1981), Shapero (1975) and Chell (1991) all tend to describe an entrepreneur and refer to this person as an agent, a risk taker, an organiser, and a manager. These descriptions tend to fit the description of the enterprise in an individual. The concept was thus difficult to imagine as anything but an individual. However, some contributors to entrepreneurship literature have departed from this thinking and suggest that entrepreneurship can exist in organisations (Kanter (1983), Pinchot (1985), Aldrich and Zimmer (1986).

They introduce the concept of intrapreneur to refer to intra-corporate entrepreneurs. The development and popularisation of the concept of intrapreneurs is a recent occurrence. Gupta and Srinivasan (1995) report that the concept emerged as a result of corporations wanting to retain enterprising people in their organisations. They reported that many senior executives who were entrepreneurial were leaving organisations to escape bureaucracy and inertia. They left because there was no opportunity to innovate, bear risk, and possibly gain reward. Pinchot (1985) described persons who undertake innovations within corporations as intrapreneurs. Pinchot suggested that large corporations should learn to utilise entrepreneurial talent within their organisations to avoid stagnation and decline. This would involve building a culture within the organisation that would support entrepreneurial activity to thrive.

This gave rise to the emergence of an entrepreneur within an organisation. These are the intrapreneurs, individuals acting entrepreneurially in an organisation. The early proponents to the concept of entrepreneurship also see an individual not necessarily the owner, acting in an entrepreneurial manner in a large organisation. The concept thus puts emphasis and indeed focuses on the individual. A person with entrepreneurial personality exists in an organisation and is supported by management in a bureaucracy to conduct entrepreneurial activity. Such people are usually founders of the business and those who have influence in the organisation and their ideas are supported by top management.

Intrapreneurs, like entrepreneurs, are creative people who want freedom to pursue their dreams and expect support for their ideas including investment in the ideas. They want to be independent people and want to be protected. They expect an environment that allows them to express themselves freely (Pinchot, 1985; Brockhaus and Horwitz, 1986; Kanter, 1983; Burns and Dewhurst, 1989). This environment should allow failures, avail resources and new technologies, and also provide appropriate systems to receive new ideas along with support by top management.

Prior to this, entrepreneurship has been known, studied and researched as a personality concept. The behaviour of entrepreneurs only allows an individual to be one otherwise some of them cannot be practiced in form of an organisation.

Departing from this entrepreneurial school of thought, Pinchot takes the lead as he suggests that entrepreneurial activities can be fathomed in organisations. Pinchot's (1985) work is later supported by Aldrich and Zimmer (1986), who argues that people do not make decisions in a vacuum, but rather consult and are subtly influenced by others in their environment. Their views are supported by others like Miller and Friesen, (1982), Covin and Slevin, (1991), Kanter, (1992), Zahra, (1993.

Another school of thought emerges to create corporate entrepreneurship. Can an organisation, especially large ones, accommodate or take advantage of individuals with an enterprising culture especially where the organisation has a tradition of routine and bureaucratic behavior? If it can, then this is corporate entrepreneurship. Corporate entrepreneurship is where the organisation is entrepreneurial without clearly distinguishing individuals who have the entrepreneurial personality.

Corporate entrepreneurship involves managers creating new combinations of resources in existing firms (Wright et al, 1997). Corporate entrepreneurship has been defined in previous studies as: a process by which individuals inside organisations pursue opportunities independent of the resources they currently control (Stevenson and Jarillo, 1990), doing new things and departing from the customary to pursue opportunities (Vesper, 1990); a spirit of entrepreneurship within the existing organisation (Hisrich and Peters, 2007); and the creation of new organisations by an organisation, or as an instigation of renewal and innovation within that organisation (Sharma and Chrisman, 1999).

Corporate entrepreneurship involves "extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations" (Burgelman, 1984). It is thus possible to have an organisation to be entrepreneurial without having entrepreneurs as individuals. This is however, possible, if inside the organisation conditions are created that make it possible for individuals to get power to experiment, create develop or test something. This is letting an individual innovate in an organisation but without clearly identifying the individual. This is possible in all sections and departments of the organisation (Kanter, 1983).

An organisation can thus be entrepreneurial and can exhibit entrepreneurial characteristics (Kanter, 1983; 1992; Aldrich and Zimmer, 1986; Covin and Slevin, 1991; Zahra, 1993; and Batten, 2002). Organisations are entrepreneurial when they exhibit entrepreneurial behavior. Quinn (1985) posits that companies like 3M, Sony, and Hewlett Packard were able to achieve and sustain high levels of performance and growth by behaving in an entrepreneurial manner. Corporate entrepreneurship has, for a number of decades, been viewed as one approach for generating growth through new product, process, market, or strategy innovation (Miles, Munilla & Darroch, 2008).

Corporate Entrepreneurship Process

The entrepreneurship process involves those functional activities and actions that enable perception of opportunity and exploiting opportunity to create value (Bygrave and Hofer, 1991; Bygrave, 1994; Kealey, 1995 and, Balunywa, 2007). Kuratko et al (2005) state that entrepreneurial actions are any newly fashioned set of actions through which companies seek to exploit entrepreneurial opportunities that rivals have not noticed or exploited. Entrepreneurial actions constitute a ". . . fundamental behaviour of firms by which they move into new markets, seize new customers, and/or combine (existing) resources in new ways" (Smith and Di Gregorio, 2002). Three key dimensions—innovativeness (the seeking of creative solutions to problems or needs), risk-taking (the willingness to commit significant levels of resources to pursue entrepreneurial opportunities with a reasonable chance of failure), and reactiveness (doing what is necessary to bring pursuit of an entrepreneurial opportunity to completion)—underlie entrepreneurial actions (Covin and Slevin, 1991; Lumpkin and Dess, 1996; Morris and Kuratko, 2002).

Where the entrepreneur is an individual, the process involves interaction of the personality of the individual with external factors to cause entrepreneurial initiatives and outputs. In the case of corporate entrepreneurship process, the individual is replaced by the organisation. And while the external environment continues to be a key factor in the process, the personality of the individual is replaced with the personality of the organisation, the culture of the organisation and the strategy crafted and pursued by the organisation.

Stopford and Fuller (1994) use team orientation proactiveness and learning capabilities as antecedents to corporate entrepreneurship. Covin and Slevin (1993) built a model to explain antecedents of corporate entrepreneurship. Their model suggests that the organisation's environment, both internal, and external and the organisations strategy, determine the degree to which the organisations behave in an entrepreneurial manner. Zahra (1993) modifies the Covin-Slevin Model.

