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Leveraging FDI to Increase SME Access to Finance in Africa: A Case Study of Uganda

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Abstract

This study explores the potential for adoption of business-to-business (b2b) financing as an alternative to formal finance. The main objective of the study was to determine how FDI firms (TNCs) in Uganda can be leveraged to expand supply of finance to SMEs. The specific objectives were to: establish the patterns of adoption of b2b financing and determine the factors responsible for levels of adoption; assess the potential for SMES to leverage on FDI firms for increased adoption of b2b financing; assess the effect of entrepreneur perceptions and local business culture on adoption of b2b financing; determine the barriers to increased adoption b2b financing; and lastly determine and assess policy options to promote increased uptake of b2b financing. Two surveys, one of TNCs and another of SMEs complimented with case studies were conducted to obtain necessary data. Analysis employed mainly correlations and regression tests.

The study established that three B2B financing forms namely sub-contracting, supply credits and prepayments and resource transfers were in use while there is non-use of financial guarantees and export credit guarantees. Potential for SMES to leverage TNCs for increased use of b2b financing exists while entrepreneur perceptions and local business culture have a strong effect on b2b financing adoption. TNC outsourcing selection criteria presented strong hidden barriers to adoption. Lastly, for increased uptake of b2b financing, four areas of policy action seemed to emerge namely: SME capacity development, increasing TNC propensity to create business linkages with local SMEs; reduction of barriers to TNC-SME business linkage; and encouraging increased use of B2B financing in TNC-SME business relationships. Specific aspects of each of the areas are elaborated.

KEY WORDS: business-to-business (b2b) financing, Transnational Corporations (TNCs), Small and Medium Sized Enterprises (SMEs), business linkage, Uganda.

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List of Acronyms and Abbreviations

BOU	Bank of Uganda
BSOs	Business Support Organisations
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECA	Economic Commission for Africa
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
ITC	International Trade Centre
LEs	Large Enterprises
NFPS	Methods Non-Financial Private Sector Methods
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation & Development
PSFU	Private Sector Foundation-Uganda
SMEs	Small and Medium Enterprises
TNCs	Transnational Corporations
UBOS	Uganda Bureau of Statistics
UNCTAD	United Nations Conference on Trade and Development

1.0 Background

Small and Medium Enterprises (SMEs) in Africa have little access to finance which hampers their emergence and eventual growth (Kauffmann, 2009, Coullier, 2009; Kasekende & Opondo, 2003). Retained earnings and informal savings are their main sources of capital, which are unpredictable, not secure and have little scope for risk sharing. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities (Guitard, 2009; Sacerdoti,2009; Lefilleur,2009; Tadesse,2009; Derreumaux, 2009).This lack of access to formal finance has kept SMEs weak and prevented them from growing. As a result, Africa's private sector remains comprised mostly of informal microenterprises accounting for 90% of the private sector with only 10% being medium to large firms. Furthermore, most companies are not only small but are often new due to the high mortality rates experienced among SMEs. For instance, (Bakunda, 2008) reported more than 40% mortality rates among exporting SMEs in Uganda and according to the Uganda Bureau of Statistics, 5 out of every 10 firms in Uganda are less than 1 year old (UBOS, 2011). These twin characteristics of smallness and newness seem to combine to make most African SMEs rarely able to meet the conditions set by financial institutions, which consider SMEs risky because of poor guarantees and lack of information about their ability to repay loans.

Apart from the SME challenges, the financial systems in most countries in Africa are still underdeveloped with generally few financial instruments. Capital markets are still in their infancy with limited shareholding leading to an absence of long term financing for SMEs. Apart from the formal banks, the non-bank financial intermediaries, such as microcredit institutions that could have been of help in lending money to the smallest SMEs do not have the resources. In Uganda, the financial sector remains shallow and under developed with limited instruments for the private sector. The sector is dominated by commercial banks whose interest in lending to SMEs is minimal. In addition, interest rates remain among the highest in the world with commercial lending rates averaging 28% in 2011(New Vision, 2011). Development banks that typically provide long term finance for enterprise growth are largely non-functional and beyond the reach of SMEs (Ssewanyana et al., 2009). Although the microfinance sector in Uganda has exhibited tremendous growth and is now widespread (AMFIU, 2010), it is still characterised by interest rates that are prohibitively high, with rates well over 40% in many cases and largely remains under resourced (AMFIU, 2010; Okurut et al., 2004; Carlton et al., 2001). The financial sector in Uganda typifies those of most African countries.

Therefore, a key concern for policy makers and the private sector in Africa is how to increase SME access to finance on a long term sustainable basis in order to accelerate growth, employment and poverty alleviation. In response to this concern, Kauffmann (2009) proposed a four pronged approach for increasing SME access to finance in Africa. The approach comprises of (i) improving business conditions (ii) boosting the capacity of SMEs to meet the requirements of formal financing (iii) making the financial system more accessible to SMEs and (iv) expanding the supply of finance through the non-financial private sector. While, all the above proposals are plausible and provide broad responses to the challenge of SME access to finance, the proposal to expand supply of finance through the non-financial private sector seems to be more innovative with a higher potential for implementation in the short to medium term if appropriate policy responses and interventions by relevant stakeholders are undertaken. Expanding the supply of finance through the non-financial private sector has been extensively used in Asia and Latin America as a source of SME finance utilising and harnessing increased interdependence between SMEs and large firms usually FDI firms, as well as development of sectoral clusters. According to Kauffman (2009), large firms, mainly FDI firms, can help SMEs get finance more easily by transferring resources (money and factors of production) and guaranteeing SME solvency with financial institutions. Similarly, links with large FDI firms helps SMEs get export credits that are especially important in countries with weak institutions, since commercial partners are better informed than other creditors about the ability of their customers to repay debts. Use of export credits guaranteed by FDI firms was reported to have been successful in Zambia's agro-food industry (ECA, 2001) and to some extent in Kenya (Guitard, 2009).

However, like in many African countries, the use of export credit guarantees by the private sector in Uganda remain largely uncertain while the only known export credit guarantee scheme was operated by the central bank (Kasekende and Opondo, 2003).

Another tool through which large firms can assist SMEs to increase their access to finance is subcontracting. Many authors report that subcontracting is still largely uncommon in Africa (ECA, 2001; Guitard, 2009; Lemuel, 2009), though it has shown great potential for growth in some countries such as South Africa despite concerns that it may confine SMEs to low-skill informal activities (Kauffman, 2009). The level and intensity of sub-contracting as a business mode and method of financing in Uganda is largely unknown but there exists some recent efforts to promote its use and adoption by the Uganda Investment Authority (UIA) in partnership with the United Nations Industrial Development Organisation (UNIDO) (UIA, 2011).

Another approach for increasing SME access to finance using the non-financial private sector is the Cluster Approach, which has been widely used and is successful in Asia. Promoting clusters of SMEs enables member firms to seek finance together, provide collective guarantees or even set up their own financial body (Tadesse, 2009; UNCTAD, 2001). Similarly, the threat of expulsion from the cluster ensures that beneficiary firms will honour their commitments, which allows the network to overcome shortcomings in the legal system (Lefilleur, 2005; UNCTAD, 2001). Also, working together means that firms can get supplier credits and can borrow from each other when necessary, which reduces general costs (Kauffman, 2005). However, such clusters are not yet well developed in Africa although their use has been reported in South Africa, Kenya, Nigeria, Tanzania, and Zimbabwe (Guitard, 2009; ECA, 2001).

In Uganda, the use of clusters is equally underdeveloped and efforts to promote their use particularly around large firm investments seem to face several challenges (Zeng, 2009).

The above NFPS methods have not been systematically explored especially in respect to the efficacy of their adoption in Africa and more specifically in Uganda.

More specifically, a number of questions remain unanswered; what are the current patterns of adoption of NFPS and what factors are most responsible for the current levels of adoption? What potential exists for SMES to leverage FDI firms for increased adoption of NFPS methods as an alternative to SME financing? To what extent have entrepreneur perceptions and the local business culture affected adoption and use of NFPS methods among SMEs? What are the key barriers and what other opportunities exist for increased use of NFPS methods as a source of finance by SMEs? What policy options and other measures can be implemented to increase uptake of NFPS methods to expand supply of finance to SMEs.

1.1 Research Problem

The twin characteristics of smallness and newness continue to make SMEs in Uganda rarely able to meet the conditions set by financial institutions, which consider SMEs risky because of poor guarantees and lack of information about their ability to repay loans. As a result, SMEs continue to face a severe lack of access to formal finance from financial institutions that has kept SMEs weak and prevented them from growing. However, while expanding supply of finance to SMEs through non-financial private sector (NFPS) methods has been proposed and seems to be innovative with a higher potential for implementation in the short to medium term, the methods have not been systematically explored especially with respect to the efficacy of their adoption and the potential for leveraging FDI to increase adoption.

1.2 Purpose and Objectives of the Study

Using Uganda as a Case Study, the aim of the study is to determine how FDI firms in the local economy can be leveraged to expand supply of finance to SMEs. The specific objectives of the study were to:

a) Establish the current patterns of adoption of Non-Financial Private Sector methods of financing SMEs and determine the factors responsible for the levels of adoption.
b) Assess the potential for SMES to leverage on FDI firms for increased adoption of Non-Financial Private Sector Methods as an alternative to SME financing.
c) Assess the effect of perceptions and the local business culture on the adoption of Non-Financial Private Sector methods among SMEs in Uganda.
d) Determine the barriers to and the other opportunities for increased adoption of Non-Financial Private Sector methods of financing to SMEs in Uganda.
e) Determine and assess policy options and other measures to promote increased uptake of Non-Financial Private Sector methods of SME financing in Uganda.

1.3 Rationale and Policy Impact of the Study

The study will have direct impact on a number of policies in Uganda namely; the SME Development Policy, the Export Promotion Policy, the Trade and Investment Policy as well as the policy on Entrepreneurship Promotion. Particularly, the study is expected to provide inputs into the trade financing policy and on key aspects of legislation relating to NFPS methods of SME financing. In addition, the study will generate inputs for ongoing business climate reforms on cluster formation and promotion, the Investment Incentives framework for FDI as well as the ongoing review of the Investment Code, 2008 and Uganda's tax code.

2.0 Relevant Literature

2.1 SMEs and the Challenge of Financial Access

Small and Medium Enterprises (SMEs) worldwide face serious challenges of access to formal finance. The SMEs in their pursuit of survival and growth objectives have often sought alternative methods for mitigating the challenge of limited access to formal finance from financial institutions (Tadesse, 2009). It is in support of this effort and to maximise benefits SMEs bring to local economies that some recent Private Sector Development initiatives across the world have focused on exploring alternative methods of financing SMEs using mainly the Non-Financial Private Sector (NFPS) methods (Ikei, 2009) that can also be labelled as business to business financing.

In Africa, Small and Medium Enterprises (SMEs) have little access to finance which severely hampers their emergence and eventual growth (Kauffmann, 2009, Coullier, 2009; Kasekende & Opondo, 2003). Retained earnings and informal savings are their main sources of capital, which are unpredictable, not secure and have little scope for risk sharing. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities (Guitard, 2009; Sacerdoti, 2009; Lefilleur, 2009; Tadesse, 2009; Derreumaux, 2009). This lack of access to formal finance has kept SMEs weak and prevented them from growing. As a result, Africa's private sector remains comprised mostly of informal microenterprises accounting for 90% of the private sector with only 10% being medium to large firms. Furthermore, most companies are not only small but are often new due to the high mortality rates experienced among SMEs. For instance, (Bakunda, 2008) reported more than 40% mortality rates among exporting SMEs in Uganda and according to the Uganda Bureau of Statistics, 5 out of every 10 firms in Uganda are less than 1 year old (UBOS, 2011). These twin characteristics of smallness and newness seem to combine to make most African SMEs rarely able to meet the conditions set by financial institutions, which consider SMEs risky because of poor guarantees and lack of information about their ability to repay loans.

Apart from the SME challenges, the financial systems in most countries in Africa are still underdeveloped with generally few financial instruments. Capital markets are still in their infancy with limited shareholding leading to an absence of long term financing for SMEs. Apart from the formal banks, the non-bank financial intermediaries, such as microcredit institutions that could have been of help in lending money to the smallest SMEs do not have the resources. In Uganda, for example, the financial sector remains shallow and under developed with limited instruments for the private sector. The sector is dominated by commercial banks whose interest in lending to SMEs is minimal. In addition, interest rates remain among the highest in the world with commercial lending rates averaging 28% in 2011(New Vision, 2011). Development banks that typically provide long term finance for enterprise growth are largely non-functional and beyond the reach of SMEs (Ssewanyana et al., 2009). Although the microfinance sector in Uganda has exhibited tremendous growth and is now widespread (AMFIU, 2010), it is still characterised by interest rates that are prohibitively high, with rates well over 40% in many cases and largely remains under resourced (AMFIU, 2010; Okurut et al., 2004; Carlton et al., 2001). The financial sector in Uganda typifies those of most African countries.

Therefore, a key concern for policy makers and the private sector in Africa remains how to increase SME access to finance on a long term sustainable basis in order to accelerate growth, employment and poverty alleviation.

In response to this concern, Kauffmann (2009) proposed a four pronged approach for increasing SME access to finance in Africa. The approach comprises of (i) improving business conditions (ii) boosting the capacity of SMEs to meet the requirements of formal financing (iii) making the financial system more accessible to SMEs and (iv) expanding the supply of finance through the non-financial private sector. While, all the above proposals are plausible and provide broad responses to the challenge of SME access to finance, the proposal to expand supply of finance through the non-financial private sector seems to be more innovative with a higher potential for implementation in the short to medium term if appropriate policy responses and interventions by relevant stakeholders are undertaken. Expanding the supply of finance through the non-financial private sector has been extensively used in Asia and Latin America as a source of SME finance utilising and harnessing increased interdependence between SMEs and large firms usually TNCs, as well as development of sectoral clusters.

2.2 B2B Methods of Financing and the Potential for SMES to Leverage on FDI Firms

2.2.1 The B2B Financing Methods

The non-financial private sector (NFPS) methods of SME financing involving mainly *sub-contracting*, the use of *supply credits*, *credit guarantees*, *export credit guarantees*, *direct resource transfers and prepayments*, and *clusters* have increased in importance in Asia, Europe and Latin America. These NFPS methods also referred to as business-to-business financing (B2B) involve the establishment of useful linkages between large enterprises and SMEs (Kumar & Subrahmanya, 2007; UNCTAD, 2001). Large firms, particularly TNCs operating in these economies create and strengthen linkages with SMEs to achieve mutually beneficial business relationships. The SMEs on the other hand pursue linkages with larger firms to improve their business performance. Most of the NFPS methods such as subcontracting involve purchase-supply relationships between SMEs and TNCs where SMEs are contracted to deliver a product or service to the contractors (Okatch, 2011).

According to Kauffman (2009), large firms, mainly TNCs, can help SMEs get finance more easily by transferring resources (money and factors of production) and guaranteeing SME solvency with financial institutions. Similarly, links with TNCs help SMEs get export credits that are especially important in countries with weak institutions, since commercial partners are better informed than other creditors about the ability of their customers to repay debts. Use of export credits guaranteed by TNCs was reported to have been successful in Zambia's agro-food industry (ECA, 2001) and to some extent in Kenya (Guitard, 2009). However, like in many African countries, the use of export credit guarantees by the private sector in Uganda remains largely uncertain and the only known export credit guarantee scheme is operated by the central bank (Kasekende and Opondo, 2003).

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The above NFPS methods have not been systematically explored especially in respect to the efficacy of their adoption in Africa and more specifically in Uganda.

2.2.2 Potential for SMES to Leverage on FDI Firms

While the above financing tools may be seen to benefit mainly SMEs, large firms, especially Transnational Corporations (TNCs) operating in developing countries are under pressure to adopt the above methods to effectively respond to the forces of globalisation. Globalization seems to have generated both new markets and competitive forces for TNCs. Okatch (2011) clearly observes that constant pressure to reduce costs, shortens lead time and focus on core competences has driven large TNCs to change their supply chain management strategies. Most especially, the large manufacturing firms currently purchase large proportions of their inputs of both goods and services from other firms, with many spending as much as half of their revenues through outsourcing. Hermann (2005) further observes that managing the supply chain for an optimal mix of cost, quality, flexibility and strategic advantages like access to innovation has become an increasingly important source of competitive advantage. The cost pressures and presence in developing countries have combined to create an interesting set of challenges for TNCs. In particular, how to gain local knowledge and contracts required for operating effectively, how to optimise cost, quality, flexibility and other considerations in the value chain, have gained increased importance. There are also questions to do with how to manage any social or political controversy surrounding firm activities, how to preserve the social license to operate. According to UNCTAD (2006), TNCs need to be seen to be contributing and not simply exploiting. Therefore, there has been an urgent need to forge stronger ties with the local communities for the TNCs operating in developing countries (ILO, 2005; Jenkins et al., 2007; Kumar and Subrahmanya, 2007).

According to Okatch et al. (2011), business linkages with local SMEs, offer TNCs an avenue through which to address concerns of building strong ties with local communities in developing countries. Effective relationships allow TNCs to reduce input costs while increasing specializations and flexibility. They also increase the TNC's local integration providing access to local knowledge, and, by catalyzing growth and development in the local SME sector, the TNCs bring about positive social and economic benefits to the local economy. According to Kumar & Subrahmanya, (2007), there are both competitiveness and corporate social responsibility arguments in favor of business linkages between TNCs and local SMEs. The large enterprises operating in a developing country can establish linkages with local SMEs in many different areas of their value chains. These opportunities range from procurement, agricultural out growers schemes, manufacturing, sales of financial services, information and communication technologies, distribution and retail outgrowing, to the non-core functions and services such as franchising, leasing and subcontracting (UNCTAD, 2006).

On the other hand, apart from the indirect financing benefits arising from outsourcing relationships with TNCs, there are compelling forces driving SMEs to seek business linkages with TNCs. The most obvious compelling force is that of globalisation following open economies and regional markets that have ushered in intense competition from global firms putting great strain on local SME survival and growth. Because of the increasing inability to compete effectively against global firms, a number of SMEs have changed their perception of TNCs. In this new dispensation, relationships with TNCs provide SMEs the best opportunity for survival through global value chains (Subrahmanya, 2006).

Apart from competition and threats to survival, there are other observable benefits SMEs have derived from collaborative relationships with TNCs. Kumar (2010) observes that subcontracting and supply relationships with TNCs are one of the few most important shortcuts for SMEs to leapfrog over the "traditional" barriers and constraints and to improve their domestic and external competitiveness. Generally collaborative supply relationships with TNCs help SMEs shorten the period for capacity building and ongoing learning needed to come up with required product quality and design, delivery timeliness plus any innovation and differentiation.

In addition, there are some instances where TNCs have been a direct source of capital (Xiyou, 2008) and modern technologies (Kumar, 2010) when SMEs forge these relationships. There are other benefits reported by Hayashi (2002) namely: (1) reduction of information and transaction costs through collaborative ties allowing easy and cheap acquisition of new technologies, product designs, production processes, management methods, marketing and input materials, (2) reduction of risks and uncertainty and an increase in the expected rate of profit as a result of stable orders and better payment conditions, and (3) The improvement of creditworthiness such as debt guarantees.

Schmitz (2005) also observed from recent studies that in chains where SMEs have forged captive (subcontracting) relationships, developing country producers experienced rapid product and process upgrading and that it had become imperative for producer associations and other SME leaders to marshal necessary expertise to find "ways and means" to forge business linkages with TNCs.

But evidence shows that in spite of the potential benefits for SMEs from TNC-SME business linkages, successful cooperation, networking and adoption of B2B financing do not always emerge spontaneously (Ceglie and Dini, 1999). There are factors that influence the successful establishment of TNC-SME business linkages and adoption of B2B financing.

2.3 Factors Responsible for Levels of Adoption of B2B Financing

Whereas there are compelling reasons necessitating establishment of mutually beneficial linkages between TNCs and SMEs, there are certain influencing factors that may determine successful or unsuccessful business linkage establishment and adoption and the use of B2B financing in an economy.

