CONSTRAINTS TO UGANDAN SME's PARTICIPATION IN AGOA

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ABSTRACT

Many Small and Medium Enterprises (SMEs) in Uganda have not utilized the opportunities presented by AGOA. The objective of this study was to examine the constraints that hinder these firms from utilizing these opportunities. Specifically the study examined the macro constraints facing these firms, with a view to finding solutions to them. A literature review was carried out to identify challenges to SME's participation in AGOA. , followed by a triangulation technique in which a qualitative study (Focus Discussion Group) involving key stakeholders in this business was done to further identity these constraints and their underlying dimensions. Instrument development was next, followed by a reliability analysis in which the psychometric properties of the instrument were assessed on the basis of Cronbach's alpha. A quantitative study was then done by administering the refined questionnaire to a group of exporters. Factor Analysis by promax (oblimin) rotation revealed six oblique factors identifying that the most important constraints facing Ugandan SMEs are Lack of middle managers, infrastructure, technology, marketing , inadequate export credit and governance issues. The study calls for technological transfer from the developed countries to the Less Developed Countries (LDCs) in addition to addressing the other barriers. There is also a need for exporters to develop better marketing skills through training .The study implores the government to put policies in place that will enhance the development of SMEs.

Comment

Key Words: Exports, Constraints, AGOA, Preferences, Small and Medium Enterprises.

INTRODUCTION

Many countries in Africa realize that an outward-oriented development strategy (as opposed to protectionism) is the best way to attain economic growth and fight poverty. Exported growth is anchored on the premise that trade is important for Africa's development, and recognizes the importance of streamlining trade into overall National

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Development plans. Trade increases income through resource reallocation, and since many African countries have relatively large informal sectors, their economies should grow faster to the extent that their exports expand rapidly and become diversified (World Bank *et al.,*2000). To assist developing countries boost their export trade, non-reciprocal trade preferences have long been granted to them by the developed world, the pattern of which reflected past colonial ties in some cases. In 1968, the creation of a Generalized System of Preferences (GSP) was recommended by UNCTAD on the basis of non-reciprocity since it was realized that treating unequal countries equally simply entrenched inequalities (UNCTAD, 2004).

Consequently, the European Union through the Lome convention and the Cotonou agreement has extended preferences to African Caribbean and Pacific states (ACP). Likewise, the USA has extended most-favoured nation status (MFN) to many countries in Africa through the African Growth Opportunity Act (AGOA) which came into force on 18th May 2000.   AGOA was intended to benefit small and medium sized enterprises (SMEs) as well as large businesses and state-owned firms (Corey, 2006). Eligible African countries gained liberal access to the US market and   the list of products which they may export to USA, subject to zero import duty under the GSP, was expanded. AGOA applies to more then 6400 items, and as a consequence 98% of all US imports from eligible countries were duty free in 2005 (Corey, 2006). Thus AGOA has the potential to change the course of relations between Africa and the USA, while helping millions of people in Africa to prosper.

 However, it is debatable whether trade preferences have made a substantive impact in terms of enhancing the welfare of recipient countries (Francois   *et al.,* 2005). Developing countries in Asia that were granted the fewest preferences at their inception in the 1960's have grown faster, yet those that were granted the most preferences (including Sub Saharan Africa) have failed to increase their per capita incomes or to diversity their exports significantly.   In the last 20 years, SSA has recorded the poorest economic performance, has not fully exploited the benefits of globalization and seems to have gained little from trade preferences (Kasekende *et al.,* 2002). Therefore such arrangements are not a guaranteed means of achieving the objectives of African export expansion and diversification (Oyejide, 2005). While stimulating export diversification in a few countries, AGOA has fallen short of the potential impetus that preferences could otherwise offer African countries (Brenton and Hoppe, 2004). The expansion of USA-Africa trade is largely due to oil imports from West Africa. Total non-oil trade under AGOA actually declined by 16 % (Corey, 2006). In 2004, the majority of AGOA eligible countries utilized only up to 2% of the value of trade preferences (Brenton and Hope, 2004   ). It is now a fact that AGOA's goal of promoting multi-sector economic

growth in Africa has just been partially met, and much remains to be done to promote Africa's entrepreneurs and enhance the capacity of their SMEs (Corey, 2006).