Antecedents of Corporate Entrepreneurship

Various researchers have argued that for corporate entrepreneurship to take place, a number of conditions need to exist. These include: strong visionary leaderships, flat structures, highly motivated staff, participatory management structures, existence of research and development departments or structures that support ideas and quick adaptation to changing technologies (Kanter, 1983; 1989; Kao, 1989; Hamel and Prahalad, 1995; Kouzes and Posner, 1987; Peters and Waterman, 1981; David, 1992 and Balunywa, 2007).

Effective Leadership

Leadership is one of the key elements in the success of any organisation. Leadership involves envisioning the future and selling the vision to others. It is allowing those with ideas to flourish and supporting them. Leaders inspire others to act. Leaders come up with new goals and new strategies, they also support growth of entrepreneurial activity in an organisation (Kanter, 1983;Peters and Waterman, 1981; Kouzes and Posner, 1987).

Flat Structures

The traditional hierarchical structure tends to emphasise positions rather than performance. The traditional hierarchical structure is bureaucratic and has command structure borrowed from the military. Orders are taken from the top

to the bottom, is slow, and does not allow ideas to come from below (Kanter, 1983; 1984; 1984). Tall structures dilute top management control and do not encourage a relationship between the top or lower levels of management. The other problem is that communication is poor and ineffective. Communication is often distorted as it goes through the hierarchical. Subordinates may misinterpret instructions. Tall structures stifle ideas coming from below due to bureaucracy.

The State of the Industry Life cycle

Corporate entrepreneurship is likely to flourish in industries which are in the early stage and rapid growth stage of the industry lifecycle. Kanter argues that in mature and saturated industries, innovations are scarce and tend to concentrate on cost cutting.

Speed of Commercialising Technology

Technology tends to be the dominating area in which new products and services are sourced. Organisations that are seen to keep track of technological changes and adopt technology quickly tend to make more innovations and are more entrepreneurial.

Progressive treatment of people

Kanter (1983) argues that innovations are made by people. People are able to be innovative if they have organisational power to do so. Power is authority to perform certain acts. Traditionally owners or founders have authority and this can behave in an entrepreneurial manner. Therefore, to cause innovators in a large organisation people must be empowered to do so. People who have power are supported by others. She argues that organisations that produce more innovations give people more opportunity to reach power and use it to generate innovations. There is team approach and teamwork. People continually connect with one another. Kanter found these companies to be more egalitarian, with a higher proportion of women and minorities.

Kathuria and Joshi (2007) also point out that past research shows that changes in the external environment are a strong antecedent of corporate entrepreneurship (Dess et al., 1999; Guth & Ginsberg, 1990; Naman & Slevin, 1993; Zahra, 1991). Firms operating in hypercompetitive or high velocity environment need to respond with speed and surprise so as to shift the rules of competition (D'Aveni, 1994). In high velocity environments, firm strategies

are often more concerned with speed (Eisenhardt, 1989; Eisenhardt & Tabrizi, 1995), change (Eisenhardt & Brown, 1997; 1999), and flexibility (D'Aveni, 1994).

Importance of Corporate Entrepreneurship

Kearney et al., (2007) concurs that corporate entrepreneurship (entrepreneurial activities and orientations in an established organisation) is an important component of organisational and economic development and wealth creation (Antoncic and Hisrich, 2004). Corporate entrepreneurship is not only beneficial to organisations but also to economies, as it can affect an economy by increasing productivity, improving best practices, creating new industries, and enhancing international competitiveness (Wennekers and Thurik, 1999).

Zahra et al. (1999) argue that one of the major contributions of corporate entrepreneurship activities is the possibility of driving knowledge development that later becomes the foundation of the competences from which new corporate entrepreneurial activities can emerge. That individuals and small teams can form entrepreneurial groups inside an organisation capable of persuading others to alter their behaviour, thus influencing the creation of new corporate knowledge which may lead to organisational rejuvenation.

Growth and profitability are performance elements that can be considered important consequences of corporate entrepreneurship. Corporate entrepreneurship has been regarded an important element of successful organisations (Peters and Waterman, 1982; Kanter, 1984; Pinchot, 1985; Thornhill and Amit, 2001; Miles and Covin, 2002), since it has its consequences in organisational survival, growth, and performance (Kazanjian, Drazin and Glynn, 2001).

Methodology

Research Design

This study was intended to document the cases of the telecommunications companies and study the role of corporate entrepreneurship on the growth of the different companies. The study used a combination of case study and survey. Since the industry had only three organisations that were involved in the sector, all the three companies were studied. However, to be able to confirm

the findings, a survey of the subscribers was undertaken. The study is largely descriptive and analytical.

Study Population

The industry at the time of commencement of the study had three players in the mobile telephone service provision and therefore all the three companies were studied as mentioned. The companies are:

- Celtel Uganda (trading as Airtel, as at end of 2013, after change of ownership)
- Mobile Telephone Network (MTN)
- Uganda Telecom (UTL)

To explore corporate entrepreneurship, top management in the three companies was interviewed. In order to confirm the information gathered, both secondary and primary subscribers were also interviewed. Over 90 % of the subscribers are in Kampala and that is why it was selected as the area for the study.

Survey: Sampling Design

The study targeted 50% of the top managers for the interviews using purposive random sampling. Mobile phone users were interviewed at various places in Kampala including markets, corporate employees, institutions of higher learning, and the taxi parks. Such interviews used a random sample technique to eliminate bias, spread over a wide area of Kampala ensured randomness.

Sample Size Selection

The study targeted 50% of the senior managers in the three companies.. With over 4 million subscribers at the close of 2007, we targeted a total of 800 subscribers. A total of 498 subscribers to the three telecom companies were interviewed.

The study targeted 24 top managers in the telecom companies: MTN 6 managers, Celtel 5 managers, and UTL 4 managers. The target of 800 respondents was irrespective of the telecom company. We also interviewed Uganda Communication Commission officials.

Sources of Data

Data was obtained from both primary and secondary sources. Primary sources were the senior managers in the three companies, as well as their respective subscribers, through in-depth interviews. Secondary sources were the published reports primarily by Uganda Communications Commission, company reports, journals and newspapers.

Data Collection Processes and Methods

Questionnaires were designed and tested before being administered. It was agreed that subscribers be interviewed on the street. For the senior managers in the telcos, they were initially sent questionnaires but it was agreed that in-depth interviews be held with them. The questionnaires were structured to get information about corporate entrepreneurship, innovation, and the creativity process.

Problems Encountered in the Study

The companies were not willing to release specific data on their performance. Getting interviews from the senior managers took a long time. They were busy and it took longer than envisaged, to get commitments from them.

