ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

Finding Out Internal Challenges Influencing Ugandan SMEs Exporting Agro-Processed Products.

Abenanye Jackline., Prof. Fr. Simeon Wanyama

Uganda Matryrs University- Nkozi

DOI: https://doi.org/10.51244/IJRSI.2024.1107059

Received: 11 June 2024; Revised: 30 June 2024; Accepted: 04 July 2024; Published: 12 August 2024

ABSTRACT

This study sought to find out challenges facing Ugandan Small and Medium Enterprises (SMEs) exporting agro-processed products in Uganda. The main objective was specifically on internal challenges. The study adopted the *mixed methodology design* on a sample of 48 using a self-administered *questionnaires* and an interview guide. Data were analysed using both quantitative and qualitative data methods. The study revealed that internal Capital Base *(Mean=4.145),* Sales and Price Trends *(Mean=3.262),* Reliable Supply of Resources *(Mean=3.105)* and Reliable Overseas Market (Mean=3.72) and Insufficient Production Capacity *(Mean=3.351) are the* challenges influencing Ugandan SMEs exporting agro-processed products. Regression analysis revealed that the coefficient of determination *(r2)* had value of *0.539* which implies that independent variables under internal challenges explain *53.9%* influence on SMEs exportation of agro-processed goods. It was therefore concluded that, both internal and external challenges hinder SMEs from exploiting the available opportunities in the external markets for their agro-processed products. Therefore, the study recommended, there is an urgent need to improve agricultural statistics, for both the public and private sector actors to better plan policies, interventions and investments in the field of agro-processing and to be in a position to accurately monitor progress, impact and outcomes.

Key words: Internal challenges, Small and Medium Enterprises and agro-processed products.

INTRODUCTION

Although SMEs represent the backbone of local economies in most developing countries, they often face great challenges in their operations. These SMEs operate against many odds and even small changes in the external environment could affect them greatly. They are confronted with fierce local and international competition and they often lack general skills in management and marketing. These challenges substantially limit the productive capacity and efficiency of SMEs in Uganda in particular and their ability to be competitive within the context of a globalized world (Ocici, 2020).

LITERATURE REVIEW

Internal Challenges Influencing Ugandan SMEs Exporting Agro-Processed Products

Access to electricity in Uganda is very limited. As of 2009, only 9 percent of the population had access to power, less than a third of the rate in other low-income African countries and a fraction of the rate in resource-rich countries. Uganda's access rates are more or less equal to access rates in Malawi, amongst the lowest in Africa. Access to electricity in urban areas is also limited. Even in urban areas, only 50 percent of the population has access to power compared to 86 percent in other LICs. In rural areas, only 5 percent of the population has access to power compared to 12 percent in LICs, falling short of Uganda's national rural access target of 10 percent (World Bank 2012 p. 33).

Roads are the most commonly used transportation infrastructure in Uganda, accounting for more than 90% of cargo freight and passenger transportation. Uganda has about 78,100 kilometers (48,529mi.) of roads. Only 3,000 kilometers (1,864 mi.) are paved, and most roads radiate from Kampala. The country has a 321

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

kilometer (200 mi.) rail network, much of which is not currently in use. Essentially the only operational rail line runs from the Kenya border to Kampala. Uganda's road and rail links to Mombasa serve some of the transportation needs of the neighboring countries of Rwanda, Burundi, and parts of D.R.C. and Sudan as a large volume of transit goods passes through Uganda to its land locked neighbors. Entebbe International Airport is on the shore of Lake Victoria, some 32 kilometers (20 mi.) South of Kampala (Population Reference Bureau. 2012).

As a landlocked country, competitive air cargo rates for both imports and exports are vital for Uganda. Efforts to develop Entebbe airport to handle cargo and even become a "regional hub" have been underway for some time now but need more support. When these plans are implemented, it will have considerable benefits for the flower and fresh fruits and vegetables industries. Currently, the loaded pallets have to be transported almost 2 km to the airplane and loading takes place in the often sunny open. A cargo village with sheds, ramps and other facilities will reduce quality losses of fresh produce at the airport. It will also make Entebbe a more attractive airport for cargo planes to include in their routing, thus giving greater freight options for exporters. It has to be financially attractive for air freighters to land and offload and load cargo. Unfortunately, tariffs on aviation fuel and landing and cargo handling costs are higher in Uganda than in neighboring countries. In an industry where fuel accounts for 75 % of the operational cost of cargo flights, airline companies are discouraged from landing at Entebbe airport. (Ssemwanga 2010 p.5)

Transportation challenges in the commercial sector include poor roads and insufficient vehicle capacity, including the cargo-carrying dimensions of available vehicles (small pickup trucks that move to the rural areas and inability to operate during the rainy season. Nevertheless, bicycles, cars, and trucks are moving in this resource-constrained setting over the same poor road conditions, and commercial goods do get through. According to the Durgavich study (2008), third-party contracting for transportation is the rule for general merchandise, but the types of vehicles used to transport most commercial goods may not be suitable for the safe and sanitary transportation of sensitive items such as food and medicines. Beer manufacturers and distributors, for example have a strong interest in maintaining the quality of fragile products therefore need to invest in transportation resources to support this requirement. One of the innovative practices of Nile Breweries is bulk fuel purchasing through a contract with Shell Uganda Ltd. This allows Nile Breweries to save 4 percent on diesel fuel, which it passes on to its third-party transportation contractors. Use of corporate credit cards provides flexible refueling options for the drivers and also helps the brewery monitor fuel usage by driver to identify and correct any abuse Durgavich (2008) p30.