The world over, SMEs face immense challenges that limit their capacity to grow and exploit opportunities, with particularly smaller and younger firms being more vulnerable to export constraints (Katsikeas and Morgan,1994).Compared with entrepreneurship, internationalization and small business management, there has been less work done on the experiences of SMEs as they grow internationally. Further, the overwhelming majority of studies examining export barriers facing SMEs have been done in the USA and Europe, which ports limits the generalizabilty of their findings. Research dealing with export barriers faced by firms in developing countries has been limited (Leonidou, 2004). Studies that have been done on SME exports of developing countries have established that their inability to break through to the export market in spite of the preferences is attributed to numerous obstacles that adversely affect their performance and there have been many attempts to cluster these constraints. For example, Beyene (2002) based on empirical data, Tesform and Lutz (2006) through a literature search, Shacfer (2001) as well as Neupert et al (2006) through qualitative methodology attempt to classify the constraints. However, many others studies e.g. Todd and Javalgi (2007), Gumede and Rasmussen (2002), make no attempt to classify the export barriers, let alone rank them in order of importance. An important missing link in the literature is that most studies do not rank the constraints (and by implication the interventions) in order of importance yet empirical evidence from the Economic Commission For Africa (ECA) shows that policy intervention is required at all levels to help African SMEs overcome these barriers and prioritizing such interventions is the first step in this direction (Beyene, 2002). This paper intends to address this gap through a survey in response to a call from Tesfom and Lutz (2006), who observe that the number of articles addressing export problems of manufacturing firms from developing countries has been declining since 1985-1989 and that the trend in the articles has changed from problem identification (theory building) to testing the effects of export problems. To cover this gap, they call upon researchers to redirect their future research to barriers encountered by exporters from developing countries and recommend further analysis of export obstacles identified in their study through the development of a questionnaire for a regional survey of SMEs from developing countries. They specifically suggest: "Each obstacle could be posed to respondents as a potential barrier to exporting… their responses could be along a likert scale (5 or 7 points) from "not an obstacle" to "major obstacle". Responses could be factor analyzed to see if the statistical results match the hypothesized clusters, or whether some new underlying factors emerge from the survey."

Uganda   utilized less than 5% of the AGOA preferences in 2004 (Brenton and Hoppe, 2004) and hence the benefits from AGOA are limited (Uganda Export Promotion Board, 2005). Given that trade matters have only recently been streamlined in the National Development Plan (Mutahunga, 2006), the purpose of this study is to identify, cluster and rank the constraints facing Ugandan SMEs in regard to AGOA. Specifically, the study will have the following objectives:

- What factors mostly constrain Ugandan SMEs participation in AGOA?
- What are the underlying dimensions of these factors?
- To what extent are Ugandan SMEs satisfied with the way the government has handled these constraints?

It is hoped that the findings from this study will help in further streamlining government trade policy and export strategy, so as to further position the country competitively. The rest of the article is structured as follows. The next section is a synthesis of the extant literature, followed by the methodology that was used to carry out the study. The findings of the study are given thereafter, together with a discussion of their implications. A conclusion sums up the paper.

LITERATURE REVIEW

Definition   and Importance of SMEs

There is no universally accepted definition of SMEs in Africa (Beyene, 2000).Even definitions of other countries lack uniformity, and reflect the relative development of the respective economies. For example, in the USA, small businesses are those with less than 500 employees, which figure may represent medium to large enterprises in the African context. In India, a small or medium enterprise is an undertaking in which investment in fixed assets in plant and machinery (owned or leased) does not exceed $23 million (Todd and Javalgi, 2007). On the other hand, SMEs are defined as those business organizations with less than 100 employees (Macqueen, 2004). Specifically, small businesses are defined as those that employ 20 people, and medium businesses are those that employ 20 or more, but not more than 200 (Freeman and Lawley, 2005). This paper adopts the latter definition.

SMEs often account for the majority of firms and a substantial proportion of employment in both developed and developing states (Liedholm and Mead, 1987; OECD, 2000; Hallberg, 2001).Were it not for the ability of SMEs to create jobs, the majority of Africans would be unemployed (Corey, 2006). SME are important in that they operate even in the poorest communities which warrants them appropriate support irrespective of any other advantages or disadvantages (Haggblade *et al.,* 2002). SMEs

do not operate in a vacuum hence their activities and impact are influenced by the context in which they operate. There is a broad range of policy environments and business strategies that have a wide spectrum of impacts on them. For instance, market failures disproportionately affect them. Such inequity warrants support (Biggs, 2002; Beck *et al*., 2003). There are strong links between the debates on SMEs versus large-scale firms, and the debates on localization versus globalization of trade. SMEs might be in favour of localization and large firms might favour international trade (Macqueen, 2004).In spite of such skeptical debates, there have been many attempts to enhance the export capacity of African SMEs, because the challenges faced by firms in developing economies compared with developed economies most likely lead to different implications for managers and policy makers in these contexts (Neupert *et al.,* 2006).

International Trade Theory and SMEs in International Trade

International trade theory offers an explanation for the pattern of international trade, and the distribution of the gains from trade. While many economists agree about the benefits of liberal trade, many other people are not persuaded by it arguments. The traditional theory of international trade is based on the classical labour cost theory and the neo- classical factor endowment theory (Todaro, 1995). The former emphasizes differences among nations (Risse 2005, in Hoskyns 2006) through the principle of comparative advantage, arguing that nations should specialize in the export of those products which they can produce at the lowest relative cost. The latter proposes that different products require productive factors in different relative proportions, and that countries have different endowments of factors of production. These theories imply that free international trade would benefit all the nations of the world as well as maximize global output. Todaro however points out that the restrictive and unreal assumptions on which these theories are based lead to faulty conclusions about the structure of world trade and the distribution of its benefits, since these assumptions are in many ways contrary to the reality in international economic relations between nations. Stiglitz and Charlton (2005) concur and further explain that conventional trade theory is flawed because it assumes full employment and no restrictions on resources. This is not the case for many developing countries that suffer from high levels of unemployment and limited resources which constrain the gains that can be expected from trade. In summary, factor endowments and comparative costs are dynamic, and often determine the nature and character of international specialization (Todaro 1995:338). This means that any initial state of unequal resource endowments (e.g. technology and capital) will tend to be reinforced and exacerbated by trade, reinforcing already unequal trading relationships and distributing the benefits in favour of those who already have, thus perpetuating the physical and human underdevelopment that characterizes many developing countries. In spite of all this, developing countries are aware that self-reliance and isolation is not the solution. Todaro suggests a two-

pronged approach: negotiate with the first world for removal of tariff and non-tariff barriers, as well as utilize their scarce resources efficiently. The first suggestion has resulted in trade preferences which the developing countries have failed to utilize. The latter recommendation has proved difficult to implement because of many policy-related and other constraints within the micro and macro environment of firms in SSA. The next section scrutinizes the debate on policy-related constraints.

