

Why Do Some Firms Thrive while Others Lag Behind? Exploring Key Challenges to Firm Success in Uganda

Policy conclusions and key areas for further research, from workshop co-organised by BRAC/IGC/Ministry of Trade, Industry and Cooperatives/World Bank, 14th December 2018

KEY POLICY QUESTIONS AND CONCLUSIONS DISCUSSED

- 1) Technology use and mechanisation are crucial determinants of firm productivity, and can provide benefits both to firms and workers. What is the market failure that impedes firms from acquiring technology and what would be the appropriate policy response?
- 2) Constraint to credit access exist that prevent investments in fertiliser. Efforts to overcome these, either through subsidies or targeted credit /cash transfers would be valuable in enhancing investment.
- 3) Associations of small firms may be promising in improving firm productivity:
 - a. Getting firms to collaborate through groups/associations seems a promising way forward for reducing costs of technology provision
 - b. Cooperatives of firms can also jointly invest in things like storage facilities
 - c. Cooperation between firms can allow them to more reliably supply other firms with inputs
 - d. It may be easier for government to understand and identify needs of firms if they are represented through associations
- 4) Demand is crucial for profitability, but is localised and scarce in Uganda. As a result, many firms are operating below capacity. Surprisingly, initial evidence suggests that in response to this, firms do not compete for markets, but instead cooperate in sharing technology and labour. This suggests new questions: why do firms seemingly over-invest in capacity while not investing in machinery? Two promising avenues for policy: (i) policies should attempt to increase market access, by linking firms in remote areas with urban demand or export possibilities; (ii) policies should leverage the willingness of firms to collaborate where necessary to overcome information gaps and market failures consistent with promoting productivity-increasing market competition.
- 5) Vocational training has a significant positive effect on skills of job seekers and their beliefs about what kinds of jobs they will obtain, with large positive effects on labour market outcomes in the long run. By contrast, rejection following from targeted matching of workers to firms can actually discourage workers and result in worse labour market outcomes for skilled workers, whilst incentivising unskilled workers to set up their own businesses instead. There is clear value in policy for vocational training, and to potentially combine matching programmes with a) thorough analysis of skills and needs of firms b) mentors to avoid discouragement of applicants and c) credible and trustworthy information on workers' skills.

KEY AREAS FOR FURTHER STUDY

- 1) What are the major constraints to technology adoption for firms in Uganda, aside from credit constraints, and what are the policy options for overcoming these?
- 2) Are subsidies or cash transfers more appropriate in alleviating credit constraints to investment in fertiliser? Do subsidies effectively encourage investment by more productive firms? If not, how can targeted policies identify those with highest returns? And how can policy be designed in such a way to overcome high costs and elite capture associated with targeting?
- 3) Clearly pollution is a major issue, and there are regulations in place to mitigate its negative effects. How can policy be designed to incentivise enforcement of and compliance with regulation – both with regard to firms and individuals (such as regulation on private car use)? What can be learned from other countries in this regard?
- 4) What is the demand for different skills in the labour market, and consequently what are key areas for vocational training?
- 5) Assessment of the impact of current policies, such as:
 - a. Provision of technology to cooperatives of firms
 - b. Current credit systems – what needs to be changes to better incentivise investment in inputs such as fertiliser?