

THE DEVELOPMENT PROCESS AND CHOICE OF A DEVELOPMENT STRATEGY

Development process

Development is a multi-dimensional process characterized by the increase in real capita income of a country over a long period of time.

The economy can be transformed from a backward agricultural economy to a modern advanced industrial economy

Development strategy

Development strategy refers to the policy measures taken by a planning authority aimed at the achievement of given development goals/aims/objectives during a given time

Or

It is a based policy guideline initiated and followed by a country in formulating and executing long term economic policies for the development of the nation

NB Economic policy refers to a statement of objectives and methods of achieving those objectives by the government, policy party and business community

Choice of development strategy

This is defined as a search or an appraisal of an alternative course of action which leads to the development of the economy

DEVELOPMENT STRATEGIES FOR DEVELOPING COUNTRIES

EXPORT PROMOTION INDUSTRIAL DEVELOPMENT STRATEGY (OUTWARD LOOKING INDUSTRIAL DEVELOPMENT STRATEGY)

Export promotion industrial development strategy: refers to an industrial strategy of promoting the domestic manufacturing sector with the view to increasing the export of manufactured goods

Or

Is the policy of establishing industries to produce goods for the export markets

Reasons for the adoption of the export promotion strategy of industrial development

- To increase the country's foreign exchange earnings and thus build up the reserves. This is due to the increased exportation of manufactured products
- To improve on the country's balance of payments position. This is mainly due to be increased foreign exchange earnings from the increased exports
- To diversify the economy. This is due to promotion of the industrial sector which increases the variety of goods produced and exported
- To facilitate the use of idle potentials (domestic resources) of the country. This is because of the utilization of local resources as inputs in the manufacturing industries that are set up
- To create more employment. This is due to the setting up of many manufacturing industries that employ many people as machine operations and managers leading to increase in incomes
- To promote commercialization of the economy. This is because of the encouragement of production for sale
- To redistribute income in the economy. This is due to the numerous employment opportunities that are a source of income to many people

- To develop the agricultural sector. Uganda being an agro-based economy. This is due to the linkages created by the development of the manufacturing sector that utilizes inputs from the agricultural sector
- To diversify foreign markets. This is due to the expansion of exports necessitating the acquisition of a variety of markets for the existing products
- To encourage value addition to exports. This is due to the need to create competitive conditions for the exports of the manufactured produces on the world market
- To encourage development of technology. This is because most of the manufacturing industries are owned by foreigners who bring with them modern efficient production techniques leading to high quality and quantity output
- To accelerate economic growth. This is because of establishment of many industries that results into increased output hence economic growth
- To facilitate the development of infrastructure. This is due to the setting up of roads and energy facilities. The roads are set up to ease transportation of raw materials and finished products

Requirements for export promotion strategy

- Skilled manpower
- Adequate raw materials
- Extensive advertisement abroad
- Transport and energy facilities
- Trade agreements to create guaranteed markets
- Export promotion institutions
- Extensive research to identify products needed in external markets
- Fiscal incentives to the export sector like tax holidays and subsidies
- Large entrepreneurial class to undertake risks in the development of the export promotion industries

Merits of adopting the export promotion strategy of industrialization

- Creation of more employment opportunities at home. This is because it encourages the development of many industries to produce goods for export
- Leads to expansion of the country's market in the foreign countries thereby resulting into high foreign exchange earnings
- Promotes international relations with other countries that buy the exports which increase in volume international trade
- Leads to diversification of foreign markets thereby reducing problems of geographical concentration of trade
- Encourages production of better-quality goods because of the competition in the export markets
- Increases foreign exchange inflows because it attracts foreign investors. This leads to high capital accumulation in the economy
- Compels countries to add value to their raw materials or primary products which increases their competitiveness on the world market hence improving the terms of trade
- Encourages development of infrastructure. It is able to use the income earned from exports for building infrastructure like roads and schools in areas where the industries are established.
- Encourages exploitation of local resources. This is because it attracts a large number of industries in the economy. More land and labour is employed to enable construction of industries to enable production of goods for export
- Encourages technological development and technological transfer. Technological development is encouraged because of increased innovations, creativity and investment in research for better quality

goods and technological transfer is promoted since most of the industries are owned by foreigners who bring with them modern efficient production techniques leading to high quality and quantity output

- Increased output of goods and services produced hence accelerated economic growth. This is because of the establishment of many industries
- Encourages promotion of the manufacturing sector. The strategy promotes the expansion and establishment of manufacturing industries in order to expand the volume of exports
- Increase in the tax base. The strategy leads to increased government revenue through licences offered to producers to allow them to produce goods for export and through taxes paid by the producers
- Facilitates monetization or commercialization of the economy. The strategy encourages production for sale which offers a wider scope for development along commercial lines
- Promotes economic diversification. A variety of goods are produced and exported so as to increase export earnings (foreign exchange earnings)
- Improves a country's balance of payments position due to increased earnings from exports

Demerits of adopting the export promotion strategy of industrialization

- Leads to wastage of resources if all output is not bought. Resources are wasted if the developing countries fail to get foreign market for the foreign products
- Leads to high expenditure on imported raw materials and technology. The strategy is associated with high foreign exchange expenditure on imported inputs and technology leading to balance of payments problems and increased costs of production
- Results in highly priced goods. Exports are highly priced leading to low demand for them hence low foreign exchange earnings
- Results in high expenditure on market research and advertising to the foreign markets which reduces on the amount of foreign exchange to be earned
- Associated with the need for high capital investment needs. The strategy is expensive to undertake for it requires a lot of capital to establish these industries which is not available
- Presence of synthetic substance like nylon which are cheap limits the demand for manufactured goods from the developing countries leading to low foreign exchange earnings
- Shortages of goods in the domestic markets may occur due to increase in exportation or increased dependence on foreign markets
- Encourages production of poor-quality products that don't compete on the world market leading to low foreign exchange earnings

REVISION QUESTIONS:

- (a) Explain the objectives for export promotion in your country
- (b) What are the limitations to export promotion as a development strategy
- (a) Distinguish between export promotion and import substitution industrial development strategies
- (b) Explain the merits of adopting the export promotion strategy of industrialization

LIMITATIONS TO EXPORT PROMOTION AS A DEVELOPMENT STRATEGY

Factors that limit adoption of export promotion strategy in my country are

- Poor infrastructure like poor roads discourages potential investors from establishing industries for fear of high production costs involved
- Limited skills. There is limited skilled manpower like machine operators (technicians) to be employed in the industries
- Limited foreign market due to low quality products that cannot compete favourably in foreign markets. This discourages producers for fear of making losses
- High level of corruption. This results into misuse of the funds that would have been used for the expansion of the manufacturing industries

- Political instabilities scare away potential investors from establishing industries and the existing ones from expanding theirs for fear of destroying them and losing their lives
- Inadequate capital to buy land, machinery and inputs to be used in the establishment and running of the industries
- Poor land tenure system limits accessibility to land to many potential investors thus discouraging them from establishing industries and also discouraging the existing investors from expanding theirs
- Protectionist policies of the developed countries. They put restrictions on the exports from developing countries thereby limiting the amount exported hence discouraging them from exporting for fear of making losses
- Limited local natural resources. there are limited raw materials which discourage potential investors to establish industries and existing ones to expand theirs for fear of producing at excess capacity and failing to earn high profits
- Poor technology in the developing countries discourages potential investors from establishing industries for fear of producing low quality products which cannot compete in foreign markets
- Limited entrepreneurial skills hinder the would-be investors to establish industries because they do not have the necessary skills to run and manage them. This results in poor organization of other factors of production hence limited development export-related industries
- Firms are usually high cost producers hence their products are relatively expensive. The strategy is limited by the expensive exports due to high costs of production which make the exports uncompetitive in foreign markets and this discourages investors from producing for export for fear of making losses
- Production of similar products hence cannot utilize developing countries' market. There are limited markets for the exports of developing countries because they produce similar products which cannot be absorbed
- High costs of advertising, market research and research into better products and processes scare off the potential investors

Measures being taken to improve the performance of the export promotion strategy

- Giving fiscal incentives to exporters like tax relief and refund (customer drawback)
- Sending delegations of trade researchers to foreign markets or countries
- Giving credit facilities to investors
- Improvement of infrastructure
- Setting up export promotion institutions
- Joining regional co-operations
- Encouraging diversification of exports
- Carrying out extensive sales promotion campaigns in foreign markets

IMPORT SUBSTITUTION INDUSTRIAL DEVELOPMENT STRATEGY (INWARD LOOKING DEVELOPMENT STRATEGY)

Import substitution industrial development strategy: refers to a strategy of producing internally the formerly imported industrial goods to reduce outflow of foreign exchange

Or

Refers to measures aimed at establishing industries to produce locally, goods that were formerly imported

NB The inward-looking development strategy calls for policies that stress economic self-reliance on the part of developing countries. These include development of indigenous appropriate technology and imposition of substantial protective tariff barriers in order to promote import substitution

Requirements of the import substitution strategy

- Raw materials
- Skilled manpower
- Adequate market
- Developed transport facilities
- Adequate power/energy to run the industries
- Incentives like tax holidays, credit facilities, tax rebates etc
- Protectionism of the import substitution industries by imposing high tariffs on imported manufactured goods
- Reduction of taxes on imported raw materials

Reasons for the adoption of the import substitution strategy of industrial development

- To reduce economic dependence. Import substitution industrialization aims at reducing the reliance on imported manufactured goods
- To save foreign exchange that would be used to import goods. Import substitution industrialization aims at reducing foreign exchange expenditure on imported manufactured goods
- To facilitate increased resource utilization. Import substitution industrialization aims at facilitating resource utilization. This is due to increased production in the industries and high demand for raw materials by the industries
- To develop the local skills, import substitution industrialization aims at promoting the development of local labour skills. This is through training facilities provided by the industries to enable labour handle modern physical capital
- To create more employment opportunities. Import substitution industrialization aims at providing gainful employment opportunities to an ever increasing labourforce. This is due to increased investment and production in the industries
- To improve the balance of payment position. Import substitution industrialization aims at correcting the BOP position. This is done through reduction in the volume of imported manufactured goods and increase in foreign exchange earnings from exports in the long-run
- To facilitate technological transfer. Import substitution industrialization aims at enabling the shifting of new and better techniques of production by the foreign investors. This is due to the high use of efficient capital-intensive technology in the import substitution industries
- To accelerate economic growth. Import substitution industrialization aims at stimulating investment. The increased investment leads to increased output/production in the industries hence economic growth
- To stimulate expansion of infrastructure. Import substitution aims at encouraging the development of infrastructure like energy plants to avail power and the road network to increase access to raw materials and areas of market for finished goods
- To encourage capital inflow as foreign investors are attracted to set up such industries. Import substitution industrialization aims at attracting foreign investors to take on the large industries
- To increase government revenue by way of taxation. Import substitution industrialization aims at increasing sources of public income through payment of taxes and license payments
- To control/check imported inflation. Import substitution industrialization aims at ensuring stable prices in the economy by increasing production of formerly imported products from inflationary prone economies.
- To earn foreign exchange as some of these industries grow and begin to export some of the goods, they produce

Merits of import substitution

- Helps in saving scarce foreign exchange. The strategy saves scarce foreign exchange resources available by restricting expenditure on imported products
- Reduces economic dependence. The strategy leads to production of goods that were formerly imported which results in reduced importation of manufactured goods hence reducing external dependence
- Encourages exploitation of idle resources. more domestic resources are exploited as some of the industries use the local available raw materials in the production process
- Provides greater employment opportunities in the long run. This is because the strategy has more forward and backward linkages and facilitates the use of labour intensive techniques of production
- Improves balance of payments (BOP) position. The strategy facilitates the setting up of industries that produce many goods that were formerly imported thus reducing importation and expenditure abroad
- Facilitates technological transfer from more developed countries (MDCs) efficient modern technology is imported which leads to the improvement of the local technology leading to increased productivity
- Stimulates growth of the industrial/manufacturing sector. This is because of the increased backward and forward linkages which enable the settling up of many industries
- Promotes development of local skills through training. The strategy enables the organization of workshops and seminars for the training of workers to operate and repair machines which results in improvement of skills
- Promotes infrastructural development. The strategy encourages the construction of roads and rails to ease the transportation of raw materials and finished products
- Controls imported inflation/reduces imported inflation. The strategy helps to control imported inflation by reducing the volume of imports from inflation prone economies
- Encourages entrepreneurial development. The strategy facilitates the development of local entrepreneurs who undertake to bear risks and uncertainties through organization of other factors of production
- Encourages capital inflow in form of foreign private investments. The strategy facilitates the transfer of productive resources by foreign investors into the economies of developing countries leading to increased foreign exchange
- Leads to foreign exchange earnings in the long run. In the long run, the strategy is outward paying and source of foreign exchange through exportation of the surplus products
- Acts as a wider source of government revenue because it has more linkages and hence more economic activities which are taxed to raise income for recurrent and development expenditure
- Promotes economic growth. The strategy fosters internal growth of the economy through increasing the quantity of consumer goods available

Demerits of import substitution

- Encourages capital flight through profit and income repatriation. The strategy promotes excessive capital outflow since most of the industries are owned by foreigners
- Subjects nationals to highly priced goods due to high costs of production. The strategy leads to high domestic prices due to high production costs leading to low standards of living
- Limited variety of goods hence falling standards of living. There is limited variety of goods on the market because of protectionism which limits entry of imports
- Consumption of poor-quality goods/inferior substitutes due to continued government's protection which limits competition
- Encourages high use of imported capital and intermediate goods causing balance of payments (BOP) problems as a result of increased import expenditure

- Tends to encourage capital intensive techniques resulting into technological unemployment whereby people are replaced by machines in the production process
- Promotes monopoly tendencies with all the negative effects due to protectionism that limits competition from imported goods
- Increased wastage of resources due to limited market. These industries produce at excess capacity due to limited market resulting in wastage of resources
- Over protectionism may lead to retaliation which reduces the volume of trade
- Increased rural-urban migration with its evils since many of the industries are urban based. Many people move to urban areas to look for jobs leading to high crime rates, congestion, prostitution and development of slums
- Results in a decline in government revenue due to a fall in import duty resulting from reduced importation
- Increased government expenditure on subsidizing the industries to encourage them to grow
- High social costs like pollution because of many industries that are established give off gases and release industrial wastes which pollute the environment
- Management contracts are usually expensive to maintain for example tax holidays and concessions given. This reduces the net benefits of the investments in import substitution industries especially by foreigners

LIMITATIONS OF IMPORT SUBSTITUTION AS A DEVELOPMENT STRATEGY

- Small domestic markets hinder the expansion and growth of import substitution industries due to poor quality goods and the final product being more expensive than the imported goods. The investors are thus discouraged from establishing and expanding industries for fear of making losses
- High cost industries because of protectionism. The industries put a lot of pressure on the government to protect them from foreign competition through providing subsidies and tax holidays
- Shortage of inputs or raw materials hence the need for imported intermediate products. The limited supply of basic raw materials leads to production at excess capacity. This discourages investor to establish the industries and existing ones to expand because of getting low profits
- Limited capital for establishing the industries. There is limited capital to buy raw materials and install new machinery thus making it difficult to set up industries
- Limited technology. Developing countries have poor technology which limits the establishment of efficient import substitution industries
- Limited skills to manage these industries. There is limited skilled manpower in developing countries which results in inefficiently in the operation of import substitution industries
- Political instability. Political unrest in some parts of developing countries has hampered successful operation of import substitution industries by scaring the investors from injecting capital for fear of their lives and property
- Setting up of wrong industries due to poor choice of priorities. The industries set up are inefficient and cannot be maintained, for example the foreign investors set up assembling plants for final stages of production which industries are not a priority for the developing countries
- Dependency on unreliable sources of foreign aid to finance the establishment and maintenance of the import substitution industries. This strategy requires high capital investment that may necessitate foreign aid which in most cases is unreliable
- Demonstration effect in consumption which is reflected in high marginal propensity to import. Consumers in developing countries prefer imported goods to those locally produced goods which further limits the market

