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Partnerships for Small Enterprise Development

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THE GLOBAL COMPACT

Launched by Secretary-General Kofi Annan in July 2000, the United Nations Global Compact is a voluntary corporate-citizenship initiative that brings companies together with UN Agencies, governments, international labor, civil society organizations and other groups to advance nine principles in the areas of human rights, labour and the environment. The vision of the Global Compact is to create a more inclusive and sustainable global economy.

UNDP

UNDP is the UN's global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. We are on the ground in 166 countries, working with them on their own solutions to global and national development challenges. As they develop local capacity, they draw on the people of UNDP and our wide range of partners.

UNIDO

The United Nations Industrial Development Organization (UNIDO) was established in 1966 and became a specialized United Nations agency in 1985. Its work and activities are dedicated to promoting, in cooperation with its 169 Member States, sustainable industrial development in countries with developing and transition economies. UNIDO helps these developing countries and countries with economies in transition in their fight against marginalization in today's globalized world. It mobilizes knowledge, skills, information and technology to promote productive employment, a competitive economy and a sound environment. Carlos Magarinos, the Director-General of UNIDO , describes the Organization as a specialized United Nations agency that focuses its efforts on relieving poverty by fostering productivity growth.

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Unilever is a multi-local multinational with consumers, employees, business partners and shareholders on every continent. Everyday 150 million people buy our products to feed their families and clean themselves and their homes. As a global company we aim to play our part in helping to tackle global social and environmental concerns with local actions and by working in partnership with local, national and international agencies, governments and non-governmental organisations.

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Deloitte was commissioned by the United Nations Development Programme and the United Nations Industrial Development Organization, under the auspices of the United Nations Global Compact, to provide a resource document for the workshop "Partnerships for Small Enterprise Development" to be held on January 15 and 16, 2004, in New York City.

This resource document was prepared by Deloitte Touche Tohmatsu Emerging Markets Ltd. (Emerging Markets Group) in close collaboration with UNDP and UNIDO. Deloitte's Emerging Markets Group offers more than 20 years of experience in managing multidimensional projects, funded by development organizations such as the United Nations System, the World Bank, the Asian Development Bank, the British Government's Department for International Development (DFID), the European Commission and the United States Agency for International Development (USAID), as well as implementing agencies and national governments, to solve social and economic challenges in developing countries and transition economies.

Partnerships for Small Enterprise Development

Resource Document

Contents

Executive Summary

The desire for consumer products and services in developing countries creates opportunities for multinational companies to establish local production facilities to service local and regional demand, while global competition continues to place pressure on multinational companies to local production in lower cost countries. Formalizing relationships with local partners and suppliers in these locations is critical to fully realizing these and other commercial benefits. In addition, multinationals are increasingly becoming interested in playing a broader role to develop the communities in which they are operating, all of which bodes well for the development challenge, which is more than ever in need of new actors, resources and approaches. At the same time, the United Nations along with many development organizations, recognize the need to increasingly support local private sector and small enterprise development in developing countries as a basis for achieving their development mandates, including in particular the Millennium Development Goals (MDG).

This report, commissioned by the United Nations Development Programme and the United Nations Industrial Development Organization under the auspices of the Global Compact, documents 21 cases of innovative partnership approaches by large corporations in support of small and medium enterprises (SMEs).

Selected from a growing list of examples, these cases provide concrete suggestions to multinational corporations as to how to increase their support and engagement with SMEs in developing countries in furtherance of their commercial and corporate social responsibility objectives.

Indeed, the increased role of multinational corporations in the development process coincides with an orientation towards greater market-driven development strategies within the development community, as well as increasing recognition that all parties can benefit from increased collaboration and partnership. The challenges of developing effective SME development programs are manifold, and often working in partnership — by engaging a broader set of skills, ideas, resources and relationships than any one organization working alone — can be critical to success and long-term sustainability.

Along with this increasing recognition of the value of partnerships, there is a growing supply of capable development partners available to complement and leverage corporations' investment in developing partnership initiatives with SMEs. These partners include multilateral organizations such as the United Nations, bilateral foreign assistance donors such as the British Government's Department for International Development (DFID) and the United States Agency for International Development (USAID), and multilateral development banks such as the World Bank and the Asian Development Bank. In addition, there is a host of non-governmental organizations, including private consulting firms, SME membership organizations and government departments, with the resources to facilitate partnerships between multinational corporations and SMEs.

The 21 cases reviewed for the purposes of this document can be divided into three distinct categories where corporations are partnering with SMEs in the supply chain, engaging with SMEs in distribution, or supporting SME development more generally, with no direct links to their core business. These three categories are discussed to provide insight into why and how multinational corporations work with SMEs and the modalities of theses partnerships, as a starting point for further debate.

1. Introduction

1.1. Background

This "Resource Document" is a background paper for the United Nations workshop - Partnerships for Small Enterprise Development - held on January 15 and 16, 2004, in New York. The workshop will engage Global Compact members and other interested stakeholders in a review of approaches taken by large companies in support of small enterprise development in developing economies.

The document highlights some concrete examples of initiatives by large companies (Corporations) that support small enterprises in developing countries in which they do business. Although examples of Corporations working with small businesses or marginalized groups in more developed countries are included, for the most part the projects highlighted are located in developing countries with nascent small and medium enterprise (SME) sectors.

The cases reviewed generally involve partnerships that go beyond a typical commercial relationship between buyer and seller, displaying a broader corporate commitment to SMEs. In addition, they often include other partners such as UN Agencies, who work closely with the Corporations and SMEs to help facilitate effective relationships and contribute specific skills and expertise through SME development programs.

The cases cited in this document cover a wide spectrum of examples of SME development initiatives, ranging from those that are enmeshed in the Corporation's core business to those that don't touch business operations directly, but rather are part of the Corporation's broader Corporate Social Responsibility (CSR) agenda. Not surprisingly, most of our examples lie somewhere between these two posts, with the corporate partner drawing both commercial and CSR benefits while also gaining important knowledge and skills in the process. They also demonstrate how executing these projects in partnerships can be valuable in minimizing risk, improving design, identifying and bringing key parties to the table, and maximizing overall impact and success of the initiatives.

This document is not intended to be a comprehensive or exhaustive review of approaches to partnerships for SME development, but a starting point to stimulate discussion and broaden the scope for participation by both the Corporations and development agencies to develop SME sectors.

1.2. Private Sector Partnerships, Development Agencies and the UN System

There are many examples of partnerships between UN agencies and Corporations that support SME development, some of which are highlighted in this document. The publication "Building Partnerships: Cooperation between the United Nations System and the Private Sector[1]" includes more than 150 examples of partnerships between UN Agencies and the private sector and a comprehensive review of the many ways in which the private sector can work with UN Agencies in support of SME development.

In order to achieve the Millennium Development Goals[2] (MDG), including the goal of reducing by 50% the number of people living in extreme poverty by 2015, it will be necessary to stimulate the development of the private sector in developing countries, including the SME sector. In this context many important actors must play valuable roles, including large Corporations who are active participants in the global economy. Corporations can have substantial impact by engaging with and supporting SMEs in developing countries, especially those where they have production operations or that serve as important supply or distribution markets. In addition, Corporations can work with UN Agencies and other development organizations at the policy level in working with developing country governments to create a regulatory climate conducive for private sector investment and growth.

All of the cases examined involve a commitment on the part of the corporate partner to support SME development, and a model of partnering that harnesses the required resources. Whether partners are UN agencies, other development organizations, non-government organizations, SME representative organizations, or private sector intermediaries, the challenge is to help bridge the gap between the requirements of large firms and the capacity of small firms.

The role of different partners may vary depending on the nature and context of the initiative. In cases which are linked to business operations, partnership can be valuable in helping to facilitate relationships, ensure the successful delivery of technical skills and know-how from the Corporation to SMEs, and fill in gaps in execution to help build trust and get the linkage off the ground. In cases which are less directly related to business operations, partners are often more intensely involved in research, delivery of technical skills and provision of additional resources. In all situations however, there are ultimately the goals of creating sustainable long-term relationships where both large and small firms benefit, in which initial multi-party partnerships are transitioned over time into direct Corporation-SME relationships.

The next section reviews the rationale for supporting SME development and some of the constraints faced by SMEs in developing countries. This is followed by a discussion of the range of partnership approaches to overcoming these constraints, and finally 21 examples of corporate-led partnerships are presented.

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1 Jane Nelson, Building Partnerships: Cooperation Between the United Nations Systems and the Private Sector, UN 2002

2 MDG are listed at www.un.org/millenniumgoals/index

2. Overview of Current Experience

2.1. Small Enterprises and Corporations

Small enterprises, or SMEs, are relative terms used to cover a wide range of formal and informal small-scale businesses. The International Finance Corporation (IFC) classifies SMEs as companies with total assets or sales less than $15 million. Number of employees is also often used to classify businesses into micro, small, medium and large. For the purpose of this document we do not apply a rigid definition of SMEs, but on the whole SMEs referred to herein are smaller than the IFC upper limit and the terms small enterprise and SME are used interchangeably.

Corporations are also broadly defined, and refer to large companies of significant scale, often part of multinational corporations, with a well-established international presence, many of which are members of the UN Global Compact. Some larger national companies are also referred to as Corporations where they are large in relation to the local economy.

Although there are many existing large-small firm linkages in developing countries that already play an important role in developing the particular economies, there is also potential for much greater engagement between Corporations and SMEs. Many SMEs have an interest in closer business links to the corporate sector and many Corporations have an interest in deepening their engagement with local SMEs.

As a result of the increasing globalization of commerce, many Corporations are increasingly producing, sourcing or distributing from developing nations. This often involves working with local partners and SMEs as part of their value chain. However, in many countries there is a capability gap, or other constraints, that limit the ability of local SMEs to effectively engage with the Corporations. This document focuses on corporate-led approaches to bridging the capability gap or constraint so as to develop more of the potential win-win corporate-SME linkages that are not currently being exploited. Addressing this challenge is important for SMEs so that they link more effectively with opportunities in the global economy. It is also important for the corporate sector, where the significance of the SME sector, in both social and economic terms, is being increasingly recognized.

The objectives of the corporate sector and the broader development community are well aligned, as Corporations often operate in countries where the local economy is not well developed, and a more vibrant and diverse local economy would bring benefits to all concerned. The development community recognizes the critical role of the private sector in delivering economic growth and contributing to poverty reduction, and the importance of small enterprises for broad-based job creation and economic development.

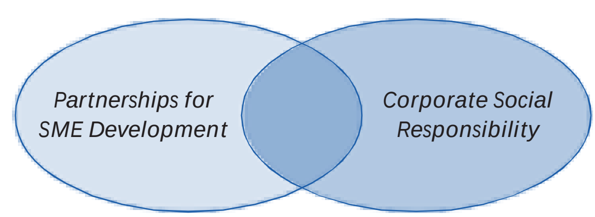
2.2. Why the Corporate Sector Supports SME Development

Greater engagement with small enterprises by the corporate sector can lead to:

- Reduced costs;
- Increased market access;
- Greater security over raw materials;
- Improved quality of supply;
- Compliance with environmental regulations;
- Compliance with government regulations;
- Closer relationship with governments;
- Branding benefits; and
- A more vibrant and diverse local economy.

