Competing and Learning in Global Value Chains: 
Firms’ experiences in the case of Uganda

A study of five sub-sectors with reference to trade between 
Uganda and Europe

By Jörg Wiegratz, Paschal Nyabuntu and Charles Omagor

Executive Summary and
Chapter 5: Presentation and discussion of main findings
About the researchers

Nyabuntu P. is an Agricultural economist (Makerere University, Wye College/UK). His field of academic specialisation is farm planning/business management and agricultural trade policy. He has wide experience of Uganda’s agricultural sector and has provided services to USAID, ILO, DFID and EU funded projects as well as international and local NGOs. His major interests are in agricultural enterprise development, commodity value chains and market linkages for smallholder farmers. Assignments have included issues of enterprise identification and profitability, monitoring and evaluation of agricultural projects, development of BDS for smallholder enterprises, value chain design and analysis, sub-sector analysis, trade liberalization, and training of trainers. In this global value chains study, he was the researcher responsible for the fish and coffee sub-sectors. E-mail: pnyabuntu@yahoo.com.

Omagor C. is a Senior Lecturer in the Department of Marketing and Procurement, Makerere University Business School (MUBS). He is a Marketing specialist (Makerere University, University of Lancaster/UK). At MUBS, he has facilitated on the MBA programs in the fields of marketing and management. His research interests include: business growth, value chains, network marketing, and spiritualism in business. He has carried out assignments for, among others, Uganda Management Institute (DFID funding) and the Uganda Veterinary Association (EU). He also conducts training courses in marketing and management for members of the Uganda Manufacturers Association. In this study, he was the researcher responsible for the tourism sub-sector. He also undertook the interviews with buyers from different sub-sectors in the UK. E-mail: comagor@yahoo.com.

Wiegratz J. researches matters of political economy, value chains, competitiveness, and human resource development (HRD). He is an economist (University of Cologne/Germany) and political scientist (University of Warwick/UK). He has worked as a consultant and researcher for the Government of Uganda (Ministry of Tourism, Trade and Industry and UPTOP), UNIDO, and the GTZ. He is a Research Associate with the Economic Policy Research Centre (EPRC) and a part-time lecturer with Makerere University and Makerere University Business School. For the study on global value chains, he was the initiating and lead researcher with overall responsibility for the project. He wrote volume one and the analysis of the flower and fruits/vegetables sub-sectors in volume two. He carried out the interviews with buyers from the five sub-sectors in the
Netherlands, Belgium and Germany. Currently, he is a PhD Candidate at the University of Sheffield (Department of Politics) where he continues his research on governance of value chains. E-mail: J.Wiegratz@sheffield.ac.uk.

Acknowledgement
Thanks are due to the following: The main funding partner UPTOP for the financial and technical support and the Ministry of Trade, Tourism and Industry (MTTI) for its overall support in carrying out the research. The Secretariat of the Competitiveness and Investment Climate Strategy (CICS) in the Ministry of Finance, Planning and Economic (MFPED) for its contribution to the research expenditure. The EU funded Uganda Sustainable Tourism Development Programme (UGSTDP) which supported the publication of this report. The Makerere University Business School (MUBS) which co-funded Charles Omagor’s trip to London. Francis Wasswa, Assistant Lecturer in the Department of Economic Theory and Analysis, Makerere University for his valuable work as a Research Assistant in the pre-field phase of the project. He was unable to continue due to unforeseen circumstances. Betty A.K.Businge, Jane Barsby and George Ocokan for providing help with regard to typesetting, final editing and report design respectively. We are finally grateful for the immense input and comments provided by interviewees as well as colleagues in Uganda and Europe.

If you identify any mistakes we would be pleased to receive feedback.

Note: This research report has been produced in a six months work under the UPTOP research pillar (competitive research grant competition). The report has been disseminated to stakeholders in Kampala March 16, 2007. About 500 report copies were printed and distributed by UPTOP in Uganda. The report is presented in Volume one (executive summary, study background, literature review, and main findings, 135pp. in word) and Volume two (sub-sector specific findings, 335 pp.). The authors currently undertake efforts to publish the report as a book. This website document combines the Executive summary and Chapter 5 (Volume one) of the full report.

Copyright © 2007 Authors
All rights reserved. No part of this publication may be reproduced, in any form or by any means, without permission from the authors.
Executive summary

1. Background to the study

The evolution and sophistication of cross-border, value-adding networks of global production and trade in both goods and services is one of the key characteristics of global markets. The analysis of the underlying structures and processes of this global fragmentation, relocation, and coordination of economic activities becomes vital for developing country’ entrepreneurs and policy makers who face respective challenges and opportunities in their efforts to integrate firms into the global economy in a competitive and beneficial manner. In this context, the study of Global Value Chains (GVCs) becomes relevant. A value chain (VC) describes the full sequence of discrete value-added activities needed to bring a specific product/service from its conception through the different stages of production to its use and final disposal after use. The activities that comprise a VC can be contained in a single firm or strategically divided among several firms. In GVCs, activities are divided among multiple firms and spread across wide geographic spaces. The analysis of GVCs focuses on (1) the global dispersion of different value-added activities in product specific VCs and (2) on the related upgrading possibilities - in terms of products, processes, functions and sectors - for local firms. A main concern of research is (3) the analysis of inter-firm relationships and interactions in GVCs; in particular, the way in which the lead (or key) firm of a GVC governs (organizes, coordinates, and controls) the activities and inputs of the firms participating at different functional positions in the upstream GVC part (e.g. up to farmers).

The GVC approach brings the discussion on trade competitiveness and prospects from the macro/meso level (tariffs, trade laws and negotiations etc.) to the meso/micro level of industry and VC evolution and related firm strategies, interactions and cooperation. It reveals insights into local firms’ concrete efforts to catch up and improve their performance in VCs, to enhance coordination, communication and trust with buyers and other VC actors, switch to more promising VC partners and so on.

Against this background, the core objective of this study was to explore the nature and dynamics of the involvement of Uganda’s exporting firms (producers, traders, and service providers) in respective GVCs, and the firms’ experiences and prospects of advancement therein. The study describes and analyses: (a) business relations between exporting firms in
Uganda (hereafter: UFs for Ugandan firms) and their European buyers (EBs)\(^1\), and (b) UFs’ strategies to upgrade within these arrangements. More specifically, *key areas for research and analysis* included: (i) rationale of the relationship between UFs and EBs, (ii) linking strategies of UFs (access to buyers), (iii) discussions and activities in early phase of the UF-EB relation, (iv) GVC entry requirements and respective challenges, (v) forms and dynamics of GVC governance, (vi) UFs’ upgrading strategies, (vii) assistance from support institutions and programmes, and (viii) prospects of UF-EB relations. Using the results of in-depth interviews, related aspects for five export sub-sectors are examined (coffee, fish, flowers, fruits and vegetables/FV and tourism). The study incorporates the views of 34 exporters in Uganda and 19 importers in Europe.\(^2\)

2. Selected findings

*Integrating into a suitable GVC arrangement*

There are numerous and complex *challenges* UFs had to tackle (often in partnership with their buyers) to enter into and compete in GVCs: for instance, it took time to establish a set of relationships with both domestic and foreign partners in the chain, to understand market processes and standard requirements, to master a new technology and new processes, or to attain an adequate level of product quality. Notably, the persistent challenge of developing appropriate *human resources* (capabilities, skills, attitudes, and mind-set) is significant across all sub-sectors. Government of Uganda (GoU) needs to have in place enhanced incentive and institutional support for skills development and deepening in the export sector.

The study further points out: UFs have to pro-actively search for the GVC arrangement(s) that suits them best, according to their level of development and stimulus’ needs\(^3\). They can work in different GVC systems (with different buyers) at the same time and/or switch entirely from one to the other over time. The crucial insight of the findings of this study is that the organizational set up of GVCs - and thus forms of relationships between GVC actors - matter for UFs’ export undertakings and thus for local economic development.

---

\(^1\) We shall refer to UF irrespective of *concrete* ownership (national, foreign etc.) of the firm. In the same vein, we refer to EB meaning buyers/firms based in Europe irrespective of the actual nationality of the buyers, e.g. European/non-European, dual citizenship and so on.

\(^2\) The team held interviews with seven UFs in each sub-sector except one (coffee: six UFs). The views of 19 EBs were gathered in the: UK: 4, Netherlands: 10, Belgium: 1 and Germany: 4. These EBs were operating in the following sub-sectors: coffee: 2, fish: 3, flowers: 5, FV: 3 and tourism: 6.

\(^3\) In terms of: leveraging knowledge, skills, learning, technology etc. from the relations with foreign buyers.
In this context, support institutions and other trade proponents need to be aware of the particular division of labour in GVCs, its coordination and strategic re-organization and the subsequent implications for actors in Uganda; to better complement and support UFs’ operations and moves in GVCs. Where appropriate, they need to help firms develop a pro-active and informed mode of dealing with the numerous challenges of linking up with buyers and developing a beneficial and long-term oriented relationship with them. This could help young sub-sectors/firms to quickly strengthen the organizational set-up, the day-to-day operations and overall competitiveness of newly established GVCs. The accounts of UFs and EBs regarding salient issues at the beginning of the relationship and the way they were handled reveal critical insights about the development of young export sub-sectors. Besides policy makers, firms that have just started or are on the verge of exporting can learn a great deal from the firms’ reflections presented in the report.

Matters of GVC governance: Roles/activities and competencies of the UFs and EBs

The study reveals the variations in governance forms in the GVCs examined: there are (market based) arm’s-length as well as (explicitly coordinated) network and hierarchical governance patterns which are an attempt to integrate the internationally dispersed activities in a GVC and establish forms of competitive advantage. Explicit GVC governance can be seen as a method used by many firms of coordinating their activities rather than leaving them to the fortunes of pure arm’s length market relations. Further, the GVC enables different firms to agree on and define individual roles in the value chain including specifying activities to be conducted by each of them. Specialization can offer the GVC members an opportunity to attain a lower cost curve and perform activities and deliver the products/services to the target markets in a unique way relative to other competitors. This was observed across the sub-sectors.

More specifically, the common GVC set up is that while the UFs’ roles/activities are linked to domestic matters of production, quality control, sorting, packaging, logistics, training and product development, the EBs handle matters of marketing, sales, re-packing, quality control, product development, logistics (e.g. from airport to marketing outlet/storage facility, further to the EBs’ clients etc.), networking and customer relations management in Europe, and engage in information management, knowledge transfer and feedback provision to UFs. Consequently, both partners need various competencies to fulfil their roles. In the case of the UFs they need knowledge and competencies in: production, technology, organization, human resources, markets, marketing, logistics, business management, and VC operations (understanding of
issues on the domestic but increasingly also on the foreign side of the GVC). A number of UFs pointed out that the competency requirements of their business have broadened.

**Main driving forces for the GVC arrangements and changes in the GVC set up**

Main driving forces for the GVC arrangements include: quality requirements, contractual obligations and related threats of penalties for deficits (from EBs or final clients), technology, standards, regulations, investment, increase in global supply and competition (from firms in Uganda and abroad), market dynamics, air freight availability and costs, volume requirements (size, economies of scale), innovative cooperation forms, as well as mutual trust and enhanced local expertise (or local skills deficits respectively). Another major driving force is high labour costs in Europe which motivates (i) the setting up of EB-UF VCs in the first place (e.g. in the flower industry), and (ii) the outsourcing of particular activities from the EB to the UF once the GVC is running (examples exist in almost all sub-sectors examined). Notably, a number of EBs said they welcome and encourage enhanced local value addition.

There are further a range of changes in the respective GVC set up (division of labour) and the related governance forms, including enhanced local value addition activities or more direct relations between UFs and EBs in certain sub-sectors. Such changes - which are driven by various forces - can imply new benefits but also challenges (due to new rules and requirements) for the UFs. Further VC restructuring (e.g., to reduce VC costs and improve the VC efficiency) is anticipated in some sub-sectors.

**Matters of inter-firm relationships and cooperation**

Moreover, there are significant differences within and between sub-sectors in the level and form of cooperation between UFs and EBs which has consequences for the speed and depth of advancement of the particular UFs and the competitiveness of the GVC as a whole. Strong cooperation forms which assist UFs to upgrade products and processes and perform better are particularly important in the kick-off phase of a new export sub-sector. Notably, not all UFs reported well-built cooperation forms with the EBs. And, there are indeed a number of challenges and conflicts in some EB-UF arrangements. Many UFs however gave a positive assessment (‘good’ or ‘very good’) of the current level of cooperation with EBs. This is remarkable and could indicate that these UFs have over time been able to sort out the set of EBs they prefer to work with (and stop trading with problematic EBs) and have subsequently stabilized and improved the relationships and cooperation patterns with the these EBs. Many
EBs also assessed the cooperation level to be good or very good. Relationship related (learning/improvement) efforts of UFs and EBs seem to bear fruit and have facilitated cooperation to date.