Transport costs are based on distance and tonnage. Manufacturer representatives believe that physical distance and road conditions are the principal challenges in distributing its products in Uganda. The poor road network outside of Kampala increases vehicle wear and tear. For manufacturer-owned and contract vehicles, goods go one way. Typically, the vehicles return empty because there is no good way to control planning and loading of a return shipment of some other good like salt or charcoal, produce like sunflower seeds or cassava, or even passengers. Allowing the driver to plan a return load at his own discretion is considered extremely risky for the vehicle. Both of the soap manufacturers in the Durgavich study (ibid.) outsource transportation. Unilever Uganda Limited outsources transportation to two or three transport partners; Mukwano Industries owns some of its own vehicles but also outsources to third-party transportation partners. Compensation is based on fixed rate for tonnage to a specific distributor, but in some cases drivers may have to idle in the yard. Fuel cost fluctuations also make it difficult for contract transportation agents to budget. But the example of Movit (cosmetics manufacturer) demonstrates that it is also possible to use a delivery truck topping-up strategy to efficiently deliver and promote up to 45 product lines at a time from a central distribution point in Kampala.

Other challenges include the following: a lack of entrepreneurship development for, and institutions supportive of, SME development; inadequate industrial institutional support services for the development of a competitive manufacturing sector; and a lack of engineering industries, particularly to produce capital and intermediate goods, spare parts, and components, the absence of which adversely affects the country's ability enhance product design, production, and maintenance know-how Goburdhun, D., Boodhoo, K. & Ruggoo, A. (2010).

Entrepreneurship training with its attendant features like innovation and efficiency can be harnessed to mitigate the harsh impact of inequality, through unraveling and promoting the kinds and levels of

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

interconnectivity between urban and rural lifestyle, and their contribution to social wellbeing and local development. This can only work where economically active groups especially the youth, are given entrepreneurship exposure and basic business training mainly in post secondary education aimed at promoting rural entrepreneurship. Therefore, policy option for rural entrepreneurship program that is founded on rural enterprise conscious education system should be formulated and implemented. The system will create a favorable environment for the learner to respond more effectively to technology and economic change and equip them with key aspects in rural enterprise development, (Kihonge, 2011).

Challenges in trade work as tools to make foreign goods and services less competitive than goods and services produce in the domestic market. Trade challenges could technical, procedural, legal and illegal. A series of trade challenges could occurs related to product quality, consumer protection, and patent and trade mark protection. Custom duties, veterinary and phytosanitary rules, restriction on investment, unfair uses of government aid and subsidies create challenges to international business. (Ministry of Foreign and Affairs of Denmark 2012)

SMEs in the European Union face different challenges during exporting their products and services in the international markets. The major challenges faced by the European SMEs are related with finance, human resource, market entry, standard and other challenges. (European Commission 2011)

SMEs in the United States also encounter several challenges during export transaction in the foreign markets. The challenges faced by U.S. SMEs are similar to challenges identified by the Organization for Economic Co-operation and Development. The major challenges faced by U.S. SMEs are financial challenges, complex and unfamiliar foreign government rules, excessive transportation costs, limited production capacity, tariff and non-tariff challenges, lack of information about foreign market and language and cultural challenges. (United States International Trade Commission 2010)

According to Rahman (2010) the major export challenges faced by the Bangladeshi SMEs are, “Lack of information about foreign markets, functional challenges, marketing challenges, procedure challenges, governmental challenges, customer and competitor challenges, business environment challenges, tariff and non-tariff challenges".

According to OECD (2012), “The challenges to SME access to international markets can be divided in two categories. The external challenges and the internal challenges are two major challenges faced by the SMEs during their entry to the foreign markets. Internal challenges are the challenges locate within the enterprise itself. External challenges are the challenges located in the outside environment”.

Challenges related to human resource management: The human resource skill is the most important tool for the growth and internationalization of companies around the globe. Human resource skill helps organization to gain competitive advantage for innovation and new product development. The most important issues for the organizations in the 21st century is to create the best fit working environment to get the maximum output of the skilled work force. (Senyucel 2009, 22)

The location of the organizations affects the export performance of the organizations because of the difficulty in drawing attention of skilled workforces. Skilled and experienced workers are very important for the development of the export related performance of the organization. (Freeman et al. 2012, 105-106)

Challenge to finance: The initial funding for export marketing is very important. The working capital fund requires to conduct research & development, frequent foreign trips and to develop marketing strategies for international business. (OECD 2012)

The finance related export support has effect on the export performance of SMEs. The performance of the SMEs depends on the level of receiving different finance and guarantee related export assistance. (Shamsuddoha et al. 2009 418) The challenges to finance are considered as the third largest challenges among SMEs in the European Union. Al most 9% of the European SMEs faced financial challenges during exporting their product in a foreign country. (European Commission 2012) The lack of finance as a working capital

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

creates challenges for SMEs to operate their international business and exporting activities (Buatsi 2002).