Study Findings and Discussion

Nature of Competition in Industry Growth

Celtel joined the industry which was dominated by UPTC which subsequently became UTL. Celtel joined the industry with a profit objective. UPTC as a government corporationwas there to provide a service to the community. MTN joined the industry in 1998 with an objective of making money. UPTC was privatised in 2000 and a consortium of companies bought 51% of the shares, and all were motivated by profit.

The entry of these institutions could not be attributed to single individuals hence the need to look at corporate entrepreneurship. The sector is a heavy investment sector and for a country like Uganda, these companies have invested billions of shillings in high technology equipment. The sector therefore has entry barriers. It is not surprising that the number of players is small. Corporate entrepreneurship activities appear not to subscribe to Schumpeter's swarmlike theory where a large number of individuals join the industry. Because it

involves heavy investment, the companies were protected and received what was known as *exclusivity periods*- the periods when entry was barred by law. This also stifled competition.

The suppliers in the industry are limited in number and therefore could have been in a position to cooperate to keep prices up. However, the power of the millions of buyers who have been looking for cheaper products has not given advantage to the suppliers.

To be able to position themselves competitively, the companies have used a variety of products and price discounts to lure customers from competitors. These have included the talk per second, me to you, free calls at night, one network in the region, news, roaming, picture messaging, promotional phones and programs, university challenge, marathon, and street kids among others. All these have been strategies to attract customers to specific brands.

Population Characteristics and Competition in the Industry

The study generated findings on population characteristics of the subscribers and attempts to explain how the companies have competed. In the following tables, details on gender, age, and income emerge.

According to the table below, 61% of the subscribers interviewed to the telecom industry were male of which 27% subscribe to MTN, 11% to UTL, 10% to Celtel, 13% subscribe to different inersetions of the three telcos. MTN has the majority subscribers, followed by UTL and Celtel. That the majority of the subscribers are male, it implies that males have more access to telecommunications services as compared to the females.

Table 9.1: Showing the Sex of Subscribers

		Gender		
		Male	**Female**	**Total**
MTN	Count	133	103	236
	% within MTN	56.3%	43.7%	100.0%
	% of total	26.7%	20.7%	47.5%
UTL	Count	53	41	94
	% within UTL	56.1%	43.9%	100.0%
	% of total	10.6%	8.3%	18.9%

		Gender		
		Male	**Female**	**Total**
Celtel	Count	50	21	71
	% within Celtel	71.0%	29.0%	100.0%
	% of total	10.1%	4.1%	14.3%
MTN & UTL	Count	12	9	21
	% within the intersection	55.6%	44.4%	100.0%
	% of total	2.3%	1.8%	4.1%
MTN & Celtel	Count	44	14	58
	% within the intersection	76.0%	24.0%	100.0%
	% of total	8.8%	2.8%	11.5%
UTL & Celtel	Count	7	7	14
	% within the intersection	50.0%	50.0%	100.0%
	% of total	1.4%	1.4%	2.8%
MTN, UTL & Celtel	Count	5		5
	% within the intersection	100.0%		100.0%.
	% of total	.9%		9%
Total	Count	304	195	499
	% within service provider	60.8%	39.2%	100.0%
	% of total	60.8%	39.2%	100.0%

In Table 9.2, majority (44%) of the subscribers to the telecom companies are between 29-39 years. Of these 20% subscribe to MTN, 9% to UTL and 6% to Celtel, 1% to MTN and UTL, 7% to MTN and Celtel while 1% subscribe to all the three networks. This age bracket usually has students and working class people. Those between 18-28 years are (43%) and those between 40- 50 are 10% and those above 50 years are 2%. The telecom companies in competitive strategies introduce those products and services that appeal to the respective age groups and most of them appeal to those between 18-28 and 29-39 since they make up majority of the subscribers.

Table 9.2: Showing Cross Tabulation of the Age of the Subscribers

		Age				Total
		18-28	29-39	40-50	Above 50	
MTN	Count	102	99	28	7	236
	% within MTN	43.1%	42.2%	11.8%	2.9%	100.0%
	% of total	20.4%	19.9%	5.6%		47.3%
UTL	Count	44	44	7		95
	% within UTL	46.3%	46.3%	7.3%		100.0%
	% of total	8.8%	8.8%	1.4%		19.0%
Celtel	Count	39	29	2	2	72
	% within Celtel	54.8%	38.7%	3.2%	3.2%	100.0%
	% of total	7.9%	5.6%	.5%	.5%	14.4%
MTN & UTL	Count	7	7	7		21
	% within intersection	33.4%	33.4%	33.4%		100.0%
	% of total	1.4%	1.4%	1.4%		4.2%
MTN & Celtel	Count	16	34	5	2	57
	% within intersection	28.0%	60.0%	8.0%	4.0%	100.0%
	% of total	3.2%	6.9%	.9%	.5%	11.6%
UTL & Celtel	Count	7	7			14
	% within intersection	50.0%	50.0%			100.0%
	% of total	1.4%	1.4%			2.8%
MTN, UTL & Celtel	Count		2	2		4
	% within intersection		50.0%	50.0%		100.0%
	% of total		.5%	.5%		.9%
Total	Count	215	222	51	11	499
	% within service provider	43.1%	44.4%	10.2%	2.3%	100.0%
	% of Total	43.1%	44.4%	10.2%	2.3%	100.0%

In Table 9.3 below, the majority of the subscribers (53%) earn between UGX 100,0000 – 500,000 (US$ 40-200) as monthly income. 28% earn below UGX 100,000 (US$ 40), 14% earn between UGX 500,000 – 1,000,000 (US$ 200-

400), while only 4% earn between UGX 1,000,0000 – 5,000,000 (400-2000). From the table, those who have subscribed to more than 2 networks earn between UGX 500,000 – 1,000, 000 and those constitute 4%. Those who earn between UGX 100,000 –500,000 are 3%.

As telecom companies introduce new products and services in the market, they take into consideration the fact that most of their customers are low income earners and therefore their products must be affordable.

45% of MTN's Mobile customer base are small business people or employees working in small businesses. The reason why they choose MTN is because of the lower prices and coverage. MTN dropped the Western Model. They also introduced small top up denominations. They don't differentiate between prepaid and postpaid tariffs.

At the onset, Celtel had ignored the ordinary Ugandan, considered incapable of affording mobile telephone services. They focused their marketing to expatriates and a few rich Ugandans in Kampala, Jinja, and Entebbe. Their services were rather expensive for the ordinary Ugandans which marked the beginning of negative perceptions about the company in the Ugandan market. It was clear that the company had alienated itself from the market right from the beginning. The market realised how expensive Celtel was when MTN entered the market and most subscribers migrated to MTN.