REVIEW QUESTIONS

1. "To what extent is the inward-looking industrial development strategy ideal for your country"
2. (a) Explain the rationale of setting up import substitution industries in your country
(b) What are the limitations to import substitution as a development strategy

CHOICE OF TECHNIQUE/TECHNOLOGY OF PRODUCTION IN INDUSTRY

1. Labour intensive techniques of production (1 pound technology)
2. Capital intensive techniques of production (1000 pound technology)
3. Intermediate technology
4. Appropriate technology

NB Technology basically refers to the ways or methods of carrying out production in an industry

Developing countries need to make a wise choice between capital intensive and labour intensive techniques of production. The choice of technique to be used depends on the following factors

- The degree of availability of the technique
- The size of market to be served by the technique of production
- The amount of output required
- The benefits from the technique
- The efficiency of the technique
- The dangers associated with the technique
- The cost of the technique in relation to the prices of the final output
- The degree of substitutability of the method of production

LABOUR INTENSIVE TECHNIQUES OF PRODUCTION (1 POUND TECHNOLOGY)

These are production methods that employ relatively more labour than other factors, especially capital

This production technique uses proportionately more labour than capital. It is also referred to as a 1-pound technology or a capital saving technology. It is called a capital saving technology because it saves capital but it uses more units of labour. It is also called a one-pound technology because it is cheaper and associated with low skills

Merits of labour intensive techniques of production in developing countries

1. It is a source of employment in developing countries which experience high rates of unemployment. It creates more jobs in developing countries where there is redundant labour force. For example labour intensive methods help to create more jobs for people in the agricultural sector
2. It is cheap and easily affordable. It is cheaper to obtain and maintain when compared to the capital intensive techniques which are expensive to acquire. This is a bigger advantage in developing countries which have limited capital resources
3. It saves foreign exchange which would otherwise be used to import capital machines. This is because there is use of locally made simple tools hence there is no need of spending foreign currency to buy capital machines from other countries
4. It requires limited skills. The technique does not require complex skills because many people learn on the job. This fits well in developing countries where there is shortage of highly trained manpower
5. It facilitates the exploitation of vast rural potentials since the techniques are mainly rural-based. These techniques promote resource utilization in the rural areas through activities like farming, brick laying, making mats, carpentry etc. this reduces excess capacity in the rural areas

6. Facilitates fair income distribution. More people are employed when labour intensive techniques of production are used. Income is earned by the employed people and this helps to re-distribute income
7. It is needed in agriculture where human judgment is paramount. Activities like harvesting ripe coffee beans, weeding of crops such as beans, maize, millet etc call for human judgment. Therefore, such activities require manual workers ie labour intensive techniques of production
8. It reduces social costs in form of pollution. This method of production is not associated with activities that easily pollute the environment, that is, it environmentally friendly unlike the use of capital-intensive methods in industries that give rise to negative externalities like air and water pollution
9. Controls over-exploitation of resources. it does not result into excessive use of resources especially in the short-run. Irrational use of resources is avoided. As more people are employed, incomes and aggregate demand rise hence encouraging further investment
10. It can easily be spread all over the country and this helps to increase output. As output rises, higher rates of economic growth/GDP are attained. As more people are employed, incomes and aggregate demand rise hence encouraging further investment

DEMERITS OF LABOUR INTENSIVE TECHNIQUES OF PRODUCTION

1. It results into the output levels (low productivity). Due to use of rudimentary tools and limited skills in production, there is low output per unit of labour. This low productivity leads to slow growth of firms
2. It gives rise to low quality output. Production units that use labour intensive techniques produce low quality products. Such low-quality products are less competitive and they are sold at low prices on the market. This causes losses to producers
3. It is associated with labour unrest. Trade unions can mobilize the dissatisfied workers to go on strike. The employers have no alternative since they depend on this labour. Strikes lead to loss of production time hence causing losses to producers
4. It is costly in the long-run. In the long run, it becomes costly to maintain a big number of workers (labourers) in terms of paying wages, catering for their accommodation, medical care, feeding, transport allowances etc
5. It calls for a lot of supervision of workers at their work place. These results into heavy supervision costs because there is need to employ supervisors to be in charge of the workers
6. It does not encourage skills development. Since there is use of rudimentary tools in production, workers may not undergo training to acquire skills of using them. This kills the drive to acquire better skills in production
7. It does not encourage technological development. It is associated with limited innovations and creativity. The methods of production are not improved upon and remain more or less the same over time. This limits technological development
8. It results into under-utilization of resources. due to its low productivity, some resources remain unexploited. Excess capacity arises and this causes low rates of economic growth/low GDP
9. It is slow and time consuming. This arises from use of manual labourers who take more time to accomplish tasks. Therefore, more time is taken before goods are put on the market. A producer may miss some immediate opportunity to sell goods to those who need them yet they are not available on the market
10. It is hard to produce standardized output using this technique of production. It is hard to have products of uniform size, appearance and quality when producers use labour intensive techniques of production.

CAPITAL INTENSIVE TECHNIQUES OF PRODUCTION (€ 1000 TECHNOLOGY OR LABOUR SAVING TECHNIQUES OF PRODUCTION)

Capital intensive technology is a production method which employs relatively (proportionately) more capital than other factors of production, especially labour

This production technique employs a big proportion of capital relative to labour and other factors. It is alternatively termed as a labour saving technique of production. The term is used because it uses less units of labour and more units of capital. Since the technique is expensive and it involves hiring highly trained manpower, it is referred to as the €1000 technology.

Advantages/merits/Positive implications of capital-intensive techniques of production

1. Leads to high quality of output. As firms use capital intensive methods, the quality of products improves. Such high-quality commodities command a wider market. Producers are able to earn higher profits which are an incentive for increased production
2. It saves time and it is less tiresome. The use of machines reduces on loss of production time industrial firms. Machines simplify work and this reduces fatigue
3. Economies of scale are enjoyed due to large scale production (it leads to mass production/it increases output). The level of productivity increases when capital intensive techniques of production are employed. More output is generated hence a higher level of economic growth/GDP is attained
4. It minimizes the size of the wage bill paid to labour. It uses fewer labourers and consequently there is a reduction in the amount of money paid to workers in form of wages
5. It improves the skills of workers hence increased efficiency. Workers who handle machines are able to acquire skills from time to time, for example, some technicians learn skills of handling machines via on job training. Improvement in skills creates efficiency at work
6. It results into technological development and transfer. As a result of innovations and inventions, firms that are capital intensive gradually improve on local methods of production. At the same time there is technological transfer in form of imported machines like tractors and other industrial implements
7. It minimizes or reduces on labour unrest. Less manual workers are employed in capital intensive production units. Therefore, the possibility of labour unrest in form of strikes is reduced
8. It facilitates better (optimum) and increased exploitation of resources. capital intensive machines are applied in farming and in extracting minerals from their natural state (endowment). This enhances use of resources and excess capacity is avoided
9. It facilitates development of infrastructure. Capital intensive machines such as heavy tractors are used in road construction thereby helping in setting up basic infrastructure that supports further production
10. Leads to standardization of outputs. By using machines during production, it is possible to make products of standard/same size, quality shape etc eg if a bakery uses machines to cut dough into uniform sizes, loaves of bread of standard size are produced
11. It may promote employment in the long run. Many capital-intensive industries are set and they provide jobs to machine operators or technicians and professional engineers. As these firms expand, investment levels rise thereby creating more jobs in the long-run

Demerits/negative implications of capital-intensive techniques of production

1. It is associated with technological unemployment. The use of machines in production units reduces the size of the manual workers. Task which could have been handled by manual labourers are executed by machines. This causes technological unemployment

2. It worsens income inequality. It creates an income gap between those employed in the labour intensive firms (these earn low incomes) and those employed in capital intensive firms, like engineers who earn higher incomes due their professional skills
3. It is associated with mass production which may lead to wastage especially where the market is small. This results into losses to the producers thereby limiting further investment
4. It requires complex skills which may not be readily available in developing countries. Many developing countries experience shortages of trained engineers and technicians who can competently handle machines in production firms. These countries resort to use of expatriates who are expensive to maintain and at the same time external resource dependence is worsened
5. It is mostly afforded by foreign firms whose owners repatriate profits to their mother countries. This causes a small multiplier effect in developing countries
6. It is associated with high costs. Heavy costs are incurred on purchase machines and related spare parts, repair and maintenance, salaries to machine operators etc these heavy costs reduce the profits of producers
7. Over exploitation of natural resources which leads to resource depletion is bound to occur. By employing machines in the harvesting of timber from forests, there is a danger of depleting forests as a resource (there is deforestation)
8. It generates social costs/negative externalities to the public or society. Machines used in industries cause noise pollution. Dangerous gases are also emitted from industrial machines thereby causing air pollution. These social costs reduce peoples' welfare
9. Machines are not applicable in certain tasks or activities where human judgment is required/vital. A task such as marking handwritten examinations calls for personal human judgment of the examiner and a machine is not applicable. Harvesting of ripe coffee beans and vanilla also calls for human judgment hence rendering machines irrelevant

LIMITATIONS OF ADOPTING CAPITAL INTENSIVE TECHNOLOGY

Note: Identify at least ten points from these as per our "CELLPITIME/C" and generate explanations as per what we discussed whwen coming up with that acronym

- Limited funds/stock of capital to purchase machines repair them and maintain them
- Limited labour skills to operate and repair the machinery
- Small/limited markets for the technology and products ie the small markets cannot support mass production
- Inappropriate where human judgment is required
- Underdeveloped/poor conditions of infrastructure like poor roads to transport the machines
- Political instability where investors are not willing to install their machines for fear of being destroyed
- Conservation/cultural rigidities whereby people are not willing to use machines and prefer to use their traditional production techniques
- Poor land tenure system that cannot support production on a large scale
- Low level of inventions and innovations due to limited research capacity
- Limited entrepreneurial ability whereby there are few people with ability and skills to use and manage the modern technology
- Poor topography, for example, hilly areas or rugged terrain that does not allow use of machines in production
- Poor accountability or corruption leading to misuse of funds meant for the purchase of the technology

CIRCUMSTANCES WHERE CAPITAL INTENSIVE TECHNIQUES CAN BE APPLIED INSPITE OF ABUNDANT LABOUR

The abundancy of labour does not mean that labour should always be used. There are situations that necessitate the use of labour intensive techniques. These include

- Where capital intensive equipment is given to developing countries as a donation or grant, the abundant labour will not be utilized
- Where labour is abundant but lacks the necessary skills, capital intensive techniques will be used
- Where there is need to produce high quality, products required in international markets, capital techniques are preferred
- Where the entrepreneur wants to acquire high levels of efficiency and productivity, capital intensive techniques are preferred to labour intensive
- Where there is need for continuity in production process, capital intensive techniques will be used since the abundant labour may disrupt production through strikes
- Where labour is abundant but expensive in the long run in terms of feeding, accommodation etc yet capital is artificially cheap due to lowering of taxes on the equipment by the government. This encourages the entrepreneur to use capital intensive techniques rather than labour which is abundant
- Where there is need to encourage technological development and transfer, capital intensive techniques are preferred, for example, foreign investors are more used to capital than labour
- Where there is need to save time and produce output at a faster rate, capital intensive techniques are preferred compared to the abundant labour that is slow and time consuming
- Where there is need to produce standardized output in order to promote economic growth, capital intensive techniques will be applied leaving the abundant labour unemployed
- Where there is need to maximumly utilize the local resources, capital intensive techniques are preferred compared to the abundant labour which may result into excess capacity if applied

TECHNOLOGY

Technology refers to the knowledge of how to produce goods

TECHNOLOGY DEVELOPMENT

Technology development is a process of introducing, initiating and improving of the indigenous techniques of production

TECHNOLOGY TRANSFER

Technology transfer is the shifting or movement of new and efficient production techniques from one economy to another mainly for developed economies to less developed economies

Merits of technology transfer

- Leads to increased productivity of labour leading to greater output
- Facilitates exploitation of resources. the introduction of better machines helps to exploit resources that would have remained idle
- Leads to new and better-quality products leading to high standards of living
- Leads to development of labour skills. Labour acquires skills through training to use the new efficient machines
- Leads to increased growth of the industrial sector. The new and efficient production techniques lead to establishment of more and more industries leading to the growth of the industrial sector
- Facilitates infrastructural development. There is increased construction of roads which enables easy transportation of finished products and raw materials leading to increased output
- Leads to reduces wage bill in those affected firms as less labour is used

- Leads to social and cultural transformed leading to economic growth and development
- Promotes improved relations between countries hence increasing the volume of trade
- Leads to production of standard output because goods pass through the same production process

Demerits of technology transfer

- Leads to technology dependence and its associated negative effects like importation of capital-intensive technology which is not appropriate to the economy
- Leads to mass production which is not suitable for the small markets hence wastage of resources
- It is expensive or costly to employ for it requires highly skilled manpower which is expensive and the process requires a lot of money to purchase and repair
- Leads to increased outflow of foreign exchange to import spare parts hence worsening balance of payments position
- Leads to technological unemployment whereby machines replace labour
- Leads to regional imbalance since it is mainly applied in urban areas neglecting rural areas
- Leads to over exploitation of resources leading to quick depletion of resources
- Promotes income inequality since it is owned by a few people
- Leads to moral decay, for example, through internet on computers where people access pornography

LIMITATIONS (OBSTACLES) TO TECHNOLOGY TRANSFER

Major obstacles/constraints to technology transfer from developed to developing countries include

- Political instability. This scares away potential investors discouraging them from installing their machinery and does not provide a conducive environment for technological development
- Inadequate funds in the developing (recipient) countries. There are limited funds to purchase and maintain the technology since it requires a lot of money to buy spare parts. This limits technological capacity building
- Inappropriateness of the technology being transferred. Most times the technology transferred is irrelevant and unsuitable to conditions prevailing in the developing countries
- Prohibition of patent laws in the developed countries. Intellectual property rights in form of patent laws have limited the developing countries from using their technology
- Inadequate scientific skills for manning the technology. There is limited skilled manpower to operate and repair the new technology
- Conservativeness. Some people are not willing to embrace the new technology (ideas) due to strong religious, cultural and traditional attachment, hence they prefer to stick to their technology they are used to
- Poor infrastructure like poor roads which discourage movement of machines
- Limited absorptive capacity. When the new technology is introduced it operates at excess capacity leading to wastage
- Foreign sabotage. The rich technologically developed countries have sabotaged technological development in developing countries which would subject them to stiff competition and probably make the developed countries lose their market in the developing countries
- Protective policies of recipient (developing) countries whereby they restrict importation of technology by imposing high tariffs on capital goods
- Limited entrepreneurship skills whereby there are few people with ability and necessary skills to use and manage the modern efficient technology
- Ideological differences. This makes difficult to access better technology from some developed countries

- The poor education system which is theoretical in nature and inappropriate does not facilitate technological capacity building but instead promotes capacity to consume foreign technological and their products through the foreign sophisticated tastes it creates

INTERMEDIATE TECHNOLOGY

Intermediate technology is the method of production that is neither too backward nor too advanced

Or

A method of production that is between capital intensive and labour intensive technology. It thus uses labour and capital in a fair proportion

It is a production technique which lies between the advanced capital-intensive technology and the labour intensive technology. Therefore, this production technique is mid-way the capital intensive and labour intensive methods of production. For example, the use of ox-ploughs in cultivation in some parts of Uganda is an example of intermediate technology

Characteristics of intermediate technology

- It mainly uses locally available resources/raw materials
- Production is largely based on the local market, that is producers' self-output in the local market
- It can easily be adopted to local conditions like the use of ox-ploughs in an area takes into account the existing climatic conditions in that area
- It is cheaper than capital intensive technology and can be afforded by a fairly big number of producers
- It is basically a rural-based technology

THE IMPACT OF INTERMEDIATE TECHNOLOGY

Positive impact (merits)

- Creates more employment opportunities to the people
- Reduced rural urban migration and its negative evils
- Facilitated rural development since it is a rural-based technology
- Promoted local skills and expertise
- Produces according to the local needs to the people and therefore reduced wastage
- Re-distribution income thereby creating a fairer income distribution
- Facilitated exploitation of resources
- Increased the level of output
- Saves the scarce foreign exchange since it uses limited imported inputs
- Led to improved quality of output
- Lead to the development of local technology
- Cheaper and easy to adopt