Challenges related to product and price: The lack of mass production capacity of small organization considered as the major impediments for exporting. A large number of SMEs withdraw from exporting because the inability of their production capacity to meet the demand of export business. (Fillis, 2002, p922) It is very important for SMEs to adapt with new environment by developing new products to face the internal and external challenges of the international market. SMEs failure to choose the right product and new product development will suffer decrease in the export performance and profitability in the international market. The ability to fast product development provides support to develop a successful export marketing strategies. (Lim et al. 2006, p55)

Besides that, the product design and packaging play very important role to attract customers during the export marketing process. It is difficult for SMEs to grow in the international market if they are not able to package and design their products according to the need of the foreign markets. (Rundh 2009, 990) The quality of products plays an important role for the success of the international business. Since globalization has opened the doors to consumers to buy product from different countries with a very competitive price. It is very important for SMEs to maintain the quality and standard of product to compete in the global market place. Products with difficulties and poor qualities face problem to compete in the international market. (Brown 1995, 56)

The success of the SMEs depends on its capability of planning a competitive pricing strategy for products for the export market. A well-planned pricing strategy help SMEs to gain a sustainable competitive situation in overseas markets. (Doole et al. 2006, 641)

The pricing of goods is important tool of pricing strategy for exporting in the foreign market. The pricing of exporting should be done by a systematic process to compete in the global business environment. SMEs face competition and challenges in terms of pricing during their export in the foreign markets. (Myers et al, 2002, 182) Delivery, logistics and advertising challenges: SMEs operating in the international market encounter problems in finding proper distribution channel. The lack of marketing and promotional activities in the overseas market creates export related problems for SMEs. A large number of SMEs in the developing countries do not succeed to establish a proper marketing channel in the international market. (Tesfom & Lutz 2006, 271)

Furthermore, the structure of the foreign supply chain management play very important role for SMEs to expand in the foreign markets. The value chain related problems has strong effect to the Export performance of the SMEs (Anderson 2009, 37) “Poor marketing campaign and promotion is another important factor that acts as a key constraint to healthy growth of SMEs. Most of the enterprises lack in proper marketing strategy and have poor promotional strategy of their products. Lack of innovation and ideas is responsible for this.” In addition to, the cost of insuring products for international market is very high and it is consider as extra burden for SMEs during internationalization process. (OECD 2012)

The export insurance offers protection against commercial risk related with export. SMEs in the developing countries face problems in insuring products and claiming coverage while a loss or accident occurs during export process. (Tesfom & Lutz 2008, 372) Inappropriate and unclear advertising message could create problems for SMEs in the foreign market. Moreover, different foreign regulations and customer buying behavior create challenging tasks for SMEs to take part in marketing, promotion and advertising activities. (OECD 2012)

METHODOLOGY

The study adopted the mixed method using a self-administered questionnaires and an interview guide. Data were analysed using both quantitative and qualitative data methods. The quantitative data analysis methods were descriptive statistics that included frequencies, percentages and means, and inferential analyses included correlation and regression analyses.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

Study Population

The study population comprised of Management staff of SMEs exporting agro processed products in Uganda with knowledge of SMEs' export opportunities, challenges, and policies being measured indirectly by means of assessing the perceptions of such management members. Those members were fully conversant with the phenomena being investigated, either influencing, or being affected by, those challenges and policies which occur in Agro processing SMEs.

Sample Size Determination

The following three techniques were applied in determining the sample size for the current study:

The first approach followed Krejcie and Morgan's (1970) table, as reproduced by Sekaran (2003: 294). For the population of approximately 48 (which is the population for the current study) is given as approximately 40 respondents.

The second approach entailed computing the sample size using the formula provided by Yamane (1967), which is depicted as follows:

$$\boldsymbol{n = \frac{N}{1 + N\,e^2}}$$

Where:

$\boldsymbol{n}$ = the sample size

N = the population of the study

e = the level of significance (set at 0.05 for this study)

To arrive at the sample, the above formula was used by substituting with kmown quantities as shown below;

$$\boldsymbol{n = \frac{48}{1 + 48 * 0.05^2}}$$

$$\boldsymbol{n = \frac{48}{1 + 48 * 0.0025}}$$

$$\boldsymbol{n = \frac{48}{1 + 0.12}}$$

$$\boldsymbol{n = 43}$$

The third technique is introduced mainly to satisfy the conditions for factor analysis. The technique followed Hair, Black, Babin, Anderson and Tatham's (2006) recommendations that those observations which are conducted in a study must be at least five times as many as the number of the variables analysed, which implies attaining a ratio of 5:1.

In the current study, 34 items will be used in terms of the Export opportunities available, with 21 items being used in terms of the export challenges Scale, export policies 23 items, giving a total of 78 items. The corresponding number of observations, on the basis of the 5:1 ratio, therefore, is expected to be 78*5 observations required that the appropriate sample be constituted of 275 respondents.

The recommended sample was decided upon by using all three techniques, namely those of Sekaran (2003: 294) = 40; Yamane (1967) = 43; and Hair et al. (2006) = 45.

Data Analysis

Factor analysis; correlation analysis; multiple regression analysis; and canonical correlation analysis statistical techniques were applied both in the data analysis and in the hypothesis testing. The SPSS, Version 24.0, was

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

used in all the analyses.