2.3.1 Degree of Need Convergence of TNCs and SMEs

Wattanapruttipaisan (2003) emphasized the importance of convergence between the needs of TNCs and the abilities of SMEs for linkages allowing use of NFPS methods to operate successfully. According to Wattanaprutipaisan, there are a number of "impulses" for inter-firm linkages involving SMEs that have emerged which include fierce competition from regional and global players, rapid advances in ICTs as well as the phenomenal advances in production methods and organisation across the world that has created imperatives for transnational corporations (TNCs) and large enterprises (LEs) in general to collaborate with smaller firms in form of outsourcing and other linkages. This combined with the fact that most governments have limited financial, human, managerial and administrative resources to effectively support SME sector development, the millions of SMEs that require support as well as the huge differences in the capabilities and competitiveness within the SME sector spurs some SMEs to attempt to forge linkages that would support their objectives. According to Wattanaprutipaisan (2002), because of the differences in capabilities and competitiveness among SMEs, only firms in the top layers of efficiency, innovation and growth-oriented entrepreneurship who constitute about one percent tend to be viable as suppliers, or can be assisted to become and remain viable as subcontractors and B2B beneficiaries to TNCs and LEs. The TNCs therefore tend to focus on this segment of SMEs for business linkages and possible application of B2B financing as the chances of success are much greater.

While the above compelling factors drive SMEs to seek support from TNCs and large enterprises, these imperatives have to be matched up against the practices and preferences of TNC and their large enterprise partners. Wattanaprutipaisan (2002) points out that TNC and large enterprise requirements are often very stringent from the point of view of most SMEs. TNCs will emphasize such non-price attributes of competitiveness as design and quality, reliability, health and safety, and after-sales service that become greatly important at a deeper or more complex stage of business partnering or outsourcing, even if the outsourcing relationship was initially founded on cost advantage. Momoya (2000), also points out that, such business practices as offering product warrantees, extending credit for delivered products, and the attachment of stringent penalty clauses for under-performance to purchase contracts are not traditionally adopted or totally expected by most SMEs in developing countries and yet emphasized by TNCs (Momoya, 2000; Altenburg 1999). There is therefore often a divergence of mindsets between TNCs and local SMEs and this requires mindset change at the micro level to be able to attract and forge business linkages with TNCs.

Therefore, according to Wataprutipaisan (2002), need convergence between TNCs and SMEs cannot be expected as a matter of course. Convergence takes different stages and there are key parameters in the formation and deepening of business and supply relationships in general and B2B in particular. The factors that underpin TNC need convergence with SMEs include the TNCs agenda and interests; the base of skills and know-how owned by SMEs; degree of risk sharing by SMEs; creative destruction among SMEs and others.

First, TNCs and LEs have their own agenda and interests which may not be the same as those of their potential SME suppliers or subcontractors. Wattanapruttipaisan (2002) observes that TNCs and LEs will invest in building up SMEs capabilities and competitiveness only when the investment can be expected to yield an attractive return within a reasonable period, or can help their strategic efforts. - in products and product range, supply sources, marketing and distribution and others. Apparently, evidence from Asia suggests that once relationships are established and successful, TNCs and LEs will outsource 75-100 per cent of the required output. Without a good understanding of TNC interests and agenda, and effort to fit within that agenda made, effective SME-TNC linkages may not be easily established to allow for B2B financing.

Second, most potential SME partners initially do not have the minimum base of skills and know-hows required by the TNCs and LEs to confidently outsource from the SME. TNCs and LEs tend to require a minimum of technological skills and management practices as a precondition for effective delivery. At the same time, self-improvement and self-upgrading by SMEs are severely constrained by inefficient and inadequate infrastructure, limited information and contacts, plus insufficient financing resources. Thus, TNCs and LEs may find it too costly, time consuming or risky to bring these SMEs up to the expected standards and criteria. According to Chew and Yeung (2001) while this may provide a base for government facilitation to support and upgrade SMEs as effective partners to TNCs, such as has happened in the cases of Hewlett Packard in Singapore (under the Local Industry Upgrading Programme), Intel in Malaysia (under the "Pioneer" scheme and Vendor Development Programme), and Motorola in China (in collaboration with the State Development and Planning Commission) (Xiyou, 2008), it remains important that convergence takes place. While such public sector assistance is normally mediated through the provision of (additional) incentives and assistance (both tax and non-tax measures), these can be counter-balanced to a considerable extent by (implicit or explicit) performance requirements on TNCs or Les. These requirements may include those concerning the provision of human resource training and technology transfers and adaptation –

which are, in any case, not incompatible to the WTO Agreement on Trade Related Investment Measures (TRIMs).

According to Chew and Yeung (2001) any existing technological and managerial gaps between TNCs and their local SME partners can be bridged through capacity building. Chew and Yeung point out that it is the technology and human resource factors that determine the initial patterns of business relationships which involve less complex processes and relatively low quality standards. TNCs and LEs will provide loan guarantees, capital in cash and kind (superior inputs, machinery, better organization of work flows etc.), and various types of training and skill upgrading to their SME partners to facilitate not just business start-ups and/or skill development but also to facilitate the subsequent technological upgrading and scale expansion of the SMEs concerned, to mutual benefit. Wattanaprutipaisan (2002) also stressed that indeed, capacity building and other support services from TNCs and LEs are critical in certain industries, and in economies at lower levels of development or in the process of market-based transition.

Fourth, trade and investment liberalization across the globe has steeply raised the stakes for both TNCs and SMEs. Therefore TNCs, LEs and their SME partners have to jointly manage the intensifying competition from many more players and other enterprise networks amidst unrelenting technological progress, and greater sophistication of consumer demand. Subrahmanya (2006) points out that TNCs and LEs as a consequence of globalisation require SMEs willing and able to work for deepening of increasingly complex relationships over time and also ready for associated transfer of ever more advanced knowledge and technologies from TNCs and LEs. TNC and SME relationship deepening therefore takes into consideration and is positively and greatly influenced by forward-looking entrepreneurship and continuous supply-side upgrading on the part of SME partners. The former includes business visions and the growth- or export-orientation of firms while their technological and skills base, and facilities for on-going learning are important parameters in the latter (Okatch, 2011).

Fifth, the process of continuous replacement of less efficient SMEs with more efficient ones is a common practice and there is often no guarantee that once a business linkage is established, it can be sustained unless there is continuous upgrading of efficiency to match local and international competition. Wataprutipaisan (2002) calls this phenomenon “creative destruction” where less efficient and less nimble suppliers are squeezed out and replaced by other local business partners, by newcomers or other TNCs or by imports altogether. Thus, TNC-SME business relationships can be characterised by broken inter-firm relationships or transformed through concentration and consolidation among local SMEs to achieve better collective efficiency. While this process tends to bring local partners of TNCs and LEs closer to international standards and norms as regards key parameters such as quality and design, price and delivery scheduling, it tends to result into a situation where only key and reputable SMEs get larger volumes of orders as well as purchases involving much higher value-added products.

Six, where TNCs have interest in regional and other export markets, such TNCs will consider supportive business linkages with SMEs that support the TNCs export interests over and above any SMEs. Following long cemented and dependable business relationship, interpersonal networks, mutual trust and confidence will be created that might result in increased SME assistance in form of direct financial support, financial and foreign exchange guarantees and others. Wattaprutipaisan (2002 reported a case of Intel Malaysia, which for example, assisted its subcontractors to expand into regional and global markets after long cemented and dependable relationships with it. Intel is reported to have extended support inform of bridging foreign exchange and other support measures to a large number of its partner SMEs. Wattaprutipaisan (2002) however pointed out the importance of relationship management as critical to the success of these particular relationships. Watanaprutipaisan pointed out that the Intel assistance helped the SMEs to register speedy recovery and to bounce back after the 1997/98 Asian financial crisis.

Seven, it is generally regarded that TNC and LE requirements are very stringent from the point of view of most SMEs. Indeed, such non-price attributes of competitiveness as design and quality, reliability, health and safety, and after-sales service have become greatly important at a deeper or more complex stage of subcontracting, even if the subcontracting relationship itself was initially founded on cost advantage. At the same time, business practices such as offering product warrantees, extending credit for delivered products, and the attachment of stringent penalty clauses for under-performance to purchase contracts are not traditionally adopted or totally expected by most SMEs in developing countries (Momoya 2000; Altenburg 1999). Mindset changes are needed in this micro-level context, too.

Eight, a last factor critical to TNC-SME business partnering is quality certification. Xiyou (2008) points out its importance and observes that there is little room for compromise on quality in TNC-SME business relationships. Indeed, certification under the International Organization for Standardization (ISO) 9000 series of standards apparently is expected and is thus no longer an option for suppliers and subcontractors to TNCs and export-driven LEs, especially in cases of ISO 9001 and 9002. Waste and costs will be minimized while quality uniformity ensured if the correct steps and operations are carried out or performed at the right time or right stage within the enterprise (hence the ISO-related questions in the supply-side assessment framework). Also to be expected at the more advanced or deeper stage of relationship is the greater reliance by TNCs and LEs on their SME partners to carry out more sophisticated operations as well as to assume certain R&D functions. In the process, specialist knowledge is gained and expertise developed by the SMEs concerned.

Therefore, it is apparent that there are a number of areas where the needs of TNCs and those of SMEs need to converge and most importantly where the needs of TNCs have to be matched with the abilities of SMEs for business linage establishment to allow use of B2B financing to take place. In general, TNCs have the upper hand in driving establishment, continuity or discontinuation of these collaborative business linkage relationships.

2.3.2 Effect of Perceptions and the Local Business Culture on Adoption of B2B Financing

Entrepreneur perceptions and attributes as well as the local business culture are reported to be major influencing factors on adoption of B2B financing, both at individual SME level and the economy as a whole. In particular, Okatch (2011) noted the role played by entrepreneur attributes, perceptions and mindsets in determining the feasibility of TNC-SME business partnering and the use of B2B financing. According to Okatch, a number of attributes, perceptions and mindsets critical to successful adoption and use of B2B financing have been identified. These include:

- perceptions on key competitiveness attributes namely design and quality, reliability, health and safety, and after-sales service, performance on contracts etc
- Visionary, innovative and growth-oriented entrepreneurship
- Willingness to invest in self-improvement and upgrading
- International/export orientation
- Willingness to share risk with TNC business partners; etc

Others such as Kumar (2010) and Subrahmanya, (2006) as well as Raynard and Forstater (2002) identified other entrepreneur attributes that are key to effective collaboration with TNCs and large firms and these include:

- Willingness to learn and acquire new knowledge and technology (Sudhir Kumar,2010)
- Investing time to network and interact with TNCs and larger firms
- Good negotiation skills

Accordingly, entrepreneurs with appropriate mindsets will more likely and easily forge business linkages with TNCs and sustain those linkages through building trust and confidence, a performance record and subsequently benefit from financing that may come along purchase and supply relationships with larger firms. Where the entrepreneur mindsets are not appropriate and perceptions unsupportive of necessary entrepreneurial behaviour towards business linkage establishment, individual SMEs are likely to remain uncompetitive constrained by traditional barriers and fail to benefit from financing opportunities that tend to accrue from TNC or larger firm linkages.

In addition, the local business culture has been cited as a key influence on the adoption and effectiveness of business linkage relationships and B2B financing methods. Business culture aspects mainly attitudes on timekeeping, attitudes on cost, quality and service, attitudes on meeting deadlines, importance attached to business relationships, attitudes on technology and technology use, as well as honesty and integrity in business transactions have been found to be key influences on business linkage creation between SMEs and TNCs or large firms in an economy. Leung et al., (2005) observe that a supportive culture where timeliness and keeping time is valued, where honesty and integrity in business transactions is stressed, where high quality is emphasized and firms as well as clients insist on quality, where the culture of keeping deadlines has taken root, and business relationships are given high importance are likely to have numerous and strong ties between firms in general but between larger and smaller firms as well. Bowie (undated) also pointed out an additional aspect of business culture that is attitude on technology and technology use as key to linkage establishment between local firms and TNCs. According to Miller (2010) business culture in developing countries tends to be characterised by aspects that are not consistent with international practices and unsupportive of the globalisation goals of TNCs. Leung et al., (2005) point out that business cultures where timekeeping and meeting deadlines are not emphasized will push TNCs to search for international rather than local business partners who tend to value time and adherence to deadlines, are willing to enter into service level agreements and accept penalties for underperformance on contracts. Therefore, the local business culture can have a positive or negative effect on SME-TNC business linkages and use of B2B financing.

2.4 Other Barriers to and Opportunities for Increased B2B Financing Adoption

While it is true that success factors and supportive policies when absent among SMEs and in an economy tend in themselves to become barriers, the main barriers identified originate mainly from the TNC selection factors used in choosing to deal with or select a local firm as opposed to a regional or international firm? Wattaprutipaisan (2002) points out that TNCs tend to use a number of selection factors but these tend to revolve around seven factors namely: transaction costs, prices, competitive products or services, trust and honesty, ability to deliver on time, product/service reliabilities, and lastly innovativeness. TNC firms will compare local SMEs against regional or international firms in choosing to deal with or select a local SME. Therefore TNCs will choose to deal with and select local SMEs for business linkage if the transaction costs and product prices are lower than foreign firms (Xiyou,2008), if local SMEs have competitive products or services (Wattaprutipaisan 2003 ; Yeung, 2001), if local SME scan be trusted and there is higher levels of honesty (Okatch, 2011 ; Yeung (2001), if local SMEs have ability to deliver on time (Okatch, 2011 ; Wattaprutipaisan 2003); if there exists sufficient product/service reliabilities (Xiyou (2008); and where there is sufficient innovativeness comparable or higher than foreign firms (Wattaprutipaisan 2003 ; Wattaprutipaisan 2002 ; Yeung (2001).

While it is true that the relative importance attached by TNCs to each of the above criteria will tend to differ across firms and across firms in different sectors, it is apparent that TNCs tend to attach importance to the majority of the criteria (a Wattaprutipaisan 2002) and the potential effect of TNC selection factors tends to favour international firms as opposed to local firms and local SMEs in developing countries and the least developed in particular. Therefore, improved understanding of TNC selection criteria may provide additional opportunities for improved adoption of B2B financing among SMEs.

2.5 Policy Options and Other Measures to Promote Increased Uptake of B2B Financing

UNCTAD (2006) highlighted the role of an appropriate policy, institutional and legal environment while mutuality of benefits and levels of trust were highlighted as moderating factors for extension of support by TNCs to local SMEs. Subrahmanya (2005) and others such as Schmitz (2005) point out that policies such as those intended to deepen the developmental effects of foreign direct investment (FDI) by attracting TNCs that are willing to forge business linkages with local SMEs and then undertake measures to promote such linkages as well as policies geared at SME capacity building and at the promotion of intra-national exports by selling to foreign firms (Preston, 1997; Schmitz, 2005) can promote the use of B2B financing in an economy. Similarly, policies to encourage already established TNCs in a country to forge links with local SMEs that have certain minimum capabilities can catalyze the formation of linkages allowing use of B2B financing. These tend to be lacking in many developing countries including African countries.

2.6 Analytical Framework

This study is informed by three theoretical approaches that attempt to explain small firm financial structuring as well as convergence between the needs of large firms and the abilities of small firms (SMEs).

These are the Life Cycle Approach (Weston and Bringham, 1981), the agency theory (Stiglitz and Weiss, 1981) and the Network Theory (Meyer, 1994; Scott, 2000; Barnes, 1954). The Lifecycle Approach; premised on rapid growth and lack of access to capital markets contends that small firms are seen as starting out using the owner's resources and when they survive, the challenges of undercapitalisation emerge and are likely to take advantage of other sources of finance. According to Weston & Bringham, the dynamic small firm has to choose between reducing its growth to keep pace with its internally generated funds or acquire external finance from different available sources including the most elusive forms of finance (Weston and Brigham, 1981). On the other hand, the Agency Theory emphasises transaction costs, contracting analysis and other challenges between SMEs and external providers of finance. The theory argues that use of external sources of finance tends to alter the SME's asset structure and subsequently (positively or negatively) its ability to respond to the requirements of the providers of finance. Finally, the network theory (social network theory) studies the social structure of relationships around persons, groups, or organizations and how relationships affect beliefs or behaviours. The theory employs network analysis which is a set of methods for detecting relationships and measuring the strength of ties that exist between social actors. The network approach argues that reality should be conceived and investigated from the point of view of the properties of relations between and within units instead of the properties of the units themselves. The approach examines how firms interact with each other, characterizing the connections that link firms together including the associations between firm employees at different firms. The flow of information and other resources between firms is given emphasis under the network approach.

2.6.1 Conceptual Framework

Larger firms and small firms through interaction in mutually beneficial relationships often develop convergence of interests and as a result larger firms begin to support smaller ones to develop necessary capacities to survive and continue in an already existing relationship. In developing economies, the larger firms particularly FDI firms with long term interest in the local and regional market tend to invest in identifying small local firms that can play effective roles in the FDI's upstream and downstream activities. In order to achieve their objectives, FDI firms will be willing to provide demand driven support in different forms to small dynamic firms to extend mutually beneficial relationships. These forms include those that help improve the financial health of SMEs such as sub-contracting, supply credits, financial guarantees, export credit guarantees, direct resource transfers including prepayments and others. Such support however will be in line with the FDI firms' ability and pose less risk to the providing firm. Finally, SMEs may be encouraged to form clusters to benefit from an FDI or enhance collective ability to generate and reap from such non-financial support. The different forms of non-financial support once provided help SMEs to improve their working capital adequacy, asset acquisition and ultimately their financial health that generate business flexibility and scale expansion.