The years 2002 and 2003 were the worst for the company, the number of customers drastically went down from 12,000 to 4,500 customers. By 2004, Celtel had virtually lost the market. It is then that they took a decision to change, with a different approach and a different brand. Having experimented the mass model elsewhere and it worked, they brought in some changes. They developed brand affinity and preference. They now focused on the 4 primary Ps of marketing: product, price, promotion, and place. They changed the product. They acquired an Erickson switch and invested in a new network. They also changed their brand colours from yellow and blue to red and yellow. This was expensive but was important for changing perceptions about the organisation. In marketing, "Perception is reality". They got the product and promotion aligned. They embarked on a serious radio advertising campaign to change the mode of thinking about the organisation.

The pricing model was also changed to reflect the new strategy and suit market needs. Their distribution system was also changed. They got into

comparable and competitive but profitable mass distribution vis a vis the other players in the market

As at end of 2007, Celtel had about 1.2 million customers, with pre-paid customers contributing more revenue than postpaid.

Corporate Entrepreneurship in MTN

MTN entered the market with a market penetration strategy and therefore looked at extensive network coverage and low prices as the key driver of growth. The investment in network coverage made MTN the fastest growing network in the country. Constructing masts in remote areas like Kitgum, Kotido, and Moroto, of some which were areas of civil conflict, was a great achievement of the company. MTN's Public Relations Officer said,

> Once again, MTN pioneered its investment in the areas that were never thought of as investment destinations before.

Besides the network and price, MTN has led the other companies in introduction of new services. Over the years, they introduced the short message service information (SMS – Info) product that added value to the classical SMS. With the SMS Info, a customer could access news, sports, jokes, health info, jokes, or trivial.

Then MTN introduced the "predict and win" Package that attracted public interest during the World Cup. The public was also to choose their own Miss Uganda, and the company was overwhelmed with responses.

The SMS Info product was further developed to allow MTN customers with accounts in Nile Bank, to access service- fee and airtime using Automatic Teller Machines (ATM) cards. The system also has a program, FOODNET for farmers upcountry to access product prices in major towns. MTN further set pace for others when it introduced SMS across networks. It developed the call-in queue service for the prepaid customers as well.

On the fixed line product portfolio, the Fibre Optic Project recorded much success. It now covers an excess of 80kms of the contracted coverage. The company extended beyond Kampala to Jinja and Entebbe. This enabled it to introduce the code number for its landlines, 03x. Pre-paid customers have included the reduction of the service fee from UGX 18000 to 10,000.

Interviews with the different senior managers indicated that while there has been a receptivity of ideas from different managers. Innovation is a problem in technical areas but MTN has competent people who understand what needs to be done. People are allowed to make mistakes but not the same mistakes all the time. The company's growth was anchored on one champion. This appeared like a case of intrapreneurship rather than corporate entrepreneurship. This is because the senior managers tended to identify a particular individual on whom numerous issues rotated.

MTN shows a clear presence of leadership that has enabled the numerous ideas to thrive. One of the key elements has been stability of the key management. The Chief Commercial Officer has been with the company for most of the time and is reported to be responsible for the phenomenal growth of the business. There are reports that when the chief commercial officer, who was the key orchestrator of strategy and growth, was transferred to another country and the company experienced problems. He was returned and thereafter the company resumed its growth patterns. Steve Jobs the founder of Apple Computers was forced out of the company by John Sculley, a person he brought to the company and Steve Jobs had to go back to Apple to save it. Apple has since come up with the iPod.

A company founded in South Africa, the decision to start up was a corporate one as part of the desire to grow business elsewhere. MTN's strategy was guided by what existed in the market. The fact that Celtel appeared a service provider to the high end, MTN went in for the low end and successfully penetrated the market. There has therefore been clear leadership in MTN that has driven growth in the organisation though surprisingly the leadership was not at the chief executive level.

MTN, like Celtel, is operating in a high growth industry driven by technology. In such cases the organisation either grows or is driven out of the industry by other organisations. This, as earlier stated, does not require a specific champion. The company simply has to adapt. Interviews with various staff reveal that MTN has given staff challenges to come with ideas that improve the business. MTN's case is one of where intrapreneurship and corporate entrepreneurship have been at play with the emphasis of the former. There has been an identifiable orchestrator of strategy although different people in the organisation have played an important role.

Corporate Entrepreneurship in Celtel

Celtel offers a classic case of corporate entrepreneurship. While it is part of a bigger network, interviews with various managers indicated that while some ideas come from the parent company, the local managers have a free hand in introducing ideas, especially of administrative nature in order to actualise some of the services that are offered by the company. The nature of services in the business are generic. All the service providers introduce similar products; they cannot be unique to any. The innovations come from delivering the service fast or thinking about an administrative procedure and introducing it before others do.

Most managers admitted that new products are driven by new technology, customer needs, and competition. Currently Celtel offers services to its customer base using mainly GSM technology. The services Celtel provides include mobile telephony services, (voice and SMS for ; postpaid, prepaid and international roaming services), conference calling, SMS information, payments over mobile phone, international roaming, voice mail, web applications, One Network (One Network is the service that allows a Celtel Subscriber travel to Kenya, Uganda, Tanzania, DRC, Congo B, Gabon, Niger, Nigeria, Chad, Burkina Faso, Malawi and Sudan, make calls at local rates, receive calls for free and recharge with local airtime vouchers), GPRS/EDGE (This allows Celtel subscribers to send and receive pictures, graphics, audio and video over their mobile phones), Internet services (allows Celtel subscribers to access the internet and their corporate networks or send emails and download files with Celtel Internet via phone or computer), Black Berry (This service allows customers to instantly access, read, reply and open their corporate and public e-mail attachments while on the move. The service is supported by the Black Berry devices). Celtel also has an IN platform and community payphone services.

Celtel has installed 3 modern switches (MSC) which are located in Kampala, Wampewo Avenue. These are able to provide modern voice services. It has rolled out networks of GSM 900 and 1800 MHz bands. Celtel has invested significantly in improving their network coverage.

Over the years of Celtel existence, there has been a leadership problem which may reflect on the performance of the company. In the early years of Celtel's existence, there appeared contentment with the growth of the

subscribers which moved from 0 to 12500 in 5 years. However, due to the high tariffs, Celtel's revenues were high. During 1998-2003, there was a high turnover of the Chief Executives, three served the company. This was a period when there was a decline in the number of subscribers.

The Celtel organisational structure has been flat over the years thus setting ideal conditions for ease of communication and flow of ideas. Indeed, during the interviews, different managers said that the structure facilitated generation of ideas from below while management sets the targets, staff initiate changes from below through tier units and get them approved by top management. In the recent years, Celtel has had stability both in management and other staff. The telecom industry in the country has been in the rapid growth stage over the years and coupled with technological changes. Celtel, like other service providers, has also witnessed rapid growth. This growth has not been led by any industry though the stability of management has been of importance. This confirms Kanter's views (1983) that the industry life cycle support corporate entrepreneurship.

