The effect of Business Regulatory Standards on Export Trading by Small Enterprises: A Comparative Analysis of Africa and Uganda

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Abstract

This article investigates the relationship between regulatory standards affecting export trade and the proportion of exporting SMEs with a focus on Africa and especially Uganda. The study is principally a global comparative analysis of business regulations and exporting SMEs with a focus on Uganda and the rest of Africa and employs a triangulation of quantitative research methodologies. The study results reveal that the number of export documents, time (days) and cost of export trading in Uganda and other African countries are relatively deterrent to export trading by a substantial fraction of SMEs. Hence, it is recommendable that Uganda and the rest of Africa implement persistent, diligent, deliberate, and competitive deregulation of export trading by reducing the number of export documents, time (days) and cost of exporting so as to enable more of their SMEs to engage in export trading. Such reforms will lead to sustainable growth of SMEs and economies.

Key words: **Business Regulatory Standards, Small Enterprises and Export Trading**

Introduction and Context of the Study

Virtually all countries encourage their small and medium enterprises (SMEs) to increasingly engage in export trading so as to exploit global market opportunities and thus realize sustainable growth (OECD, 2009). However, the standards of business regulations affecting SMEs in most of the developing countries apparently inhibit the capacity of most SMEs to engage in export trading in these countries (World Bank/Enterprise Survey, 2010). The procedural standards, especially the number of necessary documents and the associated time and cost (excluding tariffs), for exporting and importing by ocean transport significantly influence the capacity of SMEs to undertake cross-border trading world over (*Doing Business*, 2010). Such business regulatory standards are comparatively poor and thus deterrent to international trading in most developing countries such as Uganda and the rest of Africa (World Bank, 2010).

Traders in low-income economies face particular constraints. Recent studies show that manufacturing enterprises in Africa have difficulty exporting because of poor customs administration and restrictive trade and customs regulations (World Bank, 2005). Economies that rank high on the ease of trading across borders have found ways to make exporting and importing as efficient as possible. Unfortunately, Uganda and most other African countries do not belong to this category (World Bank/*Doing Business*, 2010). In many low-income economies inefficient practices continue to constrain trade. Hence the percentage of SMEs undertaking export trading in Africa and especially Uganda is very small apparently due to their comparatively low standard of business regulations affecting SMEs (World Bank, 2010).

Statement of Problem

Whereas most countries encourage their business entities to undertake export trading, the standard of business regulations affecting export trade in Uganda and the rest of Africa ostensibly deter most of their SMEs from engaging in export trading. The standards of business regulations regarding export trading in Uganda and rest of Africa apparently constrain SMEs from undertaking export trading. This study thus investigates the influence of the standard of business regulations affecting export trade and the proportion of SMEs that export with a focus on Africa, and especially Uganda.

Objectives of the Study

The main objective of the study was to establish whether there is a significant relationship between the standard of business regulations affecting export trading and the percentage of SMEs that export in Uganda and the rest of Africa. The specific objectives of the study were:

- To find out the influence of the number of official documents for exporting on the percentage of SMEs that export in Africa and especially Uganda;
- To establish the relationship between the cost (US$) to export a container of goods and the percentage of SMEs that export in Uganda and the rest of Africa;
- To determine the effect of the time (days) it takes to export a container of goods on the percentage of SMEs that export in Uganda and the rest of Africa.

The Significance of the study

The study findings and recommendations will guide SMEs in Uganda and other African economies to engage in greater export trading and thus realize the various resultant benefits such as sustainable growth of SMEs and economic growth.

The study recommendations, if well implemented, will mitigate corruption and eliminate structural and regulatory bottlenecks that business entities, especially SMEs, often encounter in transacting international trade in Uganda and the rest of Africa. The article serves as a basis and referral for enhancing research, policy formulation and academic work related to business regulations and export trading by SMEs.

Scope of the study

The geographical scope of the study is Uganda and Africa. However, other countries in the world have been greatly considered because the study is globally comparative in design. The time scope for the study extends from year 2003 to year 2010.