Also relevant in this context is the finding that cooperation is typically based on some form of relationship (and thus some level of trust, social capital etc.). Consequently, UFs need social and interactive capabilities and respective know-how to initiate, manage and enhance both relations and respective cooperation forms and increase the benefits for the parties involved. Business ethics and practices play an increasing role in such a network setting with its often close interactions and cooperation forms. UFs and respective stakeholders need to be aware of the potential of both formal and informal supplier-buyer cooperation within GVC arrangements and their impact on local firms. Cooperation can be a vital part of a successful division of labour in the GVC: it can feed information, knowledge and know-how into the operations of the UF on a regular basis (even day-to-day). Those UFs that cannot sufficiently reap cooperation benefits might find it more difficult than ‘cooperation champions’ to advance competitively.

Moreover relevant, deficient local production and logistics conditions (including related political and societal factors) which lower volume, increase cost and uncertainty etc. in export business not only lower the competitiveness of the actors (especially UFs) and the GVC at large; but can undermine exporter-importer relations and therefore (a) delay or suspend the materialization of cooperation benefits (the deepening of cooperation) and even (b) lower existing cooperation levels (up to exit of EB). The benefits lost due to a souring or discontinued relationship with EBs go beyond export revenues - to involve aspects such as sharing of information, knowledge, ideas, technology, product development and provision of advice and other cooperation as well as learning via repeated interaction with EBs - and might thus be particularly harmful for the advancement and growth aspiration of firms in the export sector, especially young ones.

The UF might find itself in a situation of disconnection from (a) the pool of resources and advice that the EB used to stand for or provide and, more generally, (b) from the opportunity to learn and catch up fast via repeated interaction with EBs. In this sense, aspects of volume (economy of scale), quality, cost, continuation, condition for production, transport and communication, perception of political stability etc. are all relevant to maintaining and
improving prospects of relations and cooperation with buyers. For instance, in some cases high volume was a precondition for cooperation. Or, FV UFVs emphasized the link between an increase in volume and quality of the traded product and prospects of enhancement of the UF-EB relationship.

It is the task of both private and public support institutions as well as policy makers to make sure their services, programmes, funds etc. complement and enhance UF-EB cooperation systems to optimize the benefits for the local firms and the GVC as a whole.

Support institutions need to reflect more strongly on their (current and potential) role, services and impact vis-à-vis the specific cooperation areas between local firms and their international buyers in the different GVCs. Further, the response time by GoU regarding upcoming problems (e.g., in energy sector) can have great relevance for decision making of GVC actors which in turn has mid-long term consequences - up to (threat of) EB exit.

Notably, strategic efforts of the EBs to enhance governance and relations in the VC with UFVs chiefly focused on increasing three issues: (i) trust, (ii) coordination, and (iii) flexibility. Other major efforts also targeted enhanced (iv) monitoring of the UF and (v) provision of assistance to the UF. The immense importance of the trust dimension is noteworthy. Efforts of the UFVs to strengthen relationships with EBs include enhancing performance, reliability, volume, communication, information sharing, responsiveness, pro-active problem solving, honesty, trust, flexibility, eagerness (to do business and adjust to changes), and training of local staff. Many EBs commended their partner(s) in Uganda for the efforts in the past to strengthen the relations and the performance of the GVC. A related finding: The main reasons for UFVs to accept the coordination/leadership role of the EB are trust, the strategic competence of the EB as well as the EB’s role as a gatekeeper to markets and source of information and knowledge.

The study revealed that trust building and deepening is a core issue in GVCs for both UFVs and EBs. It can be seen as part of a competitiveness strategy (individually and as a GVC) that is built on stronger inter-firm networks and strategic alliances to favourably compete (networks as a source of competitive advantages) on factors of quality, flexibility, speed of delivery, innovation etc. GoU and other stakeholders should consider how they can help UFVs to translate this insight into pro-active and informed measures that target trust building and improvement
in GVCs. How can reliable UFs be helped to demonstrate trustworthiness to buyers (and ‘earn’ trust over time via good performance etc.), so that the buyer engages in the relationship, first, and enhances cooperation efforts, second? How can the reputation of trustworthy UFs be shielded against the negative effects of the actions of the untrustworthy UFs? Or, how can UF-EB trust be enhanced by regulatory measures, inspection services etc. in the European part of the GVCs?

**The relevance of ‘soft’ competitiveness factors in GVCs**

The study highlights the relevance of ‘soft’ competitiveness factors for performance and growth of UFs in GVCs: Such factors include trust, honesty, coordination, reliability, consistency, loyalty, responsiveness, communication, relationship management, mutual understanding (including better working and social relations between UFs and EBs), pro-active behaviour, flexibility, entrepreneurial spirit, learning, experience, social skills as well as business behaviour and ethics. Deficiencies in the above categories can have damaging effects for UFs; and vice-versa: there are a range of significant successes in case of UFs that have a strong set of such ‘soft’ factors, e.g. strong interactive capabilities, responsiveness etc. Significantly, these ‘soft’ competitiveness factors can help the respective UF to succeed over competitors (who are less responsive etc.); by integrating and upgrading in GVC through better performance in ‘soft’ factors and thus good supplier-buyer relationships that allow for long term oriented cooperation including joint targeting of business opportunities. In fact, interview results across sub-sectors reveal that business relations can grow over time into a close social relationship with a considerable level of mutual trust, understanding and commitment which in turn strengthens both the GVC and the UF. Relations can even ‘lock’ in buyers thereby limiting their search for suppliers in other countries.

This report recommends that trade related training and capacity building puts more emphasis on the ‘soft’ side of export business. It would be helpful to seek assistance from respective role models (firms) in the country for training at all appropriate levels (private sector, education). Good practices have to spread across sub-sectors. Courses are needed in active relationship and trust building/deepening, in negotiations, in dealing with conflicts between VC actors, in pro-active behaviour and communication in a VC setting.

Important to note as well: comments from EBs in different sub-sectors indicate that frustrated buyers (due to UFs’ cheating, feedback deficits etc.) ‘talk about’ their negative experience...
among industry colleagues in their home country (or Europe generally). Discussions with FV EBs for instance revealed negative reputation effects for Uganda as a sourcing country due to certain action patterns of some UFs (dishonesty, misuse of advanced money, or low responsiveness). In this sense, an actual or perceived negative performance of one UF can have damaging image effects for the whole sub-sector. These behavioural issues highlight a particular kind of challenge that is often overseen in the debate about exports: the challenge regarding local business ethics, values, behaviours and practices, including honesty and reliability. Of course, the theme of business practices and behaviour including trust in a transforming economy such as Uganda is linked to the larger context of the state of the macro-, meso- and micro-level foundations or mechanisms (sanctions etc.) that for instance facilitate trust between economic actors in a country. Trade proponents have to analyze and address related issues.

Further vital, given the accounts of some FV UFs regarding problematic behaviour of certain EBs, it might be appropriate in certain industries to look into better protection of interest of Ugandan exporters in the EU market, especially vis-à-vis importers who try to cheat (breach contract, disappear, run away with money, claim they have never received produce or ‘invent’ quality defects). The issue needs industry initiative, e.g. (a) advocacy towards buyer traceability (registration system) in Europe, and (b) establishing a desk of representative (Ugandan/East African) or quality inspector system at the most important points of entry of FV cargo into Europe to take care of interest of exporters. This could help in reducing the export risk for UFs and stabilizing relations with buyers.

Dependency, bargaining power and switching in GVCs

There were many incidences where UFs and EBs indicated that they operate in a situation of mutual dependency: Mainly because of the need of: (i) the respective EBs in terms of a constant supply of a quality product/service from Uganda and (ii) the respective UFs in terms of market access, expertise in marketing and sales, information, knowledge and finance that EBs possess. There were also cases of perceived one-side dependency of the UF or the EB respectively. In addition, while some UFs noted a worsening negotiation position (bargaining power), mainly due to over supply in the market and significant increase in production and transport costs, many UFs reported an improvement in their negotiation position with the EBs. A main reason for this improvement was strengthened human resources (HR) - or, the
knowledge, information, capabilities, skills, and experience that local firms accumulate over time while they operate and learn in GVCs.

Improved local HR in UFs - via better performance and reduced risk of supplier failure - also tended to result in more network forms of VC governance\(^4\) which was characterized by advanced relationship and more interactive and intense coordination. This often had a positive impact on UFs’ business outcomes and growth. The finding suggests a prime role for the HR factor with respect to UFs’ advancements in GVCs towards a type of relation with buyers that is more smooth and interactive and more characterized by relational and beneficial forms of partnership and dialogue.

Importantly, network types of supplier-buyer relations require not only technical capabilities but also entrepreneurial, organizational, social and interactive capabilities. Local firms that possess the HR needed to enhance trust, responsiveness, reliability, communication and flexibility vis-à-vis the foreign buyer can establish the pre-condition for advanced relations in GVCs. This in turn seems to improve the likelihood that UFs reap increased benefits out of GVC integration. Markedly, interviews revealed that getting it right in GVCs (and actually making good business) can take several years. Against this background, Uganda thus has a vital interest that (appropriate) firms - and the local VC systems they manage - stay in export business over a longer time because (i) HR factors (or, the underlying processes of HR accumulation) tend to have a considerable time dimension (experience, learning etc.) so has (ii) setting up and improving GVC relations. It is therefore important that UFs ‘survive’ the early years and keep a commitment, where appropriate, to their product VC.

Respective trade related support measures could target enhancing: (i) relationships, mutual understanding and cooperation between exporters and buyers, (ii) exposure of UFs and their domestic partners to different market situations (including ‘chain visits’), (iii) the process of formation of relevant knowledge, capabilities/skills, experience etc. in UFs, and (iv) networking and cooperative learning among domestic VC actors. Certainly, (v) improving the volume and quality of the UFs’ products and services (and related production and trade processes) remains a vital task to set and strengthen the very foundation for enhanced trade relations.

\(^4\) Instead of arm’s-length governance which is characterized by mere transactions with little exchange of information and know-how.
Firms further highlighted salient issues related to switching to another business partner (UF or EB respectively): in some cases switching is easy and related to low costs. However, there are other cases that point to considerable switching difficulties and costs. These are related to various relationship dimensions, specifically aspects of: (a) loyalty, mutual understanding, reputation, contractual obligations and the VC set-up (organization, relationships, capacity building) on one hand, and (b) finding a new partner and starting from scratch (building the VC and the related trust and mutual understanding between actors, adjusting to new requirements of the buyer etc.) on the other. In the context of such switching costs and difficulties, there are views expressed that reveal the high interest of a number of UFs and EBs in the continuity of the current production and trade arrangements (and the relations) that are already in place.

**Rewards and sanctions for (non-)performance**

There were few examples of advanced and balanced systems of rewards and sanctions in the GVCs, e.g. related to UF’s (non-)performance. Yet, there were cases where the EBs’ rewards (e.g., increase in orders, price, information flow, innovation sharing, pre-finance offers) are deliberately linked to performance parameters. In one case, financial rewards were bound to be used for local upgrading projects at the UF’s flower farm. There are accounts that financial penalties foster upgrading efforts of UFs. So do industry standards which have a double-edged sword character for UFs: compliance to them result in costs but also in product/process improvements for the UF (VC) which can allow UFs to better perform in current markets or ‘graduate’ to more attractive markets.

**Assessment of EBs’ requirements and UFs’ performance**

Relevant as well is to take note of the assessment of both UFs and EBs regarding UF’s performance vs. EBs’ requirements with reference to nine performance parameters. This assessment revealed areas where UFs meet, exceed, or don’t fulfil the buyers’ expectations. It also showed perceptual differences between the VC partners regarding actual performance and requirements respectively. Stakeholders should study the detailed views of the UFs and EBs. In the FV industry for instance, some UFs stated that they considerably under-perform in packaging and deliver reliability; some UFs also reported that they over-perform (performance higher than requirement) in flexibility, but also in responsiveness/communication and price. FV EBs identified quality as one of the parameters where UFs under-perform notably.
Perceptual differences are significant in almost all parameters. In tourism, UFs on average assessed their own price competitiveness as ‘very high’, while EBs rated the UFs only ‘moderate’ in this regard. Other perceptual differences regarding tourism UFs’ performance are reported in relation to delivery reliability, conformance to specifications, and responsiveness/communication. VC partners should address such perceptual gaps via dialogue and mutual assessments.