Negative impact (demerits)

- It involves high costs since some machines are brought to be combined with manual labour that is being hired in a production unit
- Gives rise to depletion of resources in the long-run
- Results into lower productivity/lower output levels than that generated in capital intensive using production firms
- There is a high wage bill incurred by producers. This arises because wages are paid to manual workers and the professional experts in charge of operating and repairing machines

ROLE OF INTERMEDIATE TECHNOLOGY IN DEVELOPMENT

Role of intermediate technology in development include the following

- Creates employment opportunities by making use of locally available labourforce in most segments of production
- Helps in fair income distribution as it employs more and is used widely
- Encourages exploitation of local resources or raw materials
- Reduces foreign dependence on imported inputs and consumer products
- Increases productivity of local resources leading to high output thus economic growth
- Encourages rural development and transformation as it is mainly rural based. This controls rural-urban migration
- Saves scarce foreign exchanges as limited inputs are imported
- Promotes forward and backward linkages with other sectors of the economy hence limited wastage of resources
- Promotes local research, innovativeness and creativity
- Promotes local entrepreneurship by encouraging risk taking in the economy and organization of other factors of production
- Promotes economic indigenization as it mainly uses local resources
- Promotes balanced regional development as it is geographically widespread
- Promotes development of local skills most especially where it involves upgrading of labour intensive methods

Limitations of intermediate technology in developing countries

- Narrow markets for the locally produced goods
- Inadequate supply of skilled manpower
- Limited capital to finance research
- Foreign sabotage by more developed countries
- Conservation
- Limited government support and encouragement

APPROPRIATE TECHNOLOGY

An appropriate technology is a production method which is socially and economically suitable for a given economy (society)

Or

A production method which is in line with development objectives and suits the development level of an economy

The emphasis is on the suitability of the technology eg the use of energy saving cooking stoves, use of solar energy equipment, use of gas for lighting and cooking can be appropriate in one society while in another society it is hydroelectric power which is appropriate as a source of energy

CONDITIONS UNDER WHICH A TECHNOLOGY MAY BE REGARDED AS APPROPRIATE

In developing countries, technology is said to be appropriate if it satisfies the following conditions

- When it suits the social conditions of the economy/area
- When it is economically suitable for the society using it
- When it is affordable and readily available to the people who want to use it
- When it is suitable for the local surroundings and friendly to the environment in which it is being used

- When it leads to employment of the locally available labour
- If it uses locally available resources or raw materials
- When it is rural based thus facilitating the establishment of industries in rural areas
- When it is suitable for the market it is intended to serve
- When its components and maintenance are made and done locally
- When it does not require advanced skills that are not available but uses locally available skills

Factors that influence/affect/determine the development of appropriate technology

- ✚ Availability of funds/capital
- ✚ Level of skills/education
- ✚ Level of entrepreneurship
- ✚ Level of innovations and inventions
- ✚ Degree of external/foreign influence
- ✚ Government influence on technological development
- ✚ Market for technology and products made using that technology. A wide market for goods produced using appropriate technology, increases the use of that technology while a small market for goods leads to a reduction in the use of the technology
- ✚ Cultural factors. Where cultural beliefs favour appropriate technology, it becomes more developed. However, where cultural beliefs are not in line with this technology, it becomes less developed
- ✚ Natural factors, for example, topography, soils and drainage. Unfavourable natural factors limit the development of appropriate technology while favourable natural factors stimulate the development of appropriate technology for example, the use of ox-ploughs as an appropriate technology in some areas is influenced by natural factors

Factors that limit the development of appropriate technology

- Limited capital
- Unfavourable cultural factors
- Negative external influence
- Limited skills
- Limited government support on technological development
- Low level of entrepreneurship
- Low level of innovations and inventions
- Unfavourable natural factors like poor soils, poor drainage etc
- Narrow market for the technology and its products

REVISION QUESTIONS

1. (a) Distinguish between labour saving and capital saving techniques of production
(b) "Uganda needs to adopt capital intensive techniques of production as a way of attaining higher rates of economic growth." Discuss
2. (a) Distinguish between technological development and technological transfer
(b) Explain the factors that limit technological transfer in developing countries
3. (a) Differentiate between labour intensive technology and intermediate technology
(b) Assess the implications of using labour intensive techniques of production in an economy

FOREIGN DIRECT INVESTMENT IN UGANDA

Foreign direct investment or direct foreign investment is the transfer of productive resources or capital by foreign individuals, companies and multinational corporations in form of business operations

KEY TERMS TO NOTE

- (i) Investment is the process of creating capital stock or process of devoting part of a person's /nation's income to create capital stock/capital goods
- (ii) A multinational corporation. This is an international company which has its headquarters in one country but it has a number of affiliate branches and areas of operation in other countries, in both developed and developing countries. Examples are; coca-cola, Caltex, shell, MTN, Sony, Panasonic, Toyota among others
- (iii) Foreign private investment refers to the process of devoting part of income to the increasing of capital stock in the country by individuals/and firm from other countries
- (iv) Foreign capital investment refers to investment by foreigners as individuals, companies and multinational corporations involving the transfer of productive resources in form of business operations
- (v) Foreign capital refers to producer goods in the country which are owned by outsiders/foreigners and its mainly manifested in investments undertaken by MNCs
- (vi) Private foreign investment is the shifting of producer goods from one country to another, mainly from developed to developing countries, by firms and or individuals

FACTORS THAT HAVE INFLUENCED THE LEVEL OF FOREIGN DIRECT INVESTMENT IN UGANDA

- The availability of investment incentives (tax incentives). The provision of economic incentives such as land allocation in namanve and tax holidays (relief) leads to high levels of foreign direct investment because it reduces production costs and increases profits which encourages the foreign investors to invest more but high taxes lead to low levels of foreign direct investment because it leads to high production costs and low profits thereby discouraging foreign investors
- The level of infrastructural development. High level of infrastructural development leads to high level of foreign direct investment because it enables the transportation of inputs to production sites as well as transportation of finished products to markets which encourages foreign investors but poor infrastructure in form of poor roads hinder access to inputs and market for finished products which discourages foreign investors hence low foreign direct investment
- The political climate/atmosphere. Favourable political climate leads to high levels of foreign direct investment because foreign investors are confident of the security of their lives and property which encourages them to establish production plants but political unrest leads to low levels of foreign direct investment because it destroys production plants and infrastructure resulting in heavy losses hence scaring foreign investors from investing in such areas
- The availability of raw materials (the natural resource base). Greater and better exploitation and available natural resources leads to large scale production which encourages high levels of foreign direct investment but limited basic raw materials limits the production capacity of firms that are set up which results into low levels of foreign direct investment
- The availability of capital (the existing stock of capital). Big size of the existing capital leads to high level of foreign direct investment because it increases the capacity of investors to hire factors of production to be used for the establishment of foreign investments and expansions of the existing ones while small size of the existing stock of capital leads to low levels of foreign direct investment because it limits the capacity of investors to hire factors of production to be used for the establishment of new firms and expansion of existing ones
- The entrepreneurial ability. High level of entrepreneurial ability leads to high levels of foreign direct investment because investors have sufficient skills to organize factors of production to yield maximum output and to exchange the products of maximize profits but low levels of entrepreneurial ability leads to low levels of foreign direct investment because investors are unable to effectively mobilize factors of production which limits establishment of new foreign investments

- The labour skills. A big size of highly skilled workers is able to promote foreign direct investment due to its high level of efficiency and productivity but limited labour skills results into low labour productivity and efficiency thereby discouraging foreign direct investment
- The technique of production. The use of better, advanced technology encourages greater levels of production which promotes high levels of foreign direct investment but the use of poor technology in production does not lead to increase in output thereby discouraging foreign direct investment
- The land tenure system. A better land tenure system which allows individual ownership of land increases access to land for investment purposes hence high levels of foreign direct investment but a poor land tenure system limits access to land resources for investment purposes which discourages foreign direct investment
- The degree of conservation. Increased levels of conservation where people have a negative cultural attitude limits production due to the traditional way of doing things thereby discouraging foreign direct investment but an increase in the number of people with a positive cultural attitude are willing to take on modern methods of production and are able to produce more goods and services leading to high levels of foreign direct investment
- The market size. The expansion of market for the products of foreign investors through, for example, joining regional co-operation such as East African community leads to high levels of foreign direct investment because there is an increase in the amount of profits enjoyed and limited wastage of resources but a small size of the market leads to low levels of foreign direct investment because investors are discouraged to invest due to fear to excess output that leads to wastage of resources and heavy losses
- The level of accountability (corruption). High level of accountability and financial discipline increases the funds meant for investment thus promoting high levels of foreign direct investment but poor accountability or high levels of corruption leads to misuse of funds that would facilitate investment to personal interests hence limiting foreign direct investment
- The price stability (the rate of inflation). Low inflation rates lead to low costs of production and increased profitability which encourages the expansion of foreign direct investment but high rates of inflation increases the cost of production and reduces profit levels thereby discouraging foreign direct investment
- The degree of liberalization of the economy. The liberalization of the economy allows foreign investors to participate in production for exchange which results in the growth of foreign direct investment but increased unnecessary government controls on trade limits the freedom of individuals to set up investments thereby discouraging the growth of foreign direct investment
- The level (degree) of bureaucracy. High level of bureaucracy makes it difficult to acquire clearance, work permits and licences thereby discouraging foreign direct investment but low level of bureaucracy makes it easy to get work permits, clearance, licenses and access to utilities thereby promoting high levels of foreign direct investment
- The level of (external) publicity of investment opportunities in the country. Increased international campaigns on possible investment opportunities in the country encourages more foreign investors to come and set up investments hence increase in foreign direct investment but the inability to carry out international campaigns to convince investors to come and set up investments in an economy limits the level of foreign direct investment because there is limited awareness of investment opportunities

MERITS (BENEFITS) OF FOREIGN DIRECT INVESTMENT IN UGANDA

- Closes the foreign exchange gap/leads to increased inflow of foreign exchange. Foreign investors bring in foreign exchange in order to finance their activities. They exchange it for the local currency and this help to close the foreign exchange gap in Uganda

- Leads to increased output hence economic growth. Foreign investors increase the volume of goods and services produced in Uganda thereby contributing to economic growth and increased Gross Domestic Product (GDP)
- Creates more employment opportunities. Business firms and enterprises set up by foreign private investors provide more jobs to the local people (both skilled and semi-skilled people). Those who are employed earn income in order to sustain their lives by buying the basic necessities
- Source of revenue to government through taxation. The government taxes the profits of multinational corporation (corporate tax) or charges PAYE (Pay As You Earn) from the salaries of workers in Multinational corporations. This enables government to raise revenue to provide public goods which are necessary for development
- Means of technological transfer/fills the technological gap. foreign direct investors bring better and more efficient techniques of production from their countries. The leads to production of high quality products
- Promotes the development of local labour skills/leads to increased supply of skilled labour. Foreign investors train the local people through on-job training programmes and this enables them to acquire the basic skills needed in production, that is, tain technicians, production supervisors, book keepers among others
- Promotes use of local resources which would have remained idle hence avoidance of resource wastage. Multinational corporations produce final products by making use of raw materials and other resources that would otherwise lay idle for example, oil companies from other countries are exploiting oil wells in western Uganda, which have remained un-tapped
- Widens consumer choice due to production of a variety of goods. Since consumers are able to select what to buy from a wide range of inter-related goods and services, this enables them to improve their standard of living
- Promotes the development of basic infrastructure. Foreign investors are investing in the provision of infrastructure like electricity, communication facilities, banking infrastructure among others. This has promoted the development of basic infrastructure in Uganda. Although the infrastructure are for their benefit, members of the general public also benefit by accessing the infrastructure
- Promotes efficiency of local firms due to competition. The local firms also strive to improve quality of their products so that they are not outcompeted by the foreign investors. This results into increased efficiency of local domestic firms
- Accelerated industrial growth in Uganda/ led to the development of the industrial sector. Some foreign investors set up industrial firms for example manufacturing and agro-based processing industries and this increase the pace of industrial development in Uganda
- Promotes international co-operation (friendly relations with other countries) and therefore increases international peace and the volume of goods traded. By hosting foreign investors. Uganda is able to maintain stronger political ties with mother countries of those foreign investors. This has an advantage of promoting trade links with other countries hence getting other associated benefits
- Encourages inventions and innovations hence technological development. Foreign investors carry out research and try to develop better production techniques and marketing strategies. This consequently improves the quality of goods and services produced in Uganda
- Improves the balance of payments position. Some of the foreign investors produce goods which would have been imported from other countries and paid for in hard currency. The enables the country to reduce her foreign exchange expenditure and this slowly improves the balance of payments position
- Leads to production of quality goods and services. Due to use of better methods of production and competition between private investors, quality of products increases thus enabling consumers to consume better quality products

DEMERITS OR COSTS OF FOREIGN DIRECT INVESTMENT IN UGANDA

- Accelerates capital out flows in form of profit repatriation and this causes balance of payments (B.O.P) problems
- Worsens income disparities. The foreign private investment contributes to the widening of the income gap by providing more incomes to the foreign owners compared to indigenous entrepreneurs
- Promotes external dependence of the economy. Uganda relies on foreign investors to bring in foreign capital, technology and skills which worsens external dependency problem
- Local firms may be outcompeted by the big foreign investors
- Gives rise to technological unemployment which arises from the use of advanced capital intensive machines/technology. Human labour is replaced with machines hence unemployment is created
- There is irrational use of resources which leads to quick depletion of some of the resources. private foreign investors lead to exhaustion of resources due to overexploitation since the objective of production is profit maximization not resource conservation
- Breeds foreign domination of the economy. These foreign investors always demand for excess concessions from government in form of tax holidays, free land for location of projects etc. these excessive concessions given to foreign investors by government finally reduce the net benefits from such foreign investors
- Results into environmental hazards like air and water pollutions where foreign investors are investing in industrial projects or establishments. The foreign investors degrade the environment by dumping of industrial wastes on the environment
- Breeds regional/sectoral imbalances in development. This arises because foreign investors prefer to locate their industries or business projects in urban areas and this leaves out the rural areas
- Promotes rural-urban migration and its associated problems. This is due to concentration of their activities and investments in urban areas thereby promoting rural exodus in search of better income earning opportunities
- Erosion of cultural and moral values. This is due to the transfer of western values by the owners and foreign workers in these investments thereby eroding the traditional African culture

IMPACT OF RELYING ON FOREIGN INVESTMENTS – A SUMMARY

Positive impact

- Helped in closing the savings-investment gap
- Source of government revenue
- Created employment opportunities
- Promoted technological progress and transfer
- Helped in skills development through training
- Encouraged infrastructural development
- Promoted international co-operation
- Helped to fill the skilled manpower gap
- Improvement in resource utilization
- Innovations are encourage
- Widened consumer choices because of variety
- Encouraged efficiency in firms
- Helped in accelerating economic growth
- Facilitated industrialization process
- Closed the foreign exchange gap
- Led to production of quality products

Negative impact

- Accelerated profit repatriation or capital flight
- Worsened economic dependence
- Led to irrational exploitation of resources
- Led to regional imbalances
- Interference in government decisions
- Promoted rural-urban migration
- Led to unemployment due to use of capital intensive techniques
- Worsened income inequalities
- Local firms are sometimes outcompeted
- Excessive concession which reduces net gains
- Erosion of cultural/moral values
- Caused substantial social costs for example pollution