Theoretical Background

The theoretical Context of this study emerged from a critical and comparative analysis of the global trends of business regulations and the percentage of SMEs that transact export trade as reported by the World Bank (World Bank/ *Doing Business,2010* and *Enterprise Survey, 2010* respectively).

High export trade costs constrain participation in global trade for businesses in many countries, particularly in Africa. In order to avert constraints to export trading, many economies have introduced practices that reduce the time and costs associated with export trade (World Bank/ *Doing Business*, 2009).

A comparative analysis of the global variations in the number of exporter firms and business regulations indicates that economies with poor standards of business regulations generally have lower percentages of their SMEs transacting export trade than their counterparts. Thus, business regulations were deemed to have a causal relationship (negative correlation) with the proportion of SMEs that export. Literature reveals that Uganda and other African countries have relatively deterrent business regulations and thus only smaller fractions of their SMEs do export (World Bank, 2010).

The conceptual background of the study was grounded in the postulation that business deregulation has a causal relationship with the proportion of exporting firms in any country. Apparently, this relationship is not well exploited as a strategy to enhance the proportion of exporter SMEs in Uganda and the rest of Africa.

Source: World Bank 2010

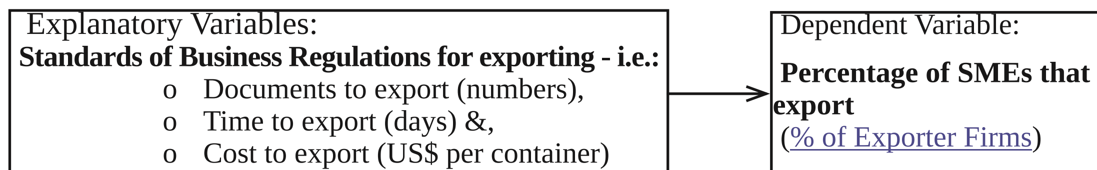

Figure 1: Conceptual Framework

The conceptual framework shown in Figure 1 illustrates the interrelationships among the variables that were deemed to be integral to the dynamics of the relationship being investigated. Both the Explanatory and Dependant variables illustrated in Figure 1 were mainly derived from publications by the World Bank titled: *Doing Business* and *Enterprise Surveys* respectively. The independent variables are the regulations of export trading measured in terms of the: number of documents, cost (US$) and time (days) it takes to export a standard (20-foot) container of goods.

Hypotheses of the study

The primary supposition of the study was: There is a significant relationship between the standard of business regulations and the percentage of SMEs that export in Uganda and the rest of Africa.

The secondary suppositions of the study were:

- The number of official documents for exporting do not significantly influence the percentage of SMEs that export in Africa, and especially Uganda;
- The time (days) it takes to export a container of goods has a significant effect on the percentage of SMEs that export in Uganda and the rest of Africa;

- There is a significant relationship between the cost (US$) to export a container of goods and the percentage of SMEs that export in Uganda and the rest of Africa.

Methodology

The study was a desk (secondary) applied, cross-sectional research, principally constituting a quantitative and comparative analysis of empirical business regulations and percentages of exporter firms for various countries with a focus on Uganda as a case study for the rest of Africa. A triangulation of exploratory, comparative and case study was applied so as to comprehensively realize the objectives of the paper as recommended by Sekaran (2003: 119). The research was a correlational type of study so as to delineate the critical variables associated with the study problem (Sekaran, 2003).

The study area comprised of various countries with a focus on Africa, and especially Uganda. The units of analysis were countries as recognized by the World Bank in its publications -- *Doing Business* and *Enterprise Survey*. The study population was made up of 123 countries as subjects defined and recognized by the World Bank Group in both its annual *Doing Business, 2010* and *Enterprises Survey*, 2010 reports. This number of subjects was derived from the fact that only 123 countries have data regarding the percentage of exporter firms recorded by the World Bank in its *Enterprise Survey* report of 2010.