CSR initiatives in the SME sector can be viewed as seeking to achieve some of these same objectives, with the Corporation taking a longer-term perspective on commercial return, but gaining substantial CSR benefit in the short-term. This can take the form of benefits to the brand, improved and closer relationship with governments, and compliance with legal requirements (as increasingly in the case in South Africa). Thus, there is a convergence of a Corporation's CSR and commercial supply chain/distribution agendas in support of SME development. Figure 1 shows the overlap between corporate-led initiatives to engage in partnerships for SME development and corporate-led CSR initiatives.

Figure 1: Partnerships for SME Development and Corporate Social Responsibility



One can consider a spectrum of motivations that drive Corporations to support SME development, from the purely commercial to the purely philanthropic, with most SME engagement initiatives falling somewhere in the middle. The nature of the engagement will determine what kind of benefits will accrue to the Corporation, and these may change over time. Thus, as the partnership matures and possibly expands, the purely business benefits may increasingly outweigh the initial CSR benefits.

To better comprehend the motivators for the corporate sector, it is also useful to consider the lifecycle of a partnership supporting SME development. In the early stages of a partnership program, there may be considerable investment for limited direct financial returns, as the challenges of addressing the capability gap of SMEs are addressed. At this early stage, many of the benefits accruing to the Corporation will be CSR-related. However, as the partnership program matures and the capabilities of SMEs increase, the investment-return equation will begin to change. There will be less intensive inputs in support of SME development and greater rewards for the Corporation in terms of cheaper, better, more secure and environmentally compliant inputs, and easier to access and more stable markets.

2.3. Why the Development Community Supports SME Development

The Development Community recognizes the critical importance of domestic private sector development as key to driving economic growth and achieving the MDG of poverty reduction. Growing the SME sector in developing countries leads to broad-based growth, job creation, economic stability and a more flexible economy. SMEs are also risk takers, and provide innovation and an entrepreneurial approach in the commercial sector. They are a critical engine for private sector led growth, and are increasingly important from an environmental perspective.

The social benefits of a strong and vibrant SME sector are also accepted, and provide empowerment and a route out of poverty for many of the poor in developing countries. SMEs have a positive impact on income distribution, although it is recognized that it is the smaller enterprises that must be specifically targeted in order for the benefits of SME development to reach the poorest.

There have been a number of SME development programs over the years. Some have developed naturally out of the buyer-supplier relationship and private-sector initiatives, while others have been driven largely by the development community with limited Corporation involvement. The learnings from these experiences demonstrate that the impact of these programs is multiplied by the active engagement of the Corporations. The creation of linkages between Corporations and SMEs is of the highest importance in generating sustainable SME development over the long-term and ensuring the business focused support that SMEs need in order to engage more fully in the global economy.

2.4. Weak Local Economies and Constraints to SME Development

In many developing economies the SME sector is weak and underdeveloped, with a significant gap between a few large companies in the formal sector, and many small companies and informal sector enterprises. A "missing middle" often characterizes the structure of the economy, with very few commercial linkages between large companies in the formal economy and small enterprises. Different developing country economies have different structures and face different challenges, but this disconnect between the more modern formal economy and small enterprises is a common theme.

The degree of formalization of small enterprises is often the product of the regulatory environment and the costs of formalization. High costs of regulation also effect larger businesses, but the smaller the business, the greater the proportional cost of complying with regulation, and the weaker the voice advocating for change. There are a number of recent initiatives looking at the costs of regulation, regulatory best practice and regulatory impact assessments, including the recent World Bank publication "Doing Business in 2004"[3]. This concludes that poorer countries are usually more highly regulated than richer countries, and that more lightly regulated economies deliver higher growth and a more equitable distribution of income, than more heavily regulated economies.

There are two responses for a growing informal business that faces a costly regulatory environment, (1) to grow within the informal sector or (2) to formalize and comply with the costs of regulation. Growing within the informal sector can be inefficient, and lead to a range of problems from limited access to finance to lack of credibility in the market. Complying with the costs of regulation can be very expensive, particularly where there are hidden costs that have to be paid, and officials that make use of their position of authority for personal gain.

In addition to the regulatory environment, there are many other constraints facing SMEs and reasons for the disconnect with the corporate sector. Often, developing country economies have evolved over a relatively short period of time, and

[3] See http:/rru.worldbank.org/doingbusiness

under significant external influences, making it difficult for the local small enterprise sector to develop to meet the needs of the corporate sector. This lack of engagement is a vicious circle, as SMEs have limited opportunities for feedback and thus many have been unable to gain the technical and business skills necessary to meet the needs of the international and large domestic corporate sector.

Access to credit is a constraint facing many small enterprises, both formal and informal. While some work has been done in the area of SME finance, by providing access to basic financial services through commercially-based financial institutions, there remains a substantial supply gap in most developing countries. While our examples largely focus on other constraints such as access to markets, technology and capacity constraints, a number of partnerships do recognize and include financial support as a critical part of the package. Distribution cases - DuPont, Coca Cola, Bayer, and Bogasari Flour Mills - all involve financing through grants or loans, as an important part of the partnership program. In the case of Hewlett Packard's i-communities initiative, they used a number of creative financing mechanisms, including a revenue sharing model to help entrepreneurs in the partnership.

There are a range of approaches to providing support to SMEs to help overcome these constraints. In some cases, the Corporation adopts a very hands-on approach, in others, the Corporation has a less direct involvement with the provision of support to SMEs. In all cases, there can be significant advantages for Corporations to engage in wider partnerships with development agencies and others in support of small enterprise development.

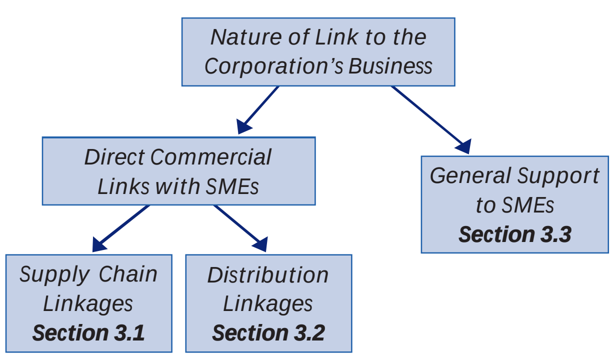
3. Partnerships for SME Development

There are many approaches for Corporations to support SME development, but there are some common themes that emerge, and different ways of categorizing and classifying experiences. There are also many ways to analyze these approaches, and very quickly the discussion moves from positions on a spectrum, to two and three-dimensional matrices and beyond, including the:

- Corporation's incentive to support SMEs, from the purely commercial to the more philanthropic;
- Level of engagement by the Corporation, from direct links with the core business to general support of SMEs;
- Degree to which the Corporation applies its own internal resources to managing or delivering the program; and
- Partnership arrangements, and the role of third party partners in design and delivery.

Figure 2 sets out the three basic categories we use to review the cases presented in Section 4. They are deliberately simple, and focus on the nature of the link between SMEs and the business of the Corporation. We have divided the examples into those with more direct commercial links between Corporations and SMEs, versus those that provide more general support to SMEs for strategic reasons. The more direct commercial links with SMEs are further divided into supply chain and distribution.

Figure 2: Classification of Cases



The cases that involve more general support to small enterprises include a variety of programs, but all involve Corporations supporting SMEs through means other than doing direct business with them. In these cases, the Corporation will generally accrue CSR-related benefits in the short term, while potential core business benefits, such as building markets for the future, will be much more long-term.

The distinction between commercial links and commercial benefits should be noted. While more general support to SMEs will tend to have a longer payback period, in strictly financial terms, than supply-chain or distribution linkages, our classification of cases highlights the commercial links between SMEs and Corporations, more than the overall benefits to the Corporations. For example, there may be supply chain linkages where at least initially, there are no meaningful business benefits to the Corporation from increased SME purchases. There may also be examples of more general support to SMEs that generate immediate benefits, such as improved brand image or better relationships with government.

The commercial benefit to the Corporation is determined by where the SME support program is in its lifecycle and the degree to which it has succeeded. The financial investment by the Corporation may be relatively high at the start of the program compared to the core business benefits, but as the program matures, the benefits from increased SME capacity start to flow to the Corporation and the ratio is reversed. It is also possible for the benefit flow to change as the nature of the program changes. Once a Corporation has built up a successful experience with SME engagement, it may choose to evolve its engagement — from general support to commercial linkages, or expand from only supply chain links to include distribution.

The following sections review the cases in three groups: supply chain, distribution and more general links with small enterprises. The focus is placed on the motivation of the Corporation, the nature of the SME support and the partnership approach applied. We then review some of the partnership issues, as well as collaborative approaches amongst Corporations to support small enterprise development.

3.1. Engagement with SMEs through the Supply Chain

The majority of cases reviewed in Section 4 involve links between Corporations and SMEs through the supply chain. Such links often represent the most direct opportunities for Corporations to increase engagement with SME sectors in the countries in which they operate.

3.1.1 Why Corporations Support SMEs through the Supply Chain

There are many reasons for Corporations to support SMEs in their supply chains including:

- Reducing costs;
- Increasing local supply;
- Minimizing negative effects on the environment;
- Improving quality control;
- Reducing vulnerability of supply;
- Complying with government requirements;

- Branding benefits; and
- Developing an environment where a vibrant SME sector injects innovation into the corporate world.

In today's global economy, opportunities available through increased sourcing of local content drive international companies to find ways to better engage with local suppliers and reduce costs. Large domestic companies can also benefit from increased supply from local SMEs, and are often well placed to link small businesses with global markets.

There can also be specific advantages for Corporations working with national governments to increase local sourcing and create better links between their businesses and the local economy. Good communication links with government and a demonstrated commitment to small enterprise development are particularly relevant in the extractive industries and sectors where there are licensing requirements.

In many cases, the principal reason for partnerships to support SMEs is to address issues around the quality of goods or services provided by local SMEs. A more developed and supportive relationship between Corporations and SMEs is required to help SMEs bridge this quality gap. In the long term, increased higher quality supply from local SMEs will also reduce costs and may address local procurement requirements placed on international companies.

In some cases there is a particular reliance on a raw material provided by the SME sector, which leads to close engagement by corporate purchasers to ensure security of supply. Supply Chain Case 6 in Section 4 gives the example of SC Johnson working with the Pyrethrum Board of Kenya to secure the supply of pyrethrum, a type of daisy for use in insecticide products.