The telecommunications sector is a high technology sector that requires organisations to be alert on the technology that is changing and be able adapt. Celtel did not anticipate the rapid growth in the customer base and was at some stage slow in changing technologies. However, this is not the case anymore. Celtel has introduced new services including the blackberry as a response to changing technology.

Entrepreneurship theory tends to identify individuals who start up business and innovate to drive business growth. In Celtel, one cannot identify such an individual either as a founder or even an owner. This is clear from the turnover of the chief executives which came up as a result of the poor performance of the company during certain years. We can therefore conclude that the growth in Celtel is a clear case of corporate entrepreneurship where no individual can be identified as a chief orchestrator of innovations, change and growth.

Corporate Entrepreneurship in Uganda Telecom

UTL was a government company up to 2002 when it was privatised. 51% of the shares were taken by a consortium of companies from Europe and the Middle East and 49% remained in government hands. This brought new thinking into the company, though the change appears not have been embraced fully in the

landline business. From interviews with top management, it appears strategy is driven externally and there is not much synergy coming from within.

UTL appears to have been left in a followership position though admittedly it has taken initiative in several areas. There is a chief strategist who liaises with the different units of the organisation to drive the growth in the company. UTL appears to be drawn back by the old fixed line division where the employees are still not sufficiently flexible to improve UTL's performance. Nonetheless, UTL mobile phones have grown tremendously in a very short time. UTL was a government company in an industry where they could never satisfy the demand and despite the small number of subscribers, UTL's revenues were high making it one of the biggest companies in the country. It was therefore a corporation without an individual entrepreneur. The sale of the 51% of shares was to a consortium of companies rather than an individual and this continued the corporate nature of the institution. While the chief executive has been a high profile person, he has not been visible in the operations of the company as a key driver. This means that the growth in the business has largely been driven by unseen individuals.

The people interviewed revealed that it was clear that strategy was not from the chief executive who is a chief strategist in the organisation. The organisational structure is flat with only 5 different levels from the chief executive to operating staff. Such structure allows the flow of information and taps into ideas from different places. This type of structure supports corporate entrepreneurship. Like the other companies, UTL has been operating in a high growth industry and can only grow with the industry otherwise it would lose market share to the others.

Conclusion

In today's globally competitive environment, the challenge facing most organisations is not one of generating profits but more so how to sustain the organisation amidst the dynamic and volatile changes. Corporate Entrepreneurship has been recognised as a means for organisations to enhance the innovative abilities of their employees and increase corporate success through the creation of new corporate ventures (Ferreira, 2002). Hence, organisations have to think creatively and act innovatively to survive, if not compete, in the present global market. One of the ways of doing so

is by creating new ventures within the existing corporations, reinventing their processes and systems, introducing new products, and other internal innovations.

Past studies have looked at entrepreneurship among individuals. However, the practice of entrepreneurship in a large organisation remains unexplored. This study was conducted to fill that gap and show the contribution of corporate entrepreneurship in the performance of telecommunications companies in Uganda.

Results showed that telecommunications companies had introduced changes in the current business indicated by the positive perceptions among managers of the telecommunication companies (40% in MTN, 27% in UTL and 33% in Celtel). Seventy three percent (73%) of subscribers to the companies also confirmed that they had witnessed new products and services over the last three years. This means that the telecommunications companies exhibited entrepreneurial traits. The most significant entrepreneurship trait found in the companies was the introduction of new products, and services.

Results also indicated that top management in all the 3 companies provided a conducive environment for employees to generate and discover new ideas which lead to introduction of new processes, products and services.

Results indicated that 87% of the managers in the telecommunications companies scored high on risk taking. There was generally an agreement that managers would take decisions without necessarily knowing the outcome and their organisations tended not to penalise them if the risky projects failed as long as they did not fail all the time.

All these factors fostered high entrepreneurial activity especially in MTN Uganda and Celtel. The findings clearly indicated a significant relationship between intrapreneurs and corporate entrepreneurship within the telecommunications companies, with intrapreneurship having a significant effect that is intrapreneurs who created innovations within the organisation. Intrapreneurial activity had a positive effect on the past performance of the telecommunications companies especially MTN Uganda.

Overall, the data analysis shows that the 3 telecommunications companies practice corporate entrepreneurship. They exhibited entrepreneurship traits and created a conducive environment for the emergence of intrapreneurs.

Hence, it can be concluded that the telecommunications companies in Uganda practice corporate entrepreneurship.

Table 9.3: Percentage of subscribers per telco and intersection across income brackets

		Monthly Income				Total
		Below Shs.100,000	**Shs. 100,000-500,000**	**Shs. 500,000-1,000,000**	**Shs. 1,000,000-5,000,000**	
MTN	Count	80	120	26	10	237
	% within MTN	33.7%	51.0%	11.2%	4.1%	100.0%
	% of total	16.0%	24.3%	5.3%	1.9%	47.6%
UTL	Count	39	46	10		95
	% within UTLT	41.0%	48.7%	10.3%		100.0%
	% of total	7.8%	9.2%	1.9%		18.9%
Celtel	Count	10	53	2	5	70
	% within Celtel	13.8%	75.9%	3.4%	6.9%	100.0%
	% of total	1.9%	10.7%	.5%	1.0%	14.1%
MTN & UTL	Count		17	5		22
	% within intersection		77.8%	22.2%		100.0%
	% of total		3.4%	1.0%		4.4%
MTN & Celtel	Count	10	15	22	10	57
	% within intersection	17.4%	26.1%	39.1%	17.4%	100.0%
	% of total	1.9%	2.9%	4.4%	1.9%	11.2%
UTL & Celtel	Count		12	2		14
	% within intersection		83.3%	16.7%		100.0%
	% of total		2.4%	.5%		1.0%

		Monthly Income				Total
		Below Shs.100,000	Shs. 100,000-500,000	Shs. 500,000-1,000,000	Shs. 1,000,000-5,000,000	
MTN, UTL & Celtel	Count	2	2			4
	% within intersection	50.0%	50.0%			100.0%
	% of total	.5%	.5%			1.0%
Total	Count	141	266	67	25	499
	% within service provider	28.2%	53.4%	13.6%	4.9%	100.0%
	% of total	28.2%	53.4%	13.6%	4.9%	100.0%

Source: Primary data

The Strategies Used by the Companies to Grow

The telecom companies have had to keep up with new trends in technology and therefore have introduced new products and services as part of their strategy to grow. The telecom industry is technology driven mobile phone functions change from time to time. This implies that customers need a company whose network can handle all the new functions of the handset. The following cross tabulation of the strategies used by the service providers, including cost reduction, quality of services, how that satisfies the customers, and introduction of new services.