Institutional Weaknesses and Protectionism

In a very competitive environment, as is the case under globalization, there is increased competition which results in a reduction in the ability of SMEs to control their development paths (Etmad *et al.,* (2001) in Todd and Javalgi, 2007). In such a situation, there is a need to identify and understand factors that have an impact on international performance (Kuivalainen *et al.,* (2004) in Todd and Javalgi 2007). This section examines why export performance by many developing countries has been bleak.

First, some researchers argue that foreign protectionism is not responsible for the poor trade and economic performance in SSA (Ng and Yeats in Tupy, 2005). Proponents of this view urge that, while it is true that preferential trade agreements at times include restrictions against LDC exports, e.g. phytosanitary regulations and administrative costs which combine to raise the cost of production in these countries (the ban on fish exports from East Africa to Europe in 2005 is an example), domestic conditions in SSA are more responsible for the problem. Of particular importance in this regard are factors like political instability, e.g. the war in Northern Uganda that has taken close to 20 years (Ohtswamah, 2008), plus other governance issues like lack of the rule of law and corruption (Zachary ,2008). Second, the dismal performance of SSA in international trade is explained in terms of trade openness. The argument is that trade liberalization enables more efficient allocation of resources to productive uses, and countries with an abundant supply of unskilled labour and low labour costs can expand production and employment in labour intensive industries (Bigman, 2002). In spite of this, and despite substantial declines in applied and bound tariffs, protectionism is very much alive and SSA is more guilty of the offence since its average tariffs are more than three times higher than developed country tariffs, making it one of the world's most protectionist regions (Tupy ,2005). He espouses that SSA leaders view imports as a threat, pay lip service to liberalization and call for greater access to global markets, while rejecting trade openness in their countries. They do not appreciate the positive impact of foreign competition on stimulating domestic production (e.g. the rise in economic growth of India and South East Asia is partly attributed to an increase in productivity as a result of trade liberalization) and do not realize that the import substitution model was dismantled because it rewarded inefficiency, undermined

competitiveness, bred corruption, penalized consumers, discouraged technological transfer, etc. In short, lack of trade openness has bred incompetence and lack of competitiveness, thus pushing developing world products out of developed world markets.

The above arguments are of course challenged by many workers and international bodies who underscore the failed experience of many countries in SSA (Bigman, 2002). For example, Oxfam (a Non-Government Organization) argues for more trade reforms in developed markets, while rejecting similar policies in the developing world (Tupy, 2005). Particular emphasis is put on trade distortions brought about by subsidies to farmers in first-world countries which continue to account for the drop in prices of many such subsidized products, making SSA unable to compete. Stiglitz and Charlton (2005) call for caution, pointing out that more successful developing economies like the Asian countries have pursued trade liberalization selectively, slowing it down where necessary and introducing complementary policies. Further, since the assumption of full employment in trade theories violates the reality of unemployment and underemployment in many developing countries, they may be justified in pursuing protectionist strategies in order to ensure sufficient job opportunities and also absorb surplus labour in their economies (Todaro, 1995).

SMEs Constraints to Export trade

Apart from the issues of protectionism and liberalization discussed above, many researchers agree that the rapid and sustained growth in Asia and the deficiency of this in a large part of Africa reflects weaknesses in domestic policy and institutions, and that the major constraints facing African export diversification and expansion are supply-side constraints (Francois *et al.,* 2005).They argue that domestic reforms are urgently required if economic growth in SSA is to become a reality. Since entrepreneurship and economic growth are related (Beyene, 2002; Gupta *et al.,* 2004 in Todd and Javalgi, 2007), African countries must realize that, to promote growth, they should provide a conducive macro- economic environment in which the private sector can flourish. Such an environment continues to elude many of them because of the numerous constraints within their economies. There have been many attempts by various scholars to classify the export barriers faced by SMEs in their path to internationalization. Tesar and Trelton (1982) in Neupert *et al.,* (2006) divide them into start–up constraints (e.g. start-up costs, identifying opportunities) and ongoing export problems (e.g. standards and different consumer tastes). Beyene (2002), drawing on empirical studies by the ECA, categorized them into policy and regulatory factors, infrastructure, access to finance, lack of non financial support services, and lack of support services for marketing, while Leonidou (2004) , as well as Tesform and Lutz (2006), through a literature search, classify them into internal and external barriers. The

internal factors (micro environment) are those that apply to individual firms and are usually associated with inadequate resources for exporting. They are subdivided into company capabilities (Katsikeas and Morgan, 1994) and product characteristics (Keng and Jiun (1989) in Tesfom and Lutz, 2006). The external forces are those that are not under the control of the individual firms or industry e.g. industry factors, export market issues and macro-economic factors. Scharf *et al.,* (2001) in Neupert *et al.,* (2006), using qualitative methodology through the critical incident technique, classify these barriers into those relating to initiating export business or ongoing export operations. The table below is an attempt to summarize these constraints.