There may also be more strategic reasons for supporting SMEs in the supply chain, where the direct commercial benefit to the Corporation through greater SME engagement is less significant than the reputation impact or the reflection on the brand. Initially, such initiatives may have a limited impact in terms of individuals affected. However, where more direct commercial benefits follow strategic or reputation benefits, Corporations may scale up SME engagement, as the rationale for ongoing support becomes commercially driven. Supply Chain Case 5 gives the example of DaimlerChrysler setting up a sisal fibre project in South Africa, which has the potential to supply a greater range of sisal fibre components to the automotive industry and as it develops, impacting a larger number of people.

3.1.2. How Corporations Support SMEs through Supply Chain Initiatives

The form of corporate-SME partnership is shaped by the business of the Corporation and the potential for greater engagement with the SME sector. Corporations may support SMEs that they already work with, or seek new ways to engage further with SMEs through supportive trading relationships, so there may be a selection issue for new SME partners. Again, we focus on examples where SMEs face some constraint that inhibits their ability to engage in corporate supply chains.

For supply chain linkages, there is a basic distinction between SME relationships that involve (1) the core business of the Corporation, and (2) the provision of non-core goods or services. There may be greater potential for the involvement of large numbers of people where SMEs are engaged in the principal activities of the business, in some cases, particularly where the core business involves technically complex inputs. However, more immediate opportunities for greater engagement with local SMEs may be through the procurement of goods or business services that are less directly related to the core business.

Generally speaking, the more sophisticated the SME sector, or the simpler the core business processes of the Corporation, the greater the opportunities for SME engagement in core business activities. However, we focus on examples where a gap still exists between the requirements of the corporate sector, and what is provided by the SME sector – i.e., there is a need for partnership that, at least initially, goes beyond a basic trading relationship:

- FIAT and UNIDO worked in India with other partners to help local SMEs supply automotive inputs to the motor industry (Supply Chain Case 1). Here the approach adopted was to work at an industry level and provide a range of SMEs with access to the support required to service the automotive sector.
- PENTLAND, NIKE and other companies in the footwear sector worked together to address a specific environmental issue around chemical use and disposal by SME suppliers in Vietnam (Supply Chain Case 2).
- UNILEVER is working with local suppliers of materials, packaging and processed goods in Vietnam to help them overcome quality issues (Supply Chain Case 10). Unilever works relatively directly with these suppliers, particularly those involved in the provision of more complex processed goods.
- BP and seven other Corporations in Tanzania are working in collaboration to exchange experiences and approaches to stronger SME engagement, and explore ways to integrate SMEs more fully into the formal economy (Supply Chain Case 3).

All these cases are examples of Corporations working in partnerships to support greater SME engagement in their supply chains that lead to commercial benefits for the Corporations. The first of these are examples of specific SME linkage programs that relate directly to the core business of the Corporations – car parts for Fiat in India, footwear for Nike, Pentland and others in Vietnam, and raw materials and processed supplies for Unilever in Vietnam. While seeking to identify ways of engaging Tanzanian SMEs more actively in the core businesses of the participating Corporations, the successes to date in the BP example involve linking SMEs with non-core inputs such as stationery and staff uniforms, where the opportunities for SME engagement are more immediate.

The nature of support provided and form of engagement by Corporations seeking closer links with SMEs in the supply chain varies. Support can be hands-on, with employees of the Corporation working directly on skills and technology transfer with SMEs, in addition to the provision of other resources. Alternatively the direct provision of support may not involve the corporate sponsor at all, with the Corporation providing program and financial support. This more hands-off approach is more common in general support to SMEs, reviewed in Section 3.3, rather than supply chain linkages.

3.2. Engagement with SMEs for Distribution

There are many similarities between Corporate-SME links for distribution purposes and Corporate-SME supply chain links. To some extent, whether a link between businesses is a supply chain link or distribution link just depends from where in the value chain it is viewed. However, the distinction is important in this context due to the contrast between SMEs and Corporations. For the purposes of this exercise we are viewing things from the corporate perspective, as they are the drivers for action. The challenges of greater engagement with small enterprises that supply the corporate sector are different to the challenges of greater engagement with small enterprises for distribution purposes.

We should note that this section includes examples where SMEs are the ultimate customer, as well as cases where SMEs are distributors. As such, some examples in this section are similar to the examples in the general support section, as the corporate incentive may be as much about building markets for the future, as servicing existing markets. It could be argued that DEUTSCHE BANK's micro credit development fund (General Support Case 4), is about developing new customers for the future, but we have classified this as more general support to SMEs as there is less of a link to building markets for the future, than, for example, DUPONT's agricultural products and seed program in Columbia (Distributions Case 2).

3.2.1. Why Corporations Support SMEs for Distribution

There are many reasons for Corporations to support SMEs involved in the distribution of their products or services, including:

- Increased access to markets;
- Lower distribution costs;
- Promoting a more vibrant and diverse local economy;
- Increased customer base; and
- Building markets for the future.

While this may be stating the obvious, it is those Corporations who service markets in developing countries that engage with SMEs for distribution purposes. Customers in developing countries are often difficult for Corporations to access, particularly in rural areas, and local distributors may be much better placed to reach customers in a cost effective manner.

For Corporations who are seeking ways of greater engagement with SMEs so as to promote a more vibrant and diverse local economy, distribution linkages may offer the greatest opportunity for SME engagement. Corporations that are seeking to build their customer base in the longer term may provide products or services to SMEs as a loss leader, on the basis that in the long term, and in some cases the very long term, some SMEs will graduate into viable customers. This is certainly the case with some SME finance initiatives from financial institutions that normally deal with much larger customers.

3.2.2. How Corporations Support SMEs through Distribution Initiatives

Distributing products through a network of small retailers is a standard way of larger companies getting products to consumers, and in many situations will occur naturally through the market. However, as for supply chain initiatives, we focus on examples where SMEs face some constraint to engaging with Corporations to sell their products or services. To some extent this distinguishes between the use of SMEs as distributors, and SMEs as customers, as the types of constraints faced by SME suppliers may be different to the types of constraints faced by SME customers.

In the case of supply chain linkages, we drew the distinction between SME relationships that (1) involved the core business of the Corporation, and (2) the provision of non-core goods or services. There is no parallel distinction in the case of distribution initiatives, as generally there are no such things as "non-core" sales. However, the distinction between the shorter-term objective of accessing existing viable markets, and the longer-term objective of increasing the viability of existing markets and building viable markets for the future, has similar implications for approaches adopted by Corporations.

Where the task is more about engaging with SMEs to reach existing viable markets, constraints facing SMEs include limited access to finance, lack of information and a lack of business planning skills and experience. There are many examples in business where credit terms are offered to distributors, although there are dangers for Corporations in taking on too much of the credit risk of distributing through SMEs. In situations where there is a gap between the requirements of the Corporation and the capacity of the SME, selling on credit can lead to unacceptable risks to the Corporation.

It may be that Corporations can support suppliers to access credit from third parties, as in the DUPONT example, where they are partnered with the Agrarian Bank in Columbia, who then provided credit to the farmers. In cases of lack of information or limited business acumen, franchising models can be effective, whether they are formal franchising agreements, or partnership programs that provide technical assistance to distributors.

With distribution initiatives that are more about building markets for the longer term, the key issue becomes identifying and supporting initiatives that enable the SME customer to apply the Corporate product or service, as part of a viable commercial activity. As such, the economics of the distribution of products is less critical than the economics of the SMEs that utilize the product.

3.3. General Support to SMEs for Strategic Reasons

While there may be a link to supply or distribution in the longer term, what we term general support to SMEs for strategic reasons involves support that, in the short term, is not directly linked to the business of the Corporation. General support to SMEs may involve building the capacity of the local economy in general, or supporting SMEs in a sector or geographic region of particular interest to the Corporation.

3.3.1. Why Corporations Engage in General Support to SMEs

There are many reasons why Corporations provide general support to SMEs where there is no immediate link with the Corporation's business activity, including:

- Promoting a more vibrant and diverse local economy;
- Improving community relationships;
- Developing closer relationships with government;
- Complying with government regulations;
- Branding benefits; and
- Developing longer term links to the Corporation's business.

Supporting local economic development is in the interests of the corporate sector, as the more vibrant the local economy, the better the environment for doing business. There are often overlapping interests with government, development agencies and consumers on this issue, which link to branding benefits and developing closer relationships with government.

There may be particular reasons why a Corporation supports general SME development in a region or sector. These could include the desire to provide economic opportunities for people in regions where the Corporation operates, particularly where there are limited opportunities for local employment through the core activities of the Corporation. Many social investment programs run by companies in the extractives industries fall into this category.

General support to SMEs often involves working in partnership with governments, and can provide Corporations with a good opportunity to develop relationships and reputation with government, that are then useful when engaging with the government in areas that relate to their core business. There may also be specific government requirements for large multinationals to support local development projects. CHEVRONTEXACO worked with the UNDP to establish a business centre in Kazakhstan in response to new mandatory government social regulations, rather than pay a mandatory social tax (General Support Case 2). This has enhanced CHEVRONTEXACO's image and they have also directly benefited, as many entrepreneurs that have received support now do business with CHEVRONTEXACO.

3.3.2. How Corporations Provide General Support to SMEs

There are many approaches to providing general support to SMEs. In some cases Corporations bring their skills and expertise to bear with a very hands-on role in the provision of support to SMEs, and in other cases, Corporations provide resources and governance, but work through facilitative partners who deliver support to SMEs. Where support can be directed towards a specific group or region, there may be important logistical assistance from the Corporation to help facilitative partners' access a particular group or geographical region.

3.4. Facilitative Partners

An integral part of how Corporations support SMEs is the partnership approach they apply. In this section we review the role of facilitative or third party partners in partnerships for small enterprise development. There have already been many references to ways in which third party or facilitative partners can help Corporations achieve effective support to SMEs, and in the section below we try to draw out some common themes in the context of the three categories that we use – supply chain linkages, distribution linkages, and general support to SMEs. Table 1 sets out a summary of facilitative partners and the support they can provide.

Table 1: Partners and Support

Partners	*Support*
SME Representative Organizations	Access to SMEs, service delivery to SME members, intermediary through which large companies work with many SMEs
Development Agencies	Neutral broker/convenor, credibility, technical support, local knowledge/access to SMEs, integration with government policy/programs, industry knowledge, SME experience
Government Departments	Service delivery to SMEs, support in addressing regulatory issues, coordinating functions, financial support, exit strategy for the Corporation
Non-Governmental Organizations	Technical support, local knowledge, access to SMEs, service delivery, credibility, cost-effective implementation
Private Sector Facilitators	Design and service delivery, technical support, coordinating functions, monitoring and evaluation, large-small firm linkage expertise

On the whole, supply chain and distribution links to SMEs involve a more direct engagement between SMEs and Corporations than more general forms of SME support. Where SMEs are directly engaged with the business of the Corporation, the Corporation has technical inputs to offer and a stronger understanding of what it takes to make the relationship work.

However, whilst Corporations can work more directly with SMEs, there are a range of partnership approaches that add value to such direct engagement. This range of partnership approaches is not mutually exclusive and may be combined in various ways. Often the very reason why links with SMEs do not already exist or are poorly developed is because the Corporation is not equipped to provide the necessary support to SMEs directly.