FINDINGS

Response Rate

Table 1: Key informants who participated in the study

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owner	28	58.3	58.3	58.3
	Member of senior management team	20	41.7	41.7	100.0
	Total	48	100.0	100.0	

The total response rate for SMEs respondents was 59 which is 98.3% of the intended sample. This agrees with Amin (2005), who states that appropriate sample to trust the findings of the study. This means that the response rate was representative enough. It also means that the conclusions based on the data that they provided is trustable as plausible, since it was generated from all the key categories of workers in the SMEs that were sampled.

Internal Challenges Faced by SMEs

Researcher assessed whether small and medium enterprises were affected by internal challenges such as Capital base, Sales and price trends, reliable supply of resources, reliable supply of resources, reliable overseas market and Insufficient production capacity. Statements were provided to respondents from each of the above anticipated challenges and they were asked to say whether they strongly disagree to them, disagree to them, they are neutral about those statement, they agree with them or they strongly agree to those statement so as researcher can access whether the identified internal challenges influences the exportation of agro-processed products of small and medium enterprises or not.

Descriptive Statistics

This section therefore is intended to achieve the second objective, which is to find out internal challenges influencing Ugandan SMEs exporting agro-processed products

The descriptive statistics has been presented in Table 2 below;

Table 5.7: Internal challenges

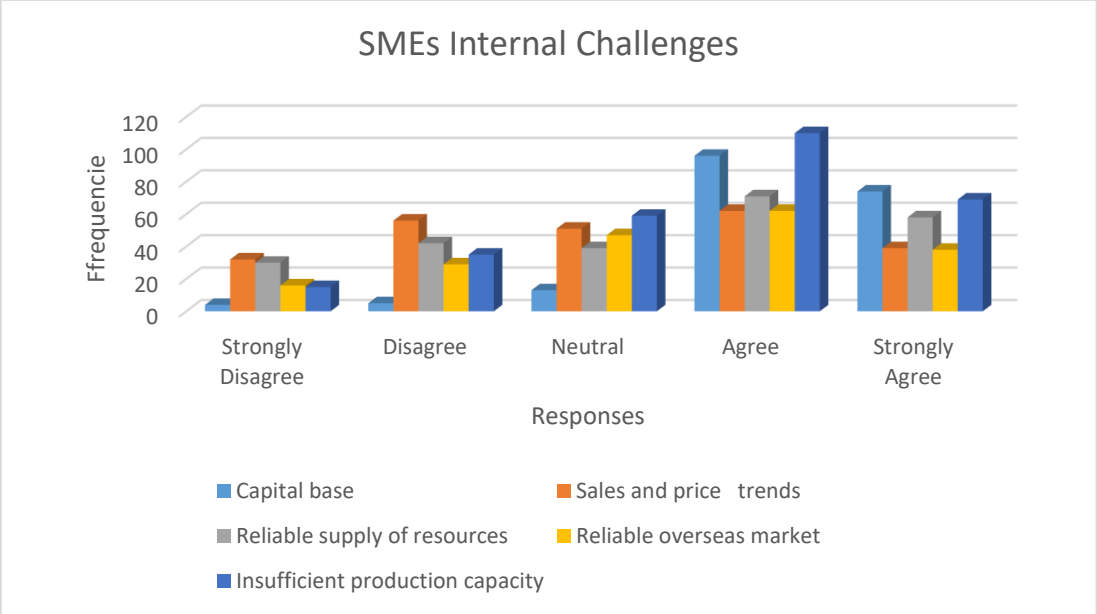
Table 5.7: .Internal Challenges

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Capital base				***4.145***					
LackOfStartUpCapital	48	2	5	4.19	0.891	-1.139	0.343	0.876	0.674
CostOfCapitalSoHigh	48	2	5	4.04	0.922	-0.766	0.343	-0.115	0.674
HighlterestOnBankLoan	48	3	5	4.27	0.574	-0.062	0.343	-0.415	0.674
ShortageOfWorkingCapital	48	1	5	4.08	1.007	-1.477	0.343	2.361	0.674
Sales and price trends				**3.262**					
NoCompetitivePricesByForeignCustomers	48	2	5	4.21	0.798	-1.186	0.343	1.735	0.674
NoAfterSaleServices	48	0	5	4.15	1.111	-2.05	0.343	4.891	0.674
DifficultToCollectPaymentFromAbroad	47	1	5	2.7	1.317	0.224	0.347	-1.067	0.681
HighRiskSellingAbroad	48	1	5	2.54	1.148	0.466	0.343	-0.498	0.674
InadequateForeignDistributionChannel	48	1	5	2.71	1.254	0.314	0.343	-0.851	0.674
Reliable supply of resources				**3.105**					
SuppliersAreOpenWithUs	48	1	5	2.69	1.355	0.28	0.343	-1.085	0.674
GetWrongInformationResourcesSupplied	48	1	5	3.75	1.101	-0.673	0.343	-0.474	0.674
SuppliersLackIntergrity	48	1	5	2.33	1.191	0.73	0.343	-0.307	0.674
SuppliersRefuseToAdoptOurContractTerms	48	1	5	3.65	1.176	-0.735	0.343	-0.253	0.674
Reliable overseas market				**3.72**					
OverseasMarketNotStable	48	1	5	3.4	1.162	-0.5	0.343	-0.417	0.674
UnstableCurrencyMarket	48	3	5	4.17	0.595	-0.058	0.343	-0.211	0.674
LocalCompetionHindersExportation	48	1	5	3.56	1.109	-0.701	0.343	-0.015	0.674
ComplexityOfForeignDistributionChannels	48	1	5	3.75	1.021	-0.594	0.343	-0.156	0.674
Insufficient production capacity				**3.351**					
LackOfManagerialSkills	48	0	5	2.6	1.317	0.435	0.343	-0.611	0.674
UntrainedStaffOnExport	48	1	5	2.79	1.071	0.002	0.343	-0.667	0.674
LowProductionCapacity	48	1	5	3.56	1.165	-0.579	0.343	-0.397	0.674
LackOfWorkingCapital	48	1	5	3.54	1.071	-0.709	0.343	0.215	0.674
LackOfVision	48	1	5	3.75	1.263	-0.892	0.343	-0.195	0.674
ConcentrationOnDomestic Market	48	1	5	3.6	1.198	-0.489	0.343	-0.828	0.674
ProductionCapacityCannotMeetThe RequiredExport	47	1	5	3.62	1.074	-0.592	0.347	-0.108	0.681
Valid N (listwise)	46								