Table 1:   **Export   Constraints Facing African   SMEs**

	Constraint	Description of constraint	Major source
1	Competition	Main competitive strength being in economic sectors where international competition is intense.	World Bank, 2000 ; Oyejide, 2005.
2	Industrial sophistication and technology	Shifting technology plus obsolete technology.	World Bank, 2000.
3	Infrastructure development	Poor infrastructure (telecommunication, power, transport, water, sanitation and finance)	World Bank, 2000. Beyene 2002
4	Policy matters	- Inadequate compensation for exporters - Inadequate integration of trade policy in national development plans. - hostile domestic policy, regulatory framework.	World Bank, 2000; Tupy 2005, Francois *et al.,* 2004., ECA 2001. Brenton and Hoppe, 2006.
5	Phytosanitary measures	Complex health, safety and environmental standards	ITC, 2001; Jaffet and Henson 2004, Tupy 2005
6	Firm level	Production and marketing know-how, access to finance	ITC, 2001.,Beyene2002, Leonidou 2004.Keng and Jiun 1989, Katsikeas and Morgan 1994.
7	Exports structure	Major exports and their distribution	Oyejide 2005; Ng and Yeats 2004. Brenton and Hoppe 2006
8	Erosion of trade preferences.		Francois *et al.,* 2005 Low et al 2005
9	Rules of origin	Differences in applicability	Brenton and Kenzuki 2004 Brenton and Hoppe 2006

Besides constraint number 6 (firm level), the table shows the key external forces that hinder SSA SMEs in their quest to enter international markets. Empirical studies by

the ECA (2001) indicate that policy matters and regulatory restrictions, which include issues such as fiscal and monetary policy, regulations that impact the cost of business, plus infrastructure, all affect SMEs to a great extent. Other key barriers include conditionality phrases in the trade arrangements (tariff and non-tariff barriers) that make it hard for SSA to utilize the preferences offered to them by the first world. In fact research by IMF shows that AGOA stands to yield only 19-26% of the benefits that it could have yielded, if it were free and unconditional (Mattoo *et al.,* 2002 in Tupy, 2006).

All these constraints (both internal and external) combine to prevent the SMEs from realizing their full potential as instruments of development. They not only constrain their growth, but they also push up their transaction costs thus making their products less competitive locally and internationally (Beyene, 2000). The next section discusses the impact of some of these constraints on AGOA trade.

SSA and AGOA

There have been many attempts to enhance the export capacity of African SMEs since the launch of the original AGOA in 2000. Consequently four hubs for global competitiveness have been established in Botswana, Ghana, Kenya and Senegal. Even then, African SMEs continue to lag behind in their ability to enjoy AGOA benefits (Corey, 2006) due to a number of factors.

Firstly, it remains a fact that, for certain African countries, US preferences are of little or no relevance under the current structure of their exports since there are no or just a few export products that are eligible for the available preferences (Oyejide, 2005). For exampla many entrepreneurs are part of agriculture and yet many agricultural products are not part of AGOA (Corey, 2006). Even then, most of these agricultural exports are in the form of primary commodities and yet this structure is unlikely to change in the medium to short term (Ng and Yeats, 2000). Generally, there are many countries in Africa for whom the amount of exports eligible for preferential access to the US market comprises less then 50% of total exports to the market (see table 2). Only 5 countries have over 90% of their trade to the US covered by trade preferences, namely; Lesotho 100%, Nigeria 98.4%, Cape Verde 97.7%, Gabon 99.4% and Mauritius 94.5% (Oyejide, 2005). Secondly, increased competition in the market for products which benefit from the preferences may inflict losses on African countries that depend heavily on such products (Oyejide, 2005)

The predicament facing African countries is further worsened by the fact that more than 900 tariff lines for manufactured products, e.g. textiles and leather, are not covered by AGOA. Also excluded are diary products, soft drinks, cocoa, coffee, tea, tobacco,

and nuts. The average tariff on products excluded from AGOA is 30%. As a result, African exporters still face substantial tariff escalation (Brenton and Hoppe, 2004). The US subsidy scheme for cotton is also undermining export returns from African producers. It is often asserted that stimulating the textile sector in African countries is a key objective of AGOA, yet textile products from African countries are subjected to duties in the US.

Table 2: Value of AGOA Preferences in 2004

0-2%	2-5%	5-10 %	>10 %
Angola, Burkina Faso, Benin, Cameroon, Djibouti, Chad, Congo, DR Congo, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Nigeria, Rwanda, Sao Tome, Senegal, Seychelles, Sierra Leone, South Africa, Zambia	Ethiopia, Tanzania, Uganda	Botswana, Mozambique, Namibia	Cape Verde, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Swaziland

Source: Brenton and Hoppe 2004.

In Table 2 above, Brenton and Hoppe (2004) show that for the majority of African beneficiaries, the value of preferences is very small or negligible. For 24 of the then 37 beneficiaries the value of preferences was less than 2 per cent of the value of exports to the US in 2004. For only 7 countries did the value of preferences exceed 10 percent of the value of exports to the USA.