**Areas, effects and feasibility of UF’s upgrading efforts in GVCs**

Finally, upgrading efforts of the UFs interviewed focused on products/services and respective process aspects. There are notable cases of technology acquisition and new quality management systems/practices that UFs have put in place. Main driving forces for upgrading were identified as follows: market entry/VC participation requirements, competition, market dynamics, demand changes, and industry standards/regulations. Further driving forces that were highlighted are: EB demands, UF performance problems, UF strategy and enhanced local capabilities. For some UFs, considerable upgrading effects include improvements in: VC position, bargaining power, product quality, cost, profitability (e.g. via constant delivery, fewer losses, or fewer buyers’ claims), reputation, skills and prices. Thus, upgrading can be seen to contribute to business and market consolidation, productivity, customer satisfaction and loyalty, as well as profitability, and thus progress towards enhanced sustainability of local businesses. Yet, not every UF reaps benefits from upgrading. Overall, undertaking appropriate upgrading efforts in a continuous manner remains fundamental for UFs if they are to continue operating and catching up in the global economy.

Most EBs noted that in the past UFs’ upgrading of products, processes, and practices (including communication, reliability) was at a moderate to high level of improvement and often had a high impact on business outcomes. EBs highlighted that upgrading can benefit UFs especially in terms of staying in business, thus gradually improving and deepening the relation with the buyer and developing and exploiting market opportunities over time. More consistent business (demand stability), better sales, contracts, prices and cost reductions are also among the benefits identified. Accordingly, upgrading benefits to UFs could be limited (or non-existent) due to competition, over supply, demand changes, and price pressures.

The study further found differences in terms of buyer support (cooperation) for upgrading within and across the sub-sectors; for instance there seems limited scope of support for
concrete upgrading of UFs in the tourism sub-sector; support for upgrading was acknowledged more in some other sub-sectors (e.g. in the fish, flowers or FV industry). Overall, it is however evident that supplier-buyer cooperation which targets upgrading is vital for UFs establishment and advancement in GVCs.

Regarding the *feasibility of upgrading*, UFs mainly stated that upgrading is costly but necessary, especially in order to improve their competitiveness, comply with standards and stay in business. There are incidences where UFs said that advantages related to successful upgrading eroded after a relatively short period of time which made it necessary to undertake new upgrading initiatives.

For many exporting firms, upgrading is vital to stabilize and consolidate the business operations, including the links with VC partners. It helps in: (i) operating closer to requirement levels, (ii) carrying out more efficient production and trade activities, and (iii) achieving more consistent quality supply, fewer losses, better margins, enhanced learning processes, and a reputation as a good supplier. These are vital steps in building and maintaining export competitiveness. However, upgrading is costly and requires expertise; GoU needs to consider improving related incentives, regulations, policies, funding, programmes and support institutions to make upgrading more feasible and successful for UFs. Donors need to consider their role in this context, where appropriate.

**3. Final issues and remarks**

Based on interview accounts from all sub-sector, this report recommends that *development programmes* (of GoU, support institutions, donors, NGOs) need to address particular upgrading needs of UFs and the GVC as a whole. The contribution of support institutions - and the public sector in general - to the enhanced performance of UFs in GVCs needs to be improved. Crucially, foreign buyers (GVC’ lead firms) need to be involved, where appropriate, much more than to date in the design and implementation of such programmes. Programmes and policies that foster meaningful and sustainable connection and importantly interaction (mentoring, advice, know how transfer etc.) between suppliers and buyers are needed, e.g. support for ‘chain visits’ and cooperation efforts of EBs and UFs in the wider context of upgrading.
Export proponents need to discuss more intensively how to support development of systems of trade and productions and related relations between actors (also in the domestic part of the GVC), and how to complement cooperation and support measures that are embedded in the GVC relations between local firms and their foreign buyers. Further, support remains particularly relevant in an area where existing buyers might not offer (substantial) support: this is with respect to local firms’ efforts to diversify customers and markets (e.g. operate in several GVCs simultaneously, or reposition firm in global industry etc.). It is evident that (national/international) support institutions and development agencies - and the people who run them - need to build better relationships with the international and the local VC actor and get their views and ideas on how to improve support programmes. A proper feedback system between international buyers and Ugandan institutions would probably help in tracing relevant GVC dynamics in time.

The sub-sector chapters in *volume two* provide views from UFs and EBs regarding vital issues of: (a) future opportunities and challenges, (b) prospects of and avenues for advanced GVCs operations including enhanced relationships in GVCs, and (c) support needed by GoU and its European partners (EU etc.). These reflections are presented in the section ‘final issues and outlook’ in each sub-sector specific chapter (for both UFs and EBs). There is a list of major opportunities and challenges regarding advanced business and performance of UFs in GVCs. Equally, suggestions for support measures by the state and donors are considerable and range from short to long term in nature. *Appendix 14 in this volume* offers an overview of firms’ comments regarding support needed by GoU to enhance the operations of the UFs in particular and the GVC in general (see *volume two* for more details). The presentation and discussion of main findings at the end of *this volume* (section 5) and especially the detailed chapters in *volume two* provide insights and examples that can contribute to respective deliberations.

To sum up, matters of governance and upgrading have gained momentum in Uganda’s export sector; there are remarkable examples discussed in the study. A number of firms in Uganda (not all) are aware and active in responding to and/or even shaping the governance dynamics (or actual outcomes thereof) in their respective GVCs. Upgrading efforts are in many cases significant; though not equally in all sub-sectors and across all firms interviewed. GVC participation has allowed UFs to acquire a range of new skills and capabilities, gain experience and improve their products and processes which has in many cases strengthened their competitiveness in ever more competitive markets. EBs have learned how to set-up, coordinate
and improve business with UFIs. A number of EBs have invested time, knowledge and money in VC operations in Uganda and have plans to do so in future. Policies and programmes need to complement these dynamics and efforts and respond to identified gaps in this context. Focus should be on efforts towards (1) building better VC linkages - between firms in Uganda and their buyers abroad but also between firms in the domestic VC - as well as (2) making better use of these linkages with buyers to enhance leveraging (skills, know-how etc.) and learning of local firms.

Our suggestion regarding GVC research is (i) to broaden its analytical focus to better understand aspects that are currently neglected by conventional GVCs research and thus, hopefully, improve the scope of its policy recipe. Further, GVC research needs to (ii) incorporate useful tools and concepts of branches of social and other sciences that have potential to enrich the framework and thus put it on a more solid theoretical base where necessary. Indeed, ‘mixing efforts’ - what we call GVC+ - need to be enhanced to improve the coverage and explanatory power and thus policy relevance of the GVC approach. It is striking that there is relatively little theoretical and empirical work existing on mechanisms of communication and trust in GVCs, or psychological, emotional etc. aspects of (formal and informal) inter-firm cooperation and learning. There is a deficient (especially micro) theoretical foundation regarding the behaviour and social relations of GVC actors, particularly those operating in the African context.

We therefore recommend enhanced analysis of non-economic aspects of embeddedness of GVCs at their local nodes: e.g. the social, cultural, political, institutional and cognitive pre-conditions that enable or disable local actors to integrate and perform in GVCs or carry out governance of the domestic VC in a certain way. In this sense, GVC analysis needs to show greater concern for what is happening at the very end of GVCs, in respective domestic and regional VCs in developing countries. The problems regarding organization, cooperation, and trust in domestic VCs in Uganda call for such an agenda.
Chapter 5 (Volume one): Presentation and discussion of main findings

In this section we present in more detail major findings of the research based on interviews with firms from the five sub-sectors. We shall discuss issues by themes not by sub-sector. Details on sub-sector findings are presented in volume two of the UPTOP report.

5.1 Linking up with buyers and getting the VC running competitively

UFs use a mix of formal and informal ways including personal contacts to link up with their EBs, among them are trade fairs, trade delegations, buyer lists, auctions, sector associations, development projects, use of the internet and magazines, visits to target markets, word of mouth, personal contacts (friends, family ties, former working relationships as an employee of the EB etc.), or linking up with local representatives of the buyer. Further, EBs undertake proactive contact making efforts (visits, internet search etc.), partly based on recommendations (by industry colleagues or clients) regarding the UF. Existing and potential exporters (especially smaller firms), and trade promotion experts need to consider more than they have to date how to improve the use of the informal and personal methods of linking up with business partners abroad. Notably, some firms are already applying advanced methods in this regard.

The phase prior to the actual start of the trade relation is typically complex and characterized by a range of discussions and activities that the UF and EB carry out. Aspects considered in discussions include: Product availability, volumes, quality and quality management, reliability, consistency, production methods and technology, product specifications, standards compliance, natural climate, workforce availability and competences, costs (of products, services, labour), delivery time, logistic arrangement and price as well as the political situation. Aspects discussed are furthermore: technology transfer, product development, terms of business (responsibility, payment, contract length, insurance, transparency), training, establishing/deepening of VC relations, the opportunities and vision of the business relationship, communication and information flows, future upgrading areas and joint activities, as well as the role and state of both national institutions (e.g. for quality control) and BDS in the country.

Activities carried out prior to the start of exporting include: trial shipments, product tests, setting up quality control measures, building VC relationship (between UF and EB but also with other VC actors), organisation and training of farmers, ensuring availability of skilled
personnel (recruitment, training), research activities (climate, political stability), or sourcing appropriate packaging material and negotiating with airlines. Another main activity is visits of EB to UF (and vice versa) to learn, build trust, exchange ideas, negotiate, agree on responsibilities and obligations, choose a production location, visit service providers and industry institutions etc. In the pre-business phase, there is a significant level of communication going on between the respective UFs and EBs.

The major challenges at the beginning of the trade business/relationship are mainly linked to issues of GVC entry requirements such as: standard oriented upgrading of products, packaging, facilities and processes, minimum volume, certification, competent staff, set-up of domestic VC etc. Major challenges included matters of: start up and certification costs, licenses, quality, consistency (supply, quality), technology (acquisition and mastering), production capacity and processes, production costs and stability (e.g., energy supply), setting up links with competent domestic VC players (out-growers etc.), packaging, logistics, deficits in UFs’ honesty and professionalism (a severe problem e.g. in the FV sub-sector), skills availability and skills development (e.g., in production and management), actual standard implementation and compliance (including related training and mind set change), as well as outsourcing decisions. Major challenges reported are further: new regulations and requirements, communication, logistics, storage and cooling facilities, image building (country), cooperation, knowledge (about international trade etc.), learning, relationship building/management (choosing the appropriate partner, building trust), and, in general, handling the risk that something might go wrong.

More specifically, the persistent challenge of developing appropriate human resources (capabilities, skills, attitudes, and mind-set) is significant across all sub-sectors. This should be noted carefully. For instance, in the flower sub-sector, all UFs but one mentioned HRD (training etc.) as a core challenge in the early period of their operations in Uganda: there were no experience, knowledge and skills available in the country at the infant stage of the industry. Fortunately, firms, the industry association (UFEA) and other stakeholders (donors) appear to have put emphasis on HRD from the beginning. For most UFs in the industry, training has remained a major activity they have to undertake to cope with changes (new standards etc.) and to improve their productivity, quality etc. This is an important finding for expert circles that discuss Uganda’s future diversification. More often than not these discussions underestimate the skills dimension of setting up a new sub-sector. Other non-traditional export
sectors need to be aware of these insights. GoU needs to have in place an enhanced set of incentive and institutional support for skills development and deepening in new sub-sectors.

All in all, the accounts of UFs and EBs regarding salient issues at the beginning of the relationship and the way they were handled reveal important insights about the development of young export sub-sectors.\(^5\) Besides policy makers, other firms that have just started or are on the verge of exporting can learn a great deal from the firms’ reflections presented in the report.

Moreover, the mentioned aspects related to the discussions and activities of integrating local firms into GVCs point to complex and multi-facet matters: it takes time to establish a set of relationships with both domestic and foreign partners in the VC, to understand market processes and standard requirements, to master a new technology and new processes, to attain an adequate level of product quality and so on. Export proponents need to consider the reflections of the EBs and UFs that are presented in the detailed analysis (volume two) and help firms develop a pro-active and informed mode of dealing with the numerous challenges of linking up with buyers (e.g. with regards to setting up VC logistics or choosing the appropriate buyers and thus relations) and developing a beneficial, stable and long-term oriented relationship with them. This could help young sub-sectors and firms respectively to quickly strengthen the organizational set-up, the day-to-day operations and overall competitiveness of newly established GVCs.