The study sample constituted 97 subjects (countries) selected from a study population of 123 subjects basing on the guidelines by Krejcie and Morgan's (1970) table for determining representative sample sizes (Sekaran, 2003). The 97 subjects of the sample were selected using stratified random sampling as the best technique to ensure minimum bias (Barbie, 2007). Data for the study was collected through desk research by reviewing the various literatures, especially the World Bank's annually published *Doing Business* and *Enterprise Survey* reports. Data collected and analyzed was principally quantitative.

Measurement of all the study variables was done in exact accordance with the methods used by World Bank Group. The independent variables, which constitute the standard of regulations for export trading (i.e. the time (days), number of documents and cost (US$) to export a standard (twenty-foot container) were measured exactly as given in the *Doing Business* annual reports by the World Bank. Documents required to export comprise: Bank documents; Customs clearance documents; Port and terminal handling documents; and, Transport documents. Time required to export covers days spent on: Obtaining all the documents; Inland transport and handling; Customs clearance and inspections; Port and terminal handling; and does not include ocean transport time. Cost required to export (US$ per container) refers to costs for: All documentation; Inland transport and handling; Customs clearance and inspections; Port and terminal handling; and, Official costs only.

Quantitative data was quantitatively analysed using the Statistical Package for Social Scientists (SPSS) version 14 computer software. Using SPSS software, linear regressions, spearman's nonparametric correlation tests, and descriptive statistics, such as averages,

were applied to analyse the quantitative data. The study, being quantitative in design, used POSITIVISM as the over-riding paradigm of the research, with very little of INTERPRETIVISM paradigm. The reliability and validity of the study was derived from utilizing and relying on the professionally researched empirical data compiled and authenticated by the World Bank Group.

Analysis and Discussion of Findings

Empirical findings denote that countries with cumbersome regulatory standards of export trading, such as Uganda and many other African countries, have relatively lower percentages of their SMEs undertaking export trade than their counterparts (World Bank/ *Doing Business, 2010 and Enterprise Survey, 2010).* This fact is substantiated by the tables 1, 2 and 3 below.

Table 1: A Comparison of the Average Percentage of exporter firms and the average number of export Documents for the Various Regions of the World in 2009

Region/Country		Average Number of official documents for exporting	Average %age of Exporter SMEs
Regions	East Asia & Pacific	6.7	19.95
	Eastern Europe & Central Asia	6.5	22.14
	Latin America & Caribbean	6.8	20.19
	Middle East & North Africa	6.4	36.85
	OECD	4.3	21.68
	South Asia	8.5	20.02
	Sub-Saharan Africa	7.8	9.75
Countries with fewest export documents	Estonia	3	31.45
	Korea, Rep.	3	20.40
	Micronesia, fed.sts	3	16.42
Countries with most export documents	Mauritenia	11	8.79
	Namibia	11	9.17
	Afghanistan	12	6.04
Uganda		*6*	*10.09*

Source: World Bank's Doing Business database (2010) and Enterprise Survey (2010)

Table 1 above shows that the regions and countries with fewer number of export documents generally has greater percentages of their SMEs engaged in export trading. Such revelation indicates a negative correlation between the number of export documents and the percentage of exporter firms in a region or country. Table 1 also shows that Sub-Saharan Africa has, on average, one of the highest numbers of export documents (i.e. 7.8) and the lowest percentage (9.75) of exporter firms. Countries that have efficient customs and trade transport—fewer documents and signatures, less time necessary to comply with procedures—export and import more and they also make it cheaper for exporters to operate (World Bank, *Doing Business*, 2006).

The World Bank notes that filing more export documents is associated with more corruption in customs; and that faced with long delays and frequent demands for bribes, many traders avoid customs altogether. Instead, they smuggle goods across the border (World Bank, *Doing Business*, 2006). All these observations indicate that cumbersome export trading is neither healthy nor conducive for SMEs to undertake export trading (World Bank, *Enterprise Survey*, 2010). This observation is buttressed by the comparative analysis of the time (days) it takes to export and the percentage of exporter firms for the various regions and countries as illustrated in Table 2.