Uganda in the AGOA Market

Specifically for Uganda, besides most of the above constraints that apply to most of sub-Saharan Africa, the ECA survey (2000) established that the regulatory and policy environment, poor infrastructure in terms of power (availability and cost) as well as access to finance were key constraints hindering the growth of SMEs. Besides these, the African Competitiveness Report (2005) points out weakness and lack of transparency in tax administration, commercial injustice, cumbersome customs procedures, labour constraints (lack of middle managers), lack of access to market information and a poor entrepreneurial culture as key constraints affecting Ugandan SMEs. Further, UEPB (2005) also adds that little is known about the American market

in terms of consumer behaviour and trade practices and continues to point out that inadequate product volumes and the long and arduous certification process are major constraints hindering exports to the USA under AGOA. To this list, Kwesiga (2001) adds the lack of foreign domestic investment, lack of export processing zones, and the inability of Ugandan businessmen to think globally .These constraints combined make the performance of Ugandan SMEs in the export market very bleak compared with other countries like neighbouring Kenya . However in the case of AGOA (a new market), the situation is worse compared with the European Union for example. Ugandan exports to the USA are limited, yet both regions offer the country preferences as indicated in the table below:

Table 3: Ugandan Exports by Region and Country of Destination (000US$) 2001 - 2005.

	2001	**2002**	**2003**	**2004**	**2005**
United Kingdom	28,806	30,015	33,883	29,438	26,831
Germany, Federal Republic	12,134	13,399	12,024	17,677	33,768
Belgium	16,085	21,902	12,899	26,685	33,147
Netherlands	52,803	56,000	48,955	57,860	85,413
France	4,057	6,844	5,116	22,702	39,581
Spain	7,961	17,732	14,526	13,914	17,988
Other	6,393	10,495	13,127	13,481	15,979
United States	6,743	9,190	12,693	15,714	15,892
Canada	943	832	1,765	3,064	2,094
Other	**661**	**526**	**177**	**407**	**355**

Source: Uganda Exports Promotion Board (2005)

 This table indicates that Uganda is yet to fully realize the benefits of AGOA. Total Ugandan   exports to the European Union (Lome and Cotonou preferences) are far higher than those to the USA (AGOA preferences) in the period 2001-2005. Total exports to the USA more than doubled in this period but are far less than those of individual countries except France (but only for the first 3 years). All this is in spite of the fact that the Ugandan Head of state was the first African President to embrace AGOA, and jointly with the US, Uganda sponsored a seminar in 2002 with the theme 'Maximizing Benefits of AGOA" in East Africa (Kwesiga, 2002).

Such concerns point to the need for a study with an adapted questionnaire suitable for the Uganda export sector and cultural environment. The battery of items in the questionnaire should enable ranking of the importance of the constraints as well as

gauge the respondents' overall satisfaction with the way the government has handled these constraints. The next section presents the methodology used in the construction of the questionnaire, subsequent data collection and analysis.

METHODODOLOGY

This section gives an account of the methodology that was used to fulfil the objectives of the study. In order to fulfil the first two objectives, the suggestion by Tesfom and Lutz (2006)   was adopted, i.e. the export constraints facing SMEs are factor analyzed so as to rank them and also examine their underlying dimensions. The third objective of the study was fulfilled through gauging the perceptions of SMEs about the way the government has handled the constraints. The procedure below was followed:

Sample and sampling method

The study sample consisted of 2 apparel firms, 80 exporters of art crafts (middle men) 18 exporters of agricultural products, 2 officials from the Ministry of Trade and Industry, 2 from the AGOA country office and 2 officers from the Uganda Export Promotion Board. However, only 100 usable questionnaires were collected in all. This sample size is adequate according to Barret and Kline (in Kline 2000), who established in a study that in factor analysis, the main factors remained clear and unequivocal until the sample dropped below 100. Exporters were identified through the AGOA country office, and the snow balling technique. The snow-balling technique is a sampling method in which a researcher selects several people from a sampling framework for interview and these people assist the researcher in identifying others to interview (Coolican, 2004: 40). Snowballing was used because   the AGOA country office is yet to establish a directory of exporters. Therefore, respondents were asked to identify who else is engaged in this business while government officials were   purposively chosen.

Variable construction and validity test

First a review of the extant literature was done to identify the constraints currently facing Ugandan exports to the USA under AGOA. This was followed by a qualitative study (Focus Group Discussion) that involved four people who are conversant with business to the AGOA market, plus conversations with knowledgeable academicians in both international marketing and international trade. This whole effort yielded a total of 45 likely items for inclusion in the draft questionnaire.
In order to establish the face/content validity of these items, they were subjected to a review by two experts, one from UPTOP (Uganda Programme for Trade Opportunities) and another from   the AGOA country office. They also examined these items for

relevance, ambiguity and repetitions. This exercise ended up with in 14 items being dropped, leaving only 31 which were then included in the final questionnaire; these items were randomized to avoid any cluster effects. The scale in the questionnaire was anchored from '1' not at all, to '7' extremely large extent. Respondents were requested to rate the extent to which each of the items (constraints) affects exports to the AGOA market. A pretest was carried out using 5 exporters, all of whom found no difficulty in answering the questions. Pre-testing provides a statistical basis to shorten long survey instruments without sacrificing their explanatory power since respondents may perceive long instruments as cumbersome and this may contribute to non-response (Siekpe, 2005: 38).