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

Fig 1: Internal Challenge



Capital base

The mean rank of 4.145 from the statements provided in relation to Capital base implies that SMEs lack of startup capital, cost of capital so High, there is high interest on Bank Loan and also lack working capital.

As it has been identified in the literature and the empirical research, there are a number of internal challenges that influence the exportation of agro-processed products in Uganda. Thus, this study has revealed that one of the most significant challenge for SMEs to export their agro-processed products is attributed to Capital Base. Many SMEs in Uganda lack startup capital, cost of capital is so high, high interest rate on bank loan and therefore shortage of working capital.

As literature on SMEs suggest, Capital base is one of the most significant obstacles. The empirical research also demonstrates that this is an important issue, and most of the SMEs studied have all battled with this challenge.

The results revealed that capital base influence SMEs exportation of agro-processed products. The study findings match with (Shamsuddoha et al. 2009 418) who argues that the finance related export support has effect on the export performance of SMEs. The performance of the SMEs depends on the level of receiving different finance and guarantee related export assistance.

The findings are also in line with a study by Buatsi (2002) who found out that the lack of finance as a working capital creates challenges for SMEs to operate their international business and exporting activities. More so, European Commission (2012) confirms that the challenges to finance are considered as the third largest challenges among SMEs in the European Union. Almost 9% of the European SMEs faced financial challenges during exporting their product in a foreign country.

Sales and price trends

Concerning *Sales and price trends*, the mean rank of 3.262 implies that on average SMEs perceive *Sales and price trends* in terms of no competitive prices by foreign customers (4.21), no after sale services (4.15), difficult to collect payment from abroad (2.70), high risk selling abroad (2.54) and inadequate foreign distribution channel (2.71) to be very important in exporting agro-processed products to foreign countries

As Doole et al. 2006, 641, affirms, it true that "the success of the SMEs depends on its capability of planning a competitive pricing strategy for products for the export market. A well planned pricing strategy help SMEs to gain a sustainable competitive situation in overseas markets"

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

The pricing of goods is important tool of pricing strategy for exporting in the foreign market. The pricing of exporting should be done by a systematic process to compete in the global business environment. SMEs face competition and challenges in terms of pricing during their export in the foreign markets. (Myers et al, 2002, 182). Delivery, logistics and advertising challenges: SMEs operating in the international market encounter problems in finding proper distribution channel. The lack of marketing and promotional activities in the overseas market creates export related problems for SMEs. A large number of SMEs in the developing countries do not succeed to establish a proper marketing channel in the international market. (Tesfom & Lutz 2006, 271)

Reliable supply of resources

The mean rank of 3.605 in relation to *reliable supply of resources* took into consideration the following; Suppliers 'openness (3.69), Wrong information on resources supplied (3.75), Suppliers lack integrity (3.33) and Refusal to adopt the contract terms and conditions by suppliers (3.65)**.** The findings indicate exportation of agro-processed goods have been negatively affected by the unreliable sources of raw materials affected the quality demanded by the foreign market.

Due to reasons of geography and technology, some domestic manufacturers of agro-processed products may be unavailable to supply specific materials. Moreover, probably they are incapable of meeting the required delivery time or supplying some materials due to their limited technical capabilities.

Moreover, SMEs have to face problems like transportation, technological and capacity weaknesses in production, and lack of management systems. Other features are languages barriers, customs, and trade regulations (Kendall, 1999).

Reliable overseas market

The mean rank of 3.72 in relation to *Reliable overseas market* looked that the following; overseas market not being stable (3.40), unstable currency market (4.17), local competition hinders exportation (3.56) and complexity of foreign distribution channels (3.75). This implies that SMEs perceive these markets to be un predictable, which makes it hard for exportation of agroprocessed products. Similarly, SMEs believe that the overseas markets are inconsistent, change over time and are not regulated at all, which makes the whole exportation process very expensive.