Results in Table 9.4 overleaf indicate that the subscribers to MTN, UTL and Celtel had a perception that the service providers had introduced new products and services over the years as part of the strategies used to stimulate growth as indicated by 73% of the subscribers. Unlike 27% who were of the view that service providers had not introduced new products and services.

Within the 73%, 36% subscribed to MTN, 11% subscribed to Uganda Telecom, 10% of the subscribers to both MTN and Celtel, 9% subscribed to Celtel only, 3% subscribed to MTN and Uganda Telecom , 3% subscribed to UTL, Mango, and Celtel and 1% subscribed to all the networks. The results

further indicate that MTN has provided more new products and services followed by UTL, and lastly Celtel. The results indicate that service providers used new products like cheap promotional mobile phones (*Ki Kati, Kabiriti*), roaming, internet services, the Black Berry, video conferencing, Me to You (sending airtime from one phone to another), and One Network in East Africa are among strategies to grow market share. There were no significant differences in the perceptions of the subscribers in regard to the introduction of new products and services as a strategy to stimulate growth (Chi = 12.191, df= 6, P-Value =0.058).

While the telecom companies have over the years come up with various innovations in an attempt to maintain and grow market share, subscribers are not given enough time to appreciate and adopt the new products and services. For instance 70% of the subscribers interviewed indicated that they were aware of the new products and services in the network they subscribed to but had not used them. Only 30% were aware of the new products and services introduced in the other networks. It was found these innovations also make some subscribers switch from one network to another and may therefore not stay permanently with a particular network. This makes it difficult for the telecom companies to track subscriber growth.

Table 9.4: Showing Cross Tabulation of Service Providers and Introduction of New Products and Services

		New Products and Services		
		Yes	**No**	**Total**
Service Provider MTN	Count	180	58	238
	% within service provider	75.5%	24.5%	100.0%
	% of total	36.0%	11.7%	47.7%
UTL	Count	56	39	95
	% within service provider	58.5%	41.5%	100.0%
	% of total	11.2%	7.9%	19.2%
Celtel	Count	46	26	72
	% within service provider	64.5%	35.5%	100.0%
	% of total	9.3%	5.1%	14.5%
MTN & UTL	Count	16	3	19
	% within service provider	87.5%	12.5%	100.0%
	% of total	3.3%	.5%	3.7%
MTN & Celtel	Count	51	7	58
	% within service provider	88.0%	12.0%	100.0%
	% of total	10.3%	1.4%	11.7%
UTL & Celtel	Count	14	0	14
	% within service provider	100.0%		100.0%
	% of total	2.8%		2.8%
MTN, UTL & Celtel	Count	3	0	3
	% within service provider	100.0%		100.0%
	% of total	.5%		.5%
Total	Count	366	133	499
	% within service provider	73.4%	26.6%	100.0%
	% of total	73.4%	26.6%	100.0%

Source: Primary data

In Table 9.5 overleaf, there were significant differences among the subscribers on the costs of calling and sending messages across networks (Chi= 119.720, df= 12, P-Value =.000). This implied that subscribers differed significantly or had different opinions on the cost of calling and sending messages across networks. Majority of the MTN (60%) subscribers indicated that the costs of calling on their network was high. However, UTL and Celtel subscribers indicated that the costs of calling and sending messages were affordable as indicated by 59% of UTL subscribers and 61% of Celtel subscribers, respectively. Subscribers who had a combination of service providers indicated that they had low costs of calling and sending messages across networks. Generally, the service providers indicated that the costs of billing were average.

Table 9.5: Cost of Calling and Sending Messages across Networks as a Strategy to Stimulate Growth.

		Costs of Calling Across Networks			**Total**
		Yes	**No**	**3.00**	
Service Provider MTN	Count	95	143		238
	% within service provider	39.8%	60.2%		100%
	% of total	19.0%	28.7%		47.7%
UTL	Count	54	39		93
	% within service provider	58.5%	41.5%		100.0%
	% of total	11.1%	7.9%		19.0%
Celtel	Count	44	28		72
	% within service provider	61.3%	38.7%		100.0%
	% of total	8.8%	5.6%		14.4%
MTN & UTL	Count	16	4		20
	% within service provider	77.8%	22.2%		100.0%
	% of total	3.2%	.9%		4.2%

		Costs of Calling Across Networks			Total
		Yes	No	3.00	
MTN & Celtel	Count	30	28		58
	% within service provider	52.0%	48.0%		100.0%
	% of total	6.0%	5.6%		11.6%
UTL & Celtel	Count	9	2		12
	% within service provider	80.0%	20.0%		100.0%
	% of total	1.9%	.5%		2.3%
MTN, UTL & Celtel	Count		2	2	5
	% within service provider		50.0%	50.0%	100.0%
	% of total		.5%	.5%	.9%
Total	Count	248	248	2	499
	% within service provider	50.0%	49.5%	.5%	100.0%
	% of total	50.0%	49.5%	.5%	100.0%

Source: Primary data

In Table 9.6 below, 69% of the subscribers were satisfied with the services as compared to 31% who were dissatisfied with their service providers. 28% of the MTN subscribers were more satisfied with the services compared to 15% of UTL and 12% Celtel. 15% of the subscribers who were using a combination of all the three networks. Subscribers who were satisfied indicated that their network said it was cheaper, had wide coverage in most parts of the country, they didn't have to pay monthly service fee so there were no access days, reliability of networks, good customer care, bonuses, roaming, One Network in East Africa, and others said their networks were cheaper compared to others. All subscribers to the three networks indicated that the companies identified with the common person which made them reluctant to switch to another network. Subscribers also indicated that they were comfortable with the costs of calling and sending messages across networks. They said that for

instance call costs are lower at night, public holidays and weekends besides getting bonuses of airtime.