General support to SMEs often involves multi-sectoral partnerships with a range of actors involved. We have no General Support examples where Corporations work without partners to support SME development. This reflects the lack of direct link between the Corporation's business and the SMEs supported.

3.4.1. Working with SME Representative Organizations

There may be advantages to working collectively with SMEs, particularly where there are a large number of potential SME partners. Partnering with farmers cooperatives, industry associations, or other SME representative organizations, can be an effective way for Corporations to interact with SMEs.

- UNILEVER has a hands-on approach to working with SME suppliers, but also works with business associations to access their members (Supply Chain Case 10).
- SC JOHNSON works with a Kenyan parastatal agency that brings together 200,000 pyrethrum growers in Kenya (Supply Chain Case 6).
- PENTLAND, NIKE and other footwear manufacturers work with industry associations in the footwear sector in Vietnam who play a central role in implementing the program (Supply Chain Case 2).
- FIAT and UNIDO work with the Automotive Component Manufacturers Association of India provided access to its members and the day-to-day management of the program (Supply Chain Case 1).
- BOGASARI FLOUR MILLS, an Indonesian miller, works with small-scale noodle makers through business associations formed by the noodle makers (Distribution Case 5). These associations provided the systems for distributing flour to their small-scale noodle maker members.
- DELOITTE TOUCHE TOHMATSU, through the Business Beat initiative in South Africa, works with a number of black business associations to identify SMEs that are well placed to engage with and benefit from the support through the program (General Support Case 5).

3.4.2. Working with Development Agency Partners

Development agencies have been working with SMEs in various ways for many years, including working with governments to change the regulatory environment for business, facilitating Corporation-SME linkages and helping SMEs find new markets. Working with development agencies including the UN, can bring a number of unique advantages to partnerships for SME development. One important role they can play is to act as a "neutral broker", bringing together Corporations, government, NGOs and SMEs in an environment of trust. Additionally, these agencies can help Corporations identify appropriate partners, bring technical support, and ensure that programs are integrated into government policies and have local community support. These partnerships can be part of a wider agency program, or may be one-off partnerships responding to specific opportunities. A further advantage of partnering with development agencies is the accumulated experience of working with SMEs, and the experience that some agencies have of working at the interface between SMEs and the corporate sector.

- FIAT makes extensive use of UNIDO's industry expertise in their work in the automotives sector in India (Supply Chain Case 1).
- CHEVRONTEXACO and CITIBANK partnered with UNDP to establish and manage a business center in Kazakhstan that provides technical support, financial support and a range of operations support services to local entrepreneurs (General Support Case 2).
- BP receives support form the British Government's Department for International Development (DFID) through the Business Linkages Challenge Fund (BLCF) in the Private Sector Initiative in Tanzania (Supply Chain Case 3).
- BASF works in conjunction with UNIDO to develop eco-efficiency analysis tools for dyeing and tanning companies in Morocco (Supply Chain Case 9).
- SIAMDUTCH, BASF, BAYER and others receive support from USAID on promoting markets for Insecticide Treated Bednets (Distribution Case 3). This is an example of a development agency working closely with a range of corporate partners to support private sector provision, so that development agency support can be more focused on marginalized groups. Where development agencies and government are involved in social marketing, there may be particular advantages to working in partnership, so as to avoid social spending crowding out the private sector.
- E OPPENHEIMER & SON works with DFID through the BLCF to support SME development in mining areas (General Support Case 3).

3.4.3. Working with Government Partners

Government partners, particularly those agencies responsible for SME development, can support Corporate-SME partnerships by providing technical support to SMEs as part of a program, or helping SMEs access finance through other agencies or programs. Government participation can also help raise the profile of any regulatory issue that may constrain SME engagement with the corporate sector.

Where Corporations work with government partners to provide general support to SMEs, support may be required in the long term, and government SME agencies may be the natural implementers beyond any involvement from the corporate partner. This raises the issue of exit strategies when Corporations provide general support to SMEs, which may or may not be an issue, depending upon the case.

- PENTLAND, NIKE and other footwear manufacturers work in close collaboration with government partners to improve the use of chemicals by subcontractors in Vietnam (Supply Chain Case 2). This includes government participation in the development of appropriate regulation.
- DUPONT works in partnership with the Ministry of Agriculture and the National Livestock Board in Columbia to sell agricultural inputs to small-scale farmers (Distribution Case 2). In this case the government partner helped develop the forward contracting system used to help small-scale farmers finance their inputs.
- HEWLETT PACKARD works with government partners on their i-community programs (Distribution Case 1). In some i-community programs, access to government services through IT portals is a key component, so working in partnership with government is critical.
- SHELL, through the LIVEWIRE Program, works with government departments to support young entrepreneurs (General Support Case 1). One of the advantages of implementing the Livewire program with government, in addition to the practical support, is that it gives Shell an opportunity to develop a relationship with government in an area unrelated to oil and gas.

3.4.4. Working with NGOs and Other Private Sector Partners

In addition to the range of facilitating partners discussed above, NGOs and other private sector partners can help bridge the gap between the services provided by SMEs and the requirements of the corporate sector. Practically all of the examples reviewed have some form of facilitating partner, most often an NGO or private sector facilitator. In some situations the NGO or private sector facilitator is partly funded by a development agency.

Many NGOs have years of experience working with small enterprises, particularly in the agricultural sector, and are often well placed to provide direct support to small enterprises and understand the constraints that they face.

There are an increasing number of private sector companies that specialize in helping Corporations support SME development, through both more direct commercial linkages, and more general support to SMEs.

As the issue of large-small firm linkages becomes more important to the corporate sector, an increasing number of specialist firms offer the sorts of intermediary services that help bridge the gap between the capacity of small enterprises and the demands of the corporate sector.

- HEWLETT PACKARD works with a range of private sector and NGO partners to promote commercially sustainable IT services (Distribution Case 1).
- SIAMDUTCH, BASF, BAYER and others work with AED, a specialist consultancy, to increase distribution of bednets (Distribution Case 3). Private sector facilitators often work with development organizations to implement programs funded by development agencies. Such programs may be driven by the private sector facilitator/donor rather than the Corporation, but are still important examples of partnerships for SME development.
- DEUTSCHE BANK works with many different micro finance institution intermediaries who provide basic financial services to SMEs (General Support Case 4). The micro finance institutions are a necessary intermediary for the support provided by organizations such as DEUTSCHE BANK to reach SMEs.
- SHELL works with Project North East, a specialist consultancy to roll out their young entrepreneur support program to new countries. At the country level, NGOs and private sector training providers are used extensively to deliver the program of support (General Support Case 1).
- E OPPENHEIMER & SON works with a range of NGO and private sector partners in the tourism and agricultural sectors to help SMEs develop businesses in these areas (General Support Case 3).

3.5. Large Companies Working Together – Collective Action

There is often scope for Corporations to work together to deliver effective support to SMEs. This can lead to a more integrated approach to SME support, particularly when Corporations work in the same sector. Where collective action involves Corporations in different sectors, they are often operating in the same geographic areas and face similar issues in terms of greater engagement with SMEs.

- PENTLAND, NIKE and others worked in collaboration in support to SME suppliers in the footwear industry in Vietnam (Supply Chain Case 2).
- BP is working with seven other Corporations in Tanzania to develop greater links with the local economy (Supply Chain Case 3). In this case the Corporations involved are all in different sectors.
- SIAMDUTCH, BASF, BAYER and others work together with USAID to increase the private sector provision of insecticide treated bednets (Distribution Case 3).

4. Case Studies

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Supply Chain 3	BP: The Private Sector Initiative (Psi) in Tanzania	SBP www.sbp.org.za	17
Supply Chain 4	BP Enterprise Center: Training Companies in Azerbaijan	BP www.bp.com	18
Supply Chain 5	DaimlerChrysler: Sisal Fiber Project	World Business Council on Sustainable Development (WBCSD) www.wbcsd.org	19
Supply Chain 6	SC Johnson: Capacity Building for Small-Scale Farms	World Business Council on Sustainable Development (WBCSD) www.wbcsd.org	20
Supply Chain 7	Anglo American: Zimele SME Support Program in South Africa	Anglo American www.anglo.co.uk	21
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[1] The cases that follow have been collated largely from published material.

Supply Chain

Fiat: Automotive Component Manufacture in India

Large Company
Fiat

Local Enterprise(s)
Local automotive component manufacturers

Other Partners
Magneti Marelli (Fiat's prinicipal supplier), UNIDO,Prince of Wales Business Leaders Forum, Automotive Component Manufacturers Association of India, Automotive Research Association of India

Location
India

Brief Description of Partnership
This program targets the strategic development of automotive component suppliers by providing support and training services through a range of donors in the western region of India, home to clusters of automotive component manufacturers, particularly in plastics, rubber and metalworking. The final objective is to develop a clear-tiered market structure among automotive component suppliers in India

How it works

Twenty SMEs were selected to participate in a 9-month intensive linkage program and received the following assistance:

- Ten days of shopfloor assistance spread over 6 months, covering production process issues
- Five days of classroom training on critical management issues·
- Two study tours to help benchmark the performance of participating enterprises
- An international study tour to Paris
- Factory visits in France and Italy

Why they did it

In the late 1990s, Fiat decided to make a large investment to establish an automotive assembly plant in India. This type of investment, however, was threatened by the shortage of automotive component manufacturers that supplied locally manufactured parts and components. Developing a clear-tiered market structure, a high-impact demonstration program to introduce lean manufacturing concepts, and exposing component suppliers to a well-structured supply chain were high priorities if Fiat's investment was to be a success. Accompanying this was an effort to strengthen the capacity of local support institutions to provide training and consulting services to SMEs in this segment. Fiat, UNIDO and the Government of India invested $305,000 for the first demonstration phase until the end of 1999. The main phase of the program, which also involved institutional capacity building and technology acquisition components, required resources in the order of $2.5 million.

Partnership approach

- The Automotive Component Manufacturers Association of India provides access to component manufacturers in India, day-to-day management of the program, and access to a well-established information infrastructure to disseminate know-how to local companies. The Automotive Research Association of India, a leader in automotive engineering and testing, provides technical/engineering support to the program.
- The Prince of Wales Business Leaders Forum advises SMEs on social and environmental auditing. The Ministry of Industry of the Government of India also participates in the program to provide financial support and policy guidance. Fiat, UNIDO, and the Government of India make financial contributions to the program. All partners make contributions to staff time, travel costs, and technical advice.

Results

Quantitative Improvements:

- The average lead time required for production and completion has been reduced by 52%
- The average number of hours of in-house training has increased from 3.2 to 238 hours per month
- Worker absenteeism declined by 39%
- The use of standard operating production procedures has increased from 9% to 62% and space utilization improved by 25%

Qualitative Improvements:

- Increased awareness of production efficiency issues
- Improved awareness of the relationship between quality and production efficiency
- Dramatic improvement in logistics
- Rather than viewing workers simply as hired help, management has begun to value workers as a company asset. This has led several of the participating SMEs to establish profit-sharing programs, social and health programs for workers, and regular gatherings between the managers and the workers and their families.