Challenges and impediments that deter or inhibit SME access to overseas markets deny enterprises and ultimately domestic economies the significant potential gains to be reaped on global markets. For instance the issue of Alternative Dispute Resolution (ADR) is becoming an important issue for SMEs in their cross border business transactions. For this reason the SME Working Party in cooperation with other relevant bodies of the OECD is pursuing work in this area. While a majority of SMEs have the vocation to serve only local markets, a significant share of enterprises need to access foreign markets to ensure their survival and expansion, among which is a group of high-growth, export-oriented enterprises (OECD, 2002). The unique business environment of each target "foreign" market, characterized by its own configuration of regulatory, administrative, policy and cultural dimensions, embodies a formidable challenge to the would-be SME exporter, investor, or future network partner, involving both complexity and risk dimensions, for which the exporting SME is largely ill-prepared. SMEs are less well-resourced than large firms for meeting globalization challenges but experience the same needs as larger firms for prior research and preparations before embarking on global markets.

Insufficient production capacity

Insufficient production capacity has also been identified as a big challenge both in the literature reviewed and by the interviewees. Many Ugandan SMEs focus on quality which is one of the main requirement by importers. They lack knowledge on the importers required capacity and also lack capital and other necessary resources to increase production. Insufficient production capacity scored a mean of (3.351) from respondents and this was as of result of lack of managerial skills (2.60), untrained staff on export (2.79), low production capacity (3.56), Lack of working capital (3.54), lack of vision (3.75), concentration on domestic market (3.60)

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

and production capacity cannot meet the required export (3.62). The SMEs interviewed state that they concentrate in quality instead of production capacity, and they were worried of how they can maintain their foreign markets. The SMEs also complained of unreliable suppliers of raw materials. They said that this is a big set back as far as increasing production capacity is concerned. The study findings matches with the literature that was reviewed in the New Vision, Tuesday, June 21 2016 which says, Uganda, according to export figures, is blighted by low productivity and low exports. Most of the SMEs lack management and marketing skills, poor financial accounting systems and inadequate market information to take advantage of the increasing market access opportunities. The findings are also in line with a study by (Fillis, 2002, p922) who stated that the lack of mass production capacity of SMEs is considered as the major impediments for exporting. He went ahead to say that a large number of SMEs withdraw from exporting because the inability of their production capacity to meet the demand of export business. It is very important for SMEs to know the required capacity of the international market. SMEs failure to increase on the production capacity will lead decrease in the export performance and profitability in the international market.

Correlation Analysis

The results in Table 5.8 below comprise of the correlation matrix for all the continuous variables for the possible presence of multicollinearity. The correlation results specified in the table indicate that none of the variables had coefficients greater than the threshold of 0.70, as suggested by Field (2009). The correlation matrix indicates strong negative associations between exportation of agro-processed products, and the internal challenges of; Capital Base (CB), Sales Price Trends (SPT), Reliable Supply of Resources (RSR), Reliable Overseas Market (ROM) and Insufficient Production Capacity (IPC) at a level of 1%.

A strong negative relationship between exportation of agro-processed products and Capital Base (CB) implies that lack of capital base negatively affects the exportation process of agro-processed products, for example SMEs lack startup capital, interest rate on the bank loan is so high which makes the cost of capital so high for SMEs. This hinders SMEs from exporting their products to overseas markets.

In other words, if capital base can easily be mobilized, the SMEs would easily export their agro-processed products.

In relation to sales and price trends, a strong negative relationship with exportation of agro-processed products implies there is no competitive prices offered by the foreign customer, no after sale service, difficult in collecting payment from abroad, high risk in selling abroad and there are inadequate foreign distribution channels. All these have a negative influence on SME and discourage smooth exportation process of agro-processed products

Furthermore, the findings in relation to Reliable supply of resources (RSR) also show a negative relationship, at a level of %, with exportation of agro-processed products. This means that suppliers of raw material or resources are used in production of agro-processed products are not reliable. They are not open to SMEs, give wrong information about the supplied raw materials, do not conform to contract terms and conditions and therefore lack integrity. With all this, SMEs cannot progress with exportation of Agro-processed products.

In respect to reliable overseas market, a negative correlation coefficient implies that reliable foreign markets matter in exporting agro-processed products. As the longer the foreign market and currency are stable, competition both local and foreign is controlled, and complexity of foreign distribution channels is lessened, agro—processing SMEs will always find exportation easy.

Similarly, the negative relationship between the SMEs exportation of Agro-processed products and insufficient production capacity implies that SME's production capacity may not meet the required capacity by importers. This finding could be explained by lack of managerial skills and concentration on domestic market by SMEs. SME's production capacity is so low due to challenges like lack of vision, lack of working capital untrained staff and many other internal challenges that hinder their production capacity.

Finally, with a negative relationship in all the stated variables, it implies that SMEs exporting agro-processed

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

products are greatly affected by internal challenges which hinder their exportation capacity.

Table 2: Correlation Coefficient

This table reports the values of the correlation coefficients for all variables adopted in estimating the relationship between exportation of agro-processed products and internal challenges i.e. Capital Base (CB), Sales and Price Trends (SPT), Reliable Supply of Resources (RSR), Reliable Overseas Market (ROM) and Insufficient Production Capacity (IPC).