Table 9.6: Satisfaction of Subscribers as a Strategy of Growth

		Satisfied with services			Total
		Yes	**No**	**3.00**	
Service Provider MTN	Count	138	99		237
	% within service provider	58.3%	41.7%		100.0%
	% of total	27.6%	19.8%		47.5%
UTL	Count	73	20		93
	% within service provider	78.0%	22.0%		100.0%
	% of total	14.7%	4.1%		18.9%
Celtel	Count	59	11		70
	% within service provider	83.9%	16.1%		100.0%
	% of total	12.0%	2.3%		14.3%
MTN & UTL	Count	16	3	3	22
	% within service provider	77.8%	11.1%	11.1%	100.0%
	% of total	3.2%	.5%	.5%	4.1%
MTN & Celtel	Count	44	11	3	58
	% within service provider	76.0%	20.0%	4.0%	100.0%
	% of total	8.8%	2.3%	.5%	11.5%
UTL & Celtel	Count	9	4		13
	% within service provider	66.7%	33.3%		100.0%
	% of total	1.8%	.9%		2.8%
MTN, UTL & Celtel	Count	3		3	6
	% within service provider	50.0%		50.0%	100.0%
	% of total	.5%		.5%	.9%
Total	Count	342	148	9	499
	% within service provider	68.7%	30.0%	1.4%	100.0%
	% of total	68.7%	30.0%	1.4%	10.0%

Source: Primary data

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Table 9.7: Showing Changes Introduced in the Telecom companies

Crosstab				
			Change introduced in current business	**Total**
			Yes	
Organisation	UTL	Count	4	4
		% within Organisation	100.0%	100.0%
		% of total	26.7%	26.7%
	MTN	Count	6	6
		% within Organisation	100.0%	100.0%
		% of total	40.0%	40.0%
	Celtel	Count	5	5
		% within Organisation	100.0%	100.0%
		% of total	33.3%	33.3%
Total		Count	15	15
		% within Organisation	100.0%	100.0%
		% of total	100.0%	100.0%

Source: Primary data

Results in the table above indicate that there were positive perceptions among all senior and middle level managers interviewed (i.e. 40% in MTN, 27% in UTL and 33% in Celtel). They therefore seemed to suggest that their companies had changed the business objective, introduced new technology, new processes, had changed equipment like the switches, and the masts. This explains the

various changes that have been introduced by the telecom companies in the market in attempt to grow and maintain market share.

In the table below, 53% of the managers interviewed indicated they were independent in their way of work and decision making, compared to 47% who indicated they were not independent. Of these, 20% were from MTN, 20% from Celtel and 13% from UTL.

Table 9.8: Showing Feelings of Independence Among Managers in the Telecom Companies

Crosstab					
			Felling of independance		**Total**
			Yes	**No**	
Organisation	UTL	Count	2	2	4
		% within Organisation and	50.0%	500.0%	100.0%
		% of total	13.3%	13.3%	26.7%
	MTN	Count	3	3	6
		% within Organisation and	50.0%	500.0%	100.0%
		% of total	20.0%	20.0%	40.0%
	Celtel	Count	3	2	5
		% within Organisation and	60.0%	40.0%	100.0%
		% of total	20.0%	13.3%	33.3%
Total		Count	8	7	15
		% within Organisation and	53.3%	46.7%	100.0%
		% of total	53.3%	46.7%	100.0%

In the table below, 87% of all the managers in UTL, MTN and Celtel indicated that they were risk takers, an important ingredient of entrepreneurship. Within these, 33% were from MTN, 27% from UTL, and 27% from Celtel. They agreed that they would make a decision without necessarily knowing the outcome. Still from the results, it shows that MTN has a bigger number of managers who are risk takers compared to Celtel and UTL. Jennings and Lumpkin (1989) found that entrepreneurial organisations will tend not to penalise managers if

risky projects fail. They based this hypothesis upon Pascale and Athos (1981) work which revealed that innovative firms have management that encourages risk-taking and develops processes that translate ideas into action.

Table 9.9: Showing Risk Taking Among Managers in the Telecom Companies

Crosstab					
			Felling of risk taking		**Total**
			Yes	**No**	
Organisation	UTL	Count	4		4
		% within Organisation	100.0%		100.0%
		% of total	26.7%		26.7%
	MTN	Count	5	1	6
		% witin Organisation	83.3%	16.7%	100.0%
		% of total	33.3%	6.7%	40.0%
	Celtel	Count	4	2	5
		% within Organisation	80.0%	40.0%	100.0%
		% of total	26.7%	13.3%	33.3%
Total		Count	13	2	15
		% within Organisation	86.7%	13.3%	100.0%
		% of total	86.7%	13.3%	100.0%

Results in Table 9.10 below show that 73% of the managers in Celtel and MTN agreed that top management provides support and a conducive environment for employees to generate new ideas which translate into new and better processes, new products, and services. Of these, 40% were from MTN while 33% were from Celtel. In UTL, 7% indicated that their management had not

put in place sufficient conditions that would enable corporate entrepreneurship to take place. 20% were not sure that such conditions existed in UTL.

Table 9.10: Showing Management Support for Corporate Entrepreneurship in the Telecom Companies

Crosstab							
			Management support				**Total**
			disagree	**not sure**	**agree**	**strongly agree**	
Organisation	UTL	Count	1	3			4
		% within Organisation	25.0%	75.0%			100.0%
		% of total	6.7%	20.0%			26.7%
	MTN	Count			6		6
		% within Organisation			100.0%		100.0%
		% of total			40.0%		40.0%
	Celtel	Count			4	1	5
		% within Organisation			80.0%	20.0%	100.0%
		% of total			26.7%	6.7%	33.3%
Total		Count	1	3	10	1	15
		% within Organisation	6.7%	20.0%	66.7%	6.7%	100.0%
		% of total	6.7%	20.0%	66.7%	6.7%	100.0%

According to the table below, 60% of the managers in UTL, MTN, and Celtel agreed that their companies had not criticized them and other employees if they made any mistakes on the job, something which allows people to discover and generate new ideas. They also indicated that they had a chance to try their own methods of work and also varied their methods of work. 14% of the managers in UTL, MTN, and Celtel did not perceive their organisations as those that allowed them the freedom to use their judgment. They also did not feel that they had a degree of autonomy that allows them to do things their

own way. 27% of the managers in all the three companies were not sure that such an environment existed in their companies.

Table 9.11: Showing Work Discretion in UTL, MTN and Celtel

Crosstab							
			Work Discretion				Total
			disagree	not sure	agree	strongly agree	
Organisation	UTL	Count	1	2	1		4
		% within Organisation	25.0%	50.0%	25.0%		100.0%
		% of total	6.7%	13.3%	6.7%		26.7%
	MTN	Count		1	5		6
		% within Organisation		16.7%	83.3%		100.0%
		% of total		6.7%	33.3%		40.0%
	Celtel	Count		1	3	1	5
		% within Organisation		20.0%	60.0%	20.0%	100.0%
		% of total		6.7%	20.0%	6.7%	33.3%
Total		Count	1	4	9	1	15
		% within Organisation	6.7%	26.7%	60.0%	6.7%	100.0%
		% of total	6.7%	26.7%	60.0%	6.7%	100.0%

Findings in the table below show that 80% of the managers in all the 3 companies agreed that their organisations had mechanisms of reward which motivated employees to perform better on their jobs. Of these, 40% were from MTN, 27% from Celtel, and 13% from UTL. This implies that they had recognised when they had outstanding performance. Those who were not sure of whether they would be recognised if they performed well were from Celtel and UTL and were 20%.