Finally, the UFs’ linkage arrangements with the EBs are mostly direct/mere trade relations or strategic partnerships with a few incidences of FDI (subsidiaries). There is a variety of contract forms: from verbal/moral to written contracts, from contracts for one week to contracts for two years or even up to five years.

**5.2 Governance in the VC**

*Major roles, activities and competencies of the UFs and EBs*

The typical VC set up is that while the UFs’ roles/activities are linked to domestic matters of production, quality control, sorting, packaging, logistics (e.g., up to FOB), training and product development, the EBs handle matters of marketing, sales, re-packing, quality control, product...
development, logistics (e.g. from airport to marketing outlet/ storage facility, further to the EBs’ clients etc.), networking and customer relations management in Europe, and engage in information management, knowledge transfer and feedback provision to UFs. Consequently, both partners need various competencies to fulfil their roles in the VC. In the case of the UFs for instance they need knowledge and competencies in: production, technology, organization, human resources, markets, marketing, logistics, business management, and VC operations (e.g. understanding of issues on the Ugandan but increasingly also on the foreign side of the GVC). A number of UFs pointed out that the competency requirements of their business have broadened.

**Driving forces for the VC arrangements**

There are furthermore a range of driving forces for the VC arrangements, including: quality requirements, contractual obligations and related threats of penalties for deficits (from EBs or final clients), technology, standards, regulations, investment, increase in global supply and competition (from firms in Uganda and abroad), market dynamics, air freight availability and costs, volume requirements (size, economies of scale), innovative cooperation forms, as well as mutual trust and enhanced local expertise (or local skills deficits respectively). Another major driving force is high labour costs in Europe which motivates (i) the setting up of EB-UF VCs in the first place (e.g. in the flower industry), and (ii) the outsourcing of particular activities from the EB to the UF once the GVC is running (examples exist in almost all sub-sectors examined). Notably, a number of EBs said they welcome and encourage enhanced local value addition.

**Changes in the GVC set-up**

There are various governance forms in the GVCs examined: there are (market based) arm’s-length as well as (explicitly coordinated) network and hierarchical governance patterns. Examples of changes in the GVC set-up include: (a) more direct sourcing relations of EBs

---

6 Interviews revealed that it is particularly vital that in the early phases of establishing export sub-sectors (e.g., fish) EBs carry out functions such as marketing, logistics and client relation management in Europe.

7 This includes changing prices and profit margins in various market segments, changing customer preferences, or emergence of market niches such as organic agriculture.

8 One flower EB noted on over supply as a driving force: Accordingly, there is more competition in the industry due to increased supply capacity in Africa which has resulted in lower prices and higher quality standards as well as pressure to operate with larger farm size (‘grow bigger’). “The growers in Africa have developed so much, so that the supply is up. Buyers now have more choices and prices are gradually going down. Growers have to be better and better, for instance in quality. Growers have to be bigger [more hectares] to earn same net profit, which in turn again increases global supply of flowers”.

Wiegratz, J., P. Nyabuntu and C. Omagor, Supported by UPTOP with funds from the EU
with UFs\(^9\), (b) EBs setting up own production in Uganda (e.g., in coffee or FV industry), (c) more value addition activities done in Uganda e.g. advanced packaging, or portioning of product (mixed flower bunches instead of mono bunches), (d) UFs working with more buyers and new service providers in Europe (e.g., independent agent instead of auction staff in flower industry), or shifting completely to own marketing via internet (tourism), and (e) more balanced/symmetrical UF-EB partnership with e.g. increasing elements of dialogue and exchange of information than direct knowledge transfer and control (e.g., in fish industry). Notably, further VC restructuring (to reduce VC costs and improve the VC efficiency) is anticipated; e.g. in the flower industry where some interviewees expected fewer VC actors (middlemen, agents) in the future.

The detailed analysis of GVC changes (*volume two*) reflects on the specific *(a) advantages* (in terms of information, coordination, communication, time savings, product development, learning, upgrading, price, cold chain control, risks, certainty, and cost) and *(b) new rules/requirements* (enhanced quality, communication, mutual understanding, responsiveness, just-in-time delivery and logistics, investment and skills) for the UFs related to the various new arrangements.\(^{10}\) To give some examples, UFs in the flower and FV sub-sector need enhanced local skills to minimize defects in new value-adding activities. Relatively expensive workers in Europe having to ‘touch’ the Ugandan flower bunch again to fix defects runs against the cost-benefit calculation of more local value addition. One flower EB noted that new staff at the UF’s farms tends to result in notable quality drops for a certain period. Some interviews also reflected the time-sensivity of the flower industry and consequent requirements of precise delivery time which put pressure not only on UFs but also their domestic VC partners (input suppliers, logistic companies) to avoid supply/logistics disruptions. Incidences of process disruptions (or threats thereof) are shaking the confidence of the VC actors, particularly the key firm. Finally, direct relations with buyers require UFs to understand the EBs’ business philosophy etc.

---

\(^9\) E.g., instead of buying via flower auction system in the Netherlands one EB sources directly from UF via contract farming. Or, instead of buying from FV exporter, one EB sources from farmers’ group.

\(^{10}\) Many UFs in the flower industry shifted a substantial part (up to 100%) of their production from auction to direct sales (with or without inclusion of agents). This has led to a number of changes: e.g., on the advantages side (a) UFs know the price in advance, have better access to product development and they receive information, advice, feedback, co-finance, training, logistical support etc. from the buyers who now source directly from the grower, (b) UFs receive various support measures from agents who mediate the trade between growers and buyers (without auction institution in between), and (c) the set-up has lower risk and allows better planning. One UF who has shifted from auction to direct sales described the difference in this way: “It’s like going from the unknown to the known”. See *volume two* for related new requirements.
Further, narratives of fish EBs revealed that UFs need to be aware of the structures (industry, firm conglomerate etc.) and dynamics that their buyers (purchasing officers etc.) - and therefore the Ugandan products - operate in. Food safety - due to related punishments by end-buyers (supermarkets) in the European part of the GVC, among others - will remain a crucial factor in exporting food. The UFs need to take (continue taking) pro-active measures to ensure a constant quality product. Minor mistakes in this respect can be costly for the EB/UF and quite easily create (temporary) image problems for the product among consumers. Not just actual risk but perceived risk by supermarkets and customers (and actors like the press) is decisive in food trade. Indeed, to a certain extent EBs risk their brand (product, firm, or conglomerate) by trading with UFs.¹¹

There is one more important point to make: in the case of one FV UF we had the impression from the interview with its frustrated EB (who complained about low responsiveness of UF etc.) that the UF might be overwhelmed regarding managing relations with many buyers. We think this - if true - is not a unique situation so we elaborate on the case briefly. While the UF might have done well in the GVCs with other EBs, it has maybe not paid enough attention to optimizing the relation (to communicate capacities, interests and expectations) with the EB we interviewed. Two implications can be identified directly: First, UFs in such situations might have to increase capacities in communication and the management of buyer relations so that they do not lose the respective EB altogether (learning-by-loosing-customers¹²). Secondly, there seems to be a problem with the capacities of a single UF that finds itself in a relationship with many buyers (and their potential/actual business demands). Either the UF manages to grow with the opportunities involved in the different relationships or it has to find a way to hand over the buyer contact to another trustworthy and capable UF (outsourcing, cluster).

Indeed, such UFs might have to engage more in collective entrepreneurship to exploit the potential opportunities of different buyer linkages when one UF faces a situation of having relations with too many buyers who are interested (and don’t have other contacts to reliable

¹¹ A purchasing officer of a fish buyer in Germany illustrates this point: “If the Ugandan partner is deficient and supplies faulty products, our whole firm group [- a conglomerate of a dozen food firms -] can suffer in terms of reputation. The relationship of our group with retailers can suffer; we can get punished from our client. If things go very wrong, for instance the press mentions wrong firm names in this context, the overall group name can suffers. We can be kicked out by the supermarket chain, not only in Germany but other European countries where our products are listed. Such dynamics happened recently when one supermarket in Germany found gene-manipulated rice in a sushi product of a firm [not the firm of the conglomerate], All sushi-products [of all firms] were taken out of the supermarkets immediately. Supermarkets here can react quite drastically. Thus, quality reliability of the Ugandan firm is so important”.

¹² The term is used by Schmitz (2005c) in the context of switching VC partners.
and capable UFs). If such ways are not explored quickly enough, the frustrated buyer might give up on Uganda’s FV sector altogether, or keep talking negatively about the experience with the country’s exporters.

To sum this up, UFs need to pro-actively search for the GVC arrangement(s) that suits them best, according to their level of development and stimulus’ needs (knowledge, skills, technology etc.). They can work in different GVC systems (with different buyers) at the same time and/or switch entirely from one to the other over time. The crucial insight is that the specific organizational set up of GVCs - and thus forms of relationships between GVC actors - matter for export undertakings of UFs. Trade policy and promotion need to be aware of (organizational) changes in GVCs - not in markets only - to better complement and support the UFs’ operations and moves in these arrangements.

**Coordination and cooperation between UFs and EBs**

EBs and UFs have to coordinate a range of areas. While some partners only coordinate very few issues (demand forecast, pricing, quality and logistics), others have a very comprehensive coordination system which besides the above issues includes coordination of information, business plans and strategies, decision making, promotions, or supply disruptions. There is a great deal of variation in terms of coordination levels across (e.g. tourism vs. fish) and within sub-sectors. Some buyers highlighted the need for (i) better coordination of information regarding supply forecasts and interruptions, and generally, (ii) increased responsiveness of their suppliers in Uganda (UFs).

In the same vein, there are considerable variations (across and within sectors) in the forms and level of cooperation between UFs and EBs. One of the most advanced cooperation patterns can be studied in the case of the floriculture sub-sector. The forms of cooperation include: business and production plans, logistics, quality check and feedback systems, knowledge transfer, training (in Europe and Uganda), problem solving, product development, mentoring and advising on production and marketing issues, co-finance and technology support, mutual

---

13 There is a notable EB-UF arrangement at a farm of a cuttings’ UF. The EB has two own production managers (expatriates) at the farm to ensure quality production. The UF is in charge of overall management of the farm. The presence of the EBs’ production experts arguably fosters knowledge and technology transfer to the UF (staff) and ensures a faster catch-up regarding mastering of processes and achieving required performance levels. Further, the presence fosters both (i) general mechanisms of coordination and cooperation between the UF and the EB, but also (ii) forms of direct control of the EB regarding local production (with view to ensuring consistent quality output).
visits (‘chain visits’, ‘learning-by-visiting’), payment for inputs, pre-finance, specific promotions and marketing measures, relationships and loyalty building, cost and benefit sharing, and cutting of commission (in case of higher volume traded). There are also remarkable examples of cooperation in all other sub-sectors examined. Indeed, cooperation with buyers helps UFIs in various ways, including in terms of product and process upgrading. Notably, not all UFIs interviewed reported well-built cooperation forms with the EBs.

Many UFIs however gave a positive assessment (‘good’ or ‘very good’) of the level of cooperation with EBIs. This is remarkable and could indicate that these UFIs have over time been able to consolidate the set of EBIs they work with (and stop trading with problematic EBIs) and thus overall stabilized/improved their relationship and cooperation patterns with these EBIs. EBIs also assessed the cooperation level to be ‘good’ or ‘very good’. Relationship related learning and improvement efforts of both UFIs and EBIs seem to bear fruit and have facilitated their cooperation to date.

Interestingly regarding ‘chain visits’: both UFIs and EBIs highlighted that ‘chain visits’ to Europe have accelerated the learning process of UFIs (regarding GVC set-up, market characteristics, customer behaviour, monetary risks of the EB, or implications of failure of UF). Further, a number of FV UFIs reported that after visiting Uganda, the EBIs understand the UFIs’ context and operations better and often show higher flexibility (e.g., regarding delayed shipments or quality defects) as well as increased willingness to cooperate and find solutions to problems of the GVC/UF. Such visits help broaden a commercial relation into a social relation which tends to increase commitment, flexibility (regarding quantity/quality variations) and cooperation by the buyer.

Further, interview results across sub-sectors reveal that business relations can grow over time into a close social relationship with a considerable level of mutual trust, understanding and commitment which in turn strengthens both the GVC and the UF. To a certain extent, relations can ‘lock’ in buyers. However, we also have an example in the fish industry that shows a possible evolution of cooperation (relationship) between the UF and EB: from (i) the actors not talking, to (ii) ‘acting blind’ with a lot of trust and cooperation, to later (iii) a break

---

14 The term ‘chain visits’ is used by Schmitz (2006b, 2006c).
15 Trust-based business stability, commitment etc. help improving operational VC efficiency, or stimulate joint quality enhancement measures, among others.
16 One FV UF stated: “A relationship stops or limits the buyer from looking for other supplier countries”.