Table 2: Exporter firms and export duration in various regions and countries

Region/Country		Average Number of days to export	Average %age of Exporter SMEs
Regions	East Asia & Pacific	23.1	19.95
	Eastern Europe & Central Asia	26.8	22.14
	Latin America & Caribbean	18.6	20.19
	Middle East & North Africa	22.5	36.85
	OECD	10.5	21.68
	South Asia	32.4	20.02
	Sub-Saharan Africa	33.6	9.75
Some of the Countries with fewest days to export	Estonia	5	31.45
	Ireland	7	33.27
	Korea, Rep.	8	20.40
Countries with most export documents	Chad	75	11.80
	Tajikistan	82	8.79
	Kazakhstan	89	4.90
Uganda		*37*	*10.09*

Source: World Bank/ Doing Business database (2010) and Enterprise Survey (2010)

From Table 2 above it can be seen that most of Africa, as represented by the Sub-Saharan Africa, has the highest average number of days it takes to export a container of goods (i.e. 33.6 days) and, at the same time, the lowest percentage of exporting SMEs (i.e. 9.75%). These observations imply that there is probably a significant negative correlation between the time (days) taken to export and the proportion of exporter SMEs. This confirms the supposition that: "The time (days) it takes to export a container of goods has a significant impact on the percentage of SMEs that export in Uganda and the rest of Africa".

Table 3: Comparison of Percentage of exporter firms and the cost of exporting

Region/Country		Average cost of exporting (US$)	Average %age of Exporter SMEs
Regions	East Asia & Pacific	909.30	19.95
	Eastern Europe & Central Asia	1,581.80	22.14
	Latin America & Caribbean	1,243.60	20.19
	Middle East & North Africa	1,034.80	36.85
	OECD	1,089.70	21.68
	South Asia	1,364.10	20.02
	Sub-Saharan Africa	1,941.80	9.75
Countries with lowest cost of exporting	Malaysia	450.00	59.98
	Latvia	600.00	30.11
	Pakistan	611.00	14.31
Countries with highest cost of exporting	Afghanistan	3,350.00	6.04
	Niger	3,545.00	10.62
	Chad	5,497.00	11.8
Uganda		*3,190.00*	*10.09*

Source: World Bank/Doing Business database (2010) and Enterprise Survey (2010)

Table 3, clearly shows that regions and countries with higher costs of exporting generally have lower percentages of their SMEs engaged in export trading than their counterparts. Again, Table 3 shows that Africa, especially the Sub-Saharan Africa including Uganda rank poorly in respect to such regulatory standards (i.e. with an average cost of US$ 1,941.80) and hence, have relatively smaller percentages of their SMEs involved in export trading. On the contrary, a region such as East Asia, with only an average exportation cost of only US$ 909.3, has a relatively high percentage of its SMEs undertaking export trade. Such contrasts substantiate the postulation that, indeed, there is a significant relationship between the cost (US$) to export a container of goods and the percentage of SMEs that export in Uganda and the rest of Africa.

In summary, the statistics shown in Tables 1, 2 and 3 indicate a significant relationship between the number of exporting SMEs and the business regulatory standards that affect export trading in form of number of documents, time and cost of exporting. Thus, as the number of export documents, time (days) for exporting and cost of exporting reduce, the percentage of exporter SMEs is bound to rise.

Descriptive Statistics, Correlations and Regressions

When the study data was subjected to statistical analyses using SPSS version 14, the following descriptive statistics, correlations and regressions were derived to further test the study postulations. The descriptive statistics of the study variables for the data analyzed were as illustrated in Table 4. The descriptive statistics generated consisted the mean, minimum and maximum measurements of each of the variables under study.