Figure 1 : Analytical Framework I

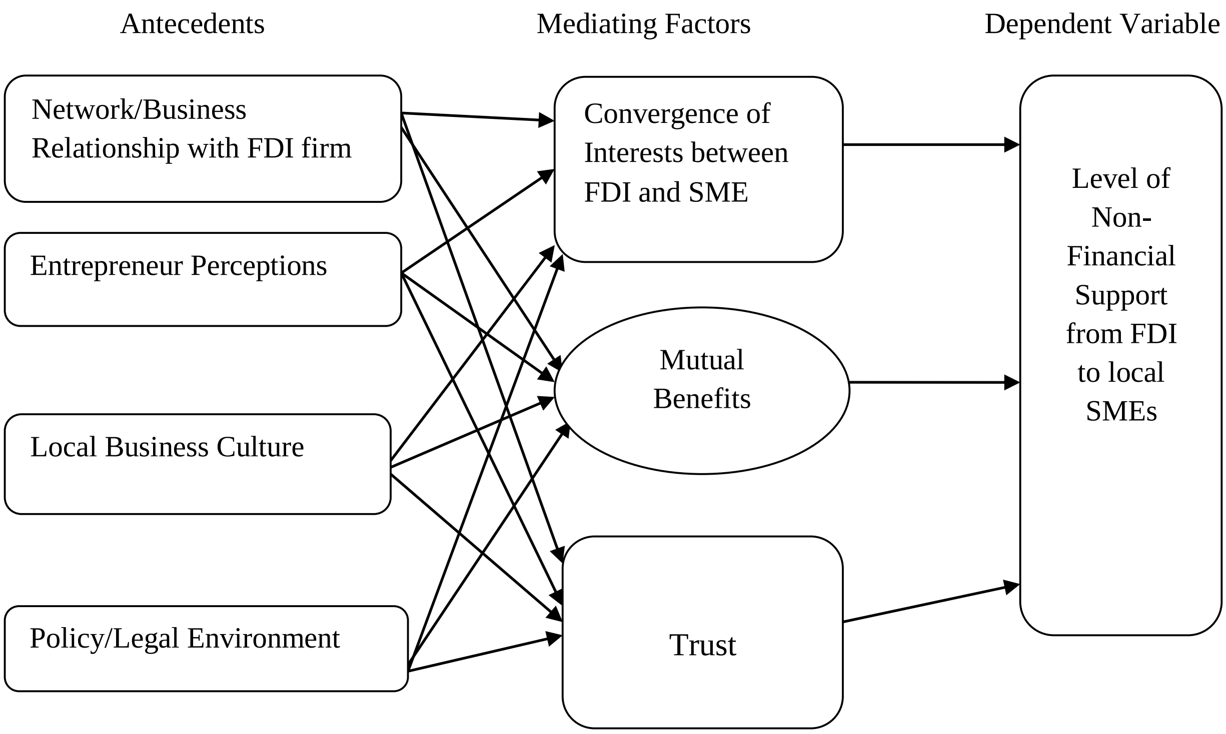
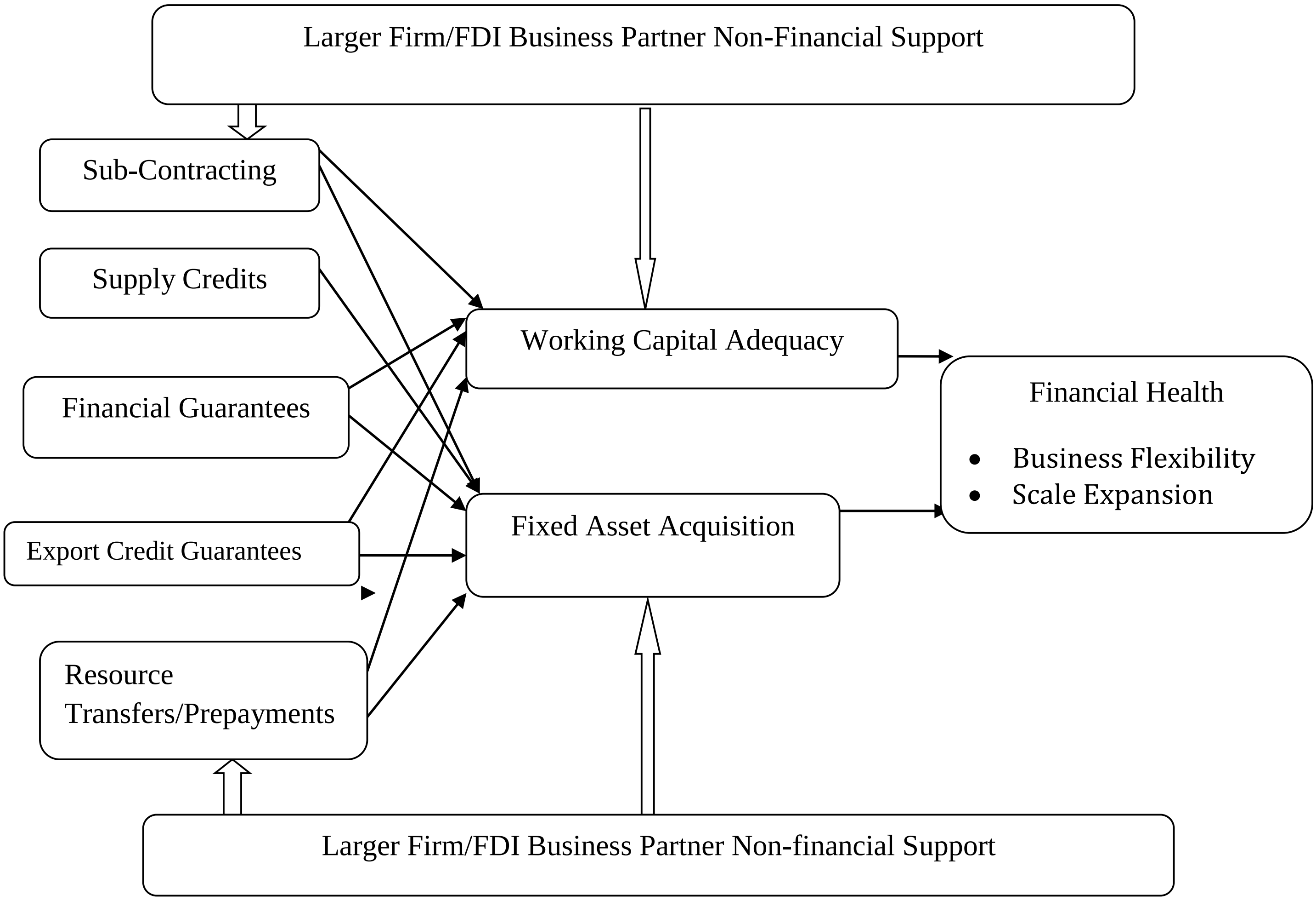


Figure 2: Analytical Framework II



3.0 Methodology

3.1 Research Design

A cross-sectional research design involving survey and case study designs was adopted. Two surveys, one of large FDI firms and another of SME firms was conducted in succession supplemented by selected case studies from each sector**.**

3.2 Selection of Sectors

The sectors covered under this study were those that have attracted a substantial amount of FDI, registered considerable growth as well as with the highest potential for value addition, backward and forward linkages and innovation. According to the Uganda Investment Report 2010, the sectors that attracted large FDI inflows were telecommunications, real estate and construction, banking, insurance, petroleum sector, energy, mining and agro-export sectors.

However, given the nature of this study, banking and insurance were excluded leaving focus on *Telecommunications, Real Estate/Construction, Energy, Petroleum & Mining*, and *Agro-Export*. Within the agro-export sector, emphasis was put on agro-processing FDI as this had the highest potential for local SME involvement.

However, during the pilot phase of the study and following consultations with stakeholders particularly the Uganda Investment Authority, Uganda Manufacturers Association, and the Uganda Small Scale Industries Association, the energy sector was dropped and replaced with Iron and Steel sector. This was because the population of SMEs on both the demand and supply side and consequently the potential for business to business financing was limited. Although initially considered a high potential sector, the energy sector was found to be populated by mainly a few electric power generating companies who supply directly to one buyer – the Uganda Electricity Transmission Company (UETC). The UETC in turn sells power to one buyer/distributor UMEME that deals directly with consumers. Therefore, the potential for local SME participation was found to be inadequate to provide sufficient ground for the study. As a result, the five sectors covered under the study were *Telecommunications, Real Estate/Construction, Iron and Steel, Petroleum & Mining,* and *Agro-Export*. However, data for one sector – the petroleum and mining sector is yet to be collected due to logistical constraints faced.

3.3 Sampling

Sampling was based on sampling frames drawn from the Uganda Investment Authority, sector associations namely, Uganda Small Scale Industries Association (USSIA), Uganda Women Entrepreneurs Association (UWEAL), Uganda National Association of Building and Civil Engineering Contractors (UNABCEC), Uganda Communications Commission (UCC) Uganda Export Promotions Boaed (UEPB) as well as the Uganda Census of Business Report, 2011.

As already indicated above, five sectors were covered under this study namely; Telecommunications, Real Estate/Construction, Iron and Steel, Petroleum & Mining, and Agro-Export.

For the TNC survey, a proportionate stratified sampling method was adopted basing on the number of Greenfield TNCs *with initial total investment of US$ 5.0 Million* and above. A total of ten (10) firms per sector were selected making a total of fifty (50) TNCs for the five (5) sectors. The TNC survey was the foundation for conducting the SME survey.

For the SME survey, thirty (30) SMEs operating on either the demand or supply side of the selected TNC (not necessarily offering any services currently) were selected per sector, making a total of 150 SMEs. In order to ensure random selection of respondent firms, systematic sampling methods were employed where there was a substantially large number of SMEs in a sector registered with their respective associations. This was employed for the agro-export as well as the real estate and construction sectors.

For the regulated sectors namely; Telecommunications, Petroleum & Mining, and Iron and Steel, sampling frames capturing the names and location of firms were obtained from the licensing authorities namely Uganda Communications Commission, Ministry of Energy and Mineral Development and the sector Authorities, Ministry of Works and Transport and the sector Authorities, respectively. The sampling frame for the Real estate and construction sector was obtained from the sector associations, Uganda National Association of Building & Civil Engineering Contractors (UNABCEC) and Association of Real Estate Agents (AREA). Even for the foregoing sectors, systematic sampling was employed to determine the firms for selection. However, where the firms were relatively few, snowball sampling was used taking into account ease and cost of access. The final sample characteristics per sector were as indicated in *Table* 1 below.

3.4 Data and Data Collection

The study relied on primary data and both quantitative and qualitative data was collected.

3.4.1 Pilot Study

A pilot study was conducted to field test the instruments and refine the study parameters/variables and also to refine the quantitative and qualitative methodologies. The pilot study assisted in training the interviewers and in rating and benchmarking feedback to make it comparable across firms. The research instruments were refined during and after the pilot study and several questionnaire items were adjusted to make them simpler and more understandable by the potential respondents.

In particular, a key adjustment was the renaming of the concept of '*non-financial private sector'* financing to *'business –to-business'* financing on the recommendation of the pilot respondents and the field research team. In order to make the concept more contemporary, the terminology *b2b* was also recommended and adopted as an abbreviation for the term 'business to business'.

This new terminology has therefore been adopted to replace the former due to its superior face validity and is used for the rest of the study.

In total, 15 firms were surveyed during the pilot phase involving a TNC and two SMEs from each of the five sectors.

3.4.2 Field Surveys

After the pilot study, two surveys were conducted in succession to collect quantitative data. The FDI survey was conducted first followed by the SME survey. The quantitative data was collected using a self-administered questionnaire, one questionnaire for each TNC and SME.

A total of 200 questionnaires were targeted for collection 50 from TNCs and 150 from SMEs. However, so far 173 questionnaires, 36 for TNCs and 137 for SMEs have been collected and analysed. Data collection is yet to be completed with the petroleum and mining sector yet to be covered. The target set of data was considered adequate for the study as observed by Wattanapruttipaisan (2002) who conducted a related study in Malaysia. The sector of the collected questionnaires is indicated in table 2 below.

Table 1: Sector Distribution of Questionnaires

Sector	TNC Questionnaires	SME Questionnaires	Total	Target	Coverage
Agro-processing	10	41	51	40	128%
Iron & Steel	11	13	24	40	60%
Real Estate & Construction	12	52	62	40	155%
Telecom	11	31	42	40	105%
Petroleum & Mining	09	18	27	40	67.5%

3.4.3 Case Studies

To supplement the survey effort and obtain qualitative data, 5 case studies were conducted, one per sector and involving an TNC and 6 SMEs, 3 on the supply side and 3 on the demand side. The SMEs considered as case studies were identified with the help of the selected sector TNC during the TNC survey exercise. The qualitative data collection methods were employed to specifically obtain depth interviews focusing on the relationship between the FDI and local SMEs. Interviews were conducted with at least three members of senior management of the firms involved. Because of the reluctance of respondents to recording, each depth interview was conducted by two research team members, one interviewing and the other recording.

3.5 Data Processing and Analysis

A *readiness assessment framework* for SME participation in non-financial institution private sector based methods of financing adapted from Wattanapruttipaisan (2002) was used to organize the data for processing and analysis. The framework helps to gauge the extent of convergence between the needs of large firms, usually transnational FDI firms and the abilities of SMEs and provides parameters relating to perceptions and attitudes of SMEs, their internal capabilities as well as external conditions for creating mutually beneficial linkages with large firms.

Data analysis has so far relied on descriptive statistics mainly frequencies, mean and standard deviation. These have been supplemented by tests of correlation using the spearmans rank order correlation for the nominal and ordinal type data as well as pearsons' correlation for the interval data. Multiple linear regression tests have also been conducted to determine the level of influence of key variables. Qualitative data analysis involved use of tables, flowcharts, network diagrams and text matrices.

4.0 Survey Findings

4.1 Introduction

This chapter reports on the survey findings from the study**.** Data collection for this study involved use of two main methods – survey and case study. Two surveys, one for TNCs and another for SMEs were conducted. The surveys were used to collect structured responses from both TNCs and SMEs with regard to business linkages, the use and application of B2B methods of financing and challenges and opportunities thereof. The case studies were undertaken to obtain qualitative data to supplement and also compare with the survey data. This chapter presents the survey data and the preliminary analysis results.

4.2 Existing Business Linkages between TNCs and Local SMEs

In order to assess whether or not business linkage relationships between TNCs and local SMEs currently exist, TNCs were asked specific questions on whether they outsource their activities to SMEs and then local SMEs in particular. The summary of responses are presented in tables 2, 3 and 4 below.

Table 2 : Do you currently outsource any of your activities and operations to SMEs?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	50	94.4	96.2	96.2
	No	2	3.8	3.8	100.0
	Total	52	97.2	100.0	
Missing	System	1	1.9		
	Total	53	100.0		

The above tables show that 96% of the TNCs operating in Uganda outsource their activities and operations to SMEs and 87% of the TNCs outsource to local SMEs.

Table 3: Do you currently outsource any of your activities and operations to local SMEs?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	45	84.9	86.5	86.5
	No	7	13.2	13.5	100.0
	Total	52	98.1	100.0	
Missing	System	1	1.9		
	Total	53	100.0		

Table 4: Business Linkage Types, Use by TNCs and Level of Perceived Risk (N=36)

Linkage Type	Proportion of TNCs in Use (%)	TNCs with High Perceived Risk %	Driven Mainly by		
			TNC	SME	Both
Supply of Raw materials	53	30.4	73	19.2	7.7
Supply of other inputs	40	28.6	66.7	16.7	16.7
Services	77	19	54	24	22
Distribution of goods	34	33	77	7.7	7.7
Sub-contracting	57	25	52	35	13
Cluster membership	23	0	71	-	29
Strategic Partnership/Alliance	30	15	60	13	27

The above table shows that all types of business linkages with local SMEs that were envisaged and surveyed were in use by TNCs. This implies that TNCs in Uganda use local SMEs to supply raw materials and other inputs, provide services, distribute goods, sub-contract them on a variety of tasks. In addition, TNCs are involved in cluster memberships and also have formed strategic alliances with local SMEs. However, the proportion of use varies between linkage types with supply of services and supply of raw materials and sub-contracting the most common business linkage types. Other types of business linkages are generally less common.

With regard to perceived risk of business with local SMEs, this is generally low across all business linkage types. In addition, most of the business linkage types are largely driven by TNCs across all business linkage types.

4.2.1 Level of Use of B2B Financing Methods among TNCs and SMEs

In order to assess the level of use of the B2B financing methods, both SMEs and TNCs were asked to respond to items on level of use. Specifically, SMEs were asked to respond to a question: *During the course of your business undertakings with TNCs or large firms, how much of each of the following is done by the TNC or large firms with your company?* While the TNCs were asked to respond to the question*: During the course of your business undertakings with local SMEs, how much of each of the following is undertaken with the local firms?* The assessment used a five point scale ranging from extensively used to Not at all used. Tables 5 and 6 below show the results on level of use of the five B2B financing methods as reported by SMEs and TNCs and a comparison made to validate the results.

Table 5: Level of Use of B2B Financing Methods among SMEs

Level of Use	Sub-Contracting		Supplier Credits		Financial Guarantees		Prepayments & Other Forms of Resource Transfers		Export Credit Guarantees	
	Frequency	Percent	Freq.	Perc.	Freq.	Perc.	Freq.	Perc.	Freq.	Perc.
Extensively Used	35	23	31	20	20	13	21	13.5	1	0.6
Used Often	22	14.2	23	15	14	09	38	24.5	4	2.6
Sometimes Used	21	13.5	19	12	08	5.2	29	18.7	5	3.2
Rarely Used	10	6.5	6	4.0	09	5.8	11	7	3	1.9
Not at all used	67	43.2	76	49.0	104	67	56	36	142	91.5
Total	155	100	155	100	155	100	155	100	155	100

Source: Primary data from SME survey

Among SMEs, Sub - Contracting is used by 51% of the firms, Supply Credits by 47% of the firms, Financial Guarantees by 28% of the firms, Prepayments and other resource transfers by 58% of the firms, and Export Credit Guarantees by 6.5% of the survey firms.

Table 6 : Use of B2B Financing Methods by TNCs

Level of Use	Sub-Contracting		Supply Credits		Financial Guarantees		Prepayments & Other Resource Transfers		Export Credit Guarantees	
	F	%	F	%	F	%	F	%	F	%
Extensively Used	10	19	11	20.8	3	5.7	9	17.0	0	0
Used Often	14	26.4	13	24.5	7	13.2	16	30.2	1	1.9
Sometimes Used	11	20.8	5	9.4	7	13.2	13	24.5	1	1.9
Rarely Used	6	11.3	10	18.9	8	15.1	6	11.3	6	11.3
Not at All Used	12	22.6	14	26.5	28	52.8	5	9.4	45	84.9
Total	53	100	53	100	53	100	53	100	53	100

*Please note that the rarely used scale level was also considered to be non-use. Source: Primary data from TNC survey

Table 6 above shows that:

- Among the TNCs surveyed, Sub-Contracting is used by 66%; Supply Credits by 55%, Financial Guarantees by 33%, Prepayment and other Resource Transfer by 72% and Export Credit Guarantees by 4% of the survey firms.
- Export Credit Guarantees are the least used
- TNCs reported very good usage of Prepayments and Resource Transfers, good usage of Subcontracting, moderate usage of Supply Credits, low usage of Financial Guarantees and almost complete non- usage of Export Credit Guarantees.
- SMES reported moderate usage of prepayments and resource transfers and low usage of subcontracting, supply credits, very low usage of financial guarantees while export credit guarantees are almost not used at all.

4.2.2 Comparison of the Application of B2B Financing Methods among SMEs and TNCs

The table below compares usage of different B2B methods between SMEs and TNCs.

Table 7: Comparison of Application of B2B Financing Methods between SMEs and TNCs - %

Level of Use	Sub-Contracting	Supply Credits	Financial Guarantees	Prepayments & Resource Transfers	Export Credit Guarantees
TNCs	66.2	52.7	32.1	71.7	3.8
SMEs	50.7	47	27.2	56.7	6.4

Comparing TNCs and SMEs, Prepayments and other Resource Transfers recorded highest usage, Subcontracting and Supply Credits, moderate usage, low usage for Financial Guarantees. The usage of Export Credit Guarantees is almost non-existent by both TNCs and SMEs.

4.3 Assessment of Potential for Increased Application of B2B Financing Methods by SMEs

Another important objective of the study was to assess the potential for SMES to leverage FDI firms for increased adoption of Non-Financial Private Sector Methods as an alternative to SME financing. The SME firms were therefore asked to indicate clearly how likely were their firms to do or increase business with TNC firms through each of the B2B financing methods while TNCs were asked: How likely is your company to do or increase business with local SMEs through the following…to increase the scale and intensity of mutually beneficial linkages. A 5-point scale ranging from 1 Very likely to 5 Not at all likely was used to measure any existing potential for adoption of the B2B methods. The responses from SMEs are presented in table 8 and the responses from TNCs in table 9. A comparison between the two sets of responses is then made.

Table 8: SMEs Responses on the Potential for Increasing the Scale and Intensity of B2B Financing

		Sub-Contracting	Supply Credits	Financial Guarantees	Export Credit Guarantees	Prepayments & Other Resource Transfers
N	Valid	140	147	135	114	118
	Missing	15	8	20	41	37
Mean		2.3571	2.6531	3.0519	4.0439	2.5085
Median		2.0000	3.0000	3.0000	4.0000	2.0000
Mode		1.00	1.00	4.00	5.00	2.00
Std. Deviation		1.39924	1.35309	1.41589	1.13971	1.34448

Source: Primary data from SME survey

Using three measures of the mean, median and mode, the table shows that Subcontracting had a mean of 2.36 and mode of 1.0, Supply Credits; a mean of 2.65 and mode of 1.0, Prepayments & other Resource Transfers; a mean of 2.50 and mode of 2.0 while Financial Guarantees; had mean of 3.06 and mode of 4.0 and Export Credit Guarantees; a mean of 4.04 and mode of 5.0.

The above results show that three B2B financing methods namely; *Sub-Contracting, Supply Credits and Prepayments & Direct Resource Transfers* have high potential for increased application among SMEs, whereas the potential for Financial Guarantees is very limited. The application of Export Credit Guarantees is least likely by the SMEs.

A similar assessment was also done among TNCs regarding the likelihood of increasing the scale and intensity of B2B financing methods in their business relationships with SMEs. The results are presented in table 9 below. The results indicate that mean and mode scores were: subcontracting were 2.22 and 2.00, supply credits 2.3 and 3.00, financial guarantees 2.87 and 3.00, export credit guarantees 3.67 and 4.00, and prepayments and direct resource transfers 2.27 and 2.00 respectively. The results suggest that the TNC firms are more likely to increase application of four B2B financing methods namely Sub-Contracting, Supply Credits, Prepayments & Direct Resource Transfers and Financial Guarantees. TNC firms were unsure or not at all likely to use export credit guarantees.

Table 9: TNC Responses on Potential to do or increase B2B Financing Methods to SMEs

		Sub-Contracting	Supply Credits	Financial Guarantees	Export Credit Guarantees	Prepayments & Other Resource Transfers
N	Valid	52	52	48	37	44
	Missing	1	1	5	16	9
Mean		2.20769	2.3654	2.8750	3.6757	2.2727
Median		2.0000	2.0000	3.0000	4.0000	2.0000
Mode		2.00	3.00	3.00	4.00	2.00
Std. Deviation		.90415	1.13809	1.14157	1.29216	1.12815

Both the results in tables 8 and 9 above show a convergence of perceptions between SMEs and TNCs regarding the likely use of different B2B financing methods. Three financing methods are likely to be used or their application increased by both TNCs and SMEs to increase mutually beneficial linkages. These are *Sub-Contracting, Supply Credits and Prepayments & Direct Resource Transfers*. These represent the methods where there is convergence of potential efficacy. There is also convergence between TNCs and SMEs regarding the non-likely application of Export Credit Guarantees. However, TNCs indicate potential for use of financial guarantees while the SMEs do not.