Wiegratz, J., P. Nyabuntu and C. Omagor, Supported by UPTOP with funds from the EU
of the relationship. The EB’s account on this revealed that while stronger UF’ capabilities can at first temporarily stabilize/strengthen a relationship it can later lead to switching of a UF to another EB. The case also showed many learning processes going on on both sides (in case of EBs: governance of the VC); an impression we have from interviews across sub-sectors. Overall, the extent to which some interviewees compare business relations to marriage relations is notable.

Also relevant in this context is the fact that cooperation is typically based on some form of relationship (and thus some level of trust, social capital etc.). Consequently, UFs need social and interactive capabilities and respective know-how to initiate, manage and enhance both relations and respective cooperation forms and increase the benefits for the parties involved. Business ethics and practices play an increasing role in such a network setting with its often close interactions and cooperation forms. It is hard to imagine how local firms without appropriate business ethics and practices can in the long run benefit from the cooperation possibilities in GVCs. This reveals the relevance of ‘soft’ factors in VCs (including the powerful accelerators: interaction, trust and mutual understanding); or, of the benefits of high-trust VCs. Most policies and support programmes in Uganda have to grasp and address these ‘soft’ aspects of inter-firm processes better.

In this context, UFs and stakeholders further need to be aware of the potential of both formal and informal supplier-buyer cooperation within GVC arrangements and their impact on local firms. Cooperation can be a vital part of a successful division of labour in the GVC: it can feed information, knowledge and know-how into the operations of the UF on a regular basis (even day-to-day). Those UFs that cannot sufficiently reap cooperation benefits might find it more difficult than ‘cooperation champions’ to advance competitively. Strong cooperation forms are particularly important in the kick-off phase of a new export sub-sector (say, fish and flowers years back). Notably, perceptions of political instability or worsening production and transport conditions (which lower export business volumes, increase cost and uncertainty etc.) can delay the deepening of cooperation, or actually lower previously achieved cooperation levels (up to exit of EB).

In this sense, aspects such as appropriate business volumes, quality, costs/price, consistency, continuation, production, transport and communication conditions, perception of political stability etc. are all linked with processes of maintaining or improving the level and prospects
of relations and cooperation between UFs and EBs. For instance, in some cases high volume was a precondition for cooperation.\(^{17}\) Moreover, accounts of FV UFs regarding possibilities of improved relations with EBs emphasized the link between increased volume of a quality product traded and an enhanced relationship: increasing production capacity, addressing production constraints, better packaging and compliance with market requirements, implementing joint plans etc. will strengthen the relationship.

It is the task of both private and public support institutions as well as policy makers to make sure their services, programmes, funds etc. complement and enhance UF-EB cooperation systems to optimize the benefits for (i) the local firms (especially, the leveraging and learning effect) and (ii) the GVC as a whole; or at least, to avoid undermining the arrangements. Support institutions need to reflect more strongly on their (current and potential) role, services and impact vis-à-vis the specific cooperation areas between local firms and their international buyers in the different GVCs. How can these institutions facilitate the relationship, partnerships and interaction aspects of the GVC participation of local firms (beyond the mere trade fair/match-making support)? How can these institutions improve their services by stimulating and complementing the embedded cooperation that takes place in relations/interactions between GVC actors (e.g., UF-EB)? Further, the response time by GoU regarding upcoming problems (e.g., in energy sector) can have great relevance for decision making of GVC players which in turn has mid to long term consequences - up to (threat of) exit of EB.

**Challenges and conflicts between UFs and EBs in the GVC**

There are further challenges and conflicts in the arrangement between some EBs and UFs. These include matters of pricing, payment, costs, buyer demands, quality, production and logistics conditions (energy, air freight, political situation, bureaucracy), performance, communication, information sharing, responsiveness, honesty, reliability, switching to another partner, or local value addition efforts (which are at times seen as a threat to the EB or agent/middlemen in terms of competencies and functions). Sometimes this might lead to a break up of partnerships and organizational changes in the GVC: e.g., direct sourcing of EB from UF without use of middlemen (examples in flowers, fish).

\(^{17}\) In general, some EBs noted that one reason they need volume is to do risk spreading to better deal with demand and supply in the markets they deal in (e.g., case of flowers)
Probably the most extensive list of challenges and conflicts can be studied in the case of the FV sub-sector: Here, honesty and reliability deficits and related problems of delivery, payment and unequal bargaining power seem particularly severe in certain incidences. Gaps in the current VC arrangement in this sub-sector, e.g. the lack of a quality control system for incoming cargo in Europe (which amongst others increases the risk for the UFs and lowers their bargaining power) contributes to some of these conflicts and should consequently be addressed in the near future. There are interview accounts that pointed to incidences of cheating on both sides.

In this context, discussions with FV EBs revealed negative reputation effects for Uganda as a sourcing country due to certain action patterns of some UF (dishonesty, misuse of advanced money, or low responsiveness). In fact, comments from EBs in different sub-sectors indicate: frustrated buyers due to cheating, feedback deficits by UF etc. 'talk about' their negative experience among industry colleagues in their home country (or Europe generally).18 In this sense, an actual or perceived negative performance of one firm can have damaging image effects for the whole sub-sector.

These behavioural issues highlight a particular kind of export challenge that is often overseen in the national (and somewhat also international) debate about exports of developing countries’ firms to developed country markets: the challenge regarding local business ethics, values, behaviours and practices, including honesty and reliability. This could be a problem in emerging export sub-sectors with relatively low entry requirements and thus - within a context of economic uncertainties and volatilities19, low working capital etc. - a number of entrepreneurs who at the beginning ('newcomers') or for a period of time apply low professional standards, short-term perspective etc. to make business the fast way. This report recommends that the industry - and GoU/stakeholders, where appropriate - addresses insufficient business practices and ethics. This might also be relevant for other export sub-sectors. Of course, the theme of business practices and behaviour including trust in a transforming economy such as Uganda is linked to the larger context of the state of the macro-, meso- and micro-level foundations or mechanisms (sanctions etc.) that facilitate trust between actors in a country (Humphrey and Schmitz 1998). Trade proponents have to analyze and address these issues.

18 A FV EB noted, “there were many cases where the buyer gave pre-payment and the exporter used money for other things. Many buyers who lost a lot of money in Uganda talked bad about the country in Europe”.
19 See Humphrey and Schmitz (1998) for discussion of matters of economic volatilities and inter-firm trust.
It might further be appropriate to look into better protection of interest of Ugandan FV exporters in EU market, especially vis-à-vis importers who try to cheat (breach contract, disappear, run away with money, claim they have never received produce, ‘invent’ quality defects). The issue needs industry initiative, e.g. (a) advocacy towards buyer traceability/registration system in Europe, and (b) establishing desk of representative at most important points of entry of FV cargo into Europe to take care of exporters’ interest. This could help in reducing the export risk for UFcs and stabilizing relations with buyers.

**Issues of dependency, negotiation position (bargaining power) and switching**

There were many incidences where UFcs and EBs indicated that they operate in a situation of mutual dependency: Mainly because of the need of: (i) the respective EBs in terms of a constant supply of a quality product/service from Uganda and (ii) the respective UFcs in terms of market access, expertise in marketing and sales, information, knowledge and finance that EBs possess. There were also cases of perceived one-side dependency. There is some indication that mutual dependency is an important pre-condition for (or factor in) relationship and trust building as well as cooperation between the VC actors.20 Findings e.g. in the flower sector point to a certain level of bargaining power that the UFcs have vis-à-vis what they can demand/expect as the outcome of relationships with EBs: also but not only on the monetary front. The level of knowledge, advice, co-finance, training etc. provided by the EB can be seen as an expression of the mutual dependency context. Importantly, the actual level of interdependency and subsequent cooperation is also affected by developments elsewhere, e.g. the emergence of potential or actual new partners for the EB in other countries. Also, relative power in GVCs can shift temporarily due to significant (seasonal) price changes. Yet, the long term orientation of the partners and the overall state of mutual dependency can limit the extent to which the better off side takes advantage of the respective situation. One flower UF commented on such a case: “We try not to go to the extremes”.

Another interesting finding is that many UFcs reported an improvement in their negotiation position with the EBs.21 Some UFcs also noted a worsening negotiation position, mainly due to over supply in the market and significant increase in production (e.g., electricity) and transport costs. Other respondents noted ‘no change’. Worth noting, moves on the side of the EB can

---

20 In this context, one flower UF observed that “quality is a relation [between grower and buyer]” in the sense that the product is a result of interaction between VC partners (joint quality checks, feedback etc.)

21 This can be expected to come along with a change in power relations between respective UFcs and EBs. See also the discussion in Schmitz (2005b) and Schmitz (2005c).
also change the situation; e.g., one cuttings EB has recently set-up supplier relations in Ethiopia. “This gives us more flexibility in negotiation when the contract has to be revised [with our supplier in Uganda]”.

Notably, the HR factor is a main reason in cases of an improved negotiation position: the knowledge, information, capabilities, skills, and experience that local firms accumulate over time while they operate in GVCs and learn about production, technology, information sources, organization, markets, buyers, other VC actors and so on. In short, better HR can result in better performance and overall competitiveness and therefore bigger bargaining power. Also other strengths of UFs (in terms of finance, land under operation, communication, product variety and quality, and business volume) have a positive impact on the negotiation position. So has better mutual understanding, and better cooperation and flexibility as well as transparency between UFs and EBs; in short, better working and social relations between the VC partners. Importantly, it is continued business - with appropriate partners - that allows for the development and improvement of such relations which in turn can foster cooperation and so on.

These are crucial findings for Uganda’s export agenda, especially for small-holder export business: the negotiation position of local firms seems to improve with the time they stay in the export business. However, if the conditions for exporting worsen and UFs have to stop or reduce their business, they can lose the benefits of the strengthened position that they have worked for in past years. In other words: lower trading volume can lower the prospects of cooperating with the EBs. In the case of a breakdown or down-turn of business, VC specific knowledge, experience and relationships among the various VC actors (farmers, supervisors, and traders) might be lost until the VC relevant knowledge and experience can be applied again in a similar setting, fruitful linkages with other EBs can be established etc.

In short, the benefits lost due to a souring or discontinued relationship with a EB go beyond the export revenues - to involve aspects of knowledge, ideas, technology and experience - and might be particularly harmful for the development aspiration (in terms of development of capacities and capabilities) of latecomer firms in the export sector. The UF might find itself in

---

22 To give another account of the importance of HR: One fish EB stated that it prefers local firms that have knowledge, experience (exposure to international markets), competencies, sense of independence etc. so as to engage in a rather balanced relationship. Accordingly, this enhances confidence in the decisions made (arrangements agreed to) and stabilizes supplier-buyer relationships.
a situation of disconnection from (a) the pool of know-how, information, technology, resources and advice that the EB used to stand for or provide and, more generally, (b) from the opportunity to learn and catch up fast via repeated interaction with EBs. The country has thus a vital interest that (appropriate) firms - and the local VC systems they manage - stay in export business over a longer time. This finding is illustrated by the main reasons given for the improved position which are chiefly related to such HR and performance factors that tend to have a time dimension (experience, learning etc.).

These findings can provide those stakeholders who target strengthening of UFIs in GVCs with some good entry points for respective support measures: A well managed fund that, among others, supports activities related to mutual visits between UFIs and EBs and the process of increasing mutual understanding between VC partners could be one. Exposure of UFIs to different market situations, increased accessibility and awareness of relevant information (about competitors etc.), and the stimulation of networking and cooperative learning among domestic players are other possible initiatives. Importantly, improving the processes and products/services - and related skills and capabilities - and thus business performance of the UFIs of course remains a fundamental issue for support. In general, measures that can accelerate the process of formation of knowledge, capabilities/skills, and experience (also via sensible diversification of UFIs’ customers/markets) as well as VC relationship building/deepening can have good prospects in this regard. We emphasize again that issues relating to the domestic production, transport and communication conditions and the investment climate have a major impact on UFIs’ performance and thus position vis-à-vis buyers in the GVC.

Firms further highlighted salient issues related to switching to another business partner (UF or EB respectively): Indeed, in some cases switching is easy and related to low costs. However, there are other cases that point to switching difficulties and high costs. These are related to various relationship dimensions, specifically aspects of: (a) loyalty, mutual understanding, reputation, contractual obligations and the VC set-up (including organization, relationships, capacity building) on one hand, and (b) finding a new partner and starting from scratch (building the VC and the related trust and mutual understanding between VC partners, adjusting to new requirements of the buyer etc.) on the other. In the context of such costs and difficulties related to switching, there are views expressed that reveal the high interest of a
number of UFs and EBs in the continuity of the current production and trade arrangements that are already in place.