Key Learning Points

- Partnerships between large multinational companies, developing country governments, the donor community, specialist SME support organizations, and local industry bodies have the potential to transform an industry sector and attract foreign investments in that sector.

Pentland, Nike and Other Footwear Companies: Supporting Suppliers in Vietnam

Large Companies
Pentland, Nike, and others

Location
Vietnam

Local Enterprise(s)
SMEs supplying to multinational footwear companies

Other Partners
International Business Leaders Forum (IBLF), government partners, the industry association and chamber of commerce

Brief Description of Partnership
Collaborative action by footwear companies to support local suppliers to address specific issues of chemical use and more general issues of quality standards and workplace conditions

How it works

The program involves the provision of training and other support to help SME suppliers in the footwear industry meet international standards around chemical use and disposal. There are a number of stakeholders, managed by a program coordinator who reports to the steering committee, liaises with partners, conducts research and ensures the program responds to relevant international standards.

Corporate partners share codes of conduct and provide management time to help with SME training programs and mentoring. They also ensure the participation of their SME suppliers. The progress of individual SME factories is monitored, and local regulations are developed in close conjunction with government agencies.

Why they did it

Corporations in the footwear industry needed to ensure that local suppliers improved the selection, storage, use and disposal of chemicals to comply with European and North American standards.

Vietnamese SMEs are significant suppliers to the footwear industry. It is estimated that more than 500,000 people work in this sector and that the supply of footwear from Vietnam will increase significantly in the near future. It is, therefore, critical to ensure that production meets international standards.

Partnership approach

This is an example of how several corporations in the same sector can work in collaboration to address an industry-wide issue. The program is run jointly by the local chamber of commerce and industry association, with support from the International Business Leaders Forum (IBLF), the Mekong Project Development Facility, and financial support from the British Government's Department for International Development (DFID). The local government is also involved in the program.

Results

- Safer use of hazardous materials and improved working conditions for employees
- Development and implementation of industry-wide standards

Key Learning Points

- An intermediary such as the IBLF can be very effective when corporations in the same sector work in collaboration, act as honest brokers and help develop trust between corporate partners.
- Involving the government, local agencies, and a wide range of stakeholders has created the framework for sustained action.

BP: The Private Sector Initiative (Psi) in Tanzania

Large Company
BP Tanzania and seven other Tanzanian corporations

Location
Tanzania

Local Enterprise(s)
Local SMEs linked to the supply chain of the corporate partners

Other Partners
SBP (Small Business Project), an independent specialist support and research organization based in South Africa, involved in small business development

Brief Description of Partnership
Partnerships between eight major Tanzanian corporations in different sectors (oil, mining, breweries, sugar, etc.) working collectively to build up the local SME presence in their supply chains and to help develop the local economy in Tanzania

How it works
The first stage of the program focuses on a supply chain diagnostics within each participating corporate sharing experience and supplier development strategies, mapping baseline SME expenditures, and developing an SME supplier database, including profiles of SMEs in the database.

Throughout the program, corporations proactively identify opportunities for local SME outsourcing and ways of working more closely with suppliers to develop their capacity. Information and experience is shared which stimulates ideas for working more effectively with local SMEs.

Why they did it
Tanzania has a very underdeveloped SME sector, as evidenced by the fact that more than half the inputs currently purchased by corporations involved in the program are imported, and of those sourced locally, less than half come from SMEs. By developing SMEs, corporations can reduce input costs by sourcing more locally, supporting local economic development, and being good corporate citizens.

Partnership approach
The role of the corporations requires a commitment at the CEO level to increase engagement with local SMEs. They host regular forums to share experience of procurement managers from participating corporations on their engagement with SMEs. CEOs meet for quarterly steering committee meetings and procurement managers for monthly working group meetings.

During the first three years, the program is facilitated by SBP with the financial support of the British government's Department for International Development through the Business Linkages Challenge Fund (BLCF). The intention thereafter is that the corporate partners continue the program without further support. A similar initiative in South Africa is facilitated by the SBP, with day-to-day activities managed by an employee of one of the participating corporations who is seconded full-time on the initiative.

Results
- SMEs have increased the supply of goods and services to corporations, thereby reducing costs.
- The sharing of positive experience amongst corporate partners has created opportunities and economies of scale for SME suppliers and enabled them to build relationships with one or more corporate partners.

Key Learning Points
- For corporations to work collaboratively, an intermediary/facilitator such as SBP is needed to drive the initiative, build trust and provide an "honest broker" to handle commercially sensitive information.
- Bringing procurement managers together for regular reviews of SME engagement is an effective way to build confidence to engage with SMEs.
- For SME engagement programs to succeed, it is necessary to have buy-in from senior management. There is increased initial risk (but with downstream rewards) to greater SME engagement and procurement managers need endorsement and support from above to take this risk.
- The Private Sector Initiative can be used as a key' informer' from the private sector to the wider enabling environment debate and dialogue with Government.

BP Enterprise Center: Training Companies in Azerbaijan

Large Company
BP

Location
Azerbaijan

Local Enterprise(s)
SMEs involved in oil and gas and related businesses

Other Partners
Other private sector partners involved in the Baku Tbilisi Cayhan (BTC) pipeline projects and the Azerbaijan International Operating Company (AIOC)

Brief Description of Partnership
The BP Enterprise Center helps build local capacity and promotes international standards so that local SMEs may access business opportunities in oil and gas

How it works

The BP Enterprise Center provides the following services to SMEs to help them access business opportunities around the Baku Tbilisi Cayhan (BTC) pipeline projects:

- Training for local companies in business skills and technical areas
- Consultancy and assistance to local companies on current and future business opportunities
- Information on industry standards for health, safety and environment, contracting and procurement processes, and ethical and technical requirements

The Enterprise Center also provides information and services to other energy companies, international financial organizations, and non-government organizations, including a database of local suppliers.

Why they did it

BP is committed to making a positive impact to the peoples of Azerbaijan. By 2006, it will have spent more than $45 million in the region on social investment projects. Building the capacity of local private enterprise is a key component of its efforts. BP set up the Enterprise Center in Azerbaijan as a focal point for its collaboration with local SMEs. The primary purpose is to increase the local participation of BP's projects in Azerbaijan which will lead to considerable cost savings. Its targets for the first year of operation included:

- Increasing the volume of business with Azerbaijani SMEs by 25%
- Establishing contractual relationships with 10 new SMEs
- Populating the industry supplier database with 250 quality companies
- Implementing a focused training program

Partnership approach

Due to the nature and scale of the Baku Tbilisi Cayhan (BTC) pipeline projects, BP is already engaged with a range of partners, and works with them on the Enterprise Center. In recent times, BP has increased its collaboration with other groups. BP recently launched a Supply Chain Technical Assistance (SCTA) program with the IFC, GTZ and private sector partners in Azerbaijan including Statoil and Unocal. All partners have contributed to the $625,000 cost of the program and GTZ will be responsible for technical delivery and working with local SMEs.

Results

The support provided to SMEs through the Enterprise Center is helping BP achieve its ambitious local content targets. As the focus of activity around the new pipeline shifts from construction to operation, the activities of the Enterprise Center need to evolve to reflect these changing needs.

Key Learning Points

- The needs and requirements of SMEs change with the opportunities available to them, so SME programs need to adapt to ensure that support is focused on areas of greatest commercial opportunity.

DaimlerChrysler: Sisal Fiber Project

Large Company
DaimlerChrysler

Location
South Africa (following up a similar project in Brazil)

Local Enterprise(s)
Two South African SMEs: Brits Textile and NCI, and SMEs involved in farming and processing sisal

Other Partners
Johann Borgers GmbH (Borgers), a German firm owning the technology, Council for Scientific and Industrial Research (CSIR) of South Africa

Brief Description of Partnership
Strengthening of the local supply-chain system and transferring of the technology of manufacturing fiber components to South African SMEs

How it works
In the early 1990s, DaimlerChrysler and Borgers, one of its German suppliers, together developed natural fiber car components. Both companies worked to roll out this technology to South Africa, identifying two South African SMEs with the capacity to replicate and develop the process using sisal fibers. This followed a similar project in Brazil.

Borgers worked closely with Brits Textiles and NCI, the two South African manufacturers, to help them set up new processing systems and production lines. This included exchanges of personnel, provision of equipment and skills training.

In addition to the engagement with Brits Textiles and NCI, DaimlerChrysler worked closely with the local Council for Scientific and Industrial Research (CSIR) to support sisal farming in South Africa. This included support associated with the privatization of several formally state-owned sisal farms, working on the sisal process chain, and exploring alternative applications for sisal in recognition for the need to support the sisal industry as a whole.

Why they did it
DaimlerChrysler developed natural fiber car components in Germany for environmental reasons that were important factors in the decision to roll out the technology to South Africa. In addition, the customs regulations in South Africa specified that imported components used in vehicle production were liable for duty, and local content in vehicles exported from South Africa earned credits that offset import duties. As such there was a strong commercial incentive for DaimlerChrysler to localize component production. Supporting sisal farming and processing in poor regions in South Africa was also a motivation for DaimlerChrysler.

Partnership approach
DaimlerChrysler oversaw the implementation of the entire program, including the technology transfer to its suppliers, but relied extensively on partnerships with Borgers to deliver technical assistance to the two South Africa manufacturers, and CSIR to support sisal production and processing.

Results
- This program developed a stable and efficient local supply of Sisal, generating long-term sustainable jobs for Sisal farm workers, and promoting economic growth in poverty stricken areas. DaimlerChrysler can now rely on a stable supply of Sisal fiber components that meets the high quality standards of its automobile production facility in South Africa.
- The quality of Brits Textile and NCI existing processes and products improved greatly, meeting world-class manufacturing standards.
- Brits Textile invested in a new activity, the processing of Sisal fiber, which incurred additional jobs and increased turnover.
- NCI’s sales increased, operations improved (Just In Time process), and gained international exposure as a supplier of sisal components for the automotive industry.

Key Learning Points
- Strengthening suppliers requires a comprehensive assessment and understanding of the overall supply-chain and its pitfalls.
- In order to achieve its objectives, DaimlerChrysler worked with several key partners including one of their German suppliers and a South African research center.

SC Johnson: Capacity Building for Small-Scale Farms

Large Company
SC Johnson

Location
Kenya

Local Enterprise(s)
Small-scale farms producing pyrethrum, a type of daisy

Other Partners
Pyrethrum Board of Kenya (PBK), a parastatal organization functioning as a cooperative for 200,000 pyrethrum growers

Brief Description of Partnership
Supply-chain capacity building involving a high level of technology, human resources, and knowledge exchange, to secure the supply of natural inputs required for insecticide production

How it works
SC Johnson buys pyrethrum (a unique daisy) from the Pyrethrum Board of Kenya (PBK), a critical supplier to SC Johnson, for its production of insecticides such as RAID™. Kenya accounts for 70% of pyrethrum's world production.