4.4 Perceptions of Local Business Culture and its Effect on Application of B2B Financing among SMEs

The effect of perceptions of TNCs on the local business culture as well as the perceptions of SMEs on the business culture of TNCs can affect the establishment of mutually beneficial business linkages and consequently adoption of B2B financing. The following table presents the SME rating of the effect of the business culture and workstyle of TNCs and large companies on the establishment of business linkages and adoption of B2Bs.

Table 10: SME Perceptions of the Effect of Business Culture and Work Style of TNCs on Business Linkages and Adoption of B2B Financing Methods

Cultural Element	N	Minimum	Maximum	Mean	Std. Deviation
Honesty and integrity in business transactions	147	1.00	4.00	1.7891	.78715
Attitudes on cost, quality, service	145	1.00	4.00	1.8966	.85573
Attitudes on time keeping	149	1.00	5.00	2.0336	.96853
Attitude on meeting deadlines	143	1.00	5.00	2.0350	.89924
Importance attached to business relationships	145	1.00	5.00	2.0897	.98543
Attitudes on technology and technology use	142	1.00	5.00	2.1127	.89203
Valid N (list wise)	133				

Source: Primary data from SME survey

Table 10 shows that: all the aspects of business culture and workstyle have a mean of about 2.0 or below suggesting that all aspects are perceived by SMES to have a high effect on business linkage establishment and B2B financing adoption.

A similar assessment was done for TNCs on their rating of the effect of business culture and workstyle of SMEs on business linkage establishment and B2B financing adoption. Table 11 below presents the results from the TNC survey.

Table 11: TNC Perceptions of the Effect of Business Culture and Work Style of SMEs on Business Linkage Establishment and Adoption of B2B Financing

	N	Minimum	Maximum	Mean	Std. Deviation
Importance attached to business relationships	53	1.00	4.00	2.0755	.82855
Honesty and integrity in business transactions	52	1.00	4.00	2.2692	.79497
Attitudes on technology and technology use	53	1.00	4.00	2.5000	.81684
Attitudes on cost, quality, service	52	1.00	5.00	2.4151	.77964
Attitude on meeting deadlines	53	1.00	4.00	2.4528	.84503
Attitudes on time keeping	53	1.00	5.00	2.5094	.84632
Valid N (listwise)	34				

Source: Primary data from TNC survey

The table 11 above shows that the mean scores for all items except one – *importance attached to business relationships,* had mean score of 2.0 - 2.5 and therefore considered of moderate effect. The first aspect – *importance attached to business relationships* had a mean score of 2.0 and considered to have a high effect. Therefore apart from *importance attached to business relationships* that was considered to have a strong effect, all the other aspects of SME business culture and workstyle were considered by TNCs to have a moderate effect on business linkage establishment and application of B2Bs.

4.5 Assessment of Barriers to and Opportunities for Increased Application of B2B Methods of Financing to Local SMEs

4.5.1 TNC Selection Criteria for Business Linkage Establishment and Financing

In assessing the potential effect of TNC selection factors that tend to favour international firms, a question was posed that: W*hat considerations do you take into account in choosing to deal with or select a local firm as opposed to a regional or international firm?* Respondents were asked to examine the relative importance of seven selection criteria by ranking them on a five-point scale ranging from 1 most important to 5 least important. The results are presented in table 12 below;

Table 12 : TNC Selection Criteria of outsourced SMEs and their Importance

Selection Criteria for Business Linkages	% Freq = YES	Ranking Score	
		Median	Mode
Transaction Costs: Are often lower than foreign firms	62.3	3.0000	1.00
Prices: Are often lower than foreign firms	67.9	2.5000	1.00
Competitive Products or Services: Are often lower than foreign firms	43.4	2.0000	1.00
Trust and Honesty: Are often lower than foreign firms	39.6	2.0000	1.00
Ability to deliver on time: Are often lower than foreign firms	56.6	2.0000	1.00
Product/Service Reliabilities: Are often lower than foreign firms	43.4	2.0000	1.00
Innovativeness: Are often lower than foreign firms	35.8	3.0000	2.00

Table 12 above shows that apart from transaction costs and prices, the other TNC selection criteria are generally not in favour of local SMEs as local firms were rated lower than foreign firms or rated positively by fewer TNCs.

With regard to criteria importance, prices, transaction costs, and innovativeness were given moderate importance with a median score of 2.5 and 3.0 respectively. However, the other four of the selection criteria were given higher importance by the TNCs. These are: competitive products and services, trust and honesty, ability to deliver on time, and product/service reliabilities. Therefore, the results in the table above suggest that because TNCs give moderate importance to transaction costs and prices as outsourcing selection criteria where local SMEs are expected and rated to perform better than foreign firms, the transaction cost and price advantage exists and favours local SMEs but only to a limited extent. On the other hand, with regard to having competitive products, trust and honesty, ability to deliver on time, and product/service reliabilities, the results confirm that local SMEs are rated to perform poorer than foreign firms yet the TNCs give high importance to these variables. This implies that local SMEs obtain negative advantage from these variables that reduces their chance of being selected for outsourcing by TNCs.

4.5.2 Effect of TNC Selection Criteria on Local SME Outsourcing Choice

In order to assess the effect of TNC selection criteria on local SME outsourcing choice by the TNCs, a correlation and logistic regression analysis were undertaken. The analysis was undertaken to determine the degree to which TNC selection criteria used influence the choice of local SMEs for business linkage with TNCs operating in the Ugandan market. Seven criteria that are transaction related and mostly used by TNCs to select business linkage partners were ranked 1-5 with 1 being most important and 5 least important. This was correlated with local SMEs outsourcing choice by TNCs i.e. whether or not TNCs outsourced their activities and operations to local SMEs. Because ordinal and nominal data were involved, the spearman's rank order correlation and the logistic regression were used as these are the tools suitable for this type of data. The model specifications and results are presented below.

Correlation Model:

SmSource =ƒ(Tc, Pr, cp, Tr, td, prel, inov)

Where:

SmSource	*SME Outsourcing Choice*
tc	Transaction Costs
pr	Price
cp	*Competitive Products and services*
tr	*Trust and Honesty*
td	*Ability to deliver on time*
prel	*Product or service reliability*
inov	*Innovativeness*

Table 13 : Correlation of TNC Selection Criteria and Local SME Outsourcing Choice

Selection Criteria	**R**	**Sig.**
Transaction costs	.005	.975
Prices	-.053	.738
Competitive products and Services	-.077	.655
Trust and Honesty	-.047	.793
Ability to deliver on time	.088	.601
Product/Service Reliabilities	.010	.957
Innovativeness	-.005	.976

**. Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

The results show that all the selection criteria are negatively correlated with local SME outsourcing but all are not significant, implying that each of the seven criteria works against local SME outsourcing i.e. none of the criteria favours local SME outsourcing, though not significantly.

Table 14a: Logistic Regression results – Classification Table

Dependent Variable		Predicted		Percentage
		Yes	No	
Do you outsource any of your activities and operations to local SMEs	Yes	23	0	100
	No	4	1	20
	Over all Percentage			85.7

Cut Value is .500. Predictor: TNC selection criteria (all aspects combined)

Table 14a: Logistic Regression Results- Variable Coefficients

Predictor Variable	Beta	S.E	Wald	df	Sig.
Transaction costs	1.700	2.682	.402	1	.526
Prices	-.983	2.620	.141	1	.708
Competitive products and Services	.626	1.256	.248	1	.618
Trust and Honesty	.271	1.433	.036	1	.850
Ability to deliver on time	1.363	1.285	1.125	1	.289
Product/Service Reliabilities	1.048	1.808	.336	1	.562

Dependent Variable: Local SME Outsourcing Choice by TNCs

The results of logistic regression show that TNC selection criteria collectively are a strong predictor of local SME outsourcing choice by TNCs with the prediction above the cut value of 0.500 at 86% but none of the criteria variables is significant. Therefore, both the correlation and logistic regression results suggest that the TNC selection criteria collectively have a fairly strong negative influence on the probability of a local SME being chosen for TNC outsourcing although currently, none of the individual criteria has a significant effect.

4.6 Assessment of Policy Options and Other Measures to Promote Increased Uptake of B2B Financing

This assessment has relied on the qualitative responses from TNCs obtained by asking the TNCs the question: *what aspects of the policy and legal environment in Uganda required to be addressed to promote business linkages between foreign investors and local SMEs*. The responses are summarised in table 15 below.

Table 15: TNC Responses on Policy Options to Promote Increase Uptake of B2B Financing

1.	Availing SMEs with soft loans to boost their production capacity and meet orders of TNCs
2.	Promote Business linkages through trade fairs
3.	Streamline licensing procedures and regulate access to incentives to cater for genuine investors.
4.	Create an enabling environment for technology transfer.
5.	Simplify the registration process of SMEs
6.	Enact laws to regulate business to business financing forms in different sectors.
7.	Govt policy on registration and classification of SMEs
8.	Institute a national competition policy.
9.	Institute national awareness creation programs of business to business financing amongst SMEs,
10.	Establish a national support framework for Subcontracting and other business to business forms of financing.
11.	Build capacity of SMEs
12.	Improve compliance with the national standards and quality policy and laws.
13.	Provide adequate vocational training to support the manpower and skills needs of various sectors.

Source: Primary data from TNC survey

Table 15 above presents thirteen responses with clear policy import extracted from TNC data representing the views of TNCs on future policy options for promoting increased uptake of B2B financing among SMEs. The thirteen responses seem to point to six policy options: improving the capacity of SMEs to respond to the requirements of TNCs; create awareness of B2B financing amongst SMEs; Institute a national competition policy; registration and classification of SMEs; Create or improve the enabling environment for technology transfer; Use licensing procedures and access to incentives to improve quality of FDI. These options in part represent the existing perceived gaps as well as future policy initiatives that may have the greatest potential to promote adoption and use of B2B financing among TNCs and SMEs.

4.7 The Effect of TNC Perceptions of SME Capabilities on Local SME Outsourcing

TNCs were asked to assess the abilities of the local SMEs they deal with regarding six capability areas critical to effective business linkage and sustenance of outsourcing relationships

(Wataprutipaisan, 2002). According to Wataprutipaisan, it is these capabilities that TNCs look for in SME candidates for outsourcing. These capability areas are: basic firm readiness; Owner-manager attributes; Capability for quality and value addition; Competitiveness of products; Technology and production organisation; Finance capability; and lastly Quality of Human resources and training. A 5-point scale ranging from 1 Very much to 5 Not at all was used for the assessment and the results are presented in tables 14 to 20.

Assessment of Basic Firm Readiness

Table 16. TNC Perceptions of Local SMEs Basic Readiness Capabilities (N=53)

SME Basic Firm Readiness Capability	Mean	Std. Deviation
Have served as subcontractor, partnered with or supplied large companies or government	2.1923	.90832
Have put some effort to get business relationships with large companies for some years	2.0588	.81023
Can meet large volume of our orders if subcontracted	2.1961	1.23320
Have a strategic, growth- and outward-oriented outlook	2.1042	1.05668
have a customer-driven approach and emphasise after-Sale Services	2.4314	.85452
Provide warranties on our products and services	2.5962	.99528

Source: Primary data from TNC survey

The results in the table suggest that there is good positive assessment of local SMEs with regard to one item of basic readiness capability namely: Have put some effort to get business relationships with large companies for some years (mean 2.00). However, there is moderate assessment for all the other basic readiness attributes (with a mean range of 2.1-2.5). Implying that TNCs view local SMEs as neither good nor bad on those attributes. This further suggests that the basic firm readiness capabilities of local SMEs while important may not matter much with regard to TNCs outsourcing decisions to local SMEs and that emphasis by the TNCs may lie elsewhere.

Assessment of Entrepreneur Attributes

Table 17 : TNC Assessment of Entrepreneur Attributes of Local SMEs

SME Owner/Managers Attributes	N	Minimum	Maximum	Mean	Std. Deviation
Are forward looking, having a vision and highly innovative	51	1.00	4.00	1.9412	.90359
Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required	52	1.00	4.00	1.9038	.89134
Take various initiatives to network and seek business opportunities	51	1.00	4.00	1.8824	.81602
Insist on efficiency, timeliness and quality in stocking, production and delivery	52	1.00	4.00	2.0000	.97014
Commit to the work contract and deliver on time regardless of the profit margin or other constraints	51	1.00	4.00	2.1569	.92469
Try to network with TNCs and SMEs	50	1.00	5.00	2.2400	.95959
Have good negotiating skills and experience	51	1.00	5.00	2.1373	.91694

Source: Primary data from TNC survey

The results in the table show that there is high positive assessment regarding three items namely: are forward looking, having a vision and highly innovative, take various initiatives to network and seek business opportunities and Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required. There is moderate assessment for all other items with a score of between 2.0 – 2.9. The results imply that TNCs give moderate assessment of local SMEs with regard to: local entrepreneurs insisting on efficiency, timeliness and quality in stocking, production and delivery; local entrepreneurs being committed to the work contracts and delivering on time regardless of the profit margin or other constraints; local entrepreneurs trying to network with TNCs and SMEs; local entrepreneurs having good negotiating skills and experience. The overall assessment of local entrepreneur attributes with regard to linkage capabilities with TNCs is moderate suggesting that they are neither good nor poor but just average.

Assessment of SME Capabilities for Quality and Value Addition

Table 18 : TNC Assessment of SME Capabilities for Quality and Value Addition

SME Capabilities for Quality and Value Addition	N	Minimum	Maximum	Mean	Std. Deviation
Have the scope and capabilities for moving up the value-added chain	49	1.00	5.00	2.1837	1.05423
Have good quality control and assurance systems or pay emphasis on quality	52	1.00	5.00	2.0385	1.02826
Improve and upgrade technologies and have no problems of access to information on technologies as well as financing of technology upgrading	50	1.00	4.00	2.1600	.99714
Value research and development (R and D),	50	1.00	5.00	2.6600	1.22241
Try to network with R and D and productivity-enhancing institutions and centres	51	1.00	5.00	2.7255	1.29736
Are members of and receive business advisory and support services from government agencies or trade associations	50	1.00	5.00	2.6600	1.34938

Source: Primary data from TNC survey

The above results show that none of the items had a mean of between 1.0 -2.0 while all six items had a mean of between 2.0 – 2.9 suggesting that local SME capabilities for quality and value addition are considered to be generally average. The results imply that the local SMEs ability to engage in supply relationships with TNCs is average and consequently the likelihood of attracting supply credits from TNCs also average. The worst rated items relate to trying to network with R&D productivity enhancing institutions and being members of and receiving business advisory and support services from government agencies or trade associations. Overall, the SME capabilities for quality and value addition considered to be average.

Assessment of SMEs Product Competitiveness

Table 19 : Assessment of SMEs Product Competitiveness

SME Product Competitiveness	N	Minimum	Maximum	Mean	Std. Deviation
Have products with a competitive advantage in price?	51	1.00	4.00	2.0000	1.01980
Have products with a competitive advantage in location i.e. close to markets or supply sources	52	1.00	4.00	1.7692	.83114
Have products with a competitive advantage in quality.	50	1.00	4.00	1.9400	.97750
Products with a competitive advantage in reliability and after-sales service.	51	1.00	4.00	2.1176	.88650
Products with competitive advantage in terms of health and safety	49	1.00	4.00	2.0612	1.00847
Have products with a competitive advantage in timely delivery.	50	1.00	5.00	2.0000	1.03016
Have products and processes with a competitive advantage in terms of environment friendliness or compatibility.	52	1.00	5.00	2.211	1.10855
Try to create our own brand names or have recognizable or differentiated products.	49	1.00	5.00	2.2041	1.18988

Source: Primary data from TNC survey

The results in the table above indicate that there is very good assessment of local SMEs with regard to *Having products with a competitive advantage in location i.e. close to markets or supply sources with a score of* 1.7692 and good assessment on the item of *Having products with a competitive advantage in quality with a score of* 1.9400. There is also good positive assessment with regard to: Having products with a competitive advantage in price and having products with a competitive advantage in timely delivery both with a mean score of 2.000.

However, there is moderate assessment for three items with scores ranging between 2.0 and 2.9. The results imply that TNCs' rating of local SMEs is average with regard to: Having products with a competitive advantage in quality; Having products with a competitive advantage in terms of health and safety; having products with a competitive advantage in reliability and after-sales service; Having products and processes with a competitive advantage in terms of environment friendliness or compatibility; Trying to create own brand names or have recognizable or differentiated products. Overall, TNCs rating of the product competitiveness of local SMEs is good mainly in terms of location, prices, timely delivery and quality but average in terms of all other elements of product competitiveness.

Assessment of SME Technology and Production Organisation

Table 20 : Assessment of SME Technology and Production Organisation

SME Technology and Prod. Org. Capabilities	N	Minimum	Maximum	Mean	Std. Deviation
Have production activities based on new/modern technologies.	47	1.00	5.00	2.2340	1.18345
Try to receive certification under ISO 9000 (quality) and/or 14000. (environment) series	47	1.00	5.00	2.2128	1.24998
Are aware of and, interested in, joining international production/supply systems or chains.	45	1.00	5.00	2.3778	1.26651
Are constrained by intellectual property rights (IPR) issues in obtaining inputs and in product development and commercialization.	47	1.00	5.00	3.1702	1.08986
Make IPR royalty and licensing payments for processes and other technologies used in production and marketing.	45	1.00	5.00	2.9333	1.25045
Make IPR payments that are a heavy burden on their cash flows with few alternative options.	43	1.00	5.00	3.2791	1.18172
Have modern, ICT-based stocking, production, delivery and marketing systems.	41	1.00	5.00	2.5122	1.34391

Source: Primary data from TNC survey

The results show that there is moderate to poor assessment by TNCs on all aspects of local SME technology and production organisation with scores ranging between 2.10 and 3.60 on a scale of 1-5. This implies that TNCs rating of local SMEs with regard to technology and production organisation is generally weak.

Assessment of SME Finance Capabilities

The results show that overall, there is moderate to poor assessment of the SME finance capabilities on 4 aspects out of 7. TNCs assessment of SMEs ability to: accept payments after delivery of products or services, and also provide credit to customers and clients as high with a mean score of 1.8. The other aspects of financial capability are considered as average. The results imply that first; TNCs are aware of the SMEs limited financial options for raising non-formal finance as well as the SMEs inability to raise enough capital or collateral for the expansion of businesses. However, the moderate assessment on other aspects particularly: presenting reliable and transparent financial information, having proper accounting records and other financial documentation using internationally recognised reporting formats and mechanisms as well as having bankable business plans with reasonable details for borrowing or financing purposes, suggests that TNCs remain sceptical with SMEs transparency levels, discipline in preparing financial records and information, as well as conformance to international standards with regard to financial reporting. TNCs also remain sceptical with regard to the ability of local SMEs preparing or having bankable business plans acceptable to financial institutions.

Table 21 : Assessment of SME Finance Capabilities

SME Finance Capabilities	N	Minimum	Maximum	Mean	Std. Deviation
Present reliable and transparent financial information.	50	1.00	5.00	2.1600	1.21823
Face requirements from banks that are a major constraint on their firm’s financing needs.	50	1.00	5.00	2.5200	1.19932
Accept payments after delivery of products or services, and provide credit to customers and clients.	47	1.00	5.00	1.9574	.83295
Have enough capital or quality collateral for the expansion of their businesses.	49	1.00	5.00	2.5102	1.17478
Have proper accounting records and other financial documentation using internationally recognised reporting formats and mechanisms.	49	1.00	5.00	2.1633	1.31255
Have bankable business plans with reasonable details for borrowing or financing purposes.	47	1.00	5.00	2.3191	1.38480
Have alternative, non-formal sources of financing (besides the banks) that they rely on in times of need.	48	1.00	5.00	2.5625	1.04995

Source: Primary data from TNC survey

Assessment of Quality of Human Resources and Training

Table 22 : TNC Assessment of SME Human Resources and Training Capabilities

SME Human Resources and Training Capabilities	N	Minimum	Maximum	Mean	Std. Deviation
Have appropriate HRD systems and modalities.	50	1.00	5.00	2.4600	1.32803
Have active participation of their employees.	52	1.00	5.00	2.2692	1.10463
Find it easy to keep their skilled workers or to recruit new skilled workers.	50	1.00	5.00	2.4000	1.29363
Try to become learning organizations.	50	1.00	4.00	2.1000	1.07381
Value or participate in inter-firm networking for enhanced capacity-building and training of staff.	49	1.00	5.00	2.2857	1.30703

Source: Primary data from TNC survey

The results in the table indicate that there is moderate assessment of SME capability in all the aspects of human resources quality and training by TNCs with mean scores of between 2.10-2.9 *implying that TNCs regard the quality of local SME human resources and training to be neither good nor bad*.