**Rewards and sanctions for (non-)performance**

Overall, there were rather few examples of advanced and balanced systems of rewards and sanctions in the GVCs, e.g. related to UF’s (non-)performance. Yet, there were cases where the EBs’ rewards (e.g., increase in orders, price, information flow, innovation sharing, pre-finance offers) are deliberately linked to performance parameters. In one case, financial rewards were bound to be used for local upgrading projects at the UF’s flower farm. There are accounts that financial penalties foster upgrading efforts of UFs. So do industry standards which have a double-edged sword character for UFs: compliance to them result in costs but also in product and process improvements for the UF (VC) which can allow UFs to ‘graduate’ to more attractive markets (Knorringa 1999).

**Variables that influence forms of GVC governance**

Changes in variables considered to be influencing governance patterns: The most consistent finding in this respect is that improved capabilities of the UF tend - via better performance and reduced risk of failure - to results in/be linked to a more network-type of VC governance with an advanced character in terms of (i) relationship (partnership) and (ii) coordination (more interactive and intense) which together often had a positive impact on business outcomes. This finding suggests a prime role for the HR factor with respect to UFs’ advancements in GVCs towards a type of relation with buyers that is more smooth and interactive and more characterized by (relational and beneficial) partnership and dialogue. For instance, the capability factor is vital for the move towards an increase in direct and beneficial relations: the EB needs to have confidence in the capability set of the UF, including the learning and social capabilities. Collective action by the local industry can also be vital in this respect. For instance, collective action in the floriculture industry regarding training has improved local HR which has - again, via enhanced firm performance - improved the relationship with the EB. A similar virtuous cycle seems to be at work in the case of the fish and more recently in the tourism industry. Notably, the collective action in some other sub-sectors (e.g., coffee, FV) need to be enhanced to generate such positive effects.
**Strategic efforts to enhance governance and relations with VC partner**

Strategic efforts of the EBs to enhance governance and relations in the VC chiefly focussed on increasing three issues: (i) trust, (ii) coordination, and (iii) flexibility. Other major efforts also targeted enhanced (iv) monitoring of the UF and (v) provision of assistance to the UF. The immense importance of the trust dimension is noteworthy. **Efforts of the UFs to strengthen relationships with EBs** however include enhancing performance, reliability, volume, communication\(^{23}\), information sharing, responsiveness, pro-active problem solving, honesty, trust (e.g., via visits to EB, invitations to EB\(^{24}\)), flexibility, eagerness (to do business and adjust to changes including new buyers/market requirements), and training of local staff. Such efforts also reflect rising competition pressures; e.g., some FV UFs reported working without profit or actually making losses for a certain period to retain a buyer. Many EBs explicitly commended their partner(s) in Uganda for the respective efforts in the past to strengthen the relations and the performance of the GVC. For instance, the fish EBs noted efforts towards enhanced flexibility, responsiveness, communication, and trust.

A related finding: The main reasons for UFs to accept the coordination/leadership role of the EB are: trust, the strategic competence of the EB (e.g., in marketing and logistics) as well as the EB’s role as a gatekeeper to markets and source of information/knowledge.

**The importance of ‘soft’ factors of export competitiveness and success**

The overall findings indicate the importance of factors such as trust, coordination, reliability, consistency, loyalty, transparency, behaviour, good business practices and ethics, professionalism, flexibility, responsiveness, attitudes, communication and overall entrepreneurial spirit in export oriented VCs. Most of these terms point to rather ‘soft’ factors of export competitiveness and success; they are different from (also important) matters such as price, volume, productivity, quality or logistics/market access.\(^{25}\) It is vital to realize that these soft factors (personal/HR factors) can be ‘break through’ factors for a trade relationship: They can set in motion a virtuous cycle of increased interaction and trust, as well as positive

---

\(^{23}\) One tourism UF recently started sending a newsletter (about new developments in the tourism sector, and the country in general as well as issues of the firm) to its buyers. The EBs who received the newsletter noted that this is a very good trust building measure (e.g. via information provided in the letter on activities of the UF to improve staff skills), gives ideas and inspirations for marketing, selling (“It could help in selling tours”) and product development and is a good advertisement for Uganda. One EB remarked: I am happy that … the Ugandan partner has started sending a newsletter and informs about tourism, politics and other salient issues”. The EB further recommended intensifying the information exchange: “For new lodges and other changes in Uganda: We need information and update on this”.

\(^{24}\) Indeed, visits seem an effective measure in strengthening ties.

\(^{25}\) No doubt, our study re-emphasizes the importance of quality, price etc.
expectations, and therefore prospect of business and cooperation opportunities opening up over time. The last point is particularly interesting: a continuous business relationship allows the two partners over time to strengthen their relations and look into possible cooperation forms (which is not so surprising but important to note from the development angle). Thus, UFs that can manage to stay in business over many years and with an appropriate partner can expect to reap the benefits of continuous learning, cooperation, upgrading and business in GVCs. In this sense, some soft factors could be seen as entry barriers to GVCs/trade.  

Finally, these soft competitiveness factors can significantly help the UF to succeed over competitors (who are less responsive etc.): by integrating and upgrading in a GVC through good supplier-buyer relationships. Importantly, some of the factors seem well in control of the local firms (different from say the electricity problem). Further, they can improve on them with comparatively low financial investment.

There are also some indications for the strategic weight of honesty, reliability and the like in business networks. The FV EB in this case needed a long-term local partner with the appropriate entrepreneurial characteristics (i) to achieve (after some time) the levels of product volumes, quality, consistency and process efficiency needed to make the cross-border business profitable (for both sides); and (b) to make the rather long-term oriented investment (finance, know-how, training/capacity building, time) into the VC arrangement worthwhile. Believing

---

26 A good indication of the importance of soft factors is the following view of a fish EB that went to East Africa to identify and select a partner for direct imports of frozen fish: “Choosing a supplier partner is a quite personal process. For instance, we visited Uganda and Kenya and did product tests with a Tanzanian firm [but did no visit Tanzania]; our impression was in favor of a Ugandan firm both in terms of competence and sympathy. In case of a Kenyan firm, the firm just did the firm tour with us in a rush and did not really show keen interest to work with us. Another Ugandan firm said right away ‘we cannot do this’ when we requested for particular type of packaging. Our current partner instead showed readiness to improve and adjust from beginning; the firm said ‘we can do it’. It is important that potential partners show this readiness: the impression counts a lot at the beginning [of choosing a partner and building a relationship].” The above statement should offer insights for potential and current exporters in Uganda regarding the importance of responsiveness etc. right from the beginning of establishing a relationship.

27 To illustrate this point: One FV EB was enthusiastic about the responsiveness, flexibility and transparency of a UF. The general manager and the sourcing officer (responsible for the Ugandan FV) were relieved that they seem to have established a link with a good supplier in Africa who demonstrates good business practices and ethics and entrepreneurial spirit. “We feel that we can build a long term relationship with him [the Ugandan entrepreneur] because he shows very high flexibility and eagerness to do business. This gives us a good feeling. We have already shut the doors to other two [weaker] suppliers as a consequence”. Another quote that nicely illustrates the essence of the soft factors in network relations was made by a flower agent with view to respective deficits of some UFs: “In this system [of tightly coordinated GVCs], hiding behind silence doesn’t work; you have to face the music”. This is a quote which could be used in training sessions for exporters, especially of emerging sub-sectors and/or in awareness building campaigns to point to the importance of responsiveness and communication in export business etc.

28 The FV EB who buys from a Ugandan cooperative highlighted: “The Ugandan partner has continuously put honesty on the table. Indeed, at the beginning of the relationship the partner had nothing to put on table but
in - or, sufficiently assuming - the honesty of the partner (or suspending related uncertainty for the time being, see Möllering 2005, 2006) could thus be a pre-condition for the actual start of the network relationship including continuous EB’ investment into and cooperation with local suppliers.29

The impression is that the mainstream policy and research community in Uganda has yet to increase efforts to document and understand these VC dynamics and reflect on their implications for local learning, capacity building, training etc. It is essential that the UFs in the various export sub-sectors are aware of the activities that EBs are likely to undertake regarding GVC governance (trust, coordination, flexibility). UFs can then pro-actively improve their efforts in the areas they consider important and in their interest (trust, coordination etc.). Also, it is important to recognize that such governance efforts (trust building etc.) should be undertaken by the UFs as well vis-à-vis their domestic trading partner, e.g. fishermen, out-growers, hotel manager etc. Research needs to investigate the state of such efforts in the domestic part of the GVC.

The study revealed that trust building and deepening is a core issue in GVCs for both the UFs and the EBs; it can be interpreted as part of a competitiveness strategy (individually and as a GVC) that is built on stronger inter-firm networks and strategic alliances to favourably compete (networks as a source of competitive advantages) on factors such as quality, flexibility, speed of delivery, innovation etc. (Humphrey and Schmitz 1998). GoU and stakeholders should consider how they can help UFs to translate this insight into pro-active and informed measures that target trust building and improvement. How can reliable UFs be helped to demonstrate trustworthiness to buyers (and ‘earn’ trust over time via experience of repeated interactions and performance in the past, ibid) so that the buyer engages in the relationship, first, and enhances cooperation efforts, second? How can the reputation of trustworthy UFs be shielded against the negative effects of the actions of the untrustworthy UFs? How can UF-EB trust be enhanced by regulatory measures/inspection services in the European GVC part?

This report recommends that trade related training and capacity building in Uganda puts more emphasis on the above mentioned soft side of export business. It would be helpful to seek

honesty. They were too far away [several hundred kilometres] from Kampala/Entebbe; they could not ‘hit and run’ [opportunistically sell product easily to other buyers]. They needed investment and commitment by a buyer to get into the export business”.

29 It could be argued that honesty would not be as directly honoured (less direct strategic weight) in terms of buyer investment in supplier training etc. in (market based) arm’s-length selling-buying relationship.
assistance from respective role models (respective firms) in the country for training at all appropriate levels: exporters, associations, students, entrepreneurship, education in secondary schools etc. Good practices (lessons-learned, techniques) have to spread across sub-sectors. Courses are needed in active relationship and trust building and deepening (‘earning’ trust etc.), in negotiations, in dealing with conflicts between VC actors, in pro-active behaviour and communication in a VC setting etc. Trade programmes face a challenge to develop related learning methods and material. Increased awareness and skills regarding the ‘soft’ factors is however particularly important given (i) the deficits in business ethics/practices in the domestic economy and the seemingly quite negative track record (reliability, honesty etc.) of some exporters (e.g., some firms in the FV sub-sector), and that (ii) addressing these factors is often a relatively low cost measure (for exporters etc.).

Assessment of UFs’ performance and EBs’ requirements

The assessment of UFs and EBs regarding UFs’ performance vs. EBs’ requirements with reference to nine performance parameters reveals areas where UFs meet, exceed, or don’t fulfil the buyers’ expectations. In the FV industry for instance, some UFs reported that they considerably under-perform in packaging and deliver reliability as well as quality, price, conformance to specifications, responsiveness, innovation/technology, and working capital. Some UFs reported that they over-perform (performance higher than requirement) in especially flexibility, but also in responsiveness/communication and price. Some EBs identified quality as one of the parameters where UFs under-perform notably. Importantly, EB requirements are not always ‘very high’. In the FV case, ‘high’ and ‘moderate’ expectations dominate; there is some sense that the buyers take a realistic view regarding the performance possibilities on the supplier side.

The analysis also provides examples of perceptual differences between the VC partners:
While for instance in tourism the UFs on average assessed their own price competitiveness as ‘very high’, EBs rated the UFs only ‘moderate’ in this regard. Considerable perceptual gaps

30 See Knorringa and van Staveren (2005) for a discussion on how to operationalise the concept of social capital with view to developing related technical assistance programmes (by carrying out trust building measures, or using exercises regarding how to constructively deal with conflicts etc.). Importantly, the reports highlights the role of bridging social capital: “Bridging social capital emerges from interactions between heterogeneous groups of people that share some common (business) values, and build earned trust through repeated and voluntary interactions…To engage successfully in more demanding international value chains, a transition from a reliance on bonding social capital [merged from common social ties like family, kinship, ethnicity or religion] to bridging social capital is necessary. Relationships with external buyers usually provide richer information on demand and needs for upgrading. Whereas building bridging social capital with external buyers is crucial, intensified competition makes such social capital more difficult to develop and a more risky investment” (ibid, 3, 5).
regarding UF’s performance are also reported in this case in delivery reliability, conformance to specifications, and responsiveness/communication. Perceptual differences in the FV case are significant in almost all parameters. VC partners should address such perceptual differences via dialogue, regular mutual assessments etc. Stakeholders should study the detailed assessments of the UFs and EBs.