Problems facing the private foreign investment in Uganda

- Limited capital. There is limited capital due to low profits and limited access to loans from financial institutions as a result of problems of collateral security, untrustworthiness of the borrowers and discouraging interests on the loans
- Limited skilled labour. The efficiency of the investments set up by foreigners is limited by the use of mainly unskilled and semi-skilled labour due to the poor system of education
- Inadequate market. There are limited markets for products of the foreign private investments both at home and abroad. Internally the markets are limited by the general low incomes of consumers and competition by superior impacts. Externally, the markets are limited by the poor quality of the products which cannot therefore, compete abroad and by protectionism in the external markets
- Poor infrastructure. Infrastructures such as roads, rails and power are in a poor state and impede (hinder) the transportation of inputs to production sites as well as transportation of finished products to markets
- Political instability in some areas. There is political unrest in some areas of the country which has resulted in the destruction of production units of the foreigners hence discouraging private foreign investment in such areas
- Poor investment climate for example high tax regimes. Taxes imposed on private foreign investments sometimes are too high to enable firms meet costs of production from the sale of final products. This has resulted in the closure of enterprises and stagnation in the growth of others
- Poor land tenure system. This limits access to land resources for investment purposes as most of the land is in the hands of absentee landlords and communal ownership
- Poor technology. The techniques used in production are mainly labour intensive which does not lead to rapid increase in output. The available techniques are poor to limited innovations and inventions and importation of mainly unsuitable technology for production
- High level of corruption/poor accountability. This leads to misuse of funds that would facilitate investment to personal aggrandizement (interests)
- Limited natural resources/limited basic raw materials. This limits the production capacity of the firms that are set up by the investors
- High inflation rate. The high rates of inflation increase the costs of production making it difficult to undertake investments in the country
- Natural hazards. These mainly affect investments in the agricultural sector thereby limiting the supply of raw materials needed for the agro-based industries

- Limited entrepreneurial ability. Some of the foreign business people do not have sufficient skills to organize factors of production to yield maximum output and to exchange the products to maximize profits

MEASURES THAT HAVE BEEN TAKEN TO PROMOTE THE OPERATIONS OF THE PRIVATE FOREIGN CAPITAL

- Improvement of infrastructure. The government has facilitated the building of strong and sound infrastructure facilities, for example, banks, power plants and the road network. The improved road network has enabled the investors to access areas of market for their final products and raw materials needed in the production units
- Maintenance of political stability. The government has tried to create an enabling environment in order to give confidence to the foreign investors to undertake greater production
- Expansion of market through economic integration. The government has taken measures to expand markets for products of the foreign investors through for example, joining regional co-operation such as the East African community
- Improvement in technology. There has been encouragement of technological development and transfer through research and enabling policies which has enabled setting up of many investments in the country
- Liberalization of the economy. The economy has been liberalized to allow every individual to participate in production for exchange. This has resulted in the growth of the private foreign investments
- Improvement in labour skills through training. The government has encouraged the setting up of many vocational institutions and universities to offer training to labour. This has resulted in improvement of labour skills
- Provision of favourable investment climate through offering investment incentives to foreign investors such as land allocation, tax holidays and tax rebates. Private foreign investment has been encouraged by provision of economic or tax incentives to investors. This has encouraged the foreign investors to invest in the economy since they are guaranteed tax relief till their investments have been profitable
- Undertake land reforms. The government has enacted land laws (the land act) to ease access to the land resources for investment purposes
- Maintenance of price stability (fight against high inflation rates) through macro-economic stability policies. Inflation has been controlled and price stability maintained through using sound macro-economic policies such as contractionary (restrictive) monetary and fiscal policies. This has discouraged speculation in the economy and encouraged production for exchange
- Privatization of public enterprises. Most enterprises which were previously state owned have been sold off to private foreign entrepreneurs as a way of increased efficiency in the enterprises
- Improvement in entrepreneurial skills. This has been done through training in the proper management of business operations by way of seminars and workshops for entrepreneurs. This has the potential of providing skills into better organization of other factors of production through increased taking on of risks
- Provision of credit facilities. These has been encouragement to financial institutions to avail credit at low interest rates to the foreign investors to enable them acquire capital necessary for business operations
- Attempts at fighting corruption to each investment. There has been effort in stumping out corruption through the use of the institution of the inspector general of government (IGG) and anti-corruption court so as to reduce the cost of doing business in the country
- Establishment of specialized institutions to promote investment like Uganda investment authority (UIA) which is a one-stop centre for information on investment related activities

- International campaigns to convince investors to come into the country. The government has undertaken measures to carry out international campaigns on possible areas of investment through strengthening bi-lateral ties with countries like China, Germany, Japan among others. This has encouraged more foreign investors to come and set up investment ventures

STEPS WHICH ARE BEING TAKEN TO ATTRACT FOREIGN INVESTORS IN UGANDA

- Offering of investment incentives for example tax holidays being offered to foreign investors, gazetting land for the foreign investors at namanve industrial park etc. private foreign investment is being encouraged by provision of economic or tax incentives to investors. This is encouraging the foreign investors to invest in the economy since they are guaranteed tax relief till their investments become profitable
- Building of strong and sound infrastructural facilities/improving basic infrastructure by constructing better roads. The government is facilitating the building of strong and sound infrastructural facilities, for example, banks, power plants and the road network. The improvement of the road network is enabling the investors to access areas of market for their final products and raw materials needed in the production units
- Attaining political stability in the country. The government is trying to create an enabling environment in order to give confidence to the foreign investors to undertake greater production since there is assured safety of life and property
- Fighting inflation or achieving macro-economic stability for example ensuring stability in prices, stability in exchange rates and so on. Inflation is being controlled and price stability maintained through using sound macro-economic policies such as contractionary (restrictive) monetary and fiscal policies. This is discouraging speculation in the economy and encouraging production for exchange
- Undertaking further privatization of public (state) enterprises. Most enterprises which were previously state owned are being sold off to private foreign entrepreneurs as a way of increasing efficiency in the enterprises
- Undertaking further liberalization of the economy. The economy is being liberalized through removal of unnecessary government controls on trade. This is to allow every individual to participate in production for exchange. This has resulted in the growth of the private foreign investments
- Intensifying international publicity of investment opportunities available in Uganda. The government is undertaking measures to carry out international campaigns on possible areas of investment through strengthening bi-lateral ties with countries like china, Germany, japan among others. This is encouraging more foreign investors to come and set up investment ventures
- Training people and equipping them with skills required by foreign investors/undertaking appropriate manpower training in Uganda. This is through offering training to labour in form of organizing seminars, workshops and on-job training so as to increase efficiency and productivity in the firms established by foreign investors
- Reforming the land tenure system. The government is trying to enact appropriate land laws (the land act) to ease access to the land resources for investment purposes
- Encouraging acquisition of entrepreneurship skills. This is being done through training in the proper management of business operations by way of seminars and workshops for entrepreneurs. This is being done as a potential way of providing skills into better organization of other factors of production through increased taking on of risks
- Fighting corruption to ease investment. There is effort being made in stumping out corruption through the use of the institution of the inspector general of government (IGG) and the anti-corruption court so as to reduce the cost of doing business in the country

- Expanding the market through joining economic integration. The government is taking measures to expand markets for products of the foreign investors through, for example, joining regional co-operation such as the East African Community

REVIEW QUESTIONS AND ANSWERS

(i) What is meant by “private foreign investment”?

Private foreign investment is the shifting of producer goods from one country to another, mainly from developed to developing countries, by firms and or individuals

(ii) Mention three limitations to foreign private investment in your country

- ❖ Poor infrastructures
- ❖ Conservatism of the people
- ❖ High levels of corruption
- ❖ Limited labour skills
- ❖ Poor political atmosphere
- ❖ Poor land tenure system
- ❖ Limited supply of raw materials
- ❖ Insufficient tax incentives
- ❖ High levels of inflation
- ❖ Bureaucracy in obtaining permits
- ❖ Limited market

(i) Define the term direct foreign investment

(ii) Give any three demerits of foreign direct investment in your country

Direct foreign investment is the transfer of productive resources/capital by foreign individuals, companies and multi-national corporations in form of business operations

Demerits of foreign direct investment thus

- ❖ BOP problems rise
- ❖ Unemployment due to use of capital intensive technology and R-U-M
- ❖ Over exploitation of resources
- ❖ Capital flight
- ❖ Excessive concessions given to them reduce the net or real benefits
- ❖ Worsens economic dependence
- ❖ Sectoral and regional imbalances are perpetuated
- ❖ Subduing or suffocating local firms
- ❖ Interference in political decisions
- ❖ Erosion of cultural/moral values
- ❖ Have worsened income inequalities

(a) Explain the role of multinational corporations in the development of Uganda

- ❖ Source of government revenue
- ❖ Encourage the development of infrastructure
- ❖ Creation of employment opportunities
- ❖ Promotion of international friendly relations
- ❖ Promotion of labour skills
- ❖ Close the savings-investment gap

- ❖ Production of variety of goods and services
- ❖ Close technological gap
- ❖ Facilitate industrial development
- ❖ Promote high quality goods and services
- ❖ Help in closing the manpower gap
- ❖ Promote high quality goods and services
- ❖ Promote efficiency in the firms
- ❖ Encourage utilization of the available resources
- ❖ Promote economic growth

(b) Examine the factors that affect the operations of multinational corporations in your country

- ❖ Government policy of taxation and subsidization
- ❖ Political climate
- ❖ Level of infrastructural development
- ❖ Labour skills
- ❖ Entrepreneurial skills
- ❖ State of technology
- ❖ Level of accountability or degree of corruption
- ❖ External publicity
- ❖ Land tenure system
- ❖ Market size
- ❖ Availability of raw materials
- ❖ Degree of conservatism
- ❖ State of inflation or price fluctuations
- ❖ Degree of bureaucracy, for example, in clearance, acquiring licenses among others

QUESTIONS

1. (a) Define the term foreign direct investment
(b) Assess the implications of foreign direct investment in an economy
2. (a) Explain the role of the private sector in the development of your country
(b) What are the challenges faced by the private sector in your country
3. (a) What is meant by multi-national corporations?
(b) Assess the impact of multi-national corporations in your country
4. (a) What are the objectives of promoting foreign direct investment in your country
(b) Why may foreign direct investment be undesirable in your country
5. (a) Explain the factors that influence foreign investment in your country
(b) Suggest measures that should be taken to encourage foreign investment in your country
6. (a) What are the benefits of direct foreign investment in your country
(b) Explain the measures that are being taken to promote foreign investment in your country

SUB-TOPIC: EDUCATION AND DEVELOPMENT

Meaning of education

Education refers to the acquisition of knowledge and skills both formally and informally. It is an ingredient in the process of human capital formation.

Education is regarded as a consumer good, an economic good and a capital good therefore, it is an investment

Education as a consumer good

The following quality education to be a consumer good

- The recipient derives utility of having an education
- Society derives utility by living with an educated person
- Education raises the quality of life and enables one to appreciate life more fully

Education as an economic good

The following characteristics or traits qualify education to be an economic good;

- Has money value or a price to be paid
- Provides utility
- Has opportunity costs
- It is scarce
- It is marketable and transferable

Education as an investment

The following features qualify education to be an investment

- Has opportunity cost because it requires sacrifice
- Costs money and has a price to be paid
- Involves risks and uncertainties, for example, failing to move from one level/class to another
- Involves time preference
- Produces high quality services in the long run since it raises the quality of manpower and its productivity
- Has returns in the long run, for example, generates future streams of income

Reasons for investment in education

- To provide skills to labour
- To reduce income inequality
- To promote national integration
- To solve the unemployment problem
- To reduce dependence on foreign skills/to save foreign exchange for paying expatriates
- To increase the rate of natural resource utilization and avoid wastes
- To increase output hence economic growth/to accelerate economic growth
- To create a productive labour force
- To fight conservatism/to act as a vanguard for introducing new ideas in the country. Education is used to eradicate backward attitudes, beliefs, culture values and superstitions
- To promote acceptable values and attitude/to facilitate change in the attitude of people
- To control population growth rate/to control fertility in women
- To spearhead political, social and economic changes

THE ROLE OF EDUCATION IN THE DEVELOPMENT PROCESS

Benefits of education in the development process

- Provides skills to labour. Education equips labour with the necessary skills to utilize and maintain modern physical capital
- Reduces income inequality. Education acts as a means of effecting fairness in income distribution especially if it is accessible to all school going children like universal primary education and universal secondary education
- Promotes national integration. Education is a means of facilitating national integration/unity through promoting national consciousness that is necessary as a precondition for all progress

- Solves the unemployment problem. Education creates employment to the teachers, the industrialist producing scholastic materials etc and thus it is a source of income
- Reduces dependence on foreign skills/saves foreign exchange for paying expatriates. Education raises the quality of local labour, its efficiency and productivity thereby reducing the over reliance on foreign skills
- Increases the rate of natural resource utilization and avoid wastes. This is because of the increased market for manufactured and agricultural products
- Increases output hence economic growth/accelerates economic growth. The increase in labour skills enables the production of high volumes of output due to efficiency of labour
- Creates a productive labourforce. Education raises the quality of labour, its efficiency and productivity
- Fights conservatism/acts as a vanguard for introducing new ideas in the country. Education helps to eradicate backward attitudes, beliefs, cultural values and superstitions. Thus it promotes acceptable values and attitudes/facilitates change in the attitudes of people
- Controls population growth rate/controls fertility in women. Increased education level encourages use of family planning methods and forces women to postpone chances of child birth at an early age
- Spearheads political, social and economic changes. Education acts as a means to social, political and economic change
- Education leads to innovations and inventions through research thus technological progress

Challenges associated with education

- High dropout rates due to the increased expenses need to attain better education
- Low returns to investment, that is, low cost benefit ratios. The returns of education are in the long run but may not be fully achieved if the educated fails to get a job
- Accelerates unemployment. Education brings about school leavers' unemployment because the present education system is more theoretical than practical
- Worsened income inequalities. This is because it is mainly accessible to those with a rich family background. This increases their income earning chances unlike those with a poor family background
- Principal causes of rural urban migration and associated problems
- Leads to brain drain. The present education system enables people acquire high skills yet highly skilled labour may prefer moving for greener pastures upon failing to get a job in Uganda
- Not aligned to the needs of developing economies
- Creates educated people with no skills. This is because of the theoretical nature of the system
- Discourages people from joining rural agricultural sector. The present education system does not prepare one to take up a living in the rural areas
- Replica of colonial masters thus creates people with inappropriate attitudes. The present education system from the productive traditional cultural background by way of promoting western values
- Heavily exam oriented. This is because the current education system is geared towards getting good grades with no sense of social responsibility

Possible solutions to changing the present education system in Uganda

- Encourage free and compulsory primary education to reduce the illiteracy level and increase the enrollment ratio. This can promote equity in income distribution
- Vocationalisation of education through promotion of practical subjects like woodwork, tailoring and agriculture. This can impart technical and practical skills to the youth for job creation
- Encourage free female education in order to overcome the sex inequalities in the education sector
- Encourage cost-sharing for post-secondary education for those who are able to pay. This can be done through extending loans and scholarships to students.