In order for PBK to provide a reliable, consistent supply of pyrethrum, SC Johnson assisted its supplier with the following:

- Development of planning and forecasting abilities through sharing of best-practice examples and on-going advice regarding establishment and maintenance of a safety stock to help offset harvest shortages
- Bio-efficacy testing protocols and tools to allow for a better comparison of results between products tested at PBK in Kenya and at SC Johnson in the US
- Development of up-to-date analytical chemistry methods that have aided in the identification of new and different pyrethrum extracts

Why they did it
SC Johnson now enjoys a more regular and secure supply of natural pyrethrum, for its insecticide production.

Also, by strengthening the regularity of its natural Pyrethrum supply base, SC Johnson did not have to switch to a less environmentally friendly raw material, the synthetic pyrethroids.

Partnership approach
SC Johnson provides technical assistance to PBK, its key supplier of raw material, so that it may process and sell greater quantities and higher quality pyrethrum on behalf of small-scale daisy farmers in Kenya.

Results
PBK saw its product quality improve and its supply stabilize, thereby conforming to higher production standards. Natural pyrethrum is now cultivated by small independent growers.

Key Learning Points
- Helping suppliers develop high quality standards and reliable production requires long-term commitment, the development of trust over time, and proactive and frequent communications and visits, but offers significant advantages over a hands-off approach.
- Strengthening suppliers can be a better alternative than switching suppliers.

Anglo American: Zimele SME Support Program in South Africa

Large Company
Anglo American

Location
South Africa

Local Enterprise(s)
SMEs that supply non-core inputs to Anglo, and small enterprises more generally

Other Partners
Managed by Anglo relatively directly, although Zimele, a separate organization, has been established by Anglo American to run the program

Brief Description of Partnership
The Zimele program combines support to Black Economic Empowerment (BEE) SMEs that supply Anglo with non-core inputs, along with more general support to the SME sector and BEE

How it works

Anglo American established Zimele as a separate organization in May 2000, with a fund of $2.3 million, its own Board and a permanent staff of three. The current program evolved out of the Anglo and De Beers Small Enterprise Initiative, established in 1989 to formalize Anglo's support to the SME sector.

Business Development Officers (BDOs) within Anglo Group companies also support the Zimele program, and work closely with procurement and purchasing departments to identify opportunities for BEE SMEs to supply goods or services to Anglo American. BDOs support SMEs during the preparation of tender documents, and bring in other technical resources as required from within Anglo American, but are not involved in the adjudication process.

The Zimele program has two main elements:

- To proactively seek out opportunities for Black Economic Empowerment (BEE) SMEs to supply non-core goods or services to Anglo Group companies; and
- To support BEE SMEs more broadly, including those with links to Anglo Group companies, through the provision of finance, technical assistance, business planning services and the transfer of skills.

In addition to seeking out specific opportunities for SMEs to supply Anglo, BDOs and Zimele's core staff look for investment opportunities for Zimele. The program provides loan finance and equity support up to $230,000 per company. Many SMEs that receive support from Zimele have some connection with Anglo, but this is not a requirement.

Why they did it?

Anglo American recognizes the potential for increasing efficiency through greater SME outsourcing. With support from Zimele, there are many areas where smaller more specialist companies can outperform Anglo in non-core business activities and reduce Anglo's cost base.

Anglo American has supported Black Economic Empowerment (BEE) in South Africa for more than 30 years, from apartheid in the mid 1970s to the present day. The Zimele program not only provides support to SMEs that supply Anglo with non-core inputs, but also supports BEE SMEs in sectors that are not linked to mining. In some cases this takes the form of supporting former employees to set up their own businesses, but also involves support to SMEs with no link to Anglo.

Partnership approach

The level of direct engagement from Anglo American is high, with support from top executives, line management and business development managers, as well as access to the network and business intelligence of the Anglo Group. Zimele coordinates the support to SMEs and makes loans and investments, but this was established and is managed by Anglo American.

Anglo American supports other BEE programs that involve direct partnerships with Government and other actors. For example, the recently established Anglo Khula Junior Mining Fund, a $5 million fund jointly financed by Anglo and Government, supports small- and medium-sized mining companies that are more closely engaged in Anglo's core businesses. SMEs supported through the Zimele program engage with Anglo American's non-core business.

Results

- During 2002, Anglo American's divisions collectively spent $365 million on goods and services from BEE SMEs, which is projected to increase to $440 million in 2003.
- Zimele has made 29 successful investments to-date in a broad range of SMEs.

Key Learning Points

- Projects must be commercially viable before support is considered.
- Shareholders must be managers and invest their own capital contributions.
- Investments/entrepreneurs need intensive support and nurturing in the early stages, but dependence must be gradually reduced and the investor must have a clear exit strategy.

Delta Corporation: Outsourcing to SMEs in Zimbabwe

Large Company
Delta Corporation, a major conglomerate in food and leisure sectors

Location
Zimbabwe

Local Enterprise(s)
A wide range of small, medium and micro enterprises (SMMEs) providing products and services to larger organizations

Other Partners
Empretec, a UNDP supported training agency

Brief Description of Partnership
Delta Corporation articulated a policy of supporting SMMEs development in 1995 by initiating the “Stand Up and Go” program to assist entrepreneurs establish their businesses

How it works
Senior management works with the procurement department to identify SME outsourcing opportunities. Each Strategic Business Unit is free to pursue the business linkages and outsourcing opportunities best suited to their needs. When SME partners are identified, they are encouraged to attend a two-week entrepreneurial development course run by Empretec.

In addition to training and mentoring, the company has established a revolving fund of $1 million to provide seed capital to new enterprises. Approved candidates with sound business plans are provided with seed capital and a program of support to start their businesses.

Why they did it
Due to the deteriorating economic environment in Zimbabwe, the Delta Corporation needed to find ways to reduce its cost base, focus resources on its core business and increase outsourcing to SMEs. In some cases Delta had to make redundancies, but some former employees have been able to establish SMEs that supply Delta.

The company also saw an opportunity to use its position in the economy to support SME development, in an environment of high unemployment with many SMEs struggling to stay in business.

Partnership approach
Delta works with Empretec to administer the program, but also adopts a hands-on approach to engaging with SMEs. Delta provides SMEs with access to its advanced systems and processes and works in close partnership with them to ensure they are able to work with Delta’s business systems. Delta provides management support and access to capital equipment at no cost.

Results
There have been many cases of successful outsourcing as a result of the program:

- Cleaning, catering and laundry services have been outsourced across the company.
- The hotel division has outsourced housekeeping and food and beverages.

Redundancy payments for some employees being let go have been waived because the employees have been absorbed into the new service providers.

Relationships with government have improved as a direct result of its enterprise development support and the company’s reputation has been significantly enhanced.

By 1997, a total of 250 jobs had been created by “Stand Up and Go.” Today, Delta Corporation continues to do business with 26 entrepreneurs who participated in the program. SMEs have gained access to wider corporate markets, leading to higher turnover and continued contracts with Delta Corporation.

Key Learning Points
- Understanding and appreciating the long-term business benefits of outsourcing provides the foundation for a systematic SME support program.
- Buy-in and support from senior management and the main operating divisions is necessary in order to follow a strategy of greater integration with SMEs.

BASF Group: Eco-Efficiency in Morocco

Large Company
BASF Group

Location
Morocco

Local Enterprise(s)
Local dyeing and tanning companies

Other Partners
UNIDO, UNEP, National Cleaner Production Centre (NCPC)

Brief Description of Partnership
In order to support SMEs in their efforts to meet international standards and improve production processes, the eco-efficiency analysis used in this program makes production processes mindful of commercial and environmental issues

How it works
In Morocco, the dyeing industry plays a vital role in the economy and provides significant employment by many SMEs. In order to stay competitive in an environmentally sound and economically viable manner, companies must continuously change and modernize their production systems. This not only requires resources, but access to methods of analysis and introduction of new production processes at the highest international standard. Therefore, UNIDO, within its mandate of promoting sustainable industrialization, alongside UNEP, formed a partnership with the multinational chemical corporation BASF of Germany to develop and disseminate an eco-efficiency analysis tool that promoted the upgrading of production processes in the small-scale dyeing industry in Morocco.

During phase I of the program, the main objective was to develop an eco-efficiency analysis tool that made production safer for both the environment and the workers. The methodology, based on exclusive know-how of BASF, was made available for the first time through this partnership to seven SMEs in developing countries. During Phase II the methodology was disseminated to 27 developing countries, via the network of UNIDO/UNEP Cleaner Production Centres.

Why they did it
The successful participation of any firm in global markets depends heavily on its capacity to innovate and improve its international competitiveness so as to meet requirements of potential buyers. While the environmental soundness of products and processes is becoming key to international competitiveness, SMEs often lack the know-how or financial resources to keep pace with cutting edge technologies. Many factors that have an impact on sustainable development are beyond the direct control of the individual SME. Moreover, these technologies and methodologies are difficult to obtain and to apply at the SME level. In order to assist SMEs in the Moroccan dyeing industry to improve their international competitiveness and to improve their production processes, UNIDO, BASF and UNEP initiated a pilot Eco-Efficiency program.

Partnership approach
In Morocco, UNIDO, UNEP and BASF bring their expertise and know-how in the dyeing industry and secure funding for the project. The National Cleaner Production Centre enables access to the target companies and ensures wide dissemination of the methodology and training to a large number of companies.

Results
- Positive environmental impact through decrease of energy and water consumption at constant costs
- Improved competitiveness in the supply chain
- Positive environmental impact through less hazardous acid at reduced costs

Key Learning Points
- The eco-efficiency approach, although developed for one country and one industry sector, has been conceived in such a way that it can be applied to other countries and sectors thereby achieving wider outreach to SMEs.

Unilever: Building Business Linkages with SMEs in Vietnam

Large Company
Unilever

Location
Vietnam

Local Enterprise(s)
SMEs involved in supplying raw materials and packaging; SMEs supplying manufactured products; SMEs supplying services on finished goods distribution

Other Partners
Business associates or suppliers of the SMEs; Unilever internal teams – Procurement, Supply Chain, IT, HR, CR

Brief Description of Partnership
Recognizing the need and benefit of building SME business linkages, Unilever Vietnam consciously sought to develop a range of sourcing and distribution "partnerships" with local companies that required the transfer of technology and capabilities

How it works

In the 1990s, many local raw material and manufacturing suppliers lacked know-how in terms of management concepts and style, cost-effective operations, technology, quality control systems, safety standards and environmental awareness. They also lacked access to business financing. Unilever identified those suppliers that were willing and able to implement new practices and then worked closely with them to help develop their capability gaps.