The psychometric properties of the instrument were assessed using SPSS by examining Cronbach's alpha (α). All items had alpha above 0.7 cut-off recommended by Nunnally (1978) and overall α for the whole instrument was 0.8927, which is well within the range recommended by Nunnally and Bernstein (1994). This shows that the measure was robust. Following Greenland *et al.,* (2005) factor analysis was then carried out by first constructing a Pearsonian correlation matrix between each pair of the 31 items. Bartlett's test of sphericity was done to test the null hypothesis that the resultant 31x31 correlation matrix was an identity matrix, all diagonal coefficients are equal to one, and off diagonal items are zero (those that are not zero are due to chance). The null hypothesis was rejected ($\chi^2 = 1203.421$, df=465, p=0.000) meaning that factor analysis could proceed. The Kaiser Meyer-Olkin (KMO) test of sampling adequacy indicated a coefficient of 0.723, which is interpreted as middling (Kaiser, 1974), further reinforcing that factor analysis was appropriate (the closer to 1.0 the better). Maximum likelihood extraction by direct oblimin rotation with Kaiser Normalization yielded 6 oblique factors each with eigen value greater than one and accounting for 57.8% of the variance. A useful factor must account for one unit of variance or have Eigen value >1. Oblique factors were preferred because they rotate to simple structure and also agree more with psychological theory than do orthogonal factors (Kline, 2005). The factors were subsequently named:

Table 4   : Factors affecting exports to AGOA

Latent factor	Item loading at >0.5	Eigen value	Loading	AVE	√AVE	A
Middle Managers	Poor entrepreneurial culture	7.8	0.561	0.63	0.79	0.70
	Lack of middle managers		0.971			
Infrastructure	High cost of skilled labour	2.245	0.813	0.54	0.73	0.7344
	High cost of technology		0.582			
	Poor infrastructure		0.783			
Technology/ Product innovation	Inappropriate Technology	1.1881	0.836	0.38	0.62	0.70
	Inadequate Product innovation		0.534			
			0.545			
	Unfamiliarity with American consumer behaviour		0.514			
	Inadequate export Insurance schemes					
Marketing	Limited access to market information	1.740	0.537	0.44	0.66	0.7114
	Limited knowledge of Global best Practices		0.836			
	Poor marketing Skills		0.574			
Export Credit	Unfamiliarity with American Trade Practices	1.539	0.643	0.39	0.62	0.701
	Inadequate Export credit		0.636			
	Inadequate academic Research		0.591			
Governance Issues	Restrictive Rules of Origin	1.298	0.588	0.33	0.58	0.60
	Governance issues		0.567			

Extraction method: Maximum likelihood estimation
Rotation method: Oblimin with Kaiser Normalization

The table above shows the named factors / constructs (column 1) and their indicators (items) in column 2, each with factor loading greater than 0.5. Hair *et al.,*

2003 (in Barnes 2007) affirm that a measure is loaded significantly on its underlying construct if its factor loading exceeds 0.5, which is indicative of nomological validity. The table also shows the Average Variance Extracted[1] (AVE) of the different factors, which is defined as the average variance shared between a construct and its measures (Reinartz, Kraft and Hoyer, 2003). A factor should reach 0.5 cut-off recommended by Fornell and Lacker (1981) for convergent validity, although only 2 factors achieve this level in this study. However it is not un-common to find measures of an estimated model with squared loadings below the 0.5 threshold (Sorebo, Christensen and Eikebrokk, 2004) particularly for newly developed items and scales. Hulland (in Sorebo *et al.,* 2004) recommends a suitable cut-off value as 0.16 or 0.25. The table also shows that all factors had acceptable reliabilities (0.7 and above) except factor 6 with a reliability of 0.6. It has been suggested however that Cronbachs alpha should be above 0.6 for exploratory research and above 0.70 for confirmatory research and that in the case of a scale with two or three items, a coefficient alpha of 0.60 or 0.50 is acceptable as a minimum standard (Cortina, 1993). Loewenthal (2001:60) concurs when she argues that if a scale has a small number of items, it may not be possible to get a high reliability value and thus a coefficient of 0.6 may be sufficient. Based on these arguments, factor 6 was not excluded from subsequent analysis. Lastly, since the inter-correlation between pairs of the constructs did not exceed 0.9, the problem of multicollinearity was ignored (Hair *et al.,* 1998).

Next, the discriminant validity of these factors was examined. Discriminant validity is a measure of the extent to which constructs (latent factors) are distinct, i.e. they should not correlate so highly as to seem to be measuring the same underlying dimension (Siekpe 2005). Discriminant validity can be assessed by examining the factor correlation matrix and AVE. The square root of AVE should exceed the correlations in the rows and columns for adequate discriminant validity, which indicates that more variance is shared between the construct and its indicators than with other constructs (Fornell and Lacker in Siekpe, 2005). This is the case in table 5 below.