		CB	SPT	RSR	ROM	IPC
CB	Pearson Correlation	1	-0.041	-0.016	-0.17	0.181
	Sig. (2-tailed)		0.782	0.916	0.249	0.217
	N	48	48	48	48	48
SPT	Pearson Correlation	-0.041	1	-0.206	-0.118	0.077
	Sig. (2-tailed)	0.782		0.161	0.426	0.604
	N	48	48	48	48	48
RSR	Pearson Correlation	-0.016	-0.206	1	0.247	0.187
	Sig. (2-tailed)	0.916	0.161		0.091	0.202
	N	48	48	48	48	48
ROM	Pearson Correlation	-0.17	-0.118	0.247	1	-0.088
	Sig. (2-tailed)	0.249	0.426	0.091		0.554
	N	48	48	48	48	48
IPC	Pearson Correlation	0.181	0.077	0.187	-0.088	1
	Sig. (2-tailed)	0.217	0.604	0.202	0.554	
	N	48	48	48	48	48

Source: Field Data 2024

Regression Analysis

The table 3. below revealed the extent to which internal challenges i.e. Capital base, Sales and price trends, Reliable supply of resources, Reliable overseas market and Insufficient production capacity) influence exportation of agro-processed products by SMEs.

R-value represents the correlation between the dependent and independent variable. A value greater than 0.4 is taken to be significant. And in this case, the value is .734, which is good.

R-square shows the total variation for the dependent variable that could be explained by the independent variables. A value greater than 0.5 shows that the model is effective enough to determine the relationship and, in this case, the value is .539, which is also good.

Adjusted R-square shows the generalization of the results i.e. the variation of the sample results from the population in multiple regression. In this case, the value is .482, which is not far off from .509, so it is good. These regression model values are satisfactory and are in agreement with Riya & Priya, 2019.

P-value/ Sig value: Generally, 95% confidence interval or 5% level of the significance level is chosen for the study. Thus, the p-value should be less than 0.05. In the table below, it is .000. Therefore, the result is significant.

F-ratio: It represents an improvement in the prediction of the variable by fitting the model after considering the inaccuracy present in the model. A value is greater than 1 for F-ratio yield efficient model and, in the table, below, the value is 9.576, which is greater than 1 and therefor e good enough.

Furthermore, the table shows the strength of the relationship i.e. the significance of the variable in the model and magnitude with which it impacts the dependent variable. This analysis helps in performing the hypothesis testing for a study.

Only one value is important in interpretation: Sig. value. According to Riya & Priya, 2019, the value

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

should be below the tolerable level of significance for the study i.e. below 0.05 for 95% confidence interval in this study. Based on the significant value the null hypothesis is rejected or not rejected.

If Sig. is < 0.05, the null hypothesis is rejected. If Sig. is > 0.05, then the null hypothesis is not rejected. If a null hypothesis is rejected, it means there is an impact. However, if a null hypothesis is not rejected, it means there is no impact.

In this case, the sig.-.000 which is less than 0.05 and therefore, the analysis suggests that the exportation of agro-processed products by SMEs has a significant positive relationship with internal challenges These findings are in agreement with Riya & Priya, 2019.

This table presents the regression model that analysis the two variables. i.e. Dependent variable (* Exportation of Agro-processed Products*) and independent variable (Capital Base (CB), Sales and Price Trends (SPT), Reliable Supply of Resources (RSR), Reliable Overseas Market (ROM) and Insufficient Production Capacity (IPC)).

Model		Unstandardized Coefficients		Standardized	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	0.47	1.209		0.388	0.7	-1.972	2.911					
	CB	-0.036	0.129	-0.03	-0.276	0.784	-0.296	0.225	-0.128	-0.043	-0.029	0.925	1.081
	SPT	0.142	0.091	0.169	1.548	0.129	-0.043	0.326	0.149	0.235	0.164	0.944	1.059
	RSR	-0.047	0.098	-0.054	-0.482	0.632	-0.246	0.151	-0.13	-0.075	-0.051	0.907	1.102
	ROM	0.043	0.109	0.043	0.393	0.697	-0.177	0.263	-0.093	0.061	0.042	0.926	1.08
	IPC	0.743	0.114	0.715	6.515	0	0.513	0.973	0.708	0.713	0.691	0.934	1.071

R=0.734[a], R Square=0.539, Adjusted R = .482, F= 9.576 ,Sig.= .000 Square

a. Predictors: (Constant), IPC, SPT, RSR, ROM, CB

b. Dependent Variable: Exportation of Agro-processed Products

Source: Field Data 2024

CONCLUSION

It was concluded that Lack of capital base, particularly the absence of initial capital, high costs of capital and high interest rates; inadequate sales and price trends; costly, unreliable, and inadequate physical infrastructure, particularly quality transport, energy, and communications infrastructure; unreliable supply of resources; an unreliable overseas markets are serious challenges to the SMEs particularly those exporting agro-processed products.

RECOMMENDATION

The study recommended that there is an urgent need for improved agricultural statistics, for both the public and private sector actors to better plan policies, interventions and investments in the field of agro-processing and to be in a position to accurately monitor progress, impact and outcomes.