4.8 Effect of Individual Entrepreneur Attributes and Perceptions and Local Business Culture on Levels of B2B Financing

Individual entrepreneur attributes and perceptions as well as the local business culture elements were correlated with individual B2B financing methods to determine the direction of influence and the degree of correlation. Seven entrepreneur attributes and perceptions as well as local business culture aspects considered by Wattapruttipaisan (2002) as the most relevant in establishing business linkage relationships between SMEs and TNCs in an economy were examined. However, to further test the validity of the bivariate correlation results and to evaluate the influence of local business culture and local entrepreneur attributes and perceptions on the level of B2B financing, multiple linear regression tests were also conducted on each of the B2B financing tools. Two sets of regression tests were conducted. In the first set, each of the each of the B2B financing tools were regressed against the seven aspects of business culture. In the second set, each of the B2B financing tools were regressed against local entrepreneur attributes and perceptions. In order to clearly establish the aspects of culture and entrepreneur attributes and perceptions that were strong predictors of B2B financing and also in order to exclude those that were not, the stepwise regression method was used. However, where there were no entries because of weak predictor variable strength, the forced entry method was used. The model specifications, the correlation and multiple linear regression results are presented in subsequent sections.

4.8.1 Correlation of Individual Entrepreneur Attributes and Perceptions on Levels of B2B Financing

The model specification and the correlation results are presented below.

Correlation Model:

b2bfin = ƒ(fl, cu, ni, ile, cwc, ntnc, gn,)

Where:

b2bfin	Level of B2B financing through the specific method
fl	Are forward looking, having a vision and highly innovative
cu	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required
ni	Take various initiatives to network and seek business opportunities
ile	Insist on efficiency, timeliness and quality in stocking, production and delivery
cwc	Commit to the work contract and deliver on time regardless of the profit margin or other constraints
ntnc	Try to network with TNCs and other large companies
gn	Have good negotiating skills and experience

Table 23 : Correlation of Entrepreneur Attributes and B2B Financing Usage (R; Sig.)

Entrepreneur Attributes	Sub-Contracting	Supplier Credits	Financial Guarantees	Prepayments & Resource Transfers	Export Credit Guarantees
Are forward looking, having a vision and highly innovative	-.276* .066	-.483** .000	-.236 .114	-.131 .376	-.517** .001
Are committed to improve and upgrade Operations on an ongoing basis to meet the international standards required	-.268 .071	-.407** .003	-.291* .047	-.231 .111	-.517* .001
Take various initiatives to network and seek business opportunities	-.123 .416	-.304* .034	.060 .692	-.188 .201	-.558** .000
Insist on efficiency, timeliness and quality in stocking, production and delivery	-.096 .524	-.343* .015	-.227 .125	.093 .526	-.409** .010
Commit to the work contract and deliver on time regardless of the profit margin or other constraints	-.203 .175	-.420** .003	-.256 .086	-.349* .015	-.288 .075
Try to network with TNCs and other large companies	-.043 .779	-.326* .024	-.133 .384	-.045 .763	-.373* .021
Have good negotiating skills and experience	-.166 .269	-.356* .012	-.210 .161	.116 .432	-.331* .040
Combined Owner-Manager Attributes	-.227 .237	-.258 .148	-.132 .488	-.079 .663	-.449* .024

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

The results indicate that Owner/Manager attributes and perceptions all have a negative correlation with B2B financing usage with some significant. This implies that owner manager attitudes [currently] result in reduced ability to offer B2B financing by TNCs.

More specifically, of the owner-manager attributes, being *forward looking, having a vision and highly innovative* has significant correlation with sub-contracting, supply credits and export credit guarantees, three of the five B2B financing modes while the rest are significant with one or none of the B2B financing modes. Thirdly, export credit guarantees correlated significantly with three of the seven attributes and also with the overall owner-manager attributes (R=-.449, P=.024). The results imply that the level of being *forward looking, having a vision and highly innovative* by owner-managers has significantly reduced levels of sub-contracting, supply credits and export credit guarantees. Similarly, the level of commitment to improve and upgrade operations on an ongoing basis to meet the international standards required as well as taking various initiatives to network and seek business opportunities has significantly reduced levels of export credit guarantees as a B2B financing method.

4.8.2 Correlation of Local Business Culture on Levels of B2B Financing Usage

Correlations were also run to assess the relationship of local business culture and the level of B2B financing. As in the case of owner-manager attributes, six aspects of local business culture were investigated to determine the relationship of each with B2B financing. The correlation model and the results of the correlation are presented below.

Correlation Model:

b2bfin = ƒ(tk, cqs, md, ibr, tu, hi)

Where:

b2bfin Level of B2B financing through the specific method
tk Attitudes on time keeping
cqs Attitudes on cost, quality, service
md Attitudes on meeting deadlines
ibr Importance attached to business relationships
tu Attitudes on technology and technology use
hi Honesty and integrity in business transactions

Table 24 : Correlation Results of Local Business Culture and B2B Usage (R; Sig.)

Attitude	Sub-Contracting	Supplier Credits	Financial Guarantees	Prepayments and resource transfers	Export Credit Guarantees
Attitudes on time keeping	-.279 .060	.023 .876	-.150 .315	-.122 .405	-.326* .043
Attitudes on cost, quality, service	-.143 .343	.103 .477	.019 .899	-.190 .191	-.145 .380
Attitude on meeting deadlines	-.011 .940	.025 .860	-.030 .840	-.227 .116	-.044 .790
Importance attached to business relationships	-.326* .027	-.126 .384	-.177 .234	.015 .909	-.193 .239
Attitudes on technology and technology use	-.148 .328	-.167 .251	-.210 .161	-.013 .932	-.439* .005
Honesty and integrity in business transactions	-.283 .059	-.202 .164	-.252 .091	-.100 .497	-.407* .011

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

The results in the table show that *importance attached to business relationships* has significant negative correlation with sub-contracting; *Attitude on meeting deadlines* has significant negative correlation with prepayments and resource transfers (R= -.359, P =.040); *Attitude on technology and technology use* as well as *Honesty and Integrity in business transactions* have significant negative correlation with export credit guarantees (R= -.439 P=.005 and (R= -.407 P= .011) respectively. Attitudes on time keeping also has a significant relationship with export credit guarantees (-.326*, 0.043) while attitudes on cost, quality and service don't seem to relate significantly with any of the B2B financing methods. However, to confirm and further test the validity of the above results, regression tests were conducted for each of the B2B financing tools against local business culture.

4.8.3 Regression of Local Business Culture and Sub-Contracting Use

The model specification and results of the regression test between local business culture and sub-contracting use are presented below.

Regression Model:

sc = $\alpha+\beta_1 br+ \beta_2 tk+ \beta_3 cqs+ \beta_4 dl+ \beta_5 ttu+ \beta_6 hn+\mu$

Where:

sc	Sub-contracting
br	Importance attached to business relationships
tk	Attitudes on time keeping
cqs	Attitudes on cost, quality, service
dl	Attitude on meeting deadlines
ttu	Attitudes on technology and technology use
hn	Honesty and integrity in business transactions

The results from the step wise regression in table 24 below show that out of seven business culture variables against which the dependent variable was regressed, only one aspect of the local business culture – *importance attached to business relationships* was retained in the model as a predictor and shown to be a significant predictor of subcontracting (Adjusted R square .193, p .011). The other aspects of local business culture were rejected as predictors of sub-contracting and their individual predictive power weak and non-significant. This implies that importance attached to business relationships is the single most significant predictor of subcontracting use by TNCs.

Table 25 : Regression Results of Local Business Culture and Sub-contracting Use

Model		Stand. Beta	t	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	(Constant)		7.742	.000	.120	.099	1.21908	5.830	.020[a]
	Importance attached to business relationships	-.346	-2.416	.020					
	Excluded Variables								
	Attitudes on time keeping	-.180[a]	-1.191	.240					
	Attitudes on cost, quality, service	.062[a]	-.416	.680					
	Attitude on meeting deadlines	.071[a]	.478	.635					
	Attitudes on technology and technology use	-.021	-.134	.894					
	Honesty and integrity in business transactions	-.164[a]	-1.032	.308					

Dependent Variable: Sub-contracting

4.8.4 Regression of Local Business Culture and Supply Credit Use

None of the variables was entered into the regression equation using the stepwise method and the procedure had to be repeated using the enter method that automatically includes all the independent variables into the regression equation. The model specification and results are presented in table 26 below.

Regression Model:

scu = $\alpha+\beta_1 br+ \beta_2 tk+ \beta_3 cqs+ \beta_4 dl+ \beta_5 ttu+ \beta_6 hn+\mu$

Where:

scu Supply credit use
br Importance attached to business relationships
tk Attitudes on time keeping
cqs Attitudes on cost, quality, service
dl Attitude on meeting deadlines
ttu Attitudes on technology and technology use
hn Honesty and integrity in business transactions

The results in table 26 below show that out of six business culture variables against which the dependent variable - supply credit use was regressed, two of the cultural variables namely; *Attitudes on cost, quality and service* (Beta .267 p=.027) and *honesty and integrity in business transactions* (Beta -.363 p= .003) emerged as significant predictors while the rest were non-significant predictors. There results suggest that the two cultural aspects are strong predictors of supply credit use but not strong enough as standalone predictors. They need to be combined with other cultural aspects. Additionally, the other business culture aspects have weak prediction power of supply credit use both individually and when combined with other cultural aspects.

Table 26 : Regression Results of Local Business Culture on Supply Credit Use

Model		Stand. Beta	T	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	Constant	2.483	3.893	.000	.149	.025	1.46194	1.197	.327[a]
	Attitudes on time keeping	.022	.111	.912					
	Attitudes on cost, quality, service	.267	1.457	.027					
	Attitude on meeting deadlines	.069	.376	.709					
	Importance attached to business relationships	-.076	-.469	.641					
	Attitudes on technology and technology use	.470	-.321	.153					
	Honesty and integrity in business transactions	-.363	-1.862	.003					

Dependent Variable: Supply Credit Use

4.8.5 Regression of Local Business Culture and Financial Guarantee Use

Using the *stepwise* method, no variables were entered into the equation suggesting that no aspect of local business culture was distinctively strong enough as a predictor of financial guarantee use. However, we used the *enter* method to generate regression coefficients for each aspect of culture and the model specification and results are presented in the below.

Regression Model:

$fgu = \alpha+\beta_1 br+ \beta_2 tk+ \beta_3 cqs+ \beta_4 dl+ \beta_5 ttu+ \beta_6 hn+\mu$

Where:
fgu financial guarantee use

br Importance attached to business relationships
tk Attitudes on time keeping
cqs Attitudes on cost, quality, service
dl Attitude on meeting deadlines
ttu Attitudes on technology and technology use
hn Honesty and integrity in business transactions

Table 27 : Regression Results of Local Business Culture on Financial Guarantee Usage

Model	Stand. Beta	t	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
Constant		5.839	.000	.136	.000	1.30005	1.0001	.439
Attitudes on time keeping	-.116	-.581	.565					
Attitudes on cost, quality, service	.144	.786	.437					
Attitude on meeting deadlines	.154	.812	.422					
Importance attached to business relationships	-.141	-.821	.417					
Attitudes on technology and technology use	-.116	-.622	.538					
Honesty and integrity in business transactions	-.211	- 1.047	.302					

b. Dependent Variable: Financial Guarantees

The results in table 27 above show that out of six business culture variables against which the dependent variable – Financial Guarantees was regressed, none of the variables had a significant beta coefficient and therefore a strong predictor even after using the *enter* regression method. There results suggest that none of the business culture aspects are strong predictors of financial guarantees even if combined with other cultural aspects.

4.8.6 Regression of Local Business Culture and Prepayments and Resource Transfers

Using the *stepwise* method, no variables were entered into the equation suggesting that no aspect of local business culture was distinctively strong enough as a predictor of use of prepayments and resource transfers. We used the enter method to generate coefficients for all variables and the model specification and results are presented below.

Regression Model:

$$prt = \alpha+\beta_1 br+ \beta_2 tk+ \beta_3 cqs+ \beta_4 dl+ \beta_5 ttu+ \beta_6 hn+\mu$$

Where:

prt Use of Prepayments and resource transfers
br Importance attached to business relationships
tk Attitudes on time keeping
cqs Attitudes on cost, quality, service
dl Attitude on meeting deadlines
ttu Attitudes on technology and technology use
hn Honesty and integrity in business transactions

Table 28 : Regression Results of Local Business Culture and Prepayments and Resource Transfers

Model		Stand. Beta	t	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	Constant		4.298	.000	.058	-.084	1.26772	.407	.870[a]
	Attitudes on time keeping	.018	.087	.931					
	Attitudes on cost, quality, service	-.105	-.540	.592					
	Attitude on meeting deadlines	-.179	-.912	.367					
	Importance attached to business relationships	.024	.137	.892					
	Attitudes on technology and technology use	.071	.370	.714					
	Honesty and integrity in business transactions	-.052	-.246	.807					

Dependent Variable: Prepayments and Resource Transfers

The results in table 28 above show that out of six business culture variables against which the dependent variable – Prepayments and resource transfers was regressed, none of the variables had a significant beta coefficient and therefore a strong predictor even after using the *enter* method of regression. The results therefore suggest that none of the cultural aspects are strong predictors of prepayments and resource transfers even if combined with other business culture aspects.

4.8.7 Regression of Local Business Culture and Export Credit Guarantees

The model specification and results of the stepwise regression are presented in the tables below.

Regression Model:

$$ecg = \alpha+\beta_1 br+ \beta_2 tk+ \beta_3 cqs+ \beta_4 dl+ \beta_5 ttu+ \beta_6 hn+\mu$$

Where:

ecg Use of export credit guarantees
br Importance attached to business relationships
tk Attitudes on time keeping
cqs Attitudes on cost, quality, service
dl Attitude on meeting deadlines
ttu Attitudes on technology and technology use
hn Honesty and integrity in business transactions

Table 29a: Model Summary – Business Culture and Export Credit Guarantees

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.485[a]	.235	.201	.68814	6.773	.016[a]
2	.621[b]	.385	.327	.63158	6.578	.006[b]

a. Predictors: (Constant), Honesty and integrity in business transactions
b. Predictors: (Constant), Honesty and integrity in business transactions, Attitude on meeting deadlines

Table 29 a : Regression Coefficientsa - Business Culture and Export Credit Guarantees

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.622	.408		13.782	.000
	Honesty and integrity in business transactions	-.435	.167	-.485	-2.603	.016
2	(Constant)	5.271	.405		13.005	.000
	Honesty and integrity in business transactions	-.718	.198	-.801	-3.627	.002
	Attitude on meeting deadlines	.394	.174	.500	2.262	.034

a. Dependent Variable: Export Credit Guarantees

Table 29 b: Excluded Variablesc - Business Culture and Export Credit Guarantees

Model		Beta In	T	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Attitudes on time keeping	-.006[a]	-.027	.978	-.006	.645
	Attitudes on cost, quality, service	.041[a]	.192	.849	.042	.801
	Attitude on meeting deadlines	.500[a]	2.262	.034	.443	.600
	Importance attached to business relationships	.004[a]	.019	.985	.004	.794
	Attitudes on technology and technology use	-.295[a]	-1.220	.236	-.257	.582
2	Attitudes on time keeping	-.368[b]	-1.504	.148	-.319	.462
	Attitudes on cost, quality, service	-.110[b]	-.534	.599	-.119	.718
	Importance attached to business relationships	-.155[b]	-.754	.460	-.166	.709
	Attitudes on technology and technology use	-.415[b]	-1.926	.068	-.396	.558

a) Predictors in the Model: (Constant), Honesty and integrity in business transactions
b) Predictors in the Model: (Constant), Honesty and integrity in business transactions, Attitude on meeting deadlines
c) Dependent Variable: Export Credit Guarantees

The results in tables 29a, 29b and 29c above show that two of the six business culture variables against which the dependent variable – Export credit guarantees was regressed were significant predictors of export credit guarantees with an explanatory power of 32.7% (Combined Adjusted R Square 0.327, p=.006). Of the two however, honesty and integrity in business transactions individually could explain 20% (adjusted R square .201 p=.016) and the stronger of the two.

The other variables were excluded from the models and therefore were not predictors of export credit guarantees. The results therefore suggest that the business culture variables that can predict use of export credit guarantees in Uganda are namely *honesty and integrity in business transactions* and *attitude on meeting deadlines*.

4.8.8 Regression of Entrepreneur Attributes and Perceptions and Sub-Contracting

The stepwise regression method was used and the model specification and results are presented below.

Regression Model:

$$sc = \alpha+\beta_1 fl+ \beta_2 cu+ \beta_3 ni+ \beta_4 le+ \beta_5 tncni+ \beta_6 nse+\mu$$

Where:

sc	Sub-contracting
fl	Are forward looking, having a vision and highly innovative
cu	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required
ni	Take various initiatives to network and seek business opportunities
le	Insist on efficiency, timeliness and quality in stocking, production and delivery
cwc	Commit to the work contract and deliver on time regardless of the profit margin or other constraints
tncni	Try to network with TNCs and other large companies
nse	Have good negotiating skills and experience

Table 30 : Regression Results of Entrepreneur Attributes and Perceptions and Sub-contracting

Model		Stand. Beta	t	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	(Constant)		8.105	.000	.089	.076	1.21265	4.535	.039[a]
	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required	-.312	-2.130	.039					
	Excluded Variables								
	Are forward looking, having a vision and highly innovative	-.028[a]	-.113	.911					
	Take various initiatives to network and seek business opportunities	.101[a]	.490	.626					
	Insist on efficiency, timeliness and quality in stocking, production and delivery	.289[a]	1.242	.221					
	Commit to the work contract and deliver on time regardless of the profit margin or other constraints	.132[a]	-.704	.485					
	Try to network with TNCs and other large companies	.184[a]	.980	.333					
	Have good negotiating skills and experience	.039[a]	.205	.839					

a. Predictors in the Model: (Constant), Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required.

b. Dependent Variable: Sub-Contracting

The results in table 30 above show that one of the seven owner/manager attributes against which the dependent variable – sub-contracting was regressed was a significant predictor with an explanatory power of 7.6% (Adjusted R Square 0.076, p≤.005). The results suggest that one owner/manager attribute – being committed to improve and upgrade operations on an ongoing basis to meet the international standards required is the single variable explaining 7.6% of sub-contracting across all sectors while the other owner/manager attributes do not.

4.8.9 Regression of Entrepreneur Attributes and Perceptions and Supply Credits

The stepwise regression method was used and the model specification and results are presented below.

Regression Model:

$sc = \alpha+\beta_1 fl+ \beta_2 cu+ \beta_3 ni+ \beta_4 le+ \beta_5 tncni+ \beta_6 nse+\mu$

Where:

sc	Sub-contracting
fl	Are forward looking, having a vision and highly innovative
cu	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required
ni	Take various initiatives to network and seek business opportunities
le	Insist on efficiency, timeliness and quality in stocking, production and delivery
cwc	Commit to the work contract and deliver on time regardless of the profit margin or other constraints
tncni	Try to network with TNCs and other large companies
nse	Have good negotiating skills and experience

Table 31 : Regression of Entrepreneur Attributes and Perceptions and Supply Credits

Model		Stand. Beta	T	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	(Constant)		9.874	.000	.232	.215	1.31717	13.595	.001[a]
	Are forward looking, having a vision and highly innovative	-.482	-3.687	.001					
	Excluded Variables								
	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required	-.119	-.518	.607					
	take various initiatives to network and seek business opportunities	.131[a]	.690	.494					
	Insist on efficiency, timeliness and quality in stocking, production and delivery	.122[a]	.512	.511					
	Commit to the work contract and deliver on time regardless of the profit margin or other constraints	-.173[a]	-.973	.336					
	Try to network with TNCs and other large companies	.050[a]	.280	.781					
	Have good negotiating skills and experience	-.057[a]	-.318	.752					

Predictors in the Model: (Constant), Are forward looking, having a vision and highly innovative
Dependent Variable: Supply Credits

The results in table 31 above show that one of the seven owner/manager attributes against which the dependent variable – supply credits was regressed was a significant predictor with an explanatory power of 21.5% (Adjusted R Square 0.215, $p \leq .005$). The results suggest that one entrepreneur attribute – being forward looking, having a vision and highly innovative is the singular attribute explaining 22% of supply credits to SMEs across all the sectors while the other entrepreneur attributes do not.