- **Raw Material and Packaging Suppliers and Distributors**
  For its 3 local suppliers of raw materials, 6 suppliers of packaging materials and 330 distributors, Unilever defined quality standards, established the technology input necessary to achieve these requirements and, where appropriate, provided the financial support to ensure their long-term growth. Training programs on quality standards, inspection and testing methods and warehousing specifications were undertaken. In total, Unilever provides them with $28 million of business each year with guaranteed volume at agreed prices and quality levels, providing technical support from internal experts or technical consultants.
- **Contract Manufacturers**
  Unilever Vietnam's response to the capability problems faced by local manufacturers was "if capabilities do not exist, help develop them". Adopting a pragmatic incremental building block approach, it complements the inherent "can do" attitude of the Vietnamese people.

  For its key contract manufacturers, Unilever offers financial support to upgrade their equipment and to provide extensive training programs. Direct technology transfers are made in equipment and machinery, formulations and processing, quality assurance, repairs and maintenance, safety and environmental standards and other best practices.

One key success factor is that Unilever managers are on-site to provide immediate on-ground expertise and support to help contract manufacturers raise efficiency, quality control and consistency of products.

Why they did it

SMEs need not be alienated from the efforts of large companies to establish strong market leadership. Unilever's approach in Vietnam with local business partners allows it to keep operations slim, cost-effective and flexible by utilizing capital resources and responding quickly to constantly changing market conditions.

Collaborating with local SMEs provides Unilever with additional production capacity, reliable local raw material supply and distribution reach. Unilever enjoys shorter lead times, lower working capital and warehousing requirements and, therefore, reduced financial risk and risk of obsolescence.

Local enterprises gain from the transfer of new technologies and capabilities from Unilever. With increased capabilities and a steady business relationship with Unilever, the SMEs are able to justify investing in additional capacity or diversifying their businesses.

Partnership approach

Unilever's objective is to create "win-win" situations with local enterprises. Local enterprises have to be willing to adopt and implement new practices, with a strong commitment to training and upgrading their labor force. This is relatively easy to achieve in Vietnam as the literacy rate is almost 90% and the people are flexible, creative, competent and eager to learn.

Results

- Unilever's partnerships with local enterprises support 5,500 jobs, compared to 2,000 Unilever employees in Vietnam.
- Local supply partnerships account for 40% of Unilever's raw materials, 80% of packaging materials and 55% of production volume.
- Improved standards in quality, productivity, safety, environmental consciousness and general management skills base.
- The supply of raw material and packaging material at lower or at least comparable costs or quality levels.

Key Learning Points

- Seeking mutuality of benefits, it is necessary to adopt a long-term relationship mentality and to be aware of cultural nuances and the importance of communication.
- Adopt a pragmatic step-by-step approach with a real understanding of the constraints faced by SMEs, all the while appreciating and building on their strengths.

Distribution

Hewlett Packard: i-communities

Large Company
Hewlett-Packard (HP)

Location
Global

Local Enterprise(s)
SMEs and entrepreneurs in areas with limited access to Information Communication Technology (ICT)

Other Partners
Governments, international organizations, NGOs, local IT service providers and community groups

Brief Description of Partnership
To help close the gap between technology-empowered and technology-excluded communities, HP works in partnership with local government, the private sector and NGOs to provide commercially sustainable access to ICT services

How it works
The i-community projects in India, South Africa, and Texas have been developed in partnership with local stakeholders to address specific opportunities around increased access to ICT. The i-community projects deliver sustainable services and, in the long term, transition to become self-financed and locally-managed. i-communities are one form of support that HP provides in its e-inclusion program. The i-community in Kuppam, India, provides a community information center with a range of web-based services and increased access to new markets, government and health services. Services provided include:

- Information on various government schemes covering agriculture, health and welfare
- Online completion of application forms for the above schemes
- Directory of services for business services providers
- Compilation of traditional medicines

HP's business managers bring business acumen, line management skills, expertise in government affairs and policy analysis, working closely with development specialists to develop and design the programs. They handle customers' needs and develop technology-based solutions.

Why they did it
For HP, the exchange of value is two-way: bringing benefits to the community while gaining knowledge and contacts that will make them a stronger competitor in the global economy.

Learning developed through i-community projects leads to new kinds of technology solutions that has given HP a competitive advantage.

Partnership approach
HP partners with a range of other organizations, including government and NGOs, as well as a broad range of private sector providers along the ICT value chain.

Results
Three i-communities have been established to-date and a range of specialist IT products have been developed, including mobile picture labs, with solar powered color printing.

Key Learning Points
- Engagement of HP management in i-community initiatives has brought them closer to the market and has helped in the development of products and services for new markets.
- There are many ICT applications that are relevant to poor communities.

DuPont: Support to Small Farmers in Colombia

Large Company
DuPont Agricultural Products and Seed

Location
Colombia, South America

Local Enterprise(s)
Local farmers

Other Partners
Ministry of Agriculture, Finagro, the Agrarian Bank, the National Agriculture and Livestock Board

Brief Description of Partnership
Financing for farmers so that they can purchase inputs from DuPont to maximize their yields for the season

How it works
Under DuPont's leadership, the partnership, which includes the Ministry of Agriculture, Finagro, the Agrarian Bank, the National Agriculture and Livestock Board, and the State House of Compensation and Security, developed a program that allowed for upfront financing so that farmers could afford to purchase the inputs that they needed for the season to maximize their yields. DuPont introduced the Integrated Agricultural Plan (PAID, in Spanish) in 1999 to provide farmers with financial and commercial solutions, as well as technical assistance, through an integrated support system. The plan enabled farmers to count on financial liquidity through the growing season.

The PAID system provided farmers with credit in the form of inputs required for crop production. Farmers also received technical assistance throughout the cultivation period. The system emphasized training and technology transfer to improve farm practices of the farmers, so that they could become more efficient in managing environmental and financial resources. Training covered the safe use of farm chemicals, their environmental impacts, working with local communities, and handling and safely disposing of packaging. Two training and development centers were constructed.

Why they did it
In Columbia, farmers have trouble getting credit because banks see farming as a high-risk activity and small farmers generally have very few assets that can be used as collateral for bank loans. While Columbia is a potential growth market for DuPont agricultural products and seed, DuPont was looking for ways of improving the social and economic conditions of a broader cross-section of growers in Columbia in order to maximize the long-term health of its business.

DuPont Columbia realized that the prevailing system did not help small farmers become successful, so the company initiated a partnership with a group of organizations that focused on identifying the issues and then implementing solutions. Local DuPont leadership determined that the provision of financial planning and soft credits would be the best approach.

Partnership approach
Searching for credit guarantees that were novel enough to meet farmers' needs and at the same time conventional enough to be acceptable to the banks, DuPont worked with the National Agriculture and Livestock Board to use forward contracts. Under such a contract, farmers sell their harvest in advance to different agro-industries in deals agreed upon through the PAID system. Farmers are guaranteed a fixed price and payment date in advance, and the buyers are guaranteed a supply at a fixed price. DuPont discovered that this form of farming by contract decreases uncertainty concerning crop sales, allows for adequate financial planning, and lowers commercial risks.

Results
- In 2000, there were more than 2,000 hectares of corn planted under the PAID plan in regions such as Cordoba and 1,000 hectares of sorghum in Atlantico.
- PAID's success has encouraged DuPont to plan to include rice growers and to continue to cultivate effective financial solutions that will expand the agricultural frontier and internationalize the development of Colombian agriculture.

Key Learning Points
- Partnership approaches are important when providing integrated support in the agricultural sector involving both technical inputs and financial services.

Siamdutch, BASF, Bayer and others: Insecticide Treated Bed Nets

Large Companies
Several large bednet (mosquito net) manufacturers and chemical companies including Siamdutch Mosquito Netting Company, BASF and Bayer; links with Exxon Mobil that help fund bednets for pregnant mothers in Zambia

Location
Multi-country

Local Enterprise(s)
Local distributors and retailers of Insecticide Treated Nets (ITNs)

Other Partners
AED (a specialist consultancy), Netmark Project, USAID

Brief Description of Partnership
Bednet manufacturers and insecticide suppliers, linked with local distributors and support from Netmark, a USAID funded project managed by AED, to help build the capacity of local distributors and expand the market for bednets

How it works
Bednet manufacturers and insecticide suppliers do not have a good network of distributors in many developing countries, yet there is considerable potential for increased sales with a more effective distribution chain. The Netmark project, a USAID funded project managed by AED, collaborated with bednet manufacturers and insecticide suppliers to support local distributors through technical assistance and provision of finance. Bednet manufacturers and insecticide suppliers, distributors and retailers work with the Netmark project to help market the product, which can include generic promotion as well as partnerships to market specific products.

Exxon Mobil runs a scheme in Zambia where, for each liter of petrol purchased, funding is provided for ITNs for pregnant mothers who are particularly vulnerable to malaria.

Why they did it
Bednet manufacturers and insecticide suppliers build their markets by developing their distribution chains and increasing demand.

Exxon Mobil provides a much-needed product to vulnerable groups in the local community, thereby differentiating its product from the competition to increase petrol sales.

Partnership approach
The Netmark project facilitates partnerships between the private sector, NGOs and government. Netmark researches constraints in market development and builds coalitions to develop private sector provision. AED, which manages the Netmark project for USAID, facilitates the development of partnerships that enable the private sector to operate more effectively. Partnerships have typically involved negotiations over the split of marketing expenditures.

Results
- Distributors have an increased capacity to purchase significant quantities of ITNs from suppliers.
- Increased demand for ITNs has led to better commercial returns for both distributors and retailers; SME retailers have benefited despite not being part of the partnership.
- Better commercial supply has led to greater opportunities for directing social marketing to needy groups, for example, pregnant women.

Key Learning Points
- There is no “cookie cutter” approach to developing intersectoral partnerships, but there are some basic principals such as identifying and building on common goals.
- As the private sector grows, the public sector can be more focused in its support. It is important for the public sector, however, to do this in such a way (for example, vouchers) that does not undermine the market for the private sector.

Coca-Cola: Entrepreneur Development Program in South Africa

Large Company
Coca-Cola

Location
South Africa

Local Enterprise(s)
Individual entrepreneurs selling Coca-Cola products

Other Partners
Local bottling companies

Brief Description of Partnership
Developing the capacity of the distribution network comprising individual entrepreneurs in underdeveloped markets

How it works

The Entrepreneur Development Program helps small entrepreneurs enter the Coca-Cola distribution network. Coca-Cola selects promising entrepreneurs and helps them start businesses as retailers in the Coca-Cola system. Coca-Cola's support includes:

- Training in basic business skills such as pricing, stocking, forecasting, legal requirements, sales, customer relations, marketing
- Providing preferential access to working capital and equipment, such as the initial stock and trolleys and coolers
- Further assisting entrepreneurs who demonstrate successful results by upgrading their business equipment
- Developing innovative solutions for these entrepreneurs, such as transport bicycles, or mobile coolers for street vending

Why they did it

This program supports Coca-Cola's commercial strategy by:

- Penetrating new markets
- Increasing the sustainability of retailers

Partnership approach

Coca-Cola provides support and incentives to its retailer network through business skills training and access to capital, in conjunction with local bottling companies. It is the local bottling companies that provide the link between Coco-Cola and the entrepreneurs, and that develop innovative solutions for entrepreneurs.