Table 5: Factor correlation matrix and discriminant validity of factors

	1	2	3	4	5	6	A
1	**0.790**						0.70
2	0.234	**0.729**					0.73
3	0.379	0.251	**0.62**				0.70
4	0.199	0.132	0.182	**0.66**			0.71
5	0.258	0.331	0.300	0.116	**0.62**		0.70
6	0.210	0.337	0.228	0.153	0.261	**0.58**	0.60

Square root of AVE in bold in the diagonal.

Another approach to assessing discriminant   validity is to examine the factor reliabilities and the inter-factor correlations. For adequate discriminant validity, the reliability coefficients should be greater than the correlation coefficients (Anderson and Gerbing 1988) in Siekpe (2005) as evidenced above.

Satisfaction with Government efforts to eliminate the constraints

In order fulfil third objective of the study, i.e. establish whether the government was doing something significant about the elimination of these constraints, the perceptions of the SMEs were sought. Respondents were requested to rate the extent to which they were satisfied with the way the government has handled the elimination of these constraints on a 7 point likert scale, ranging from 1 "not at all" to   7 " strongly agree". This overall question has been used in many satisfaction studies (e.g. Parasuramman et al 1988). Tables 6 and 7 below present the results.

Statistics

Table 6: To What extent are you satisfied with the way the government has handled the elimination of these constraints?

N	100 0
Mean	3.32
Std. Deviation	1.64
Variance	2.68
Skewness	.482
Std. Error or Skewness	.241
Kurtosis	-567
Std. Error of Kurtosis	.478

Table: 7:   To What extent are you satisfied with the way the government has handled the elimination of these constraints?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at All	13	13.0	13.0	13.0
	Slightly Moderate Extent	22	22.0	22.0	35.0
	Moderate extent	26	26.0	26.0	61.0
	Moderately Large Extent	14	14.0	14.0	75.0
	Large Extent	13	13.0	13.0	88.0
	Very Large Extent	8	8.0	8.0	96.0
	Extremely Large Extent	4	4.0	4.0	100.0
	Total	100	100.0	100.0	

The tables show the perceptions of the SMEs regarding the government is handling of the constraints .The statistics show that the data is negatively skewed which means that most of the respondents are not satisfied with the way the government is handling the constraints. This is particularly obvious in view of the findings in table 4.

DISCUSSION

Firstly, it is imperative to note that many LDCs have little capacity within government and the private sector to identify the constraints that hinder SMEs from going international (Brenton and Hoppe, 2006). Secondly, all the 6 identified factors and their underlying dimensions are important distinct constraints that hinder Ugandan SMEs from accessing the AGOA market.   However, Factor analysis reveals (Table 4) that lack of middle managers, infrastructure, technology, marketing issues, lack of export credit, and governance issues (in order of importance) are the most crucial constraints facing Ugandan SMEs in the AGOA market. These findings are in consonance with the clusters hypothesized by Tesform and Lutz (2006). Lack of middle managers, inadequate export credit and marketing issues are similar to the internal company barriers /forces identified by Tesform and Lutz, while infrastructure, technology and governance issues can be clustered as external forces in their model.

In agreement with Yang et al 1992(lack of personnel to administer exporting activities) and the African Competitiveness Report (2005), this study finds that lack of middle managers (and a poor entrepreneurial culture) are the factors that most hinder exports to the AGOA market. Although Universities churn out many managers every year, many of them do not live up to the expectations of the employers as established in a study by Asiimwe *et al.,* (2000) on local government in Uganda. In this study, university graduates were found to be lacking practical skills, had low motivation, lacked dedication, were unable to solve problems, had narrow focus and lacked cross-

cutting multi-displinary and integrative knowledge. Another problem in this regard is the lack of a good work ethic among Ugandan managers as postulated by Ntayi (2005:156), that work as a determinant of personal value and identity and as an indicator of good character and good morals is disappearing out in Uganda.

For example, graduates who find a job after years of street walking spend more time contemplating greener pastures than doing their assignment in the first week of their employment (Twinamatsiko in Ntayi 2005). Therefore it is not surprising that many firms in many sectors (e.g. flowers and textiles) hire non-Ugandan middle managers. However, the issue of entrepreneurship is controversial given that Walter *et al.,* (2003) established that Uganda is the most entrepreneurial country in the world in terms of necessity and opportunity entrepreneurship. The former is involuntary and is driven by necessity while the latter is voluntary and motivated by the pursuit of perceived opportunities (Reynolds *et al.,* in Walter *et al.,* 2003: 20). Uganda is reported as being three times as entrepreneurial as the USA, yet Uganda is a poor country. The likely explanation in this case could be in terms of government policy as a factor limiting entrepreneurship. Walter *et al., (*2003) argue that the regulatory and administrative burden associated with entrepreneurship is too high in Uganda. The tax system is not conducive to the development of entrepreneurial firms and it seems government understanding of entrepreneurship is not sufficient. Thus the strong entrepreneurial spirit is wasted if the conditions handicap entrepreneurship in trying to compete at a global level. As Kasekende *et al.,* (2002) observe, there is a positive correlation between a good policy environment and economic growth. Therefore, it is apparent that designing policies and programme that promote the growth of SMEs must be the cornerstone of any growth strategy for this country.