4.8.10 Regression of Entrepreneur Attributes and Perceptions and Financial Guarantees

Using the stepwise regression, no variable was entered into the model. All were found to be individually weak predictors of financial guarantees. We decided to use the enter regression method and the model specification and results are presented below.

Regression Model:

$fg = \alpha + \beta_1 fl + \beta_2 cu + \beta_3 ni + \beta_4 le + \beta_5 tncni + \beta_6 nse + \mu$

Where:

fg	financial guarantees
fl	Are forward looking, having a vision and highly innovative
cu	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required
ni	Take various initiatives to network and seek business opportunities
le	Insist on efficiency, timeliness and quality in stocking, production and delivery
cwc	Commit to the work contract and deliver on time regardless of the profit margin or other constraints
tncni	Try to network with TNCs and other large companies
nse	Have good negotiating skills and experience

Table 32 : Regression of Entrepreneur Attributes and Perceptions and Financial Guarantees

Model		Stand. Beta	T	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	(Constant)		6.155	.000	.180	.021	1.35931	1.132	.365[a]
	Are forward looking, having a vision and highly innovative	.222	-.659	.514					
	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required	-.377	-1.288	.206					
	take various initiatives to network and seek business opportunities	.416	1.750	.089					
	Insist on efficiency, timeliness and quality in stocking, production and delivery	-.142	-.379	.707					
	Commit to the work contract and deliver on time regardless of the profit margin or other constraints	-.152	-.680	.501					
	Try to network with TNCs and other large companies	.311	1.091	.283					
	Have good negotiating skills and experience	-.034	-.149	.882					

Dependent Variable: Financial Guarantees

The results in table 32 above show that none of the seven owner/manager attributes against which the dependent variable – financial guarantees was regressed was a significant predictor indicating that none of the owner manager attributes explain the use of financial guarantees by TNCs to SMEs across all the sectors studied.

4.8.11 Regression of Entrepreneur Attributes and Perceptions and Prepayments and Resource Transfers

Using the stepwise method, none of the owner/manager attributes were entered into the regression equation suggesting that individually, all the owner/manager attributes are weak predictors of prepayments and resource transfers to by TNCs to SMEs. We then decided use the enter regression method and the model specification and results are presented below.

Regression Model:

prt = $\alpha+\beta_1 fl+ \beta_2 cu+ \beta_3 ni+ \beta_4 le+ \beta_5 tncni+ \beta_6 nse+\mu$

Where:

prt Prepayments and resource transfers
fl Are forward looking, having a vision and highly innovative
cu Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required
ni Take various initiatives to network and seek business opportunities
le Insist on efficiency, timeliness and quality in stocking, production and delivery
cwc Commit to the work contract and deliver on time regardless of the profit margin or other constraints
tncni Try to network with TNCs and other large companies
nse Have good negotiating skills and experience

Table 33 : Regression Results of Entrepreneur Attributes and Perceptions on Prepayments and Resource Transfers

Model		Stand. Beta	T	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	(Constant)		8.126	.000	.089	.068	1.13963	4.290	.044[a]
	Commit to the work contract and deliver on time regardless of the profit margin or other constraints	-.298	-2.071	.044					
	Excluded Variables								
	Are forward looking, having a vision and highly innovative	.069	.348	.729					
	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required	-.053	-.288	.774					
	take various initiatives to network and seek business opportunities	.006	.033	.974					
	Insist on efficiency, timeliness and quality in stocking, production and delivery	.259	1.317	.195					
	Try to network with TNCs and other large companies	.226	1.351	.184					
	Have good negotiating skills and experience	.096	.523	.604					

a. Dependent Variable: Prepayments and Resource Transfers

The results in table 33 above show that one of the seven owner/manager attributes against which the dependent variable – prepayments and resource transfers was regressed - commit to the work contract and deliver on time regardless of the profit margin or other constraints was a significant predictor indicating that this factor of business culture explains use of prepayments by TNCs to SMEs across all the sectors.

4.8.12 Regression of Entrepreneur Attributes and Perceptions and Export Credit Guarantees

The stepwise regression method was used to select strong predictors of export credit guarantees and include them in the model. The model specification and results are presented below.

Regression Model:

$ecg = \alpha+\beta_1 fl+ \beta_2 cu+ \beta_3 ni+ \beta_4 le+ \beta_5 tncni+ \beta_6 nse+\mu$

Where:

ecg Export credit guarantees
fl Are forward looking, having a vision and highly innovative
cu Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required
ni Take various initiatives to network and seek business opportunities
le Insist on efficiency, timeliness and quality in stocking, production and delivery
cwc Commit to the work contract and deliver on time regardless of the profit margin or other constraints
tncni Try to network with TNCs and other large companies
nse Have good negotiating skills and experience

Table 34 : Regression Results of Entrepreneur Attributes and Perceptions and Export Credit Guarantees

Model		Stand. Beta	T	Sig.	R Square	Adj. R Square	Std. Error	F	Sig.
1	(Constant)		25.609	.000	.313	.294	.55553	15.969	.000[a]
	Take various initiatives to network and seek business opportunities	-.560	-3.996	.000					
	Excluded Variables								
	Are forward looking, having a vision and highly innovative	-.201[a]	-.916	.366					
	Are committed to improve and upgrade operations on an ongoing basis to meet the international standards required	-.229[a]	-1.108	.276					
	Insist on efficiency, timeliness and quality in stocking, production and delivery	-.033[a]	-.165	.870					
	Commit to the work contract and deliver on time regardless of the profit margin or other constraints	.033[a]	.191	.850					
	Try to network with TNCs and other large companies	-.039	-.216	.830					
	Have good negotiating skills and experience	.031[a]	-.181	.858					

a. Dependent Variable: Export Credit Guarantees

The results in table 34 above show that one of the seven owner/manager attributes against which the dependent variable – export credit guarantees was regressed - taking various initiatives to network and seek business opportunities was a strong and significant predictor with an explanatory power of 29.4% (Adjusted R Square 0.294, $p \leq .01$). The results suggest that the owner/manager attribute – *taking various initiatives to network and seek business opportunities* is the singular attribute explaining export credit guarantees to SMEs across all the sectors while the other owner/manager attributes do not.

4.9 Sectoral Case Studies

To supplement survey data, a sectoral case study involving one selected TNC and six SMEs on the upstream and downstream sides of the TNC operations was undertaken. The case studies were guided by six questions as follows: Within existing TNC-SME business linkages, what form of b2b financing exists and what drives it i.e. what makes it happen? What is the SMEs assessment of existing TNC-SME business relationships in terms of quality, sustainability and b2b financing involved? Within existing TNC-SME business linkages, what are the barriers that constrain use or increased use of b2b financing? Are there indicators that point to future use or increased future use of b2b financing? Are there any unique sector conditions or factors that impact on b2b financing positively or negatively? The case summaries of the case studies are presented below.

CASE SUMMARY 1: REAL ESTATE AND CONSTRUCTION SECTOR – Roko Construction Co (Ltd)

ROKO is a construction company in Uganda that also operates in other countries namely; the DRC, Rwanda, and South Sudan. It is self-sufficient in the majority construction disciplines, and its other services include aluminum fabrication, metal fabrication & welding, carpentry and joinery, shuttering and scaffolding, mechanical works and electrical works. ROKO, is probably Uganda's largest civil engineering construction firm providing employment to an average of 1,800 people. The company places great emphasis on training its technicians and craftsmen to produce an exceptionally high standard of workmanship. The bulk of the materials the company uses are locally produced and procured in Uganda and from the region (EAC and COMESA) supplemented by imports from Europe through SAI Trading Company, ROKO's associated company based in Europe.

The study has revealed that Roko sub-contracts small Ugandan companies and other TNCs in the construction sector. SMEs are subcontracted to supply construction materials including; sand, stone base, etc and this is frequently done. The company reported that it engages reputable small firms (SMEs) with which it has worked before on the same terms obtained from its clients. However, according to the SMEs, the majority of the TNCs do not issue contracts that are legally enforceable and can be leveraged to access financing but merely issue Local Purchase Orders (LPOs) to SMEs. The principal argument given by the (TNCs) for their preference for LPOs is that they do not want to 'sign off for any failures.'

It was observed that SMEs in the construction sector are characterised by a "speculative mindset". Most SMEs in the construction sector are regarded as largely speculative with little investment in building their capabilities for effective subcontracting. Consequently, they lack the "bargaining muscle" to effectively engage with the TNCs. In addition, instead of ploughing their returns in the expansion and growth of their core business, SMEs instead divert returns to other sectors especially into hotels and super markets (that are not related to construction) in their pursuit for quick returns without any long term commitment to the construction sector. This is exacerbated TNCs which in an attempt to maximise their earnings end up squeezing SMEs by underpaying them i.e. giving them extremely low prices that keep them at the bare minimum. One SME reported obtaining an LPO to supply stone base at a price of USD 5 per tonne, against USD 120 per tonne offered to the principal contractor, a price equivalent to only 4% of the contract price. The SME attempted to negotiate for a price increase to USD 25 per tonne but the principal contractor, a TNC, refused to offer that price.

SMEs are advocating for a legal and regulatory framework to govern the industry. It is expected that the recently passed National Construction industry policy which among others proposes the establishment of Uganda Construction Industry Commission (UCICO) as a statutory regulator for the construction sector in Uganda will address their concerns. A law to establish UCICO, is still a bill before parliament it's not yet enacted into law. The Policy aims to improve coordination, regulation and development of the construction industry. It has the strategic objective that 80% of all services, in monetary terms, in the national construction industry are provided by the private sector by June 2015. The policy provides for subcontracting to Ugandan companies as a mandatory requirement for all public procurements in the construction sector, namely; 30% and 20% for consultancies and civil works respectively. SMEs pointed out that although the National Construction industry policy makes sub-contracting a procurement requirement, the main weakness of the bill to establish the Uganda Construction Industry Commission (UCICO) with the task of implementing the policy, does not specify the construction areas for sub-contracting, and instead leaves it at the discretion of the TNCs. Local construction firms are worried that the TNCs may abuse their discretionary privilege to sub-contract the less lucrative areas which will be detrimental to the local companies.

The TNCs reported that EXIM financing at present does not look like a feasible policy option in the sector at the moment because of a seemingly hostile government policy, the poor mind set of borrowers, technocrats and politicians as well as competition from existing low cost financing institutions like EADB.

There is excessive use of cash in the sector that tends to favour TNCs and detrimental to SMEs that are chronically short of cash. Local TNCs in comparison to foreign TNCs are also comparatively disadvantaged. The economy wide usage of cash in general and in the construction sector in particular does not foster TNC-SME business linkaging. A deliberate effort to promote the use of letters of credit would solve the issues. Let the employer establish a LLC, after signing, can access discount rates or cash. Joint ventures between local TNCs and their foreign counterparts and between local SMES and foreign ones are a possible option for mitigating the impact of the problem of TNCs refusing to offer contracts to local SMEs. SMEs requested for a deliberate policy to promote the usage of Letters of Credit and other alternative instruments to cash as is the practice in the industry. SMEs also pointed out that promotion of Joint Ventures as indicated in the National Construction Industry Policy designed to address the issue of enterprise fragmentation and effectively cause the transfer of technology should be undertaken as this will address the integrity and other reputation issues. However, TNC's were reported to be fighting to justify their preference for LPOs and the lack of TNC-SME business relationships.

SMEs also decried the absence of an effective affordable financial guarantee scheme. The financial guarantees presently in use to cover bid securities, performance bonds etc…are better suited for short term ventures in commerce but too expensive for the construction sector which is longer term. Moreover only bank securities are acceptable and not other non-bank issued securities including insurance bonds which tend to be cheaper. Both SMEs and TNCs reported that only a few banks offer term bid securities for construction projects.

The main observations are that:

- TNCs do not have sufficient trust in the ability of local SMEs to deliver on contracts and are driven by the desire to minimise the risk of non-performance by sub-contracted SMEs. The lack of a classification system for firms in the construction sector which is a best practice has not helped the situation.
- The absence of enforceable contracts between TNC-SME business linkages greatly affects the ability of SMEs to leverage on those business relationships to access any forms of financing. The popularity of local purchase orders which are not legally enforceable is testimony is proof of this trend.
- Within existing sub-contracting relationships, there are no instruments to facilitate or enable **additional** business-to-business financing to take place (such as prepayments, local letters of credit or credit guarantees – and SMEs would require them) and their absence limits any possibility of their negotiation and use.
- The speculative mindsets among SMEs that are devoid of long term perspectives and commitment to business relationships pose a major hindrance to the growth of b2b financing in the sector.

CASE SUMMARY 2: TELECOM SECTOR – The Case of Warid Telecom

A fast growing telecom company Warid and its linked SMEs were investigated in this sector. Warid Telecom is an international telecommunications group with operations in Uganda, Congo, Pakistan and Bangladesh. Warid Telecom Uganda launched its commercial prepaid cellular phone services in Uganda in February 2008 with a series of nationwide simultaneous activations. Warid was the first cellular services provider in Uganda to have a sizable network coverage at the time of launch. Within three weeks of commercial launch, Warid achieved the critical milestone of 100,000 subscribers and changed the landscape of mobile communication in Uganda with its range of innovative products aimed at achieving low cost access and affordability. By 2012, Warid Telecom Uganda was an Integrated Telecom Operator providing voice, data – both fixed and mobile using 3G/EDGE technologies, info-entertainment services and mobile money services.

The structure of the Telecom sector has had an influence on how SMEs relate with TNCs and vice versa. The telecom sector is a fast growing sector characterised by a few dominating TNCs in all the segments of voice, data fixed and mobile, info-entertainment services and mobile money services. By its nature, it is driven by constant innovation in products, services and in marketing. Majority of the SMEs are small voice and data dealers that are directly dependent on specific TNCs, of their choice. The SMEs therefore operate on the downstream end of TNC operations particularly in distribution. SMEs are always mobile, from one TNC to another depending on network stability and the costs of services of specific TNCs. A few medium sized firms work independently of TNCs and have got their own niche. However, many of the TNCs they work with are their primary customer base. As a result, there is a high volume of TNC-SME business outsourcing mainly for services, distribution, marketing and innovation.

Nature of TNC- SME relationships

Despite the high volume of SME outsourcing in the sector, very limited TNC-SME financing support seems to exist. In the initial stages of TNC operation, cases of pre-financing to SMEs were registered in form of supply credits, resource transfers to enable the SMEs re-brand, stock and push products down distribution chains. Once the TNCs establish strong market presence, pre-financing schemes cease and insist on reverse flows for new SMEs. These reverse flows are now rampant where SMEs offer or are required to offer supply credits and make prepayments to TNCs (subject to different performance requirements) as the TNCs drive and control most processes and linkage activities. The TNCs mainly depend on the choice of SMEs to demand services from them. A lot of marketing is done and discounts and other after-sales services are given to maintain their customers, though there is no form of non-financial benefit given to SMEs. The only benefit relationship rendered by TNCs to SMEs was installation support services and provision of support information to enable SMEs properly use their (TNCs) products.

The foregoing scenario is attributed to:

Intense competition among SMEs in the Telecom sector which lowers the bargaining power of SMEs with TNCs. In addition, most local SMEs are reluctant to sign Service Level Agreements (SLAs) with TNCs, since SLAs are subject to punitive breach penalties on which most SMEs may not be able to cushion in case of default. In addition, most SLAs offered by TNCs to SMEs in the telecom sector require security guarantees, stocking level and other NDAs, which SMEs cannot meet.

Inadequate intellectual property protection due to weak laws or their enforcement. There is rampant infringement of intellectual property and innovations in the sector by TNCs. The SMEs covered by the study reported that TNCs rampantly dismissed inventions and innovative ideas from SMEs on grounds of being of little commercial value only to put them to commercial use by the TNCs without any compensation to the SMEs. Because of their vulnerability and the dependent nature of TNC-SME relationships in this sector, the SMEs cannot enforce their rights when TNCs breach their IPs. The SMEs reported that Uganda Communication Commission, the sector regulator narrowly interprets its mandate as primarily being a regulator of the Telecom Companies (licensees) to the disadvantage of the SMEs and consumers who can neither enforce nor secure their inventions, innovative ideas or welfare respectively, from infringement by TNCs.

With respect to regulation, the Uganda Communications Commission was reported by the SMEs as being largely absent from the scene, leaving the lower end of the telecom sector unregulated and a "survival for the fittest" situation prevails. There is no competition policy to regulate and guide competitive behaviours of TNC and SME actors in the sector.

In addition, other policies are required namely National Content Requirements should be embedded in the TNC licenses, subjected to regular audits or else pay higher taxes. Also, exclusivity is not strict or prevalent –and can be challenged.

The main observations are that:

- There are no financing support relationships that currently exist between TNCs and SMEs in the telecom sector. Instead, there are reverse relationships that exist in form of supply credits and pre-payments and which dominate business relationships
- Weak laws and policy frameworks seem to favour TNCs who take advantage of gaps to exploit SME weaknesses to maximise returns. TNCs are too strong.
- Intense competition among SMEs weakens SMEs bargaining power and there are glaring gaps in the sector organisation of SMEs. The industry associations that have recently emerged namely; the Wireless Service Providers' Association(WASPA) and Uganda Business Process Outsourcing Association as collective voices or advocacy support platforms are too small and new to take on the overwhelming influence of the TNCs, The fact that the National IT Authority (NITA-U) has only been established recently as the statutory regulator for the IT sector cannot effectively double as the regulator of the bottom end of the telecom sector. half policies)

CASE SUMMARY 3. AGRO-PROCESSING SECTOR – Ugacof Ltd

A large coffee processor and exporter - Ugacof and linked SMEs were investigated in this sector. Ugacof is one of the largest coffee processors and exporters in Uganda and East Africa. Ugacof Ltd has been a coffee processor and exporter since 1994 with a processing capacity reaching 35,000 metric tones of coffee annually and total exports for the 2010/2011 coffee year reaching over 28,000 metric tones. Ugacof Ltd has warehouses and processing facilities in Kampala and coffee collection centers in all major coffee-producing regions of Uganda. Ugacof has extensive knowledge of the internal and export markets and a worldwide network of buyers for Robusta and Arabica coffee. The company exports to all continents Arabica and Robusta coffee of all grades as well as special coffee types requested by buyers. The company also is involved in cocoa processing and export although at a smaller scale.

Competitive dynamics have shaped the TNC and SME business relationships in a substantial way. SMEs have a wide choice of TNCs to collaborate with and prices offered by TNCs determine the choice of a TNC for business linkage establishment. Some SMEs compete directly with TNCs at all levels of the value chains including processing. Those SMEs unable to undertake processing rely heavily on TNCs to complete their business processes located mostly in the different product supply chains within the sector. In addition, due to a wide choice by SMEs, TNCs try to network heavily with SMEs especially with the associations to acquire raw materials and other inputs for their factories. Prepayments in form of advances are heavily used by TNCs to secure their relationships with SMEs.

As a result of the above, there is rampant outsourcing by TNCs in the sector. On the upstream side of their operations, TNCs offer financial guarantees to SME buyers and collection services providers (transporters). This is occasioned by the complexity of buying and collection from stallholder farmers for most produce, and the preference to concentrate on core activities/operations of processing and marketing. Fortunately, there is sufficient respect for contracts between TNCs and SMEs and most SMEs have performed on their contracts with minimal cases of underperformance. There is minimal outsourcing on the downstream end driven by the need to eliminate intermediaries and minimise delays and protect unit margins that are faily small while investment returns are driven by large volume turnovers. Most downstream activities are therefore undertaken by in house staff or in-house subsidiary companies that provide services such as freight forwarding, customs clearing and price hedging services on international commodity exchanges.

SME-TNC relationships are driven by maturity in business in form of experience and a track record, trust, training of people (on quality and standards) and stringent law enforcement. In order to improve business to business financing to SMEs, there is need to offer price guarantees or stabilisation schemes to SME suppliers of agricultural produce, improve operations of the warehouse receipt system to provide tangible financing benefits to commodity suppliers as well as improve operations of local commodity exchange.