Interestingly, one flower UF who assessed its performance vis-à-vis an ‘old’ and a ‘new’ buyer (the products were only slightly different) expressed performance differences in the established vs. new arrangement: The UF assessed its product quality and delivery reliability noticeably lower in the set-up with the new buyer. The example gives an indication of effects related to processes of learning about (a) each other’s working methods and requirements and (b) the processes and specification of the new product variety. This UF also highlighted the challenge of achieving high level of cooperation with the new business partner. The implication of this example for thinking about export competitiveness in new product types/varieties or GVCs with new partners is vital: firms have to put extra efforts into the build-up, adjustment and learning process in new arrangements to close, in competitive time, the performance gap that comes along with a new product and/or a new buyer. Local HR (knowledge, capabilities, skills, mindset) are a vital part of this catch-up process. In other words, established systems with buyers can have a considerable performance advantage over new systems. Markedly in this context, interviews revealed that getting it right in GVCs (and actually making good business) can take several years: it is therefore important that UF’s ‘survive’ the early years and keep a commitment, where appropriate, to their product VC.31

5.3 Upgrading in the VC

Upgrading efforts of UF’s are focussed on products/services (to achieve quality and conformance to standards etc.) and processes (to achieve standard conformation, organizational/operational efficiency, delivery reliability, resource sustainability etc.). For instance, as part of process innovations, some UF’s have improved links and relations (trust, communication, commitment, training etc.) with actors in the domestic part of the GVC

---

31 One FV EB highlighted that it “takes many years to build up a good system, to get it right. The operations should get better after about five years when all partners have the knowledge and experience needed. But it is difficult to get there. Unfortunately, some relationships collapse within the first years so that the benefits of enhanced experience, knowledge and efficiency of systems cannot be harvested...Ugandan suppliers have to keep focus and concentrate to compete. Concentrate on one product first and get it right, get the costs and quality right. It can take 10 years to get it right. ...In Uganda, suppliers often do too many things at a time”. The EB was of the view than once processes with one product are in control and efficient, one can try other products.
(farmers, fishermen, transport firms etc.). There are notable cases of technology acquisition and new quality management systems/practices that UFs have put in place.

New functions that some UFs carry out are quality management, fish farming (instead of only processing fresh water catch), producing cuttings (instead of importing them) and seedlings at own farm, managing a pack house, booking airfreight or costing itineraries (used to be done by EB) etc. Notably, one UF went from production of roses to cuttings because of the falling profitability of the former. Cases of inter-sector/inter-chain upgrading were extremely rare; however they included (1) some tour operators also engaging in the accommodation business and in the production of websites, brochures and guide books, or (2) a fish processor also going into roof shingle production.

Main driving forces for upgrading were identified as follows: Market entry/VC participation requirements, competition, market dynamics, demand changes (taste etc.), and industry standards/regulations. Further driving forces that were highlighted are: EB demands, UF performance problems, UF strategy and enhanced local capabilities.

Incidences (reported by some not all UFs) of considerable effects of upgrading include improvements in: VC position, bargaining power, product quality/performance, cost, profitability (e.g. via constant delivery, fewer losses and fewer claims from buyers), reputation, skills and prices. Thus, upgrading can be seen to contribute overall to business and market consolidation, productivity, customer satisfaction and loyalty, as well as profitability, and thus foster progress towards business sustainability.

Most EBs noted that UFs’ upgrading of products, processes, and practices (including communication, reliability) was at a moderate to high level of improvement and often had a high impact on business outcomes; this is indeed a positive assessment. According to EBs, upgrading can benefit UFs in terms of: (a) staying in business (getting and fulfilling orders and satisfying clients) and gradually improving and deepening the relation with the buyer and

---

32 Notably, the respective UF used a joint venture with a Dutch firm - after ten years of doing business with it - to deal with respective know-how and technology issues: “The technology transfer from the firm was vital: we had no clue [about cuttings production]. The current arrangement of doing it locally is the cheaper model and has increased our own savings”.

33 Indeed, especially young small export firms e.g. in FV industry seem to enhance their profits considerably not (only) through obtaining a higher price, but especially through making fewer losses due to quality and delivery problems. This can have significant positive financial implications for the kind of small businesses (low level of working capital) active in the FV sub-sector.
developing and exploiting market opportunities over time (expanding business, firm growth), (b) getting more consistent business, fewer claims, higher sales, better contracts and/or prices, (c) advancing their understanding of markets, (d) realizing cost reductions, and (e) carrying out a more complex set of activities and responsibilities (management etc.). However, in the EBs’ view upgrading benefits to UFs could be limited (no or limited price increase etc.) due to: over supply, competition (more suppliers giving buyers more choices thus more requirements for same price etc.), demand changes, customer pressures for low prices, UFs’ deficits in business vision and market knowledge as well as concentration of buying power at downstream chain ends (retailers etc. which demand lower prices). Some EBs highlighted that they also needed to constantly upgrade in order to be able to successfully market UFs’ products.

The study further found differences in terms of buyer support (cooperation) for upgrading within and across the sub-sectors; for instance there seems limited scope of support for concrete upgrading of UFs in the tourism sub-sector; support for upgrading was acknowledged more in some other sub-sectors (e.g. in the fish, flowers or FV industry). Overall, it is however evident that supplier-buyer cooperation which targets upgrading is vital for UFs establishment and advancement in GVCs.

Regarding the feasibility of upgrading, UFs mainly stated that upgrading is costly but necessary (i) to improve competitiveness (which can in turn bring rewards such as more sales and/or better prices), (ii) comply with standards and (iii) stay in business (long term business survival). There are incidences however where UFs expressed that advantages related to successful upgrading erode after a relatively short period of time which makes it necessary to undertake new upgrading initiatives.

The impression from interviews is that upgrading is vital to stabilize and consolidate the business operations, including the links with GVC partners. This holds especially for smaller and young exporting firms. Upgrading helps to ensure: (1) operating closer to requirement level and carrying out more efficient production and trade activities, (2) realizing consistent quality supply, fewer losses, better margins, and enhanced learning processes, and (3) getting a reputation as a good supplier (satisfied customer base). These are vital steps in building and

---

34 Yet, price pressures are also major reason for bringing activities to Uganda so that GVC as a whole becomes more cost effective.
maintaining export competitiveness. It will remain vital to adequately balance concern for improvements at a particular stage of the GVC (upgrading of processes, products, organization; functional specialization) on one hand and moving up to the next stage (functional upgrading) on the other (Schmitz 2005b, 29).

In any case, upgrading is costly and requires expertise: GoU needs to consider better incentives, regulations, policies, funding, programmes (targeting improved skills, business practices and ethics etc.) and support institutions to make upgrading more feasible and successful. Though some institutions have been instrumental in the upgrading of UFs in the past the contribution of especially local but also international support institutions to upgrading needs to be enhanced.

Observations and recommendations regarding respective development programmes

To give some flavour of interview accounts regarding institutional support for GVC operations: in the FV sub-sector for instance there was generally positive feedback regarding the domestic and foreign institutions that provided assistance. National institutions however were explicitly requested to improve efforts and services (e.g. UEPB and HORTEXA). Notably, the services (information, training, linking) provided by external institutions such as the CBI are considerably well used, and seem helpful. Comments indicated that UFs make good use of the export related information provided by certain trade related institutions based in Europe. Some UFs however were quite unaware of the national/international assistance provided to the sub-sector. Institutions concerned might have to adjust their awareness measures to better cover the current nature of FV business in Uganda and reach potential beneficiaries.

Based on interview accounts from all sub-sector, this report recommends that development programmes (of GoU, support institutions, donors, NGOs) need to address particular upgrading needs of UFs and the GVC as a whole and, crucially, involve foreign buyers (GVC’ lead firms) - where appropriate - much more than to date in the design and implementation of such programmes (relationships are relevant in GVCs). Programmes and policies that foster meaningful and sustainable connection and importantly interaction (mentoring, advice, know how transfer etc.) between suppliers and buyers are needed, e.g. support for ‘chain visits’ and cooperation efforts of EBs and UFs in the wider context of upgrading (training, know-how
Export proponents need to discuss more intensively how to support development of (especially *domestic*) systems of trade and productions and related relations between actors (key words: development of VC, embedded BDS etc.) rather than carrying on to focus predominantly on *singular technical issues with little specific reference to VC matters* (or little engagement of different VC actors, e.g. in training or upgrading measures).

To bring home the argument regarding institutional support, a brief reference to points made by Schmitz is helpful: “Rather than asking the broad question of what institutional support do local enterprise need, the policy maker needs to ask a more specific question: What is it that the global customers of local enterprises are *unlikely* to provide and *how can the local institutions fill this gap* and assist in the acquisition of the missing capabilities?” (Schmitz 2005b, 28-9, emphasis added). For this, policy makers, support institutions etc. need to become more familiar with the realities of GVCs, especially the cooperation patterns within GVCs. Export proponents need to bear in mind for instance that required support measures might differ depending on if the local firm/VC wants to (a) sell its own product in global markets, or (b) make sub-products to specifications of global buyers (Schmitz 2005c, 6).

Further, with regards to market orientation of exporting firms (which simultaneously operate in different markets/chains), trade proponents should note that “[p]roducts and customers that appear minor in volume terms could be of major significance for the learning and eventual functional upgrading of the [local] enterprise” (Schmitz 2005b, 28). This often neglected insight is highly relevant for the debate on Uganda’s exports, and related support measures.

In addition, export related support needs to be more sensitive to the observation that global markets are not (always) free and open - but often rather structured and governed by few powerful actors (ibid, 59). “Markets are not free-for-all open spaces” (ibid, 31). In this context, the “problem with current stakeholder approaches [around the world] is not that they are ignoring global markets. Our point is different: they tend to prepare local enterprises and mobilise local institutions for competing in a free and open global market. In practice, however, global markets have become highly structured and many chains are governed by [few] large buyers. Seeking to involve such buyers in local development initiatives is critical” (ibid, 59). The study of the experiences with such an approach in Uganda and elsewhere is and will remain important for the years to come.

---

35 See Box 10 (Appendix 13) for some reflections on ‘chain visit’ programmes.
In general, against the background above it becomes evident that (national/international) support institutions and development agencies - and the people who run them - need to build better relationships with the international and the local GVC actors, get their views and ideas on how to improve support programmes etc. and become more attractive to those currently outside their current clientele. A proper feedback system between international buyers and Ugandan institutions (business associations, UEPB, PSFU) would probably help in tracing dynamics in time. Institutions should consider an annual (or biennially) survey/questionnaire system to get an update on the views of international buyers and take respective action where appropriate. Buyers can provide advice regarding areas of upgrading that firms and institutions in Uganda should jointly focus on. This is what it means to apply a ‘market-in’ approach (rather than ‘production-out’ approach) to the area of PSD support: This approach “starts with the customer and the market. It asks what are the critical success factors needed to win business from buyers; and it analyses the gaps between the requirements of the buyers and the capabilities of the suppliers” (Schmitz 2005c, 15). Indeed, one measure in this context is interviewing buyers; our study has revealed the fruitfulness of such efforts.

Moreover, where appropriate, institutions/agencies could have a section in their annual reports on activities with international buyers (beyond mere trade fair/match making activities). There could also be regular surveys that establish the assistance and cooperation forms between local firms on one hand and support institutions and Government/donor agencies on the other. Sector associations could gather regular feedback from their members on the impact and adequacy of the various assistance programmes and the ideas and suggestions of different GVC players (farmers, traders and foreign buyers) for future assistance. This report recommends putting more requirements on (state) institutions to implement programmes jointly with the local producers/traders and the foreign buyers. Such programmes are indeed needed.

Also, publications such as the UEPB’s ‘Export Bulletin’ could have more stories on GVC matters (exporter-importer relations etc.). Further, seminars - or a conference - that reflect on

---

36 Institution such as PSFU or MTTI for instance seems to have little meaningful and continuous interactions with international buyers with view to accelerating local learning and GVC improvement.