Table 4: Estimated Documents, time, Cost and Exporting Small Enterprises in Africa

Statistics/ Variable	Number of Export Documents	Time (days) it takes to export	Cost (US$) of Export	Percentage of Exporter SMEs
Mean	7.2	27.7	1575	19.2
Minimum	3	5	450	0.98
Maximum	12	89	11398	89.8
Sub-Saharan Africa	7.8	34	1942	9.8
Uganda	6	37	3190	10.1
Number of observations : 97 (countries)				

Source: primary data

The descriptive statistics in Table 4 attest that regulatory standards for export trade in most African countries, as shown by statistics pertaining to Sub-Saharan Africa and Uganda, are generally poorer than the global averages in respect to all the three sub-variables. Consequently, the percentages of exporter SMEs in Uganda (i.e. 10.1%) and Sub-Saharan Africa (i.e. 9.8%) are much less than the global average of 19.2 per cent. The minimum regulatory levels for the number of export documents (i.e., 3), time to export (i.e., 5 days) and export cost (i.e., US$ 450) shown in Table 4 do imply that it is possible for Uganda and the rest of Africa to improve (deregulate) on their regulatory standards affecting export trade. These descriptive statistics hence corroborate the postulation and observations indicated above that the regulatory standards for export trading inhibit the export potential of most SMEs in Uganda and the rest of Africa. Thus, it is recommended that Uganda and the rest of Africa deregulate (reduce/ease) the number of export documents, time (days) and cost (US$) for exporting so as to enable more of their SMEs to engage in export trading.

Spearman’s correlation test was conducted to establish the relationship between the predictor and criterion variables and the results obtained were as illustrated in Table 5:

Table 5: Correlation results of Regulatory Standards for Exporting and Exporter Firms

	Exporter SMEs (%)	Export Documents (Number)	Time to export (Days)	Cost of Exporting
Exporter SMEs (%)	1.000			
Export Documents (Number)	-.373**	1.000		
Time to export (Days)	-.553**	.442**	1.000	
Cost of Exporting (US$)	-.475**	.347**	.590**	1.000

*** Correlation is significant at the 0.1 level (2-tailed).*

Source: Primary data

Table 5 shows that there is significant correlations between the percentage of exporter SMEs and the number of export documents (-.373), time (days) it takes to export (i.e. -.553), and the cost (US$) of exporting a 20-foot container of goods (i.e. -.475). This implies that a unit reduction in the number of export documents, leads to an increase of 0.373 per cent of exporter SMEs; a reduction in the time (days) for exporting by one unit leads to an increment of the percentage of exporter firms by 0.553 of a unit; and a reduction of the cost (US$) of exporting a twenty-foot container of goods leads to an increase in the percentage of exporting SMEs by 0.475.

Results of the correlations shown in Table 5 above substantiate the basic study hypothesis that the regulatory standards of export trading have a significant impact on the percentage of SMEs that export in Uganda and or any other country.

A linear regression model stated as the equation below was applied to establish the interdependence between the predictor and criterion variables.

$$\gamma = \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \varepsilon$$

Where: γ = the percentage of exporter SME; β_1, β_2 & β_3 = the slope coefficients for the various predictor sub-variables; χ_1 = number of export documents; χ_2 = time (days) for exporting; χ_3 = cost (US$) for exporting a 20-foot container of goods; and ε = the random disturbance effect.

Linear regressions of the percentage of exporter SMEs against the number of export documents, days for exporting, and cost (US$) for exporting, as sub-variables of regulatory standards for exporting, emerged with the results explained below:

The overall regression model was statistically significant with a P- value equal to 0.000. This implied that results to be interpreted therefrom were reliable and worthwhile. An R-Square value equal to 0.289 was obtained, meaning that 28.9 per cent of the changes in the percentage of exporter SMEs is explained by the regulatory standards of export trade (I.e. number of documents, time (days) for exporting, and cost (US$) of exporting a 20-foot container of goods over land and water).

Linear multiple regressions emerged with the following P-Values for the various predictor variables: 0.029 for the number of export documents; 0.002 for the time (days) to export; and 0.501 for the cost (US$) of exporting a 20-foot container of goods. The fact that 0.029 and 0.002 are less than 0.05 implied that both the number of export documents and especially the time (days) it takes to export, statistically proved to have a significant influence on the percentage of exporter SMEs. The cost (US$) of exporting, however, was statistically insignificant in influencing the percentage of SMEs that export because its P-value was 0.501.