The main observations are that:

- There is substantial upstream outsourcing characterised by direct prepayments and resource transfers, financial guarantees driven by trust, business record and strict contract enforcement combined.
- TNC-SME business linkaging is occasioned by market complexity and the need to reduce costs, ensure reliability as well as protect price margins.
- A weak institutional environment and absence of appropriate tools seem to pose major limitation on the options for increased use of b2b financing between TNCs and SMEs
- The key SME attributes essential for b2b financing are *a clear business record, business maturity of the entrepreneurs or owner/managers, trust worthiness, strict observance or enforcement of performance contracts.*

CASE SUMMARY 4. THE IRON, STEEL AND ALUMINIUM SECTOR – Roofings (U) Ltd

A transnational company – Roofings (U) Ltd and linked SMEs were investigated in the Iron and Steel sector. However, the SMEs covered also included those in the aluminium sub-sector as a number of them had subsidiary interest in aluminium manufacturing or distribution. Roofings Limited is the largest manufacturer of steel construction materials in Uganda and striving to be the largest manufacturer of high quality steel and pvc building products within the East African community. The company's main products are roofing sheets, hollow sections, steel plates, galvanized wire, and irrigation and plumbing pipes. Roofings Limited is a privately owned company that recently entered into joint venture undertakings with two Japanese steel companies in its expansion drive. The company is ISO 9001:2000 Certified having an installed capacity of 110,000MT per annum and processing approximately 80,000 MT of steel per annum. The exports to all the East African Community countries namely: Rwanda, Burundi, Kenya and Tanzania and to some COMESA countries of Democratic Republic of the Congo and Southern Sudan.

Being a large integrated iron and steel rolling company, Roofings maintains super stores (warehouses) and sales offices in major towns and cities in the region and encourages SME hardware dealers to interface with its distribution outlets in the different locations. All purchases from Roofings stores are on cash basis and the company does not provide any credit facilities to buyers. All transactions are on cash basis. Roofings imports most of the material used in production of their products and therefore interfaces in a very limited way with SMEs on the supply side. The SME firms that provide services are mainly sister companies or foreign owned ones.

However, other SMEs with business linkages in the Aluminium sub-sector indicated that unlike the "take it or leave it" relationship they have with Roofings[2], TNCs in the Aluminium sub-sector treat SMEs differently. The Aluminium sub-sector is characterised by SMEs having a wide range of market choice (TNCs) to supply their products. Most SMEs on the supply side were scrap dealers who had a wide market from middlemen who then supplied to the TNCs. While the middlemen enjoyed some prepayments for the supply of scrap, the lower level SMEs did not enjoy the same proviledge from the middlemen. TNCs have to search for materials to use for production from cheapest sources among scrap dealers and therefore, it is the initiative of the TNCs to drive relationships to get sufficient materials for their survival. On the demand side, TNCs in the sector had to market their products in large wholesale shops and super markets. SMEs in distribution had the benefit of receiving products on credit from the TNCs and the medium sized distribution outlets such as supermarkets enjoyed substantial supply credits from TNC suppliers. The use of supply credits was driven by the desire to secure their market bases in well-known and developed shops and supermarkets.

[2] Roofings has plans to enter the Aluminium subsector although at the time of study, it had not.

The main observations are that:

- TNCs that enjoy a strong dominant position do not generate strong business linkages with local SMEs but instead tend to maintain business linkages with foreign SMEs.
- In competitive sub-sectors, use of supply credits and prepayments is largely driven by the TNCs desire to establish and secure effective markets on both sides of demand and supply.

CASE SUMMARY 5: PETROLEUM SECTOR - Total (U) Ltd

Total is the world's fifth-largest international oil and gas producer, with production of 2.35 million barrels of oil equivalent per day and proved reserves of 11.4 billion barrels of oil equivalent as of end-2011. Total is also a world leader in gas production and marketing and in power generation. Total is the fifth largest publicly-traded integrated international oil and gas company in the world with operations covering the entire oil and gas chain. Although in Uganda, Total Global operates in two segments namely the upstream segment that covers oil and gas exploration and production, Gas & Power and other energy sources as well as the downstream segment that covers refining and marketing, trading and shipping, it is the downstream segment involving marketing, trading and shipping that is more developed. Total Global's operations in Uganda are managed by two subsidiary companies Total E&P and Total (U) who manage the upstream and downstream segments respectively.

Total (U) Ltd has been present in Uganda for over 40 years undertaking marketing, trading and shipping operations, and holds more than 20% of the petroleum products market share. Although operationally independent, Total (U) supports Total E&P Uganda, its sister company undertaking upstream activities in Uganda and both operate under similar policies and strategies of the mother company Total Global with headquarters in France. Total operations are therefore the most integrated among the petroleum companies operating in Uganda with a much higher interface with SMEs.

Both companies mainly outsource a range of services that include transport and logistics, catering, health, security, and other services and operate strictly in line with policies, systems and standards set by the parent company. Being a large oil and gas exploration company, but also involved in retail marketing and distribution, the local subsidiaries of Total require service inputs that match international quality standards which have to be competitively supplied to support its activities in remote areas. The company emphasizes service reliability, quality certification and a proven track record in line with its international policies.

Total operates over 80 retail service stations in Uganda and contracts SMEs to operate and run them. All SMEs have service contracts and maintain *cash accounts* with Total (U) against which they procure fuel, chemicals, oils and other products. SMEs can order in excess of the cash deposits with Total (U) but only up to 30% depending on track record. In general, *all transactions with SMEs operating on the downstream side that procure products and services in the retail and distribution chain are provided on cash basis.*

SMEs that offer services to Total such as transport, freight forwarding, cargo handling, security, cleaning, catering and others are contracted to supply over a period and while terms are negotiated in each case, most of them involve delivery before payment. SMEs offer such services on credit and are paid periodically in line with contract terms. Total does not allow any prepayments or any other form of advances but Total provides training and technical support services in kind to enable local SMEs deliver to the required quality and standard.

The main observations from the sector are that:

- Financial security seems to be a major consideration by TNCs in contracting and maintenance of supply contracts to local SMEs yet most of the contracted SMEs obtain large amounts of debt financing to undertake contracts that simultaneously undermines their financial soundness.
- Indirect financing is mainly in form of *training and technical support to SMEs* to help them deliver on supply contracts. The other forms of indirect financing such as supply *credits, prepayments, and financial guarantees are still non-existent*.
- TNCs wield and exercise substantial power in their business relations with SMEs. This is evidenced in cases of withdrawing/cancellation, variation and or termination of contracts with local SMEs without recourse to arbitration or other means of settlement in favour of 'more financially secure foreign firms and on much better terms' that were reported to be common. According to the SMEs, the foregoing takes place without consultation or warning to the SMEs and TNCs are no under any obligation to disclose the reasons for such variation or termination
- Owing to SME capability deficiencies, there is an increasing trend where long term contracts were given to foreign firms while the local SMEs were given short term contracts, even for services the SMEs believed were within their competence.
- The drive by local SMEs to obtain a share of economic opportunities in the petroleum sector has resulted into recurrence of the legal question regarding the definition of a 'foreign' firm pointing to whether local registration of firms by foreign nationals makes such firms local or whether locally registered firms owned by foreign nationals are foreign firms. There are demands for this question to be settled through review of the Company Law.

4.10 Cross-Sectoral Comparison and Summary of Findings from Case Studies

A cross-sectoral comparison was made to determine similarities or differences between the sectors with regard to the main drivers for TNC-SME business linkage, quality indicators of TNC-SME business relations, upstream and downstream b2b financing forms, availability of facilitators of b2b financing if any, barriers to b2b financing, potential for b2b financing as well as any unique sector conditions impacting potential for b2b financing. The results are summarised in table 35 below.

Table 35. Cross-sectoral comparison of Case Studies

Sectors/ Factor Description	Agro-processing	Telecom	Real Estate & Construction	Iron and Steel	Petroleum and Mining
Main Drivers for TNC-SME business linkage (OS)	Market complexity, raw material perishability,	Technology dependence, need for innovative products, continuous innovation, SME competitive activity, profit maximisation	TNC profit maximisation, SME capability gaps, SME lobbying activity	Raw material shortage, competition in downstream markets, SME competitive activity	International competitiveness, remoteness of service locations
Quality of TNC-SME business relations	Cooperative, extensive networking, mutual trust, quality and standards training, high respect for contracts	Technology dependence, inadequate intellectual property protection,	Low trust, mutual suspicion, high performance risk,	Limited flexibility, market control	Short term contracting, low respect for contracts, mutual suspicion, low trust
B2B financing in use - upstream	Prepayments & resource transfers, financial guarantees	No positive financing to SMEs, SME supply credits to TNCs	Subcontracting, SME supply credits to TNCs	Prepayments & resource transfers,	Subcontracting, SME supply credits to TNCs
B2B financing - downstream	None	Prepayments and resource transfers in initial stages	None	Supply credit	Subcontracting, resource transfers in form of training and technical support, SME supply credits to TNCs
Tools for faciltation of b2b financing available	None	None	None	None	None
Barriers to b2b financing	Small unit margins, SME deficiencies	Strong TNC market power, SME deficiencies	SME speculative mindsets, SME financial & other capability deficiencies, strong TNC market power, weak regulatory environment	Strong TNC market power, low trust in business transactions	SME financial & other capability deficiencies
Potential of b2b financing	High due to a strong experience base. Requires improvement of warehouse receipt system and commodity exchange	Low constrained by barriers of high technology intensity and continuous innovation. Reverse flows likely to persist with established market presence of TNCs	High with improved SME capabilities, availability of facilitating tools, a improved legal and regulatory environment for the sector	High in downstream activities with increased competition in the sector	High in both upstream and downstream activities underpinned by improved financial security and international standards compliance ability by SMEs
Unique sector conditions	Small price margins in the value chain	Fast technology change leading to high dependence on innovation and innovative products	Strong local availability of raw materials and other inputs	High dependence on imported raw material and inputs	Substantially high value of FDI by TNCs

Based on the above analysis, a number of findings and cross-sectoral observations can be made from the five case studies that relate to the potential for use of b2b financing between TNCs and SMEs. The main ones are that:

1. There are sectoral differences in the dynamics driving TNC-SME linkage formation, and strengthening with the primary drivers being the intensity of competition between TNCs on

the one hand and intensity of competition between SMEs in a sector on the other, degree of market complexity, whether a TNC enjoys a dominant position or not in a sector i.e. the strength of a TNC's competitive position and lastly, the level of technology use in a sector. Where there is intense competition in a sector, there will be stronger TNC-SME business linkage and well as increased use of b2b financing. Where there a TNCs enjoying dominant positions, there will be less strong TNC-SME linkaging involving b2b financing and greater use of foreign SMEs, where there is high technology intensity, SMEs will be weaker positions, greater reliance on TNCs to provide technology bases resulting in less use of b2b financing

2. In new emerging sectors such as petroleum with anticipated economic opportunities of substantial worth, and competition from foreign firms abound, questions regarding definition of a 'foreign firm' tend to emerge and require to be addressed by a clear legal framework.
3. There seems to be no major differences in use of b2b financing between upstream and downstream activities of TNCs. Are differences in the upstream and downstream sides in TNC-SME business relations?
4. A weak institutional environment and absence of appropriate tools limits the options for increased use of b2b financing between TNCs

4.11 Summary of Findings from the Survey

The field survey results generated a number of findings that are summarised below.

1. 97% of the TNCs operating in Uganda outsource their activities and operations to SMEs and 94% of the TNCs outsource to local SMEs
2. All types of business linkages with local SMEs that were envisaged and surveyed were in use by TNCs. However, the proportion of use varies between linkage types, with *supply of services* and *supply of raw materials* the most common business linkage types. Although in use, other types of business linkages are generally less common.
3. With regard to perceived risk of business with local SMEs, this is generally low across all business linkage types except for *supply of other inputs* (non raw materials). In addition, most of the business linkage types are largely driven by TNCs except in *sub-contracting* and *strategic partnership relationships* where TNC and SME influence is fairly even
4. TNCs reported very good use of prepayments and resource transfers, good use of supply credits, moderat*e use of subcontractin*g, low use of financial guarantees and almost complete non-use of export credit guarantees
5. SMES reported moderate use of *prepayments and resource transfers* and low use of subcontracting, supplier credits, very low use of financial guarantees while export credit guarantees are almost not used at all.
6. Comparing TNC and SMEs, prepayments and resource transfers recorded highest usage, moderate usage for subcontracting and supply credits, low usage for financial guarantees. Use of export credit guarantees is almost non-existent in both.
7. Three B2B financing methods sub-contracting, supply credits and prepayments and direct resource transfers have high potential for increased adoption while the potential for financial

guarantees is very limited and use of export credit guarantees is seen as largely not at all likely by the SMEs.

8. TNC firms are more likely to increase application of three B2B financing methods namely sub-contracting, supply credits and prepayments and direct resource transfers while financial guarantees are less likely. TNC firms are unsure or not at all likely to use export credit guarantees.
9. Three financing methods are likely to be used or their use increased by both TNCs and SMEs to increase mutually beneficial linkages. These are *sub-contracting, supply credits and prepayments and direct resource transfers*. These represent the methods where there is convergence of potential efficacy. There is also convergence between TNCs and SMEs regarding the non-likely use of financial guarantees and export credit guarantees.
10. Regarding the effect of business culture on linkage establishment, apart from *importance attached to business relationships* that was considered to have a strong effect, all the other aspects of SME business culture and work style were considered by TNCs to have a moderate effect on business linkage establishment.
11. Regarding the presence of SME capabilities for linkage establishment, TNCs in the main regard local SMEs moderate with regard to basic firm readiness capabilities to undertake effective business linkages and consequently their readiness for B2B financing.
12. TNCs give moderate assessment of local SMEs with regard to: local entrepreneurs being forward looking, having a vision and highly innovative; local entrepreneurs insisting on efficiency, timeliness and quality in stocking, production and delivery; local entrepreneurs being committed to work contracts and delivering on time regardless of the profit margin or other constraints; local entrepreneurs trying to network with TNCs and SMEs; and lastly local entrepreneurs having good negotiating skills and experience. Overall, the assessment of local entrepreneur attributes with regard to linkage capabilities with TNCs is moderate suggesting that they are neither good nor poor but just average.
13. Local SME capabilities for quality and value addition are considered by TNCs to be weak to very weak. Therefore the local SMEs ability to engage in supply relationships with TNCs is very minimal and consequently the likelihood of attracting supply credits from TNCs.
14. Regarding SME product competitiveness, TNCs' rating of local SMEs is average with regard to: Having products with a competitive advantage in price; Having products with a competitive advantage in quality; Having products with a competitive advantage in terms of health and safety; having products with a competitive advantage in reliability and after-sales service; Having products with a competitive advantage in timely delivery; Having products and processes with a competitive advantage in terms of environment friendliness or compatibility; Having products and processes with a competitive advantage in terms of environment friendliness or compatibility; Trying to create our own brand names or have recognizable or differentiated products. Overall, TNCs rating of the product competitiveness of local SMEs is good only in terms of location but average in terms of all other elements of product competitiveness.**
15. TNC rating of local SMEs with regard to technology and production organisation is generally weak.
16. TNCs are aware of the SMEs' limited financial options for raising non-formal finance as well as the SMEs inability to raise enough capital or collateral for the expansion of

businesses. However, there is moderate assessment by TNCs on other aspects particularly: presenting reliable and transparent financial information, having proper accounting records and other financial documentation using internationally recognised reporting formats and mechanisms as well as having bankable business plans with reasonable details for borrowing or financing purposes, suggests that TNCs remain sceptical with SMEs transparency levels, discipline in preparing financial records and information, as well as conformance to international standards with regard to financial reporting. TNCs also remain sceptical with regard to the ability of local SMEs preparing or having bankable business plans acceptable to financial institutions.

17. There is moderate assessment of SME capability in all the aspects of human resources quality and training by TNCs with mean scores of between 2.10-2.9 *implying that TNCs regard the quality of local SME human resources and training to be neither good nor bad*.
18. All the TNC selection criteria are negatively correlated with local SME outsourcing but all are not significant. This implies that each of the seven criteria tends to work against local SME outsourcing i.e. none of the criteria favours local SME outsourcing, though the effect is still mild.
19. The level of being *forward looking, having a vision and highly innovative* by owner-managers has significantly reduced levels of sub-contracting, supply credits and export credit guarantees. Similarly, the level of commitment to improve and upgrade operations on an ongoing basis to meet the international standards required as well as taking various initiatives to network and seek business opportunities has significantly reduced levels of export credit guarantees as a B2B financing method.
20. Attitudes on time keeping and attitudes on cost, quality and service don't seem to matter much with regard to the level of B2B financing.
21. Importance attached to business relationships is the single most significant predictor of subcontracting use by TNCs.
22. Two business culture aspects are strong predictors of supply contracting?? But not strong enough as standalone predictors. They need to be combined with other cultural aspects. Additionally, the other business culture aspects have weak prediction power of supply contracts both individually and when com.
23. None of the business culture aspects are strong predictors of financial guarantees even if combined with other cultural aspects.
24. None of the business culture aspects are strong predictors of prepayments and resource transfers even if combined with other business culture aspects.
25. One entrepreneur attribute – *being forward looking, having a vision and highly innovative* is the single variable explaining 15% of sub-contracting while the other owner/manager attributes do not.
26. One entrepreneur attribute – being forward looking, having a vision and highly innovative is the singular attribute explaining 11% of supply credits to SMEs while the other entrepreneur attributes do not.
27. None of the entrepreneur attributes explain the use of financial guarantees by TNCs to SMEs
28. None of the entrepreneur attributes explains the use of prepayments by TNCs to SMEs.

29. The owner/manager attribute – *taking various initiatives to network and seek business opportunities* is the singular attribute explaining export credit guarantees to SMEs while the other owner/manager attributes do not.

5.0 Discussion and Implications

5.1 Introduction

The study had five main objectives namely: to establish the current patterns of adoption of Non-Financial Private Sector (NFPS) methods of financing SMEs and determine the factors responsible for the levels of adoption; secondly assess the potential for SMEs to leverage FDI firms for increased adoption of NFPS methods as an alternative to SME financing; thirdly to assess the effect of perceptions and the local business culture on the adoption of NFPS methods among SMEs and fourth, determine the barriers to and other opportunities for increased adoption of NFPS methods of financing SMEs. As already indicated, a new terminology business to business (B2B) financing has been adopted to replace Non-financial private sector financing owing to the superior face validity of the former over the latter that was determined during the data collection exercise. The new terminology was not only sharp and crisp but also better communicated the concept to a wider audience ranging from scholars, researchers, SME entrepreneurs and TNC executives.

A number of findings emerged from the study that are discussed below.

5.2 Current Patterns of Application of B2B Financing to SMEs and the Factors Responsible for Adoption

The study results indicate that 97% of the TNCs operating in Uganda outsource their activities and operations to SMEs and 94% of the TNCs outsource to local SMEs. Furthermore, all the seven types of business linkages with local SMEs that were envisaged and surveyed were in use by TNCs. However, while the proportion of use varies between linkage types, *supply of services* and *supply of raw materials* were the most common business linkages. The other types namely: supply of other inputs, distribution, cluster membership, strategic partnerships and association membership were less common. At the same time, perceived risk of business with local SMEs is generally low across all business linkage types except for *supply of other inputs* (non raw materials) and business linkage types are largely driven by TNCs in some business linkages and others SMEs share influence with TNCs.

The above results suggest that TNCs in Uganda undertake substantial outsourcing to local SMEs focusing mainly on supply of raw materials and supply of services. While this pattern may reflect the main needs of TNCs in the Ugandan market, it is also likely a reflection that TNCs view local SMEs incapable of supplying other inputs such as technology, and also less effective in distribution. Similarly, limited TNC involvement or promotion of local SME clusters, limited formation of strategic partnerships/alliances with local SMEs as well as limited involvement in local SMEs association memberships suggest that these modes are less attractive to TNCs or TNCs believe that these modes of linkage are not feasible. According to

Xiyou (2008) and Wattanapruttipaisan (2002), all linkage types are important for promotion of b2b financing flows between TNCs and SMEs in a local economy. However, TNCs will tend to accord higher importance to those linkage types where both direct and indirect benefits are envisaged and will specifically promote those where direct benefits are expected. Similarly, TNCs will tend to avoid linkage types associated with some risks especially those involving commitments with SMEs. Therefore strategic partnerships and associations that involve commitments may be avoided due to high perceived risk. However, given that there is low risk associated with most linkage types with SMEs in Uganda suggests that linkage is mainly driven by expected direct and indirect benefits to TNCs from different types of business linkages. The foregoing suggests that to promote business linkages between SMEs and TNCs, not only should focus be put on promoting supply of raw materials and supply of services but also in enhancing both direct and indirect benefits to TNCs generated from associating with local SMEs in clusters, strategic partnerships and other forms of business linkage. It is also clear that building SME capacity to supply raw materials and supply services will accelerate business linkage formation with TNCs.