- Encourage private investment in education especially technical institutes, polytechnics, universities etc to increase on the literacy rate
- Design a flexible school programme to fit the interest of the community in order to reduce the dropout rate
- Integration of education in the community setting through community service oriented skills like extension services in agriculture, adult literacy programmes

SUB-TOPIC: FOREIGN AID

This is the international transfer of public funds in form of loaner or grants or technical assistance either directly from one government to another (that is bilateral aid) or indirectly through the vehicle of a multi-lateral assistance agency/organization like the world bank and international monetary (IMF) (that is multi-lateral aid)

Or

Is the transfer of resources from one country to another usually from the developed countries to the developing countries, either directly or through international agencies. It could be bilateral aid or multilateral aid

Or

Is the transfer of resources, mainly funds, from one country to another by government, organizations, firms and individuals in order to help the recipient country

FORMS OF FOREIGN AID

- Grants refer to the transfer of resources without any requirements for repayment
- Loans refer to the transfer of resources which must be repaid back with interest or without interest in a given period of time thus there are loans with interest and interest free loans
The loans may be short-term, medium-term or long-term
They may also be soft loans or hard loans

N.B

(i) A soft loan is financial assistance provided at very low or no interest and with long repayment periods. It is usually provided by one government to another

Or

Is the transfer of funds from one economic entity to another which must be paid with interest over a long period of time at concessionary or low interest rates

Or

Refers to funds lent out (financial advance) at concessionary (low) interest rates or no interest yet it provides other concessions to borrowers forexample, long repayment periods, interest holidays, extended grace periods etc

(ii) A hard loan is financial assistance with a high interest rate and a very short repayment period

Or

Is one with high interest rate yet with very short repayment periods. It is mainly paid in currency of a nation that has economic stability and a sound reputation abroad

Reasons why Uganda continues to rely on loans

- Due to low tax revenue
- To finance long term development projects
- To fill the persistent budgetary deficits of government
- Due to low domestic savings
- Low export earnings yet they is rising need for imports

- Technical assistance; this is the transfer of resources in form of high level of manpower like doctors, engineers, economists, nurses among others and the provision of scholarships
- Direct foreign investment is the transfer of productive resources/capital by foreign individuals, companies and multi-national corporations in form of business operations
- Relief items in form of medicine, food, clothes etc
- Military assistance in form of training the army and the police
- Technological transfer in form of machinery and equipment for example computers

SOME KEY TERMS

Project tied (use-tying) refers to assistance from an economic entity to another with (specific) conditions on profits/economic activities to be financed/developed

Or

Refers to assistance given to support a specific project hence resources given cannot be diverted for any other purpose

Merits of project tied aid

- Promotes proper project planning
- Promotes proper accountability
- Creates market for the products of the donor country
- Avoids diversions of funds by the recipient country
- Fills the budgetary gap by providing revenue for government projects
- Fills the manpower gap
- Fills the technological gap
- Fills the savings-investment gap
- Strengthens international relations
- Accelerates industrial growth
- Increases employment opportunities

Tied aid refers to foreign aid in the form of bilateral loan or grants that require the recipient country to use the funds either to purchase goods from the donor country or to use it to finance a specific project named in the aid

Or

Disbursement of the aid is dependent on the recipient country implementing socioeconomic and political conditions set by the donor

Examples of tied aid

- *Tied aid which requires the recipient to abide by conditions set by the donors for example the recipient country is required to purchase goods from the donor country using the grant/funds ie aid tied to source or purchase (procurement tying)*
- *Aid given to finance a specific project named by the donor. The recipient country's is required to implement socio-economic and political conditions dictated by the donor before the aid can be given ie project tied aid*

Reasons for the existence of tied aid in my country include

- To promote proper project planning

- To increase control of the recipient country by the donor
- To ensure proper accountability by both the recipient and donor
- To create market for the products of the donor country
- To alleviate the effects of natural disasters
- To fill the manpower gap
- To fill the savings-investment gap
- To fill the technology gap
- To fill the government revenue-expenditure gap
- Due to the inability of the recipient country to identify cheaper and unconditional sources of aid

Untied aid is one that the donor allows the recipient country to spend it on a wide variety of items (justified in terms of the total needs and development plan of the country rather than any particular project)

A donor is a country or agency that gives aid or assistance. Donors can be multi-lateral or bi-lateral

Multi-lateral aid is assistance offered through international aid agencies like the world bank and IMF and with no direct link between the donor and recipient countries

While

Bilateral aid is assistance that is offered directly from one government/country to another without going through an aid agency

BENEFITS OF RELYING ON FOREIGN AID IN DEVELOPING COUNTRIES

- Closes the foreign exchange gap or trade gap. Foreign aid is to finance import surplus like fuel, drugs and manufactured goods which cannot be paid for from one exports
- Closes government revenue-expenditure (budgetary) gap. Foreign aid gives budgetary support to the country. It is used by the government to cover recurrent and development expenditure that cannot be financed by the country's revenue sources like taxation, that is, it is a source of income to the government that is used to finance her expenditure shortfalls
- Fills the savings-investment gap. In developing countries like Uganda, the required investment which could be generated from the local or domestic savings always exceeds the available domestic savings. Thus the need for foreign aid to supplement domestic savings in order to meet the investment requirements
- Fills the skilled manpower gap. The available manpower usually falls below the required personnel, thus, foreign aid supplements skilled manpower in form of technical assistance
- Facilitates the development of infrastructure. Foreign aid has financed the development of supporting modern infrastructure such as roads, power dams, schools and hospitals which form the framework for economic development
- Provision of employment opportunities. Foreign aid has created employment opportunities through being channeled into financing government projects and expanding the industrial sector. This expands the employment opportunities for the local people
- Closes the technological gap. Foreign aid in form of capital goods or machinery has enabled the country to improve on its level of technology through encouraging technological transfer
- Alleviates (solves) the effects of catastrophies. Foreign aid especially relief assistance has been useful in offsetting the effects of natural calamities like famine, drought, wars, floods, earthquakes and so on by meeting the needs of the suffering people
- Where it is well utilized, it improves productivity, skills and wages. Foreign aid channeled to institutions of higher learning improves on the skills of local labourforce resulting in increased productivity

- Facilitates the utilization of idle resources. foreign aid enables the recipient country to put to use the formerly idle resources and this leads to increase in output of goods and services
- Strengthens international relations. Foreign aid has promoted international co-operation and international understanding between donors and recipients. This has increased the volume of international trade
- Foreign aid in form of capital investment accelerates the pace of industrial growth. Foreign aid has been utilized to promote the development of the industrial sector through renovating old industries and setting up new ones

PROBLEMS OF RELYING ON FOREIGN AID IN DEVELOPING COUNTRIES

- Leads to balance of payments problems due to repayment obligations especially when the aid is tied. Foreign aid accelerates capital outflow in form of loan repayment and interest thus affecting the capital account of the balance of payments
- Leads to unemployment. Sometimes technological aid is inappropriate causing dislocation of local labourforce due to introduction of machines like computers in the banking industry. This causes technological unemployment
- Promotes brain drain. Foreign aid in form of technical assistance demoralizes local manpower forcing many of the highly skilled individuals to seek employment in other countries
- Kills local initiatives. That is, promotes/encourages laziness. Foreign aid discourages local initiative as recipients constantly expect assistance instead of working hard
- Leads to domination of the economy by foreigners, that is, the preconditions set are sometimes disastrous. Foreign aid has promoted the external dependence of the developing countries on the donors through interference in the economic decision making process
- Leads to cultural erosion. Foreign aid erodes the socio-cultural values of the recipients and instead has promoted western values that are not in the best interests of the borrowers
- Political domination by foreigners. Foreign aid has enabled the donors to interfere in the political decision making process of the developing countries, thus undermining their sovereignty. This is because aid at times has political strings attached with the objective of promotion of foreign political ideologies
- Accelerates capital outflow due to debt servicing. The costs of contract finance are high in form of high interests and short repayment periods. This results into excessive capital outflow
- Distorts planning since sometimes aid is inadequate, uncertain/inconsistent, tied etc. in most cases, the aid is inadequate, inconsistent and may be withdrawn before completion of a project. This may distort the planning process or development programmes of the recipients as most of the projects may remain incomplete
- It is costly, for example, to maintain expatriates and due to the aid being tied to source/purchase. Aid in form of technical assistance and tied aid is expensive. For example, aid tied to source or purchase prevents the recipients from buying from the cheapest sources elsewhere in the world
- Leads to under-utilization of local resources. the technological aid provided to the developing countries kills local production as the aid cannot be sufficiently used to exploit the local resources. also, food relief reduces domestic production of some consumer goods leading to operation at excess capacity
- Sometimes preset conditions are disastrous. Foreign aid may have political strings attached to it thus undermining the political sovereignty of the country as it promotes foreign political ideologies
- Undermines capital formation due to debt servicing and payment. The payment of the principal and interest on the foreign loans reduces the funds available in the domestic economy for investment purposes hence limited capital formation

- Debt servicing sometimes denies nationals essential goods and services. Foreign aid in form of contract finance leads to high costs due to high interests and short periods of repayment. The increased debt service burden sometimes denies the national of essential goods and services

Question

Examine the impact of relying on foreign aid in your country

A summary

IMPACT OF RELYING ON FOREIGN AID IN UGANDA – A SUMMARY

Positive impact

- Helped to fill the savings-investment gap
- Helped to fill the foreign exchange gap
- Helped to fill the government revenue-expenditure gap
- Helped to fill the skilled manpower gap
- Helped to fill the technological gap
- Helped in provision of more employment opportunities
- Helped to develop infrastructure
- Accelerated industrial growth
- Strengthened international relations
- Helped to raise level of economic growth
- Helped to alleviate suffering of the people due to catastrophies/disasters

Negative impact

- Led to balance of payment problems
- Led to unemployment
- Promoted brain drain
- Killed local initiative/promoted laziness
- Led to domination of the economy by foreigners/preconditions set are sometimes disastrous
- Led to cultural erosion
- Led to political interference/domination by donors or foreigners
- Accelerated economic dependence
- Accelerated capital outflow due to heavy debt servicing requirements
- It is costly for example to maintain expatriated
- Distorted planning since sometimes aid given is inadequate, uncertain and tied
- Led to under utilization of local resources
- Inappropriate technology transferred
- Stifled growth and development due to pay back burden

IMPORTANCE OF AID TO DONOR COUNTRIES

The motives of giving foreign aid by the donors include

- Creating employment for surplus labour. Aid increases employment to the donor countries. The increased output required to satisfy both the domestic and foreign demand leads to employment of more labour
- Commercial reasons through creating market for surplus output. Aid enables the donor countries to dispose off their surplus output that would have killed the local production in their economies
- Ideological/social/cultural dominance. Aid is used by the donor countries for ideological reasons and to persuade the recipient countries into a similar line of development

- Extending military influence. Aid is used by donor countries for strategic reasons. It is used to maintain spheres of influence in the developing economies especially aid in form of military assistance
- Economic dominance. Aid increases the exports of the donor country and its Gross National Product (GNP) through encouraging the recipient countries to import from the donor countries
- Humanitarian reasons. Aid is given for humanitarian reasons to offset the effects of calamities in the developing economies, for example, famine, drought, floods and so on
- Political dominance. Aid can be used to serve foreign diplomacy through enhancing the culture and political influence of the donor country in the recipient country

Note

- ❖ Look for the role of infrastructure and strategies to develop ie Check my book UNEB 2016 No5 Paper Two and provide explanations to those points as we have always discussed in class.
- ❖ Look for role natural resources, problems faced when exploiting and measures to promote use of natural resources

TOPIC 4: AGRICULTURE AND INDUSTRY

SUB-TOPIC: AGRICULTURAL DEVELOPMENT

Agricultural development refers to the transformation or changing of agriculture from traditional small-scale peasant agriculture to large scale modern agriculture

Or

It refers to the changing of the agricultural sector from subsistence production to high output commercial production

Requirements of agricultural development in less developed countries

- Undertaking modernization of agriculture
- Extension of agricultural knowledge and pass on the information to the farmers through extension services
- Undertaking commercialization of agriculture to reduce on the subsistence sector in the economy
- Improving on agricultural diversification
- Breaking the social and cultural institutions that affect the land tenure system

Ways in which agriculture is dominant in Uganda's economy

- Major source of food. Both subsistence and commercial agriculture to feed the rural and urban population
- Great contribution to Gross Domestic Product (GDP). About 60 – 65% of the value of goods and services produced in Uganda is from agriculture
- Major source of exports. About 80 – 90% of Uganda's exports are derived from agriculture for example coffee, tea, tobacco and horticultural products
- Major source of employment. About 80% of Uganda's population is engaged in agriculture either directly or indirectly
- Major land use. About 60% of Uganda's land use is put under agriculture
- Major source of raw materials for agro based industries. Many industries in Uganda use agricultural raw materials for example the textile industry

REVISION QUESTIONS

1. (a) Account for the dominance of the agricultural sector in your country
(b) Explain the factors that limit large scale agricultural production in your country
2. (a) Explain the structure of the agricultural sector in your country
(b) Why is necessary to change the structure of the agricultural sector in your country

3. (a) Describe the features of the agricultural sector in your country
- (b) What are the implications of such structure of agricultural sector to your country

THE ROLE OF AGRICULTURE IN DEVELOPMENT

The role of agriculture in the development of an economy

- Provides employment opportunities to the people. Agriculture provides employment to the majority of people either directly or indirectly because it is labour intensive
- Ensures equitable income distribution since it is basically labour intensive with majority of the people employed
- Provides revenue to the government through taxation. Government gets revenue by taxing the farmers through licences and market dues which enables it to finance her development programmes
- Releases labour to other sectors of the economy. As agriculture productivity increases, the surplus labour moves to other sectors
- Provides market to the industrial sector. As agricultural productivity increases people's income increase which increases their purchasing power and demand for industrial goods. Also, with agricultural modernization practices the demand for industrial products in form of farm equipment, fertilizers among others increases
- Generates foreign exchange to the country. Developing countries earn foreign exchange from exporting mainly agricultural products. Therefore, by developing agriculture they are able to increase on their foreign exchange earnings to facilitate importation of capital goods needed for industrial development
- Supplies raw materials to the industrial sector. Agriculture provides raw materials to the agro-based industries which helps to develop the industrial sector
- Contributes towards the Gross Domestic Product (GDP) of the country. Agriculture leads to increase in output of goods especially large scale production units, thereby facilitating economic growth
- Encourages rapid development of infrastructure. As agriculture productivity increases, it encourages the construction of better roads to transport products to the market and storage facilitates to store perishable products to avoid wastage
- Promotes balanced regional development since it is carried out in all regions of the country
- A source of food for the people both in rural and urban areas. Agriculture is a source of food to feed the increasing population in the country. Food is needed to feed people employed in the industrial sector, schools, hospitals and prisons. Increased food production saves foreign exchange that would be used to import food

Problems that result from over relying/over dependence on agriculture

Note: Come up with explanations to these points

- Leads to low output levels due to natural hazards like bad weather
- Leads to low government revenue from taxes
- Leads to limited level of industrialization
- Results into unfavourable terms of trade
- Leads to unfavourable balance of payments
- Does not encourage the development of skills
- Leads to low level of development due to low incomes/vicious circle of poverty
- Prone to price fluctuations due to changes in output levels
- Encourages seasonal unemployment
- Leads to diminishing returns which further reduces output
- Promotes dualism due to existence of subsistence and monetary sectors

- Results into undiversified economy thus limited export sector

Factors that affect performance of agricultural sector in my country include

Note: Come up with explanations to these points

- Level of capital
- Political climate
- Size of the market
- Level of infrastructural development
- The nature of the land tenure system
- Level of research and development
- Government policy towards agriculture
- Level of skills of farmers
- Level of accountability within the sector

CHALLENGES/OBSTACLES TO AGRICULTURAL DEVELOPMENT IN A MARKET ECONOMY

Note: Come up with explanations to these points

- Difficulty in marketing output due to small or limited markets
- Problem of transportation of the inputs and final products due to poor infrastructures
- Difficulty in raising the quantity of output using poor techniques of production
- Difficulty in improving skills of finding skilled labour due to high levels of illiteracy
- Poor political climate making it difficult to attract people to the sector and causing difficulty in remaining in production
- Poor land tenure system hence difficulty in expanding the scale of production
- Low prices
- Unfavourable natural factors making it difficult to realize targeted quantity and quality of output
- Poor entrepreneurship
- Limited government commitment
- Conservatism hence difficulty in making some farmers to accept modern techniques of production
- Poor attitude to agriculture

MEASURES THAT ARE BEING ADOPTED TO IMPROVE THE PERFORMANCE OF AGRICULTURE IN UGANDA

Note: Come up with explanations to these points

- Undertaking land reform policies to make land more accessible
- Providing credit facilities to farmers to increase their capacity to exploit land
- Carrying out research in all fields
- Improving infrastructure
- Providing extension services to the farmers
- Putting emphasis on agricultural diversification
- Encouraging mechanization of the agricultural sector
- Encouraging industrialization within agriculture
- Encouraging the training of labour
- Promoting the developing and or revival of co-operatives
- Ensuring political stability
- Providing subsidized inputs to farmers
- Promoting market expansion for example through regional integration
- Improving pricing policies for example through strengthening commodity agreements

Review questions

1. Explain the obstacles to agricultural development in your country
2. (a) Differentiate between development objectives and development strategies
(b) Explain the merits and demerits of the agricultural development strategy in your country

COMMERCIAL AGRICULTURE

What is meant by “commercial agriculture”