In general, the regression analysis proved that time to export has the greatest impact on the percentage of exporter firms, followed by the number of documents, while the least statistically unqualified impact comes from the cost of exporting.

Conclusions and Recommendations

Empirical findings explained above generally corroborate the primary supposition of this study that there is significant relationship between the standard of business regulations and the percentage of SMEs that export in Uganda and the rest of Africa. Literature reviewed, the descriptive statistics, correlations and regression analyses conducted principally attest that the percentage of exporter SMEs in any region is inversely proportional to the number of export documents, time (days) to export and export costs (i.e., export trade regulations). Uganda and the rest of Africa, especially the Sub-Saharan Africa, have relatively unfavourable regulatory standards for export trading and thus the percentage of SMEs that export in these areas is comparatively low. In order to increase the percentage of SMEs that export, Uganda and the rest of Africa need to competitively and diligently deregulate (ease) export trading by reducing the number of export documents, time (days) and cost for exporting, among other measures. This being the case, the following recommendations were made.

According to the conclusions of the study, it is recommended that Uganda and the rest of Africa resort to reducing (easing) the number of documents, time (days), and costs of exporting goods for the benefit all the country's businesses, especially the ordinary SMEs.

- Practical approaches to and rationale for implementing the recommended deregulation of export trading include: making document filing electronic; using a risk assessment policy for inspections of exports; and, going regional with reform of customs and transport rules.
- It is advisable to use a risk assessment policy for inspections of exports as a way of deregulating export trading so as to reduce the unnecessary delays and inconveniences that are often encountered by enterprises in the absence of such a policy. However, it is vital to note that the recommended risk analysis is only as useful as the data on which it is based.
- Another recommendation that can enable African countries to deregulate export trading is to go regional with reform of customs and transport. This is because Uganda and many other African countries are landlocked with limited regional trade cooperation.
- Speeding clearance is yet another recommendation for realizing the recommended deregulation of export trading.
- Further still, it is recommended to resort to use electronic data interchange systems as a means of deregulating (easing) export trading because where electronic data interchange systems are in place, it is easier to apply risk management to customs clearance, which is another popular reform.
- Looking beyond customs is also another advisable approach to implementing the recommended deregulation of export trading.

- Identifying and implementing cheap reforms is yet another advisable means of realizing the recommended deregulation of export trading.
- More publicity, training and regular meetings with exporters on the clearance process can also make a desirable difference in respect of deregulating (easing) export trading.
- Synchronizing export documents and procedures is also another recommendation for deregulating (easing) export trading that eventually leads to increased inward FDI. This is because countries save costs by synchronizing such documents and procedures at the border.
- Removal of bureaucratic bottlenecks is yet another major advisable strategy for implementing the recommended deregulation that has been empirically proven to enhance export trading. This is because in some regions, export trade is hindered by bureaucratic hurdles at borders.
- Further research studies that are recommended to substantiate and complement the findings of this study include investigating other factors affecting the proportion of SMEs that engage in export trading in Uganda and the rest of Africa.

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Appendix: Contextual and Operational Definitions

The article utilizes the following operational definitions:

Business Regulations: This refers to the legal restrictions and rules promulgated by the National Government to control the establishment and operations of an SME.

Percentage of SMEs exporting: This refers to the proportion of SMEs that transact in direct and indirect exportation.

Regulations of Export Trading: These refer to the legally binding: Number of official documents for export; Time (days) to export; and, Cost (US dollars) to export a Standard (20-feet) container of goods over land and sea. This operational definition is directly derived from the World Bank (World Bank/*Ease of Doing Business Database*, 2010).

Small and Medium Enterprises: The *small enterprises* are those businesses that employ between five and nineteen people, while *medium enterprises* are those businesses employing between twenty and ninety-nine people. This definition has been drawn from the World Bank (*Enterprise Survey*, 2010) and this is the principal source of the data for this study.