37 As Schmitz points out, the “trade fair is often not the relevant marketing channel. Trade fair access is relevant when: (a) many producers confront many buyers; and (b) the producer defines the product (as with the craft market). There are many situations, however, when these conditions are not met. In export markets in particular, it is very common that: (a) multiple small producers confront a few (big) buyers; and (b) the buyer defines the product. These buyers rarely use trade fairs to find new suppliers … In these situations, participation in trade fairs is not an effective way forward (Schmitz 2005c, 23, emphasis original)
the concrete experiences of local firms with their international buyers, and on matters of learning and upgrading in GVCs are needed. International buyers should also be invited to give presentations at such occasions; about their experience with UFs and respective performance weaknesses/strengths, cooperation forms, upgrading efforts etc.

Importantly however, the support and cooperation offered by existing buyers (to strengthen the existing position of a local firm in a GVC) might have limits: support institutions, BDS services etc. remain particularly relevant regarding local firms’ diversification of customers and markets (operating in several GVCs simultaneously, repositioning of a firm/cluster) (ibid, 37): “The information, advice and training required for this diversification are unlikely to come from existing buyers” (ibid).

In short, our argument is that Uganda should not only carry out research on the behaviour of donors but also of buyers. In the same vein, the conventional study of market trends alone is insufficient given that in many industries a few buyers are main gatekeepers for a large/relevant share of the markets. It is buyers that need to be penetrated and their demands (regarding products and processes) that need to be understood and met. Indeed, Universities and research institutes need to enhance efforts in this direction. Generally, stakeholders (firms, policy makers etc.) need to consider giving more attention to the GVC literature. Many studies that we have tried to integrate into this report are of great relevance to building and deepening Uganda’s export competitiveness.

5.4 Final issues and outlook
GVC participation has allowed UFs to acquire a range of new skills, gain experience (lessons-learned) and improve their products and processes/practices. EBs have learned how to set-up, coordinate and improve business with UFs. A number of EBs have invested money and knowledge in VCs operations in Uganda and have plans to do so in future. The detailed sub-sector chapters provide a range of views from both UFs and EBs regarding vital matters of: (a) future opportunities and challenges, (b) prospects of and avenues for advanced GVCs operations including enhanced relationships in the GVC, and (c) support needed by GoU and its European partners (EU etc.). These reflections are presented in the section ‘final issues and outlook’ in each chapter (for both UFs and EBs).
Overall, there is a list of both significant opportunities and challenges regarding advanced business and performance of local firms in GVCs. Equally, firms’ suggestions for support measures by the state and donors are considerable and range from short to long term in nature. *Appendix 14* in this volume offers an overview of firms’ comments regarding support needed by GoU (see *volume two* for more details). In the context of greatly needed support measures, we share the concern of Gibbon and Ponte (2005) regarding the current capacities of the state to address certain GVC related issues and undertake the required level and scope of appropriate interventions.

### 5.5 Validation of research hypotheses

Finally, we reflect briefly on the hypotheses of the research. The following hypotheses indicated the overall direction of the research:

1. Production and trade dynamics are related to forms and trends of vertical chain relationships, in particular forms of chain governance.

2. Network relations offer better upgrading conditions for Uganda’s producers than e.g. arm’s-length market relations.

3. Different forms of relationships/governance require different degrees of domestic capabilities at firm level. Integration into the beneficial mode of networks requires a high degree of such capabilities.

All three hypotheses are generally **verified** by the research findings:

1. The pattern of evolution of GVC governance impacts on economic dynamics in Uganda. There are many examples - some have already been presented briefly in this summarizing section - that show the substantial link between GVC governance on one hand and the production and trade systems as well as actors in Uganda on the other.

2. Network relations tend to come along with various cooperation forms which assist UFs to upgrade and perform better. These cooperation forms are usually less evident and advanced in arm’s-length market relation, be it in the (anonymous) auction type of buyer-seller relation or rather short term oriented and/or low-trust VCs that are characterized by low switching costs, low complexity of transaction etc.

3. Network types of relations require local firms to have not only technical capabilities but especially entrepreneurial, organizational, social and interactive capabilities. Local firms that

Wiegratz, J., P. Nyabuntu and C. Omagor, Supported by UPTOP with funds from the EU 44
possess the HR needed to enhance trust, responsiveness, reliability, communication, and flexibility vis-à-vis the foreign buyer can establish the pre-condition for advanced and transformed GVC relations (towards more ‘equal partner’ and more beneficial network types). This in turn seems to improve the likelihood that UFs reap increased benefits from GVC integration. Arguably, certain organizational and social skills do matter less in e.g. the arm’s-length type arrangement.

Notably, the above findings should not be read in a deterministic way. There will always be examples that point to other mechanisms at work in the context of GVC dynamics.

6.0 Concluding remarks
The study has pointed to salient issues of exporting firms’ participation and upgrading in GVCs for the case of Uganda. The concepts of governance and upgrading were used to conduct in-depth interviews with exporters in Uganda and importers in Europe. We are of the view that this approach can help in bringing out aspects of export oriented production and trade which are not always sufficiently covered by other methods of trade research. It is informative in that it allows examining inter-firm relations and placing them in the wider industry context. The findings of the work are vital: they demonstrate that there is both justification and need to analyse the organizational aspects of trade in general and inter-firm relations in particular. This helps students of trade, policy makers and practitioners to bring the discussion on trade competitiveness and prospects from the macro/meso level (tariffs, procedures, laws, negotiations etc.) to the meso/micro level of industry and VC evolution and related firm strategies, interactions, cooperation, and the like. It reveals insights into local firms’ concrete efforts to catch up and improve their performance in VCs, to build trust with buyers and other VC actors, switch to more promising VC partners and so on.

This is a research perspective which can (i) inform policies on trade and production alike, as well as (ii) foster the spreading of respective practices, examples and views and thus enhance learning among firms within and across sub-sectors in Uganda. Importantly, the approach sensitizes for a nuanced view on economic matters: For Uganda’s firms and policy makers for instance, the issue is not only to discuss and achieve the appropriate mix of sub-sectors in the country, but also the preferred or required (bundles of) activities that they wish to see carried out in Uganda within the global division of labour.
Recommendations regarding future GVC research

We suggest that international GVC research needs to (i) broaden its focus of analysis to better understand currently neglected aspects of GVCs and thus improve the focus of its policy recipe in future. Further, GVC research needs to (ii) incorporate (building a bridge to) useful tools and concepts of branches of social and other sciences that have potential to enrich the framework and thus put it on a more solid theoretical base where necessary. For instance, it is striking that to the best of our knowledge there is relatively little theoretical and empirical work existing on mechanisms of communication and trust in GVCs, or (psychological, emotional etc.) aspects of (formal/informal) inter-firm cooperation and learning. There is a deficient (especially micro) theoretical foundation regarding the behaviour of VC actors, including those operating in the SSA context.

Indeed, ‘mixing efforts’ (what can be called GVC+) need to be enhanced to improve the coverage and explanatory power and thus policy relevance of the GVC approach. Notably, Gibbon and Ponte (2005) have recently combined GVC analysis with convention theory. Also, Morrison et al. (2006) observe a disregard within GVC research for details relating to learning and innovation processes within firms in developing countries, and suggest that applying a technological capability approach to GVC analysis could be useful in this respect. Such efforts need to be scaled up in near future.

To illustrate our argument, Gibbon and Ponte note that “relatively hands-off forms of coordination [in GVCs] have been achieved through informal learning processes in which suppliers are invited to understand the mindsets and operational culture of buyers” (Gibbon and Ponte 2005, 204). The authors thus call for more research on cognitive processes in GVCs. Our interviews confirm the relevance of governance via learning of local firms during ‘chain visits’ abroad - and subsequent effects of behaviour and process modification/adjustment of the firm at home in the domestic part of the GVC. However, GVC research has yet no theoretical grounding to give an account of the detailed mechanisms of these processes. This is even more

38 Notably, there is an earlier important paper by Humphrey and Schmitz (1998) on ‘Trust and Inter-firm Relations in Developing and Transition Economies’. See also Schmitz (1995, 1999) and Knorringer (1999). The impression is that while the trust theme was raised in such (at times cluster related) studies, it was not really explored further by GVC researchers in later years thus the theoretical contribution of such explorations to the core GVC framework is yet missing. More general, the link to progressive research on trust in economic interactions more general has also not been made in a more visible way. We suggest that work by trust researchers such as Möllering (2005, 2006) can be very useful for conducting research on GVCs. GVC research also needs more theoretical backing for aspects like switching of VC partners.

39 Also Schmitz (2005c, 59) suggests that the GVC approach has to be combined with other approaches.
striking as it deals with study of the relations of agents from different regions and social backgrounds (say an international buyer and a local exporter/farmer in Uganda). Our research shows that these processes of the formation of economic/social relations, mutual understanding etc. are complex (and involve e.g. emotional aspects) and relevant for the performance of local firms in GVCs.

Research efforts are therefore required to understand the deeper trajectories of economic and social relations and interactions in GVCs. This has to include especially the non-economic aspects of *embeddedness* of GVCs at their local nodes. We need to analyse the social, cultural, political, institutional and cognitive pre-conditions that enable or disable local actors to integrate and perform in GVCs in a certain way, or carry out governance of the domestic VC in a certain way. GVC analysis needs to show greater concern for a more detailed analysis of what is happening at the very end of GVCs, in respective domestic and regional VCs in developing countries. The problems regarding organization, cooperation, trust etc. in domestic VCs in Uganda calls for such an agenda.

In sum, unless research efforts do accelerate in various directions the GVC approach might remain far below its potential. We therefore agree with suggestions from proponents and observers of GVC research for a broadened agenda which could mean *giving more consideration to*: (1) normative/cognitive (not just material) aspects of chain governance within a historical perspective (Gibbon and Ponte 2005)\(^{40}\), (2) social relations of production (Bernstein and Campling 2006a, 2006b), (3) less tangible elements of economic development linked to e.g. social capital dimensions (Knorringa and van Staveren 2005), or (4) the institutional embeddedness of GVCs and thus social, cultural and political factors external to the VC including the role of the state in the development of productive forms of inter-firm networks (Bair 2005, Meagher 2005).\(^{41}\)

For the subject matter of this study, we can sum up that matters of *governance* and *upgrading* have gained momentum in Uganda’s export sub-sectors; in this respect there are remarkable

---

\(^{40}\) For instance, Kaplinsky (2005) argues that Chinese and Indian firms are likely to govern GVCs somehow different than European/American firms (supermarkets etc.). “Their role in ‘private sector governance’ (for example with regard to ethical and environmental codes) has been much less noticeable, but it is conceivable that their global value chains will have very different rules of entry to those serving large supermarkets in the north” (ibid, 2). How does GVC research want to go about investigating the normative, or cognitive/psychological aspects of governance differences related to ethnic background without looking for respective complementary concepts and tools in social and other sciences to better ground such future research efforts?

\(^{41}\) Deyo et al. (2001) offer an account of the impact of some of these factors on production systems in East Asia.
examples in the study. The study reveals insights regarding local efforts to build and deepen effective linkages with the global economy: between firms in Uganda and their international partners (buyers and intermediate agents). Importantly, UF’s efforts regarding leveraging (especially, knowledge and skills from buyers/agents), learning and upgrading within GVC arrangements are in many cases significant; though not equally in all sub-sectors and across all firms interviewed. Indeed, there are cases were global forces (the connection with the global economy) were used to mobilise and enhance local potential (Schmitz 2005c, 55-6). Further, a number of firms in Uganda are greatly aware and active in responding to and/or shaping the governance dynamics (or actual outcomes thereof) in their respective GVCs.

However policies and programmes need to complement these dynamics and efforts and respond to identified gaps. Better VC linkages - both between domestic VC actors and between domestic VC actors and their buyers abroad - is one of the areas that need to be in focus of related efforts. This can result in better performance of and more benefits for UF’s which operate in GVCs. The chapters on the various sub-sectors raise a number of relevant issues which proponents of production and trade in Uganda need to consider for future action. The presentation of main findings could only highlight some of them.

References for Chapter 5:
• Knorringa, P. and I. van Staveren (2005) Social capital for industrial development: Operationalizing the concept, Summary, Vienna: UNIDO,
• Möllering, G. (2005) Understanding Trust from the Perspective of Sociological Neoinstitutionalism: The Interplay of Institutions and Agency, MPIfG Discussion Paper, Nr. 05/13,
• Schmitz, H. (2005b) Understanding and enhancing the opportunities of local producers in the global garment and footwear industry: What does the value chain approach offer?, Eschborn: GTZ,
• Schmitz, H. (2005c) Value Chain Analysis for Policy-Makers and Practitioners, Geneva: ILO,

Wiegratz, J., P. Nyabuntu and C. Omagor, Supported by UPTOP with funds from the EU 49