Commercial agriculture is the deliberate act of encouraging large scale production mainly for exchange thereby reducing the level of subsistence production

Explain the factors that have retarded the growth of Uganda’s commercial sector

- Limited market
- Inadequate capital
- Conservative nature of most of our producers
- Underdevelopment of financial institutions
- Political instability
- Poor technology
- Limited entrepreneurial skills
- Poor land tenure system
- High taxation of large scale businesses

DIVERSIFICATION OF AGRICULTURE

Diversification of agriculture is the creation of several activities in the agricultural sector in order to reduce dependence on one or few activities

The creation of multi-activities within the sector include rearing of animals alongside growing of crops or introduction of new crops under crop husbandry

It also involves setting up of processing plants in the agricultural sector

REASONS FOR DIVERSIFICATION OF AGRICULTURE IN UGANDA

Reasons for diversification of agriculture in my country include

- To reduce seasonal unemployment thereby create more employment opportunities from the numerous economic activities
- To reduce the effects of price fluctuations and thus stabilize prices of the agricultural products
- To increase agricultural output hence accelerate the process of economic growth
- To increase revenue to the government by producing a variety of taxable products thus widening the tax base
- To increase and stabilize primary producer’s incomes/earnings
- To increase foreign exchange earnings through increased agricultural exports
- To increase utilization of the land resources thus promoting the exploitation of idle resources in the economy
- To reduce income inequality hence facilitate fair income distribution in the economy
- To promote infrastructural development so as to ease access to the market for the final products and inputs for the agricultural firms
- To promote commercialization and hence reduce incidence of subsistence production

- To fight/control structural inflation by reducing supply rigidities through production of a variety of products
- To promote linkage with other sectors so as to promote industrial development in the economy
- To ensure food security and guard against importation of food supplies
- To improve the balance of payments position since more foreign exchange is earned

MERITS OF DIVERSIFICATION OF AGRICULTURAL PRODUCTION

Merits of diversification of agricultural production include

Note: Come up with explanations to these points

- Creates employment opportunities
- Widens consumer's choice by providing a variety of goods and services
- Widens the export base thus increase foreign exchange earnings
- Increases the tax revenue of the country as many activities are undertaken
- Ensures equal regional development and thus reduces rural-urban migration
- Increases the country's Gross Domestic Product (GDP)
- Promotes linkages between the different sectors of the economy
- Leads to optimum exploitation and utilization of resources
- Overcomes problems of price fluctuations and its negative effects
- Avoids the risks and uncertainties in some sectors especially agriculture
- Ensures fair distribution of income
- Solves or controls inflation
- Leads to the development of infrastructure
- Reduces the effects of dependence on a few products/activities

LAND TENURE SYSTEM

This is a system of ownership, transfer of ownership and utilization of land in an economy during a given period of time

Reasons for changing the land tenure system in Uganda

- To ensure stability of the land tenure, that is, minimize conflicts over land
- To make long terms planning for land use possible
- To ensure better utilization of land so as to increase output hence economic growth
- To increase the monetary value of land
- To reduce income inequalities
- To reduce unemployment

AGRICULTURAL DEVELOPMENT

Most developing countries emphasize investment in agriculture to attain higher rates of economic growth

MERITS/POSITIVE IMPACT ARISING FROM THE AGRICULTURAL DEVELOPMENT STRATEGY

- More employment opportunities are created since it is labour intensive. Most farming activities are labour intensive. This results into creation of more job opportunities. Workers earn income which is used to buy the basic necessities of life hence improving their standard of living
- The sector is the source of food for the rising population. Agricultural provides food like rice, potatoes, maize, cassava etc. this improves the nutrition levels of people as starvation and hunger are avoided. Dependence on imported food items is also reduced. By having adequate food supply, a country is able to feed its people

- It is a major foreign exchange earner. Through exporting agricultural products like coffee, cotton fibre, vanilla etc a country is able to earn foreign exchange. This improves a country's foreign exchange reserves. At the same time, foreign exchange can be used to finance a country's development programmes as well as paying off the external debt
- It reduces income inequality. Through developing agriculture, balanced regional development is attained where farmers in different areas are able to earn incomes from agricultural activities. This reduces the gap between the agricultural farmers and industrial workers thereby reducing income disparity among people
- It is relatively cheaper to undertake. The agricultural sector is basically labour intensive. This makes it a cheaper strategy to adopt in developing countries, which have shortages of capital
- It is a source of raw materials to the industrial sector. The agricultural sector provides vital inputs for use in the agro-based industries eg providing cotton fibre in the textile industry and sugar canes for the sugar processing industries. The development of agriculture is important since it helps to feed the industries with raw materials hence creating back-ward linkages
- It has quicker returns. Agriculture involves the growing of some crops with shorter maturity period. For example, farmers can grow crops like beans and maize and then harvest them for sell within a short period. This brings in quicker monetary/financial returns compared to the long-run benefits in the industrial sector
- It stimulates rapid infrastructural development. As agriculture is being developed, there is need to put in place production supporting infrastructure like better road network. The infrastructure put in place eases/facilitates the transportation of agricultural products from one place to another, as well as supporting other investment activities
- Agriculture provides a high potential source of revenue to government. This is attained through taxing agricultural exports, levying taxes on imported agricultural inputs like tractors, taxing incomes of workers in the sector like veterinary doctors

DEMERITS (NEGATIVE IMPACT) OF AGRICULTURAL DEVELOPMENT STRATEGY

- Low tax returns. The sector may not provide a wider tax base for the government. This arises when production in the sector is on subsistence basis and little output is sold by the farmers. There is limited income that can be taxed by the government
- It is subject to diminishing returns. There is reduced soil fertility as a result of poor farming practices and continuous use of land by the farmers. In the long run, agricultural output declines
- It leads to seasonal and disguised unemployment. Farmers who concentrate on one or a few crops are likely to become idle, unemployed, and redundant after the harvest season. This creates season unemployment which results into failing standard of living for the farmers
- It leads to instability in prices and incomes. Agriculture products are prone to fluctuating price. The fluctuations in prices lead to unstable incomes from agriculture. This frustrates the farmers leading to neglect of farming
- It increases external dependence. This occurs where a country relies on other countries to provide market for her agricultural products. This worsens foreign trade dependence
- It may worsen the poor terms of trade. This arises where the prices of exported agricultural products are falling but the prices of imported manufactured goods are rising. This reduces the net benefits from international trade as a result of poor terms of trade
- It worsens (perpetuates) the unfavourable balance of payments for developing countries. Agricultural economies always earn less from agricultural export yet they incur high or heavy expenditure on imports from other countries. This leads to unfavourable balance of payment positions

STRATEGIES OF THE AGRICULTURE SECTOR

Strategies in agriculture are used to change or transform the methods used in agriculture or to improve them. These strategies are as follows

1. Improvement approach
2. Transformation approach
3. Mechanization of agriculture
4. Modernization of agriculture

IMPROVEMENT APPROACH

This approach aims at providing existing methods of agriculture rather than shifting away completely from local methods in practice

It aims at encouraging agricultural development within existing peasant production units. This is done in ways such as;

- Farmers are advised and educated on how they can improve their farming systems or methods
- Provision of certain necessary inputs such as fertilizers, better seed varieties, acaricides etc to the farmers
- Extending short term credit facilities to the farmers

Advantages of the improvement approach

1. Great amounts of capital are not required
2. Fundamental social changes are not demanded of the farmer
3. It creates employment for the unskilled people who are likely to improve upon their skills
4. It improves the quality of labour in rural thereby leading to better quality products. The likely disadvantage is that it may not lead to greater levels of output as compared to the transformation approach

Problems faced in implementing the improvement approach

- Agricultural assistants or extension workers are not well facilitated by the government. They are provided with bicycles and motor cycles to ease their transport to farming areas. So, these agricultural assistants fail to visit many farmers
- To advice being offered may be either out dated or not applicable to the particular locality
- Poor infrastructure
- High level of conservatism among the farmers
- Limited capital
- Poor land tenure system
- Adverse climatic conditions

TRANSFORMATION APPROACH

It refers to the changing of the existing methods of agriculture so as to move away from traditional farming systems.

Some of the existing traditional methods are conservative and outdated. Therefore, there is need to be replaced with modern techniques of agriculture for the purpose of increasing production

It aims at a complete change of agricultural production

Transformation approach is associated with the following advantages

1. It makes use of the modern techniques of production
2. It promotes mechanization techniques in production
3. It encourages government participation through marketing boards and co-operative
4. It encourages collective farming where by many people work as group on large-scale units

The major advantage of this approach is that greater quantities of output are achieved which implies more exports, more government, revenue and greater employment

Demerits (disadvantages) of the transformation approach

1. It requires a lot of capital investment ie (tractors, irrigation equipment etc which are in short supply in LDCs)
2. Consolidation of land for large-scale production is not an easy thing to do because it may create social political problems
3. People may resist working in groups as it could be mis-interpreted to mean communism
4. It may lead to unemployment since capital intensive technologies are employed
5. It leads to transformation of cultural and traditional values
6. It leads to changes in land ownership (land tenure system) which may be resisted by some people
7. It gives rise to diseconomies of scale. Due to lack of management skills among the local entrepreneurs, an attempt to transform agriculture by introducing large scale farming methods at a certain level may lead to diseconomies of scale

AGRICULTURAL MECHANISATION STRATEGY

It refers to the adoption and use of machines, tools and equipment in the production of agricultural products. Mechanization therefore involves the use of tractors, combine harvesters, mechanical sprinklers etc. it is normally connected with large scale farming planning

Or

Mechanization of agriculture refers to the strategy or policy of using modern techniques in the agriculture sector to increase output and incomes

Or

It refers to the use of modern techniques of production (machines) such as tractors, ploughs, sprayers, sprinklers and combine harvesters (instead of labour intensive techniques) so as to increase quality and quantity of agricultural output

Or

Is where machines are highly utilized in the farming of crops and animals

Merits of agricultural mechanization

1. Leads to increased output hence economic growth/results into increased output in the agricultural sector. The application of machines enables farmers to cultivate more land and put it to use. This generates higher levels of output in the agricultural sector hence increasing the contribution of the sector to GDP
2. Leads to production of quality output/improves the quality of the produce. This is achieved through mechanized spraying and harvesting. The output is likely to be improved in terms of its quality. The high quality output is more competitive on the market and the farmers can afford to sell it better prices
3. Reduces expenditure on labour/saves on the cost of labour/reduces the average costs of agricultural production in the long run. The average cost of producing agricultural products reduces in the long run. This enables the farmers to earn higher profits
4. Saves time/simplifies farming activities. Mechanization makes farming easier, faster and less tiresome. This encourages more production since the workers handling the machines, find the jobs attractive
5. Leads to increased utilization of land resources/increases the size of land under agricultural activity. With the use of machines like tractors, more land can be under cultivation compared to the small pieces of land utilized by the farmers who use manual labour. This increases the level of land utilization in the country hence reducing excess capacity in the agriculture sector

6. Reduces dependence on nature. This is due to the possibility of applying irrigation on farming activities which allows continuity in production
7. Reduces seasonal unemployment. This is due to continuity in the production process that allows labour to be employed throughout the year
8. Improves the skills of labour. This is due to the increased handling of modern machines in production which enables workers to acquire skills from time to time
9. Leads to increased incomes of the producers. This is due to the increased output that is harvested and exchanged for money hence more income to farmers
10. It is more appropriate in the dry areas where manual labour cannot easily be employed. Such dry areas can be put under agricultural use by applying machines like tractors, ox-ploughs and use of mechanical irrigation

Demerits of agricultural mechanization

- High rate of soil exhaustion which may lead to low output
- Expensive in terms of spare parts, fuels, skills required and maintenance
- Over production may result leading to storage and marketing problems
- Causes technological unemployment

Problems encountered in an attempt to embark on agricultural mechanization (limitations or challenges to agricultural mechanization in Uganda)

- ✚ Limited capital. Since farmers have inadequate capital, they always fail or find it difficult to purchase the necessary agricultural machinery like tractors and other farm implement
- ✚ Limited skilled labour (inadequate technical staff to handle the machines). There is shortage of skilled people trained in agricultural engineering. This makes it hard keep the machines in proper working condition and this limits effective use of machines of the farms
- ✚ Conservation of the farmers. The attitude towards agricultural mechanization is still poor since many peasant farmers are still inclined to their traditional farming methods. Many farmers are not willing to use machines on their land
- ✚ The poor land tenure system. In some areas of the country, land is highly fragmented yet agricultural mechanization is possible and viable where large pieces of land exist without being fragmented. Therefore, with land fragmentation it becomes uneconomical to use machines
- ✚ Limited market for surplus agricultural products. A narrow market for agricultural products discourages farmers from embarking on mechanization. This small market leads to wastage of agricultural output, which arises from increased mechanization of farming
- ✚ Mechanization is not applicable to all crops/unsuitable where human judgment is required. The nature of some crops requires human judgment for certain activities like harvesting and weeding eg the harvesting of ripe coffee beans requires human judgment which makes machines not be applicable in this case
- ✚ Poor infrastructure. Poor roads network makes it hard to move agricultural machines to those areas where they are needed by the farmers eg farm tractors may not easily access rural areas with poor road network.
- ✚ Unfavourable physical factors. For example relief/topography in some areas. Poor topography of some areas for example, the hilly and mountainous areas are not viable for agricultural mechanization
- ✚ Limited entrepreneurship skills. There are few farmers who have the ability and necessary skills to use and manage the modern agricultural machinery and organize other factors of production as well
- ✚ Low and unstable prices for the agricultural products. This causes frustration among the farmers because the increased output arising from mechanization is offered at low and fluctuating prices

- ✚ Underdeveloped technology/poor production techniques. Sometimes the machinery bought for use in agricultural production is unsuitable to conditions prevailing in the country
- ✚ Political instability. This scares away potential investors discouraging them from installing agricultural machinery
- ✚ Low levels of accountability/corruption. This has resulted into the misuse of funds that are supposed to be used in mechanizing agriculture at sub-country level

Question

- (a) Examine the merits and demerits of agricultural mechanization in your country
- (b) How can agricultural mechanization be improved in your country
- (c) Explain the factors which are frustrating government's effort to mechanize agriculture in your country

MODERNISATION OF AGRICULTURE

Meaning

Agricultural modernization refers to the changing of the agriculture sector from subsistence production to commercialized high yielding sector

Or

The policy of increasing the output and incomes of the agriculture sector through measures such as mechanization or use of better production techniques, use of improved breeds etc

Or

Is the changing of farming from subsistence to commercialized high yielding agriculture using high yielding methods of production and improved breeds of crops and animals

The policy of agricultural modernization involves increasing output and incomes of the agriculture sector through measures such as mechanization/use of better production techniques, use of improved breeds of animals etc

Features of a modernized agricultural sector

- ✚ Increased use of fertilizers on the farm to increase agricultural yields
- ✚ Use of modern methods of production or farming such as mulching crop rotation, reducing soil erosion etc
- ✚ Use of tested seed varieties and better breeds of animals
- ✚ Provision of better extension services to the farmers
- ✚ Greater mechanization on agricultural farms
- ✚ Better marketing systems ie the farmers being assisted to identify foreign markets
- ✚ Better transport and storage facilities be in place
- ✚ Credit availability and accessibility to the farmers
- ✚ There should be increased processing of agricultural output with an element of value addition

Methods of agricultural modernization in developing countries

Note: Come up with explanations to these points

- Development of infrastructures
- Land tenure reforms
- Agriculture research
- Diversification
- Mechanization
- Provision of inputs to farmers
- Industrialization within agriculture

- Development of co-operative societies
- Maintaining political stability
- Training of manpower
- Irrigation
- Provision of credit facilities

Reasons for modernization of agriculture

Note: Come up with explanations to these points

- To reduce dependence on nature
- To increase output hence economic growth
- To reduce seasonal unemployment
- To increase foreign exchange earnings/to improve the balance of payments (BOP) position
- To reduce income inequalities/to increase producer's monies
- To develop roads
- To release labour for other sectors
- To provide more revenue to the government
- To reduce regional imbalances
- To promote growth of the industrial sector
- To attain price stability/to avoid or control structural inflation/to control price fluctuations
- To promote food security and ensure a healthy population
- To improve terms of trade
- To monetize the economy
- To fight conservation