Secondly, in terms of B2B financing use, TNCs reported very good use of prepayments and resource transfers, good use of supply credits, moderate use of subcontracting, but low use of financial guarantees and almost complete non-use of export credit guarantees. Suggesting current use of three B2B financing options and current non-use of the other two. On the other hand, SMES reported moderate use of *prepayments and resource transfers* and low use of subcontracting, supplier credits, and very low use of financial guarantees while export credit guarantees are almost not used at all. While TNCs reported good use of three B2B financing, SMEs reported good use of only prepayments and resource transfers, limited use of two and also non-use of two.

Comparing TNC and SMEs, prepayments and resource transfers recorded highest usage, moderate usage for subcontracting and supply credits, low usage for financial guarantees. Use of export credit guarantees is almost non-existent in both.

In terms of potential for adoption, three B2B financing methods sub-contracting, supply credits and prepayments and direct resource transfers have high potential for increased adoption while the potential for financial guarantees is very limited and use of export credit guarantees is seen as not at all likely by the SMEs. In terms of increasing use or application by TNCs already applying, TNC firms are more likely to increase application of three B2B financing methods namely sub-contracting, supply credits and prepayments and direct resource transfers while financial guarantees are less likely. TNC firms are unsure or not at all likely to use export credit guarantees.

The above findings highlight the b2b financing methods where there is convergence of potential efficacy namely: *prepayments and direct resource transfers, sub-contracting and supply credits.* There is also convergence between TNCs and SMEs regarding the non-likely use of financial guarantees and export credit guarantees. The three B2B financing options namely prepayments and resource transfers, subcontracting and supply credits are not only the ones in current use and likely to be adopted, they are the three b2b financing methods where use is likely to be increased by both the TNCs and also the SMEs. These findings are not surprising and seem to suggest consistence with TNC practices in developing countries particularly in Asia and Latin America. In particular, the popularity of subcontracting both as a business linkage type and a b2b financing method is particularly notable among TNCs in Asia (UNCTAD, 2006; Subrahmanya, 2006; Sudhir Kumar, 2010; Xiyou, (2008; Wattanapruttipaisan, (2002; 2003) and specially promoted by governments, business associations as well as TNCs themselves. Next in popularity seems to be use of supply credits (Wattanapruttipaisan, (2002). However, the use of prepayments and resource transfers as the most popular method of b2b financing among the five studied is not consistent with TNC practices elsewhere and may point to TNC perceptions as the most necessary to enable successful business linkaging with local SMEs in Uganda possibly due to the prevailing market imperatives. Non the less, their popular use or application suggests efficacy and therefore the three forms of b2b financing represent the highest potential as well as preference among both TNCs and SMEs. Promotion of B2B financing in Uganda therefore will need to put greater effort on these forms as they represent the most feasible forms of B2B financing likely to accrue from TNC-SME business relationships.

5.3 Potential for SMES to Leverage TNCs for Increased Application of B2B Financing

In order to assess the potential for SMEs to leverage FDI firms for increased adoption of B2B financing, firm capabilities of SMEs for linkage establishment are essential. It is only after effective business linkages are established that B2B financing is possible and can be increased. Additionally, since TNCs are the primary players regarding whether their potential SME partners are capable players or not and whether the SMEs qualify for financial support of any kind, their assessment of SME capabilities in linkage establishment was given primary consideration. The study found that TNCs regard local SMEs to be average with regard to basic firm readiness capabilities to undertake effective business linkages and consequently, their readiness for B2B financing. TNCs also give moderate assessment of local SMEs with regard to: local entrepreneurs being forward looking, having a vision and highly innovative; local entrepreneurs insisting on efficiency, timeliness and quality in stocking, production and delivery; local entrepreneurs being commited to work contracts and delivering on time regardless of the profit margin or other constraints; local entrepreneurs trying to network with TNCs and SMEs; and lastly local entrepreneurs having good negotiating skills and experience. Overall, the assessment of local entrepreneur attributes with regard to linkage capabilities with TNCs is *moderate* suggesting that they are *neither good nor poor* but just average.

Similarly, local SME capabilities for quality and value addition are considered by TNCs to be weak to very weak suggesting that the local SMEs ability to engage in supply relationships with TNCs is still minimal and consequently the likelihood of attracting supply credits from TNCs. Regarding SME product competitiveness, TNCs rating of the product competitiveness of local SMEs is good only in terms of location but average in terms of all other elements of product competitiveness. Furthermore, TNC rating of local SMEs with regard to technology and production organisation is generally weak.

While TNCs are aware of the SMEs' limited financial options for raising non-formal finance as well as the SMEs inability to raise enough capital or collateral for the expansion of businesses, TNCs remain sceptical with SMEs transparency levels, discipline in preparing financial records and information, as well as conformance to international standards with regard to financial reporting. TNCs also remain sceptical with regard to the ability of local SMEs preparing or having bankable business plans acceptable to financial institutions. Finally, TNCs regard the quality of local SME human resources and training to be neither good nor bad but just average.

Since TNCs regard SME capabilities for linkage establishment to be neither good nor poor, and that so far, TNCs have restricted their business relationships with local SMEs to two areas namely supply of raw materials and supply of services, out of seven potential areas, the conditions prevailing can be considered as neutral i.e. that TNCs can increase the scope and depth of business linkages that allow increased use of B2B financing if individual SMEs possess or acquire the requisite capabilities. TNCs are not negative or averse to business linkages that allow use of B2B financing; they seem to require the requisite conditions to do so. These findings seem to be consistent with the observations of Ikei, (2009) for European large firms and Hill (1995) for Asian TNCs. TNCs will always pursue their globalisation objectives where these are enhanced by linkages with and support to SMEs whether in Africa or elsewhere. Despite global perceptions that regard sub-Saharan Africa as a high risk region characterised by high unpredictability with business decisions attracting a high risk premium and business relationships with local firms unattractive (Okatch et al., 2011), the neutrality of TNCs is a reflection of positive change in perception and points to the fact that business linkages with local SMEs can increase with deliberate promotion (Jenkins et al., (2007)). Therefore, potential for increased use of B2B financing between TNCs and local SMEs exists both in terms of untapped business linkage options that need to be tapped but also in terms of improving the range of SME capabilities from the current levels of moderate and weak to high and strong. Additionally, the neutrality of most TNCs is an opportunity for deliberate promotion of business linkaging between TNCs and SMEs and such promotion is likely to result in significant positive outcomes.

5.4 Effect of Entrepreneur Perceptions and Local Business Culture on Application of B2B Financing among SMEs

In order to determine the effect of entrepreneur attributes and perceptions on adoption or use of b2b financing, correlations were run to determine the level at which entrepreneur perceptions are correlated with adoption or use of each of the b2b financing forms. There are seven entrepreneur attributes and perceptions assessed namely: being forward looking, having a vision and highly innovative; being committed to improve and upgrade operations on an ongoing basis to meet the international standards required; taking various initiatives to network and seek business opportunities; insisting on efficiency, timeliness and quality in stocking, production and delivery; commitment to the work contract and deliver on time regardless of the profit margin or other constraints; trying to network with TNCs and other large companies; and lastly, having good negotiating skills and experience.

Entrepreneur attributes and perceptions all have negative correlation with all b2b financing forms implying that entrepreneur attributes and perceptions currently induce reduction in b2b financing by TNCs. More particularly, the level of being *forward looking, having a vision and highly innovative* by entrepreneurs significantly reduces levels of sub-contracting, supply credits and export credit guarantees. Similarly, the levels of *commitment to improve and upgrade operations on an ongoing basis to meet the international standards required* as well as *taking various initiatives to network and seek business opportunities* significantly reduces levels of export credit guarantees.

Comparing the above findings from correlations with the regression tests provides greater insight into the effect of entrepreneur attitudes and perceptions on B2B financing. The findings from regression show that:

a) One entrepreneur attribute – *being forward looking, having a vision and highly innovative* is the single variable explaining 15% of sub-contracting while the other attributes do not have any explanatory power.
b) One entrepreneur attribute – *being forward looking, having a vision and highly innovative* is the singular attribute explaining 11% of supply credits to SMEs while the other entrepreneur attributes do not.
c) None of the entrepreneur attributes explains the use of prepayments by TNCs to SMEs and none of the entrepreneur attributes explain the use of financial guarantees by TNCs to SMEs.
d) The entrepreneur attribute – *taking various initiatives to network and seek business opportunities* is the singular attribute explaining export credit guarantees to SMEs while the other owner/manager attributes do not.

The above observations are consistent with those from sectoral case studies that pointed out how 'speculative mindsets' of most entrepreneurs and SMEs' failure to adopt 'long term perspectives' to business relations are major barriers to business linkaging and application of b2b finance particularly sub-contracting. The predominance of speculative entrepreneurs implies limited strategic thinking, short term orientation together with low investment in strengthening firm capabilities for effective business linkaging with TNCs. In the real estate and construction sector for instance, rampant diversion of resources to unrelated investments by SMEs was reported and this was severely impacting on internal firm capabilities and negotiation power for subcontracts with TNCs and also resulted in poor performance on subcontracts. It was further observed that the other entrepreneur attributes such as *taking various initiatives to network and seek business opportunities* and many others seemed to emerge from being forward looking, having a vision and highly innovative. Therefore, given that individual entrepreneur attitudes and perceptions are negatively correlated to all b2b financing forms and that one attribute *being forward looking, having a vision and highly innovative* singularly explains two of the most common forms of financing in use implies that being forward looking, having a vision and highly innovative is the single most important entrepreneur attribute that if cultivated to high levels can significantly drive the increase in use of b2b financing in Uganda. It further implies that absence of this attribute reduces b2b financing by the magnitudes indicated with respect to subcontracting and supply credits and also that *taking various initiatives to network and seek business opportunities* has a similar effect on export credit guarantees and needs to be cultivated.

With regard to the effect of local business culture and work style on adoption/use of b2b financing, six aspects of business culture and work style were examined namely: local attitudes on time keeping; local attitudes on cost quality and service; local attitudes on meeting deadlines; importance attached to business relationships; local attitudes on technology and technology use; and lastly honesty and integrity in business transactions. The findings indicate that *importance attached to business relationships* is the single most significant predictor of subcontracting use by TNCs. Second, two business culture aspects – *local attitudes on cost, quality and service* as well as *honesty and integrity in business transactions* are strong predictors of *supply credits* use but not strong enough as standalone predictors. The other business culture and work style aspects have weak prediction power of supply credit use both individually and when together. Third, none of the business culture and work style aspects are predictors of *financial guarantees* individually or when combined. Fourth, none of the business culture and work style aspects are predictors of *prepayments and resource transfers* individually or when combined. Fifth, two business culture and work style aspects predict use of export credit guarantees namely *honesty and integrity in business transactions* and *attitude on meeting deadlines*.

Therefore, the above findings show that local business culture and work style has a strong effect on b2b financing adoption or use. Out of the six business culture and work style aspects, four emerge as strong predictors namely:

- importance attached to business relationships
- local attitudes on cost, quality and service
- honesty and integrity in business transactions
- attitude on meeting deadlines

However, based on the correlations, the effect is currently negative pointing to the fact that they currently induce reduction in b2b financing use. In addition, of the four aspects, honesty and integrity in business transactions predicts two forms of b2b financing suggesting that this aspect has an even stronger influence on b2b financing use. According to Leung et al., (2005), a supportive culture where timeliness and keeping time is valued, where honesty and integrity in business transactions is stressed, where high quality is emphasized and firms as well as clients insist on quality, where the culture of keeping deadlines has taken root, and business relationships are given high importance are likely to have numerous and strong ties between firms in general but between larger and smaller firms as well. Given that the findings above suggest negative impact on business linkage and b2b financing implies that business culture in Uganda is not yet supportive of b2b financing and that the supportive aspects are either missing or limited. More specifically, the findings imply timeliness and keeping time is not valued, honesty and integrity in business transactions is not stressed, high quality is not emphasized and firms as well as clients do not insist on high quality, the culture of keeping deadlines has not taken root and business relationships are not given high importance. Again this situation seems to be consistent with Miller (2010) who observes that business culture in developing countries tends to be characterised by aspects that are not consistent with international practices and unsupportive of the globalisation goals of TNCs. Therefore, to be able to increase b2b financing use, the relevant aspects of the local business culture and work style have to be changed to be consistent with international practices to minimise their negative effect on SME-TNC business linkages and use of B2B financing. This will in turn help minimise the TNC's apparent preference for foreign SMEs.

5.4 Barriers To and Other Opportunities for Increased Adoption/Use of Non-Financial Private Sector (b2B) Financing

While a number of barriers are to be assessed using data and findings from case studies, these are ongoing and yet to be properly extracted. However, from the survey data and findings, some existing and potential barriers have been identified. The main one being the TNC selection criteria that present a hidden barrier to local SMEs in developing effective business linkage and b2b financing with TNCs. TNCs take a number of factors into consideration in choosing to deal with or select a local firm as opposed to a foreign firm. These factors include: transaction costs, prices, competitive products and services, trust and honesty, ability to deliver on time, product/service reliabilities and innovativeness (Wattanapruttipaisan, 2003). Each of the seven selection factors were negatively correlated with local SME outsourcing choice and confirmed through a logistic regression test, implying that each of the seven selection factors tends to work against local SME outsourcing. The results from case studies also suggested that SMEs have very limited understanding of TNC selection criteria. This scenario calls for better understanding of these selection factors by local SMEs and how they influence business linkage choice by TNCs.

In addition to limited understanding of TNC selection criteria and their impact, the findings from case studies pointed to a number of additional barriers to effective TNC-SME business linkage and application of b2b financing. Although a number of the perceived barriers pointed to SME deficiencies, there are three other barriers external to SMEs. These are: small price margins in a sector, strong TNC market power and weak regulatory environment. These additional barriers tend to be exogenous to both SMEs and TNCs and impact on the nature and strength of business linkage and use of b2b financing in a particular sector. However, they seem to have policy import as appropriate policy response could mitigate their impact. In particular, introduction of incentive policies, b2b facilitating tools such as local letters of credit (LLCs) and appropriate institutions could mitigate the negative impact of negative price margins in a sector. Similarly, TNC market power could be regulated through an appropriate competition policy while regulatory regimes for certain sectors could be further streamlined. All in all, further work is required to critically examine the impact of existing barriers to b2b financing and the specific implications outlined. However, improving awareness levels of the impact of these barriers seems more appropriate in the short term.

5.5 Policy Options to Promote Increased Uptake of B2B Financing

There are a number of policy options that seem to emerge. These relate to four areas namely:

- SME capacity development
- Increasing TNC propensity to create business linkage with local SMEs
- Reduction of barriers to TNC-SME business linkage
- Encouraging increased use of B2B financing in TNC-SME business relationships

SME Capacity Development

1. *Integrating SMEs-TNCs Linkage Promotion in SME development*. Efforts and policies aimed at SME development undertake numerous activities but have left out programs aimed at linking SMEs with TNCs. In particular, promoting networking between SMEs and TNCs has not been made an explicit objective and requires to be so. Networking and other linkage promotion programs need to be developed and integrated in overall SME development initiatives focusing on issues such as better understanding of TNC selection factors and how they influence business linkage choice by TNCs.
2. *Reviewing the SME development policy* to explicitly adopt such a strategy to facilitate local SMEs to link with TNCs. Subrahmanya (2006) recommends a similar policy shift in the Indian SME policy allowing for "intervention of an external agent" to catalyze such a process as worthy of consideration.
3. *Promoting New Areas of Linkage*. SMEs and TNCs linkages are currently in two main areas - supply of raw materials and supply of services. While building SME capacity to supply raw materials and provide services will help to strengthen existing linkages, policy reforms and efforts to encourage effective linkage formation and cooperation in other areas is necessary. These areas include: Distribution (wholesale and retail), supply of other inputs; strategic partnerships, cluster membership as well as association membership.
4. *Integrating TNC-SME promotion in SME advocacy work*. SME networks and associations advocacy work focuses on national content policies doing little to promote SME-TNC linkages and application of B2B in their promotion and advocacy activities.
5. *Reorienting promotion of horizontal cooperation among SMEs*. Particularly SME clusters, strategic partnerships and alliances around specific areas of linkage with TNCs.

Increase TNC propensity to create business linkage with local SMEs

1. *Encouraging Competition among TNCs through deliberate reduction of entry barriers* is reported to be an effective catalyst for increased TNC-SME business linkage allowing for application of B2B financing and other forms of support relationships with SMEs. This policy approach has been effective in a number of Asian countries including Japan where deliberate policies were adopted to intensify competition among large firms prompting them to offer technical, managerial and financial assistance to SMEs (Hayashi, 2005).
2. *Strengthen policies to deepen the developmental effects of foreign direct investment*
   There is need to adopt policies to deepen the developmental effects of Foreign Direct Investment by attracting TNCs willing to forge business linkages with local SMEs and to undertake measures to promote such linkages. The investment incentives framework needs review to reflect this orientation and emphasis.

3. *Strengthening National Content Policies*. Policies on national content requirements need to be instituted or strengthened. While national content policies have tended to emphasise local equity participation in joint ventures with TNCs or Foreign Service firms, use of local raw materials and in-country value addition, there is need for greater emphasis on technology and competence transfer to SMEs through targeted training and education programs especially in emerging sectors. Local classification of SMEs using clear objective criteria may be required to identify SMEs with higher potential to generate increased positive impact i.e. "early winners" through improved targeting. In addition, sector specific rather than nation-wide content policies may be required as sector conditions tend to differ.
4. *Prioritise instituting or strengthening National Competition Policies*. Most least developed countries including Uganda up to now ignored the question of what competition is and what it means for policy. Following increased proliferation of TNCs in national and regional markets, national markets have become very competitive necessitating enactment of competition policies and laws. A number of uncompetitive practices have been reported involving TNCs exploiting policy and regulatory gaps in the different sectors yet Uganda still lacks a competition policy and law. This now appears urgent as its continued absence may severely affect SME development particularly in the service and high technology sectors.

Reduction of Barriers to TNC-SME business linkage

TNCs are positive and at the least not against business linkage development with local SMEs. Most barriers emanate from the local business environment as well as deficiencies in SME capabilities to harness opportunities from TNC operations. Explicit barriers to TNC-SME linkage growth and development need to be eliminated, focusing on retrogressive aspects of the local business culture, work styles and entrepreneurial attitudes while promoting progressive business culture, work styles and attitudes. Particular focus need to be put on:

1. *Promotion of Mindset Change among SMEs*. There is need for specific promotion programs to address the issue of conscious mindset change – from speculative mindsets to visionary and long term thinking for entrepreneurs. Emphasis needs to be put on the negative effects of speculative mindsets and behaviours as opposed to traditional approaches of promoting strategic thinking.

2. *Promotion of business culture and workstyle change*. Alongside mindset change is deliberate promotion of business culture and workstyle change to make it consistent with international practices. Emphasis needs to be put on those aspects specifically relevant to globalisation namely: value for timeliness and keeping time, honesty and integrity in business transactions, value for high quality and insisting on quality, high respect for keeping deadlines, and giving high importance to business relationships. Last but not least is the value for technology and technology use in business operations. Specific programs targeting business culture and workstyle change need to be instituted by all stakeholders including relevant sector associations and SME advocacy groups.

3. *Increase awareness of outsourcing choices and SME selection criteria of TNCs*. To address the paucity of this knowledge and understanding that currently prevails.

Encouraging increased use of B2B financing in TNC-SME business relationships

Instituting explicit promotion of increased b2b financing needs to be undertaken focusing on those financing forms that are already relatively common namely subcontracting, supply credits as well as prepayments and resource transfers. Such promotion measures have to address the broad issues of awareness and operational efficacy dealing with the questions of what, why, how and when for b2b financing for both SMEs and TNCs. Also, there is need to institutionalise and cascade the use of Local or Domestic Letters of Credit (LLCs) as a recognised financial instrument by the private sector. A Letter of Credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. While use of letters of credit is very important in international trade due to factors such as distance, differing laws between countries and lack of personal knowledge of parties, guaranteeing supply/purchase credits within an economy using LLCs should be easier and cheaper due to lower risk. The use of Domestic or Local Letters of Credit (LLCs), both the commercial and standby types, need to be explicitly institutionalised and governing laws established where necessary.

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