It is universally agreed that for policy coherence and overall effectiveness, trade policy should be mainstreamed into a country's overall development strategy (Oyejide 2004). While government has taken steps to streamline trade matters into the overall development plan (PEAP- Poverty Eradication Action Plan), there is a need to also focus on the capacity of the individual exporters who are behind the SMEs. In this respect Ugandan exporters to AGOA have benefited a lot from the USA trade hub in Nairobi. On the other hand, marketing issues stand out as important in affecting exports to AGOA, consistent with Katsikeas and Morgan (1994), who underscore the importance of organizational capacity to execute the marketing function. In the case of apparel for example, American firms have a lot of bargaining power compared with the garment producer, who must comply with given specifications in terms of sizes, labeling, packaging etc. (USAID Report, 2001). Thus access to market information, marketing skills, familiarity with global best practices and knowledge of the export market become critical factors for success, in agreement with Weaver and Pack (1990);

Bordur (1986); and Karafakioglu (1986). These factors combine to worsen an already precarious situation and account for many lost opportunities. Thus steps must be taken to equip SMEs with knowledge about marketing issues in order for them not to lose out on matters that they would otherwise control. Today the world is "a global village" and the environment is more competitive than ever before. Specifically, access to information is critical because inadequate information or information received late spells doom for the SMEs.

The findings indicate that availability of export credit is a critical factor in the bid by SMEs to export to AGOA, in agreement with Tesform and Lutz. Beyene (2002) also finds that access to finance is the biggest constraint facing SSA SMEs.   Many SMEs lack the capacity to fund large orders on their own. Late payments and bank red tape cannot be ruled out. However, another related problem is the high interest rates that prevail in Uganda as well as the fluctuating dollar rates. This situation is not surprising since the high cost of capital and risks are prevalent in many African countries (Kasekende *et al.,* 2002).   Certainly the government   needs to set up special credit lines for exporters.

Technology is a major constraint because it greatly influences value addition, and hence the ability of the products to compete with those from other countries through innovation. The problem of inappropriate technology is acute, because in many instances manufactures find it difficult to acquire modern technology which would make their products competitive.   Technology influences the ability of firms to be innovative, utilize economies of scale and thus gain a competitive edge in the market. For example ,production systems used to mass-produce apparel in industries around the world are still foreign in Ugandan textile companies (USAID Report, 2001). Thus there is need for technology transfer from the developed countries to the LDCs.   High transaction costs resulting from poor technology are worsened by poor infrastructure in terms of transport, and   energy.   In addition to the high power tariffs, the current power   shortage which the country is facing has made load shedding a daily occurrence, thus forcing many firms to use generators, further raising production costs. However, reforms in the telecommunication sector that have brought the number of licensed national operators to 4 have greatly reduced tariffs much to the relief of exporters.

As noted by Bigman (2002), successful implementation of policy reforms depends on a country's institutions of governance. While the government has taken measures to combat corruption through the Inspector General of Government, improve democratic space and observe the rule of law, the 20-year old rebellion has diverted important resources in terms of human beings, money and time, and displaced millions of people

from their homes and productive activities. Such resources could have been put to better use in terms of infrastructure, technology, and market support. Last but not least, rules of origin are a major factor determining whether AGOA contributes to the development of local industries in LDCs. As Hayashi *et al.,* (2004) note, if the rules are too strict, AGOA would discourage the vertical integration of production chains

CONCLUSION

This study set out to investigate the barriers that hinder Ugandan exports from reaching the AGOA market, with a view to ranking them in order of importance. This would help the government in the prioritization of interventions to mitigate these constraints in the light of the limited resource envelop. Given that trade preferences that have been granted to ACP states for the last 30 years by the European Union (EU) under Yaoundé, Lome and Cotonou have already expirer the opportunity presented by AGOA should not be wasted.

Against this background, this study makes a contribution in this direction by identifying the most important constraints facing Uganda in the AGOA market so that more emphasis is put on them. In general the identified constraints are interwoven, i.e. one constraint leading to another or contributing somehow to its impact, be they internal or external factors. In totality, these barriers contribute to the high trade related costs facing Ugandan exporters to AGOA. Besides the most common constraints in the extant literature like technology and infrastructure, entrepreneurship, and limited knowledge of global best practices, poor marketing skills are also important constraints facing Ugandan SMEs in the AGOA market. It is difficult to be competitive in a market which one does not understand. Hence there is need to improve the marketing expertise of the exporters. Further, most of the respondents were just moderately satisfied with the way the government is handling these constraints, implying that there is a need for more effort in this direction. In addition to making an effort to integrate trade matters into the PEAP, government is currently carrying out a series of studies in order to improve the country's export capacity. It is hoped that such efforts and others like this study will help to put the focus on the elimination of the most important barriers facing exporters. However, government alone cannot change the situation, thus there is need for a concerted effort on the part of all stakeholders, including academic institutions and civil society. Since weaknesses in institutions of governance undermine domestic reforms and thus the business environment in which SMEs operate, there must be a concerted effort to improve this area. There is also a great need to put an end to all forms of rebellion in the country, and stem resource waste through combating corruption.

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END NOTE

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[1] Average Variance Extracted (AVE) is given by : $AVE = \Sigma\lambda i^2 / \{\Sigma\lambda i^2 + \Sigma(1-\lambda i^2)\}$, where $\Sigma\lambda i^2$ is the sum of the squared loadings, while $\Sigma(1-\lambda i^2)$ is the sum of the residual variances.