FACTORS LIMITING AGRICULTURAL MODERNIZATION IN UGANDA

Factors limiting agricultural modernization in my country are

- Limited supply of capital. This limits the farmers' ability to acquire machinery to develop the agriculture sector
- Limited supply of skilled labour due to the high levels of illiteracy. This leads to low agricultural productivity and poor quality agricultural products
- Poor techniques of production. This leads to low quality agricultural products thus discouraging modernization of agriculture
- Limited market both at home and abroad. This leads to difficulty in marketing output hence wastage of agricultural products thereby limiting the modernization of agriculture
- Conservation of the farmers hence difficulty in making some farmers to accept modern techniques of production. They tend to oppose changes in agricultural production and the use of scientific methods of production
- Poor infrastructures for example poor roads especially in rural areas. This discourages effective movement of inputs and final agricultural products from the rural areas to the market base
- Natural hazards/unfavorable natural factors for example pests and diseases. These reduce or make it difficult to realize the targeted quality and quantity of agriculture output
- Unfavorable political atmosphere making it difficult to attract people to the sector or for them to remain in production. This reduces investment in agriculture sector and causes destruction of agricultural fields
- Corruption/low levels of accountability. This is clearly shown by the mismanagement of NAADS funds due to the high levels of financial indiscipline

- Poor land tenure system hence difficulty in expanding the scale of production. The traditional ownership discourages land consolidation and large scale agriculture
- Low prices of the products. This causes fluctuations in the farmer's incomes thereby discouraging agricultural modernization as farmers incur losses and become frustrated
- Poor entrepreneurship skills. This leads to poor management of the agricultural sector leading to high level of inefficiency and limited modernization of agriculture
- Unfavourable topography. The hilly, mountaneous and swampy nature of land discourages the use of machines in agricultural production thereby limiting the modernization of agriculture

Steps being taken to promote the modernization of agriculture in Uganda

Note: Come up with explanations to these points

- Encouraging/facilitating provision of credit facilities to farmers
- Introduction of high yielding seeds and breeds (inputs) to the farmers
- Introduction of better production methods
- Availing training to farmers – NAADS
- Undertaking land reform policies
- Encouraging research in better breeds, seeds and production methods of example NARO
- Improving (rehabilitation and extension of) infrastructure
- Maintaining political stability
- Expanding market through joining or encouraging regional co-operation
- Improving entrepreneurial skills
- Fighting corruption for example in NAADS

Ways in which the agriculture sector is being modernized

Note: Come up with explanations to these points

- Training labour or providing skills
- Improving political climate
- Developing infrastructure
- Widening markets
- Encouraging diversification of agriculture
- Improving techniques of production
- Encouraging use of modern or hybrid seeds
- Liberalizing agricultural marketing
- Setting up institutions to promote the agricultural sector for example coffee development authority
- Encouraging extension services or education
- Revitalizing co-operative societies
- Encouragement of research in agriculture

QUESTION

- Outline the objectives of modernizing agriculture in your country
- Explain the factors which are frustrating modernization of agriculture in your country

MEASURES/STEPS THAT SHOULD BE TAKEN TO IMPROVE THE AGRICULTURE SECTOR IN UGANDA

Note: Come up with explanations to these points

- Land reforms policies to make land more accessible
- Provision of credit facilities to farmers to increase their capacity to exploit land
- Carry out research in all fields/new farming methods

- Provision of extension service to the farmers
- Put emphasis on agricultural sector's technology
- Improvement of infrastructure
- Industrialization within agriculture
- Development and/or revival of co-operatives
- Provision of subsidized inputs to farmers/provide input
- Train labour to acquire the necessary skills
- Ensure political stability
- Market expansion eg through regional integration
- Improve the pricing policies eg through strengthening commodity agreements

SUB TOPIC: THE INDUSTRIAL SECTOR IN UGANDA

The industrial sector in Uganda is small but steadily growing and expanding. The percentage contribution of the industrial sector to Uganda's GDP according to the National Budget for the Financial year 2015/2016 is at 5.1%

NB industry is a collection of firms that produce related products and are therefore in constant competition with one another for the market and resources

A firm is a unit of production under unified management or single control

Forward linkages exist when setting up of an industry results into emergence of other industry or industries, with the newly established plants forming markets for products and by-products of already existing industry

Examples of forward linkages in Uganda include

Sugar industry leading in the sweets industry

Grain processing industry leading to animal feeds industry

Iron and steel industry leading to the construction industry

Backward linkages is where existence of an industry leads to setting up of new industries to supply existing industry with inputs

Examples of backward linkages in Uganda include

- Food producers to the industrial sector
- Print pack making cardboards to bread and cigarettes industries
- Sugarcane outgrowers to sugar industries
- Tea outgrowers to tea processors

ROLE OF THE INDUSTRIAL (MANUFACTURING) SECTOR TO THE ECONOMIC DEVELOPMENT OF UGANDA

Positive role of the industrial sector in Uganda

- Creation of more employment opportunities. This is due to increased investment and production in the industrial sector
- Facilitates infrastructural development. This is because the industries encourage the construction of better infrastructure like roads for the mobility of inputs and the final goods
- Encourages technology transfer and technology development. This is due to the high use of capital intensive technology in the industrial sector

- Improvement in balance of payment position. This is due to increased production of industrial products for export which led to increased foreign exchange and reduction in the volume of imported manufactured goods due to setting up of import substitution industries hence saving scarce foreign exchange
- Facilitates resource utilization. This is due to increased production in the industries and high demand for raw materials by the industries which results in utilization of idle resources hence avoidance of wastages
- Improvement in the terms of trade. This is due to the value added to products which increases the prices of export products relative to the prices of import
- Encourages production of high quality output through adding value through processing or manufacturing. This is due to competition amongst the industries, use of advanced technology and highly skilled labour in the industries
- Promotes economic growth hence increased Gross Domestic product (GDP), this is due to increased production in the industries
- Reduces (economic) dependence on importation of consumer goods. This is due to increased volume of industrial products and hence reduced dependence on imported manufactured goods
- Promotes the development of local labour skills. This is through training facilities provides by the industries
- Promotes the development of entrepreneurial skills. This is through training facilities provided that enable individuals take on risks of organizing other factors of production through injecting capital in settling up industries
- Attracts foreign investment/capital inflow. This is because most of the large scale industries are owned by foreign investors
- Promotes forward and backward linkages with other sectors. This is through provision of market to agricultural products and raw materials to subsidiary industries
- Provides revenue to the government
- Widened consumer choices through production of a variety

Negative role of the industrial sectors in Uganda

- Over-exploitation of non-renewable resources hence depletion. The industrial sector leads to exhaustion of resources due to over exploitation since the objective of production is profit maximization not resource exhaustion
- Leads to pollution hence environmental degradation. The industrial sector degrades the environment by dumping of industrial wastes on the environment leading to low levels of economic development
- Increased capital outflow. This arises from the dominance of foreign ownership of the large-scale firms and the reliance on imported capital and intermediate goods
- Imbalance in regional development. Since majority of the industries are established in urban areas neglecting rural areas thus there are better infrastructural developments like roads and social amenities in urban areas compared to rural areas
- Technological unemployment arises. This is because industrial development tends to be capital intensive thereby replacing human labour with machines.
- Dependence on imported inputs/external resource dependence. This is because there is need to import capital goods and spare parts to be used in the industries
- Leads to income inequality. The industrial sector contributes to the widening of the income gap by providing incomes to industries that are expanding and little or no incomes to industries which are contracting. Likewise, majority of the industries are owned by a few who are able to earn high incomes at the expense of the majority who have no industries

- Low revenue to the government due to concessions that are usually given to foreign investors setting up the large – scale industries
- Imbalance in sectoral development. This is due to more emphasis being put on the development of the industrial sector at the expense of other sectors
- Low quality of output. The industrial sector (especially small scale industries) produces poor quality products mainly due to use of poor techniques of production
- Exertion of pressure on government for concessions, for example, protection from imports. This breeds inefficiency in industrial operations

Benefits of industrialization the economy

- ✚ Industrial products have high and stable prices. This helps to stabilize producer's income. Thus industrial growth relieves a country of fluctuations in the prices of agricultural products
- ✚ Provision of more employment opportunities in the long run. This is due to linkages with other sectors of the economy
- ✚ Creation of forward and backward linkages. This is because industrialization has more complementary features than investment in agriculture. Therefore, it provides market to other sectors like agriculture due to its linkages
- ✚ Industry encourages structural changes in the economy. Industrial development is necessary for structural changes in the economy. Industrial development is necessary for structural changes and for the diversification of the economy. This reduces dependence on a few agricultural exports which is a characteristic of most developing countries
- ✚ Industries encourage specialization and trade. Expansion of industries permits increasing specialization within the industry leading to increasing returns. This enhances the development of the country and improves the terms of trade
- ✚ Industries promote skills development through training of labour. Increased industrial development leads to increased training facilities for skilled labour. Thus promotes skills development, increases the efficiency and productivity of labour
- ✚ Creation of a positive attitude to development. Industrial development is a powerful tool of social transformation through reducing the size of the subsistence sector in the economy
- ✚ Encourages development of infrastructure in form of roads to ease the transportation of raw materials and finished products. Industrial development leads to the setting up of better social and economic infrastructure which forms the framework for the eventual development of the country
- ✚ Reduction in economic dependence due to increase domestic production of formerly imported products. Industrial development reduces external dependence by reducing importation and encouraging local production of manufactured goods
- ✚ Improves the balance of payments position due to reduction of import expenditure as most of the consumer goods are now domestically produced
- ✚ Improved terms of trade. This is because industrial products command relatively high prices on the world market compared to agricultural exports.
- ✚ Industrial sector raises the level of government revenue through taxation of the industrial activities. Industrial development widens the source of government revenue in form of corporate taxes and taxes on exports of manufactured goods
- ✚ Encourages technological development due to improvement of local technology and importation of efficient modern technology thus leading to increased productivity. Industrial development encourages inventions and innovations that lead to technological progress in the country
- ✚ Industrial development is an engine to rapid economic transformation. Industrialization increases production and offers a wider scope for development on modern commercial lines compared to agriculture whose level of productivity is extremely low

FACTORS AFFECTING/DETERMING/INFLUENCING THE GROWTH OF THE INDUSTRIAL SECTOR IN UGANDA

1. Political climate; political unrest scares away investors thereby discouraging investment in the industrial sector while political stability builds confidence in the investors thereby attracting more investment in the industrial sector thus promoting its growth
2. Size of capital/income; large capital encourages large scale industrialization which promotes the growth of the industrial sector while limited capital discourages large scale industrialization thereby limiting the growth of the industrial sector
3. State of technology; use of better, advanced technology encourages production of high quality industrial products which promotes the growth of the industrial sector while use of poor technology encourages production of poor quality industrial products thereby limiting the growth of the industrial sector
4. Land tenure system; poor land tenure system limits access to land by the investors which discourages the growth of the industrial sector while a better land tenure system with individual ownership of land encourages access to land by the investors which promotes the establishment and growth of the industrial sector
5. Labour skills; limited labour skills result into low labour productivity and low output of the industrial products thereby discouraging the growth of the industrial sector but high labour skills result into high labour productivity and large output of industrial products and hence high industrial growth
6. Size of market, small market size limits sales and profits and thus causes wastage of resources thereby discouraging producers in the industrial sector and hence low industrial growth while a large market size encourages high sales and high profits which limits wastage and this leads to high production and growth in the industrial sector
7. Entrepreneurial skills. Limited entrepreneurial ability leads to poor organization in the industrial sector thereby discouraging industrial growth while high entrepreneurial ability leads to proper organization of factors of production and high level of industrial growth
8. State of infrastructure; better infrastructure in form of good roads promotes the mobility of inputs and final products thereby encouraging industrial growth but poor infrastructure in form of poor roads discourages the mobility of inputs and limits access to market for the final products thereby limiting industrial growth
9. Inflation rates; high inflation rate leads to high cost of production which discourages production in the industries hence limiting industrial growth but low inflation rates lead to low costs of production which encourages investment in the industrial sector thus promoting its growth
10. Level of corruption/degree of accountability; high corruption limits the amount of funds for industrial growth as most of the funds are channeled to individual interests which high level of accountability and financial discipline increases the amount of funds meant for industrial growth
11. Government policy of taxation and subsidization; high taxes and limited subsidies increase the cost of production thereby discouraging investment in the industrial sector while low taxes and high subsidies reduce the cost of production and this encourages more production and increased growth in the industrial sector
12. Level of exploitation of the available natural resources/supply of raw materials; high supply of raw materials leads to large scale production which encourages industrial growth while limited supply of raw materials leads to low output and low industrial growth

LIMITATIONS OF INDUSTRIALIZATION IN UGANDA

The major challenges impeding industrial development in Uganda includes

- ✚ Limited capital. There is limited capital due to low incomes and profits and the limited access to loans by industrialist. This discourages the buying of equipment and machinery of industrial development
- ✚ Limited markets. There are limited markets for the products of the industrial sector both at home due to low incomes and abroad due to their poor quality. This leads to low sales and thereby resulting into wastage of goods or resources and this limits industrial development
- ✚ Underdeveloped infrastructure. Infrastructures such as roads, rails and power plants are in a poor state. This limits effective movement of raw materials and finished products from one place to another and this limits industrial development
- ✚ Limited skilled labour. The efficiency of industrial investments is limited by use of mainly unskilled and semi-skilled labour due to the poor education system. This limits labour productivity and labour efficiency which results into low quality and quantity of output produced hence limiting industrial development
- ✚ Poor technology. This is mainly due to use of labour intensive techniques of production and importation of unsuitable technology for production which results into production of poor quality industrial products thereby discouraging industrial development
- ✚ Political turmoil. This scares away investors because of fear of losing their lives and property thereby discouraging industrial development
- ✚ Limited entrepreneurial abilities. This leads to poor management/high level of inefficiency in the industrial sector thus limiting industrial development
- ✚ Inadequate raw materials to be used for the production of industrial products because of poor performance of the agricultural sector that is the main source of raw materials for agro-based industries
- ✚ Unfavourable tax levels. This leads to high costs of production in the industries and stagnation in growth of some firms, thereby limiting industrial development
- ✚ Stiff competition from foreign goods. This further limits the market for local industrial products that cannot compete with the superior foreign products, thereby limiting industrial development
- ✚ High cost of doing business due to the high rates of inflation. This has resulted in the closure of some industrial firms and stagnation in the growth of others
- ✚ Unfavourable land tenure system. This limits access of land resources for industrial development

MEASURES BEING TAKEN TO IMPROVE THE INDUSTRIAL SECTOR IN UGANDA

Measures being taken to improve the industrial sector in my country include

- ✚ Widening markets for example by joining regional groupings. This is aimed at minimizing wastages of resources thereby encouraging the potential investors to produce and existing investors to expand so as to increase output and earn more profits hence development of the industrial sector
- ✚ Developing infrastructures by constructing better roads. This is to improve on the transportation of the raw materials and finished products of the industries which encourages investors to establish more industries and expand existing ones
- ✚ Stabilizing the political atmosphere/climate. This is to build confidence in investors so as to attract local and foreign investors to develop and expand the industrial sector because they are assured of safety of their lives and property