REFERENCES

1. African Development Bank Group, (2014). Eastern Africa's Manufacturing Sector; Promoting technology, innovation, productivity and linkages
2. Amin, E. M. (2005). Social Science Research Conception, Methodology, and Analysis. Kampala: Makerere University Printery.
3. Bank of Uganda (2012). Monetary Policy Report. February 2012. Kampala.
4. Battcock, M., Azam-Ali, S., Axtell, B. & Fellows P.J. (2010). Successful approaches to training in food processing. Intermediate London Technology Publications, London, UK.
5. Cronbach, L. J. (1951) Coefficient alpha and the internal structure of tests, Psychometrika, 16, pp. 297–334.
6. Durgavich, John, Betty Nabirumbi, and Simon Ochaka. (2008). Uganda: Mapping the Distribution of Commercial Goods to the Last Mile. Arlington, Va.: USAID | DELIVER PROJECT, Task Order 1.
7. Fellows, P.J. & Rottger, A. (2015). Business management for small-scale agro-processor. Agricultural Management, Marketing and Finance Service (AGSF), Agricultural Support Systems Division, FAO Rome.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue VII July 2024

8. Goburdhun, D., Boodhoo, K. & Ruggoo, A. (2010). An appraisal of the small-scale agro processing sector in Rodrigues. Part 1: Manufacturing practices and product quality. Submitted for publication.
9. Hecksher, E. & Ohlin, B. (1933), Interregional and International Trade. MA: Harvard University
10. Krejcie, RV., & Morgan, D.W. (1970). Determining sample size for research activities. Education and Pychological Measurement, 30,607-610.
11. Kumar, R. (1996) Research Methodology: A Step by Step Guide for Beginners, Addison
12. Lewis-Beck, M. (1994) Factor Analysis and Related Techniques: International Handbooks of Quantitative Applications in the Social Sciences, Vol. 5, SAGE Publications, London.
13. Lunegelo, B. and Mbilinyi, A. V. (2009). Convergence of COMESA-SADC-EAC Regional Frameworks. In the proceedings of the Annual Forum for Private, Public and Academia Partnership on Trade Policy and Negotiations and organized by the Ministry of Industry, Trade and Marketing (MITM) in 26th October, 2009, Tanzania.
14. Mutambi, J., Byaruhanga, J.K, Trojer, L., Buhwezi, B. K. and Lating, P.O. (2011). Transferring Best Practices for Uganda Technological Innovation and Sustainable Growth. Proceedings of the 2nd International Advances in Engineering and Technology Conference of Makerere University, 31st Jan-2nd Feb, 2011, Entebbe- Uganda. ISBN: 978-9970-214-00-7
15. Mwangi wa and Olugbenga Adesida (2011) Industrialization, Exports and the Developmental State in Africa: Githinji A case for Transformation, African World Press, New Jersey
16. Ngwenya, S. and Munalula, T. (2010). The Political Economy of the Common Market for Eastern and Southern Africa (COMESA) Customs Union. www.comesa.int.
17. Odiya, J. N. (2010). Scholarly writing in APA and MLA style. Kampala: Makerere University Printery.
18. Republic of Uganda (2011), Uganda Competitiveness & Investment Climate Strategy (CICS II) 2011-2015: Fostering Uganda's Competitiveness, Ministry of Finance, Planning & Economic Development, Kampala-Uganda.
19. Republic of Uganda (2013), Uganda Vision 2040, National Planning Authority.
20. Romney, A. K., Weller, S. and Batchelder, W.H. 1986. Culture as consensus: A theory of culture and informant accuracy. American Anthropologist 88(2): 313–38.
21. Rummel, R. J. (2007) **Understanding Factor Analysis**, last accessed 16 March, 2007, from http://www.hawaii.edu/powerkills/UFA.HTM.
22. Rummel, R. J. (2007) **Understanding Factor Analysis**, last accessed 16 March, 2007, from http://www.hawaii.edu/powerkills/UFA.HTM.
23. Saunders, M. Lewis, P. and Thornill, A. (2003). "Research Methods for Business Students".
24. UBOS (2012), The 2012 Statistical Abstract, Kampala-Uganda. UNBS (2010), Science, Technology and Innovation Uganda's Status Report 2008/2009, Kampala-Uganda.
25. Uganda Bureau of Statistics (2011). 2011 Statistical Abstract, Uganda Bureau of Statistics Kampala Uganda.
26. Uganda Ministry of Finance, Planning and Economic Development July, 2011. The National Micro, Small and Medium Enterprise (Msme) Policy Draft Report.
27. UN OSAA, (2009), 'Economic Diversification in Africa: A review of selected countries' UN SAA, 2009. www.un.org/africa/osaa/reports/economic_diversification, accessed in May 2010. Wesley Longman Publishers, Melbourne.
28. Yin, R. (1994). Design and Methods, Case Study Research: (2nd edition.). Thousand Oaks, CA: Sage Publishing.
29. Bell, J. (1993). How to complete your research project successfully. New Delhi: UBSPD.
30. Creswell, J. W. (1994). Research design: Qualitative and quantitative approaches. California: SAGE publications, Inc.
31. Gay, L. R. (1987). Educational research: Competencies for analysis and application. London: Merrill Publishing Company.
32. Kothari, C. R. (2009). Research Methodology: Methods and Techniques. India, New Delhi: New Age Publications India.
33. Oso, Y. W &Onen, D. (2009). A general guide to writing research proposal and report. Nairobi: Jommo Kenyatta Foundation.
34. Sekaran, U. (2003). Research method for business: A skill-building approach. New York: John Wiley & Sons, Inc.