Table 9.12: Showing Rewards / Reinforcement in the Telecom Companies

Crosstab						
			Reward reinforcement			**Total**
			not sure	**agree**	**strongly agree**	
Organisation	UTL	Count	2	2		4
		% with in Organisation	50.0%	50.0%		100.0%
		% of total	13.3%	13.3%		26.7%
	MTN	Count		3	3	6
		% within Organisation		50.0%	50.0%	100.0%
		% of total		20.0%	20.0%	40.0%
	Celtel	Count	1	1	3	5
		% within Organisation and	20.0%	20.0%	60.0%	100.0%
		% of total	6.7%	6.7%	20.0%	33.3%
Total		Count	3	6	6	15
		% within Organisation	20.0%	40.0%	40.0%	100.0%
		% of total	20.0%	40.0%	40.0%	100.0%

40% of all the managers in the 3 companies agreed that their organisation availed them with time which would allow them to develop new ideas. Of these, 20% were from MTN and 20% from Celtel. 7% from Uganda Telecom indicated that they had time constraints on the job, something which could not allow them to spend time to think about wider organisational problems. 53% of the managers in the 3 companies where not sure whether they had time to think about new ideas. This has implications in terms of creativity in organisations. It is important that employees find time to think about how to get things done in an efficient way as well as how the organisation can improve its performance.

Table 9.13: Showing Time Availability for Managers in the Companies

Crosstab						
			Time available			**Total**
			disagree	**not sure**	**agree**	
Organisation	UTL	Count	1	3		4
		% within Organisation	25.0%	75.0%		100.0%
		% of total	6.7%	20.0%		26.7%
	MTN	Count		5	5	6
		% within Organisation		50.0%	50.0%	100.0%
		% of total		20.0%	20.0%	40.0%
	Ceitel	Count		2	3	5
		% within Organisation		40.0%	60.0%	100.0%
		% of total		13.3%	20.0%	33.3%
Total		Count	1	8	6	15
		% within Organisation	6.7%	53.3%	40.0%	100.0%
		% of total	6.7%	53.3%	40.0%	100.0%

Majority (93%) of all managers in the three telecom companies agreed that they knew what is expected of them by the organisation, they were clear of what to do, and their work performance was regularly evaluated. Of these, 33% were from MTN, 33% from UTL, and 27% from Celtel. Only 7% from MTN indicated they were not sure of what was expected of them.

Conclusion and Recommendations

Recommendations

Telecom companies in Uganda need to continue providing new products and services to the subscribers. However, it is essential that subscribers be given adequate time to appreciate, use and benefit from the new products and services introduced.

In their innovations, it is also important that the companies desist from duplicating products and services. They need to differentiate their products and services so as to increase market share. On several occasions, when one company introduces a product, competing companies come in to provide the same product or service. If attempt is made to introduce a similar product or service value should be added.

The telecommunications companies in Uganda operate in a highly dynamic environment characterised by changing customer tastes and the ever changing technology. These changes affect an organisation and determine its preparedness to act entrepreneurially. This research revealed that catalysts to corporate entrepreneurship include cohesive work groups, decision making which relies upon few integrating devices, effective reward/punishment systems, availability of resources to implement new ideas, little consultation so as not to impede flexibility, autonomy, participative decision-making, and performance objectives developed from a shared participation. The companies need to provide an environment that allows the employees to generate new ideas which should be translated into new products and services to the subscribers.

Although internet prices have dropped, prices are still relatively high compared to regional and international rates. In its regulatory role, the Uganda Communications Commission needs to ensure that internet prices come down further. This would help ensure affordable services that would increase productivity leading to economic growth in various parts of the country.

While tele-density has increased from 8% in June 2006 to 13.3% in June 2007, the average rural person still has no access to telephone services. Rural telephones help the poor find out about food availability, market prices, and employment opportunities, therefore essential in improving peoples' lives. Telecom companies like MTN have introduced the Village Phone but more investment is needed in the rural areas. The Uganda Communications Commission needs to lure telecom companies through policy to increase investment in rural areas. The companies should be able to provide telephone services at lower charges. UCC could also license operators whose technology may not require use of electrical batteries, given that many rural areas lack access to electricity.

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www.ucc.co.ug
www.mtn.co.ug
www.utl.co.ug
www.celtel.co.ug

Appendices

Appendix I: Showing growth in the number of mobile subscribers

Year	Number of Service Providers	Fixed lines	Mobile			Pay Phones	Internet Service Providers	E-mail Subscribers	Total No. of Mobile Subscribers
			MTN	Celtel	UTL				
1996	2	45,145				1,258	2	504	3000
1997									
1998	2	56,196				1,433	7	1,308	12,000
1999	3	58,261				1,680	9	4,248	72,602
2000	4	61,462					11	5,688	188,562
2001	4	56,149				3,075	11	5,999	276,034
2002	4	59,472				3,278	17	6,500	505,627
2003	4	65,793				3,086	17	7,024	777,563
2004		71,056							1,040,112
2005									
2006									
2007			2,000,000	1,400,000	882,000				

Appendix II: Showing a summary of the age of subscribers interviewed

Age bracket	MTN	%	UTL	%	Celtel	%
18-28	233	80	84	62	21	30
29-39	44	15	35	26	17	24
40-50	9	3	13	10	35	50
Above 50	6	2	3	2	1	1
Total	292	100	135	100	74	100

Appendix III: Showing a summary of the sex of the subscribers

Sex	MTN	%	UTL	%	Celtel	%
Female	219	75	88	65	44	60
Male	73	25	47	35	30	40
Total	292	100	135	100	74	100

Appendix IV: Showing a summary of the education level of the subscribers

Education Level	MTN	%	UTL	%	Celtel	%
Primary	29	10	12	9	11	15
Secondary	29	10	20	15	7	10
Diploma	146	50	54	40	37	50
1st Degree	88	30	35	26	19	25
Postgraduate		-		-	-	-
Non Response			14			
Total	292	100	135	100	74	100

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Opportunities and Challenges of the Ugandan Business Environment: ***A Situational Analysis*** discusses the prospects and challenges of doing business in Uganda. The book is a collection of expert research work by individuals well-versed in the subject matter of business and investment in Uganda and the region in general.

Opportunities and Challenges of the Ugandan Business Environment: ***A Situational Analysis*** addresses the issue of unemployment, discusses the effects of investment climate factors on manufacturing firms' growth in Uganda, articulates the need to examine institutional aspects related to contract enforcement in Ugandan business transactions and draws lessons for policy formulation, corporate governance and other related issues.

The findings in the book provide evidence to inform the effort of improving the business environment in Uganda.

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