- ✚ Improving (changing) the land tenure system. This is through carrying out land reforms to enable potential investors have access to land for industrial development and the existing investors to get more land so as to expand their firms
- ✚ Providing affordable capital for investment/industrialization. This is through providing low cost credit facilities (loans) to increase capital for buying more land and more raw materials so as to expand the scale of industries
- ✚ Fighting corruption (promoting proper accountability). This is aimed at ensuring proper accountability and financial discipline thereby availing more funds to industrial investors to expand the scale of operation
- ✚ Stabilizing prices through use of various sound macro-economic policies like contractionary monetary and fiscal measures. The government aims at controlling inflation and maintenance of price stability which discourages speculation in the economy and encourages industrial production for exchange
- ✚ Vocationalizing education/provision of labour with skills. This is through offering training to labour in form of organizing seminars, workshops and on-job training so as to increase efficiency and productivity that enables industries increase the quantity and quality of output
- ✚ Providing tax incentives to firms in the industrial sector. This is aimed at improvement of investment climate by providing tax holidays and tax rebated. This is helping to reduce the cost of doing business in the country and is encouraging investors to set up firms since they are guaranteed tax relief till the investments have become profitable
- ✚ Liberalizing the economy. This is through giving liberty to potential investors to establish industries and increase output by removing unnecessary government controls on trade that tend to inhibit industrial expansion
- ✚ Modernizing agriculture/developing cheaper and reliable sources for the supply of materials/creating linkages with other sectors. This is aimed at enabling the industrial sector to have continuous supply of raw materials hence enabling it to expand
- ✚ Improving entrepreneurship skills to enable potential investors to acquire the required skills to organize other factors of production thereby facilitate them establish and manage the industries effectively
- ✚ Further privatization of public assets/enterprises is being carried out so as to encourage potential investors to buy state owned industries and establish new ones hence expansion of the industrial sector
- ✚ Improving techniques of production/technological development and transfer. This is aimed at enabling investors to improve on the quality and increase on the volume of industrial output
- ✚ International campaigns to attract investors to come in the country and establish industries to take advantage of the existing market potential in various areas of investment
- ✚ Strengthening/establishing specialized institutions for industrial development like Uganda investment authority, export promotion institutions and private sector foundation to improve performance of the sector. This is because through these organizations, government is able to determine ways of assisting the potential industrialist to set up firms in the country
- ✚ Encouragement of savings. This is to build the stock of capital necessary for the purchase of machinery and inputs for industrial development and expansion

Measures that should be taken to increase the growth of the industrial sector

Note: Come up with explanations to these points

- ✚ Develop infrastructures
- ✚ Improve labour skills
- ✚ Improve entrepreneurship ability
- ✚ Provide affordable credit for investment
- ✚ Stabilize the political atmosphere

- ✚ Improve land tenure system
- ✚ Stabilize prices/control inflation
- ✚ Promote technological development through research
- ✚ Fight corruption
- ✚ Provide tax and other incentives to industrialists

SUB TOPIC: SCALE OF OPERATION OR SIZE OF INDUSTRIES

The industrial sector in Uganda is mainly dominated by small scale industries, with few medium scale plants and very few large scale establishments

SMALL SCALE INDUSTRIES

Small scale industries are those whose firms operate with small sized plants. Low employment and hence small output capacity. They are basically production units engaged in processing, manufacturing, assembling and servicing activities. Examples of small scale industries are maize milling, bakeries, carpentry workshops, garages, brick laying etc

Features of small scale industries

- Mostly use local inputs and raw materials
- Mainly serve small markets
- Mainly owned by the indigenous people/local citizens
- Mainly engage in small capital investment
- They are mainly labour intensive
- Mainly produce at excess capacity
- Mainly produce durable consumer goods
- Mainly small sized plants with low output level
- Mainly require little capital for establishment and maintenance
- They are mainly geographically dispersed/scattered throughout the country
- They mostly employ semi-skilled and unskilled labour

EFFECTS OF SMALL SCALE INDUSTRIES IN DEVELOPING COUNTRIES

Positive effects of small scale industries

- Lead to increased employment opportunities since they are labour intensive. As small scale industries develop, they create more jobs to both the trained and casual workers. Such people earn income which enables them to buy the basic necessities of life and improve their standard of living
- Promote fair distribution of income because they employ many people. Small scale industries widen economic activities from which people generate income. As people earn income, the extent of income inequality is reduced
- To some extent, they promote self-sufficiency since they use local resources hence no need for importation of resources and also by producing a variety of goods for the local markets, small scale industries help to reduce dependence on foreign economies
- Lead to improvement in balance of payment position because they use local inputs hence a reduction in importation. They save foreign exchange which would have been spent on imports. This helps to reduce the BOP problem to some extent since expenditure on imports is reduced
- Lead to exploitation of the world's idle resources leading to increased output. They lead to the utilization of resources which would have remained idle. As resources get utilized, wastages of such resources is avoided, for example, some small scale industries recycle scrap metals into useful products thereby avoiding wastage of that vital resource

- Facilitate development of infrastructure, for example, roads are constructed to enable the movement of raw materials and final goods. The setting up of small scale industries in particular areas calls for the development of supporting infrastructures in form of better road network, ware housing facilities and commercial banking facilities
- Act as a source of government revenue through taxation in form of corporate taxes. Government generates substantial tax revenue and license fee from small scale industries. This revenue is used by government to finance her development programmes
- Provide a wide variety of goods due to competition thus widening consumer choices. Since small scale industries produce a variety of products, consumers' choice is widened and this leads to improved standard of living for the local people
- Promote acquisition of skills as people employed learn to use machines and repair them. They provide on the job training programmes for the workers. For example, many local technicians are trained on the job in small scale industries where they acquire skills of working in even bigger industries
- Lead to increased incomes due to the provision of employment to people
- Provide cheap goods and services thus improving people's standard of living. By using locally available materials inputs, small scale industries produce relatively cheap commodities which can be afforded by the majority of the people. This helps to improve people's standard of living
- Promote creation of forward and backward linkages leading to more investment and employment. When industries are set up in an area, they induce the setting up of new firms to provide raw materials to those already existing industries (back-ward linkage) at the same time, new firms also emerge such that they creating market for products and by-products of the industries (forward linkage)
- Acts as grounds for technological development. They are grounds for development of local technology. Small scale industries produce small machines like coffee graining mills. Through research, these machines are improved upon
- Promote further industrialization of the economy as more industries are set put because of backward and forward linkages. Therefore, they enable a country to diversity from agricultural to industrial production
- They serve as a training ground for entrepreneurs. Some entrepreneurs learn the skills managing industries from small scale industries. In the long run, entrepreneurs acquire management skills which they can later use to manage medium and large scale industries
- There is increased output/they increase levels of GDP. Small scale industries lead to production of more goods which results into higher national income figure/GDP

Negative effects of small scale industries

- Lead of wastage of resources because of unnecessary competition and duplication of activities. Many small scale industries are competing for the same resources/inputs and this leads to irrational use of such resources in the long run.
- Lead to limited contribution to employment since they employ few people. During their infant stages, small scale industries do not employ many people and therefore they contribute less to reducing unemployment in the country
- Lead to under utilization of resources since they produce small output. This arises from poor methods of production. At the same time, small scale industries serve a small market which eventually makes them to produce at below their installed capacity making resources to be under utilized
- Lead to pollution of the environment because small scale industries emit fumes. Pollution of the environment as a result of poor disposal of industrial waste
- Congestion in urban and semi urban areas. They are mainly concentrated in such areas and this causes regional imbalance in the distribution of economic activities

- Promote growth of slums since they are mostly established in urban areas. Many people move from rural areas to go to urban areas to look for jobs leading to the development of slums. They lead to growth of slums in urban and semi-urban areas where they are mainly concentrated. This leads to social evils like high crime rate in urban areas where those industries are located
- Production of low/poor quality goods. This arises from use of poor techniques of production, use of low quality inputs and failure to abide by quality specifications. This has reduced market for products of small scale industries
- They contribute less or low revenue to government. Since they operate on small scale, the government gets low tax revenue from the ie small scale industries are not major or significant sources of tax revenue to the government

REASONS FOR CONTINUED EXISTENCE OF SMALL SCALE FIRMS

- Poor infrastructure like poor roads and poor energy facilities tend to increase the cost of production thus making it difficult for firms to transport raw materials. Therefore, they are not able to increase their output because of the high costs of transporting raw materials
- Limited capital for expansion. Some of the small firms do not have enough capital to buy raw materials to increase their output hence they are forced to remain small
- Fear of diseconomies of scale. Some firms remain small for fear of the increased average costs of production associated with operation on a large scale, for example, failure to supervise and control workers by management due to over-expansion
- Limited skilled labour. Many of these firms employ unskilled labour leading to low levels of efficiency and productivity thereby discouraging firms from expanding
- Limited supply of raw materials because of unfavourable natural factors forcing these firms to remain small in case of agro-based industries
- Limited markets. Due to the small size of the market, small firms are discouraged to increase their output for fear of making losses hence remaining small
- Poor techniques of production. These increase the cost of production making it difficult for firms to expand because they fear to make losses
- Fear of high risks and uncertainties. Some firms remain small because of the increased risks associated with large scale production like fall in demand for the products, losses etc
- Choice of the entrepreneur/objective of the firm. Many of the owners of small firms desire their independence. They have no ambitions to expand because they do not want to lose their control
- Market requiring personal touch. Some of the services dealt in require the owner's personal touch/contact, for example, hair salons, private medical clinics, law firms etc
- Limited entrepreneurial ability. Some of the owners of these small firms do not have the skills to run and manage the large firms thus prefer to remain small
- Poor political climate. Some firms remain small because of the political unrest in some parts of the country which dents the confidence of the investors. They are scared about their life and property and would prefer to operate on a small scale to avoid making big losses
- Limited space for growth/poor land tenure system. Some firms remain small because they do not have enough land to enable them to expand
- Fear of increase corporation taxes makes the small firms remain small because they do not want to incur those taxes which increase the cost of production and reduce profits
- Some firms remain small because they are in their early stages of development and they have not raised enough time to expand, for instance, they have not raised enough capital to buy more land so as to expand

- Some of the small scale firms are used as pilot projects. So they tend to operate on a small scale so as to attain high levels of efficiency. Since they are on a small scale, they are easily supervised, monitored and evaluated

LARGE SCALE INDUSTRIES

These include

- Steel rolling mills
- Large scale breweries
- Large scale soft drink processing industries such as coca-cola industry
- Large scale textile firms
- Large scale cement making industries such as Hima cement industry Ltd and Tororo cement industry Ltd

EFFECTS OF LARGE SCALE INDUSTRIES IN DEVELOPING COUNTRIES

POSITIVE EFFECTS OF LARGE SCALE INDUSTRIES

Note: Come up with explanations to these points

- ✚ Low prices of final output due to economies of scale
- ✚ Provide employment opportunities to people. They operate distribution stores in different parts of the country and this enable more people to be employed by such large scale industries
- ✚ They operate distribution stores in different parts of the country and this enable more people to be employed by such large scale industries
- ✚ Lead to infrastructural development
- ✚ Promote technological development/transfer
- ✚ Contribute revenue to government through taxes
- ✚ Lead to economic growth by producing more goods in the economy
- ✚ Improve labour skills through training. They stimulate development of skills through on the job training programmes for the workers
- ✚ Increased utilization of idle resources hence avoiding wastes
- ✚ Promote growth of entrepreneurial ability
- ✚ Lead to urbanization and its merits
- ✚ Saves foreign exchange
- ✚ Increased foreign exchange earnings due to exportation hence improved BOP position
- ✚ Production of quality output hence efficiency in production because they are capital intensive
- ✚ Reduced dependence on imported consumer goods. They help to reduce dependence on imported manufactured goods
- ✚ Promote linkages with other sectors
- ✚ Production of variety of goods hence widening consumer choices
- ✚ High profit levels are enjoyed

NEGATIVE EFFECTS OF LARGE-SCALE INDUSTRIES

- ✚ Increase income inequality. They worsen income inequality in the economy
- ✚ Lead to imbalance in regional development/rural-urban migration and its evils. They lead to regional imbalance in development since they are mainly concentrated in urban areas
- ✚ Environmental degradation through pollution. They create environmental degradation/pollution as they are associated with social costs which inconvenience the public
- ✚ Increased dependence on imported inputs. They increase dependence on imported inputs and industrial spare parts. This creates external resource dependence
- ✚ Low employment creation due to use of capital-intensive techniques. They give rise to technological unemployment due to the use of capital-intensive techniques of production

- ✚ Leads to over exploitation of resources hence depletion
- ✚ Capital outflow due to wages and profit repatriation. Continuous capital out flows as a result of profit repatriation by foreign investors who own large scale industries
- ✚ Balance of payment problems due to importation of inputs. It results into BOP problems due to massive importation of industrial machines through technological transfer
- ✚ Political interference due to exertion of pressure on government for concessions. They exert pressure on government for protectionism and tax concessions. Large scale industrial investors always lobby government to be given supporting incentives like tax holidays. Through providing such subsidies, government expenditure increases in the long run and this lowers the net benefits from large scale industries
- ✚ Lead to monopoly tendencies and its demerits, for example, consumer exploitation and collapse of small scale firms. Some large scale industries have monopoly tendencies and they exploit the public or the consumers.
- ✚ Expensive to establish/set up
- ✚ Heavy losses are incurred in case of breakdown/failure
- ✚ Surplus production due to limited market hence wastage
- ✚ Diseconomies of scale hence high prices of final products
- ✚ Difficult to relocate/not flexible
- ✚ Production at excess capacity hence wastage of resources
- ✚ Consumer exploitation by way of charging high prices

QUESTIONS

1. (a) Distinguish between a firm and an industry
(b) Assess the role of small scale industries in the development of your country
2. (a) Explain the contribution of the private sector to industrialization in your country
(b) What are the challenges faced by small scale industries in your country

THE CONTRIBUTION OF THE PRIVATE SECTOR TO INDUSTRIALIZATION IN UGANDA

N.B We link the contribution of the private sector to the process of industrialization. Therefore, we do not give the general merits of the private sector. We give those specific things which the private sector does in order to support the process of industrialization in Uganda

- ✚ The private sector trains labour which is employed and used in industries ie private institutions like universities train labour (managers, technicians etc). the trained labour is employed in the industrial sector to enable it operate more efficiently
- ✚ It has extended loans to industrial investors. Private commercial banks and other financial institutions provide or extend loans to industrial investors/firms. This enables industries to expand their activities using the capital which is borrowed from private financial institutions
- ✚ Private firms create linkages with the industrial sector for example some private firms supply industries with raw materials while others provide market for industrial products
- ✚ The private sector increases capital inflows by foreign private investors who set up industries
- ✚ It has safe-guarded industries against business risks. Private insurance companies guarantee indemnity (compensation) to industrial investors in case of losses from insured risks. This inspires confidence among investors in the industrial sector thereby promoting industrialization
- ✚ It has promoted entrepreneurship skills in Uganda. The Uganda private sector foundation (UPSF) organizes training workshops for industrial managers and entrepreneurs. This helps to promote/improve their managerial skills and they are enabled to effectively run industrial enterprises

- ✚ It has put in place basic infrastructure which is used by the industries. For example, private communication companies in Uganda such as MTN and Airtel have set up communication infrastructure which is being used by industrial firms to promote trade
- ✚ It has improved on business information. This includes information about potential markets (both within and abroad) and this has helped in promoting industries in Uganda
- ✚ It has encouraged scientific innovations in industries. New techniques of production used in industries are developed by private firms through research
- ✚ It has created competition thereby causing improvements in quality of commodities. This has helped in expanding the market for industrial goods due to the improvement in their quality
- ✚ It has encouraged technological transfers in industries. Modern machines used in industries are imported by the private sector. Such machines help to increase output in industries hence promoting the process of industrialization in Uganda

REVISION QUESTIONS

1. (a) Suggest measures that should be taken to promote industrialization in your country. (Refer to measures that should be taken to increase investment in Uganda)
(b) “It is through industrialization that Uganda can attain higher rates of economic growth and development” Discuss
2. (a) Describe the features of the industrial sector in your country
(b) Explain the measures being taken to improve the industrial sector in your country
3. (a) Account for the low levels of industrialization in your country
(b) Explain the contribution of the private sector to the industrialization in your country
4. “Uganda should adopt an agricultural development strategy rather than industrial development strategy if it is to attain a faster rate of economic growth” discuss

The approach to this question is

- (i) Give merits of agriculture to be immediately followed by demerits of industry
- (ii) Give merits of industry to be immediately followed by demerits of agriculture

In summary the approach is as follows in its systematic order

1. Merits of agriculture
2. Demerits of industry
3. Merits of industry
4. Demerits of agriculture