Results

- 7,000 people have been trained in South Africa, since the program began in 2000.
- 3,500 outlets have been created in 2000 as part of this program, and another 3,000 in 2001.
- 12,900 jobs have been created in the Coca-Cola system in 2000.
- The South African government reduced the tax on sugar to support funding of this program.

Key Learning Points

- Investing in retailer's training and financial support provides a more sustainable retailer network.
- Reward of additional support is a strong incentive for entrepreneurs to perform well.

Bogasari Flour Mills: Support to Noodle Makers in Indonesia

Large Company
Bogasari Flour Mills, the largest single location wheat flour mill in the world, producing 3.6 million tons of flour a year

Location
Indonesia

Local Enterprise(s)
Noodle-making entrepreneurs, noodle vendors

Other Partners
Noodle makers associations

Brief Description of Partnership
Bogasari Flour Mill developed relationships with 285 noodle-making entrepreneurs, an important part of the flour-based industries in Indonesia

How it works
Bogasari Flour Mills assisted SMEs involved in noodle production by providing the following:

- Legal support to secure licenses and freedom to operate without harassment, extortion or threat of eviction
- Training on quality, storage and hygiene, workshops on machine operation and maintenance
- Developed a newsletter on noodle production, markets, products and equipment and advertising opportunities for other related product providers
- Sponsorship of community events designed to promote the range of flavors and means of noodle preparation
- A program of loans and grants to entrepreneurs and revolving funds available to members

Why they did it
To increase sales and support the development of an efficient production and distribution network for a wheat -based product. Noodle makers account for 6% of Bogasari Flour Mills sales, with further growth anticipated. Flour consumption in a predominantly rice eating country is limited but can be increased through the development of new products that meet consumer needs.

Partnership approach
Bogasari Flour Mills encouraged the noodle makers to form associations in contiguous geographic locations - providing systems for disbursing, collecting and paying for flour. The associations also provide a support structure and business network for entrepreneurs independent of Bogasari Flour Mills.

Results
The noodle-making entrepreneurs have retained control over their own businesses, within the context of family and community, but also within a new framework of technical and financial support.

The noodle-making industry, with its improved processes, distribution and sales has become a sustainable part of the local economy employing over 7000 people.

Key Learning Points
- Business objectives are negotiated with partners, not dictated.
- Business partners retain responsibility for their lives and operations but can be assisted and encouraged in their improvement.
- The business realities and culture of others has to be respected and blended with that of the company.

Growing Sustainable Business for Poverty Reduction

Large Companies
ABB, Electricité de France, Ericsson, Kilombero Sugar, Shell, Tanga Cement / Holcim, Total, Unilever

Location
Global (initial activities in Ethiopia, Tanzania, Madagascar, Bangladesh)

Local Enterprises
SMEs and local entrepreneurs in different sectors with potential for partnering with large companies as distributors of locally adapted products and services, or as suppliers

Other Partners
UNDP as coordinator and facilitator, UN Global Compact Office, Global Compact core UN agencies, governments, NGOs, multilateral and bilateral development agencies, academia

Brief Description of Partnership
In order to contribute to poverty reduction, the Growing Sustainable Business (GSB) initiative facilitates large companies, local enterprises and other relevant actors to come together through a multi-stakeholder process to undertake commercially viable business projects that have a positive impact on local economic development and wider sustainable development

How it works

The GSB initiative was introduced in late 2002 as a pilot initiative. It includes two main types of interlinked activities:

- Supporting commercially viable projects that have a positive local economic, social and environmental impact
- Facilitating dialogue and initiatives that contribute to creating an enabling environment and reducing risk for sustainable business projects at the country level

Through the coordination of UNDP, initial GSB workshops are being organized to bring various parties together to discuss the role business can play in development and to examine specific project ideas.

Once there is agreement around specific project proposals, GSB facilitates the creation of multi-stakeholder project alliances, which develop specific bankable business plans.

In each country, the GSB initiative is also establishing overall ‘GSB steering groups’, which review and endorse projects. National GSB coordinators are also being put in place to broker and support activities.

Projects under development that aim to link large companies with local enterprises include:

- Water
- Eco-tourism
- Rural and peri-urban electrification schemes
- Solar power
- Strengthening of local distribution mechanisms for energy
- Delivery of rural telecommunications
- Local sourcing of sustainable biomass energy crops
- Sustainable out-growers scheme of sugar cane

Why they are doing it?

Many large companies recognize that engaging the four billion or so people at the “bottom of the economic pyramid” into more formalized markets is an enormous untapped business opportunity. There is also recognition from development actors that business has a lot to offer to address development challenges by developing financially viable, market-driven solutions. The GSB initiative provides a framework for companies to work with others to examine and test new approaches for servicing the bottom of the pyramid and to explore how to do business in a more directly beneficial way to local economic and sustainable development.

Partnership approach

There is recognition among large companies that for commercially viable investments to succeed in poor countries, new alliances and cooperation across sectors is needed. This includes in particular the need to engage with local enterprises for more cost-efficient and appropriate sourcing and delivery of products and services. It also involves engaging with communities and NGOs to understand specific local needs and constraints and to adapt products and services accordingly. The GSB initiative acts as a trusted impartial broker for multi-stakeholder project alliances and dialogues to take place.

Results

The GSB initiative has been introduced in three countries during 2003, with the establishment of local GSB frameworks and project alliances, and specific projects are under formulation in all countries. The initiative will be further strengthened in 2004 and also expanded to additional countries.

Key Learning Points

- Frameworks and project alliances that involve local entrepreneurs and communities help large companies to gain better understanding of local markets.
- Establishment of multi-stakeholder project alliances and development of specific projects takes time and requires continuous nurturing and facilitation.

General Support

Shell: Livewire Program

Large Company
Shell International, but driven by local Shell companies in each country

Locations
Argentina, Australia, Abu Dhabi, Brazil, Chile, Guam, UK, Ireland, Netherlands, Hungary, Romania, Oman, Iran, South Africa, Mauritius, Nigeria, Indonesia, Sri Lanka, Singapore, Brunei, Hong Kong, Australia; Egypt will launch on January 11th 2004

Local Enterprise(s)
Entrepreneurs aged 18-30

Other Partners
A range of partners in different countries include government agencies, universities, SME support agencies, training institutions, and other consultants to establish country programs

Brief Description of Partnership
Provision of training and support services to young entrepreneurs through local Shell companies and a range of local partners; encourages business start-ups as a positive employment choice

How it works
The Shell Livewire program supports young entrepreneurs to establish SMEs in countries in which Shell operates. The program varies in different countries and has expanded over 21 years to include 21 countries. All approaches include a competition, although participation in the program is the principal benefit to entrepreneurs. Shell and their partners provide the following support to young entrepreneurs as part of the annual livewire competition:

- Training and support in IT, finance, and marketing
- Mentoring through business planning support
- Credibility through association with the livewire program
- Cash prizes and press coverage for competition winners

Why they did it
There are a range of reasons why Shell developed and continues to expand the Livewire program. The motivations in developed and developing countries are similar and include:

- A demonstration of Shell's commitment to the local economies in which it operates: each new program involves a minimum commitment of three years from the local Shell company.
- A broad range of small enterprises can be supported as there is no requirement for link to Shell's business; if Shell just worked with its own suppliers fewer SMEs would benefit.
- The program provides an opportunity for Shell to talk to government on matters not related to its core business; working with government agencies as implementing partners helps develop positive relationships with government.
- It motivates Shell employees, who benefit from engagement with entrepreneurs.
- Shell's model has a good track record and can be replicated in new locations.

Partnership approach
There are partnerships at both the international and country levels. Internationally, key partners are Shell International, Project North East (PNE), a consultancy that helps administer the program and roll it out to new countries, and the local Shell companies. There has to be a clear understanding and commitment from local Shell companies, both at CEO and management team levels, before new country programs are implemented.

At a country level, there are partnerships with a range of organizations that deliver the majority of program activities. Local partners vary but often include academic institutions, training organizations, government SME development agencies, non-governmental organizations, and private sector facilitators. The key is to have "resourcing" partners rather than those that just want to be associated with the program. Clear roles and responsibilities need to be agreed on at the outset and an open and honest approach with partners is forged so that people understand what to expect and what they have to do.

Results
- 1.5m people were engaged with the Livewire program in 2003 alone.
- Businesses started by young entrepreneurs entering the local competitions in 2002 created an average of 4.9 full-time equivalent jobs.
- The program is equally available to university graduates in rural villages offering the same core theme but differing in delivery method. "I never thought a company like Shell would be interested enough in me to come to my village and help me to start my own business."

Key Learning Points
- The local Shell company has to be committed to starting SME support programs.
- Local ownership is key to the success of the program; while support can be provided from the center, the program should be owned and managed locally.

ChevronTexaco: Business Advisory Center, Kazakhstan

Large Company
Chevron Texaco and Citibank

Location
Kazakhstan

Local Enterprise(s)
SMEs in the Atyrau region in Kazakhstan

Other Partners
UNDP, Atyrau Business Advisory Centre and Micro-Credit Program

Brief Description of Partnership
Support of entrepreneurs through the creation of a business center supported financially by ChevronTexaco and Citigroup Kazakhstan and implemented by UNDP

How it works

Chevron Texaco financed UNDP with a $400,000 grant to establish and manage a business center in Kazakhstan. UNDP brought in an international technical adviser to train local consultants on sound business practices. The center provides drop-in services, seminars, training and workshops to local entrepreneurs.

Chevron Texaco provided an additional grant of $300,000 to expand the project to include a pilot micro-credit scheme for graduates of the entrepreneurial training seminar offered by the center. Citigroup, inspired by the success of Chevron Texaco's success with the center, provided UNDP with a further $100,000 for loan capital.

With additional resources from both multinationals, SMEs have access to secretarial support, workspace, legal help and office supplies.

Why they did it

The government of Kazakhstan requires large multinational organizations to pay a mandatory social tax, or provide direct funds into local development projects. This program provided Chevron Texaco the opportunity to enhance its reputation and brand image, while supporting local economic development projects that, in turn, benefit the company.

Partnership approach

Chevron Texaco and Citibank work with UNDP and consultants engaged by the UNDP to develop and deliver the program. Chevron Texaco and Citibank are engaged with the project but direct support to SMEs is delivered through UNDP and the business center.

Results

- The center has advised hundreds of local firms.
- It has created 230 business plans.
- More than $2 million in loans have been disbursed.
- 530 new jobs have been created.
- New businesses have sprung up such as a private ambulance service, bowling alley, and the city's first supermarket.

Chevron Texaco now procures more goods and services locally, thereby reducing costs. Support of this program improves community relations and contributes to a stable economic and political environment for the company's operations.

Key Learning Points

- When a large corporate establishes itself in a region that has a weak economy and supports SME development, it is likely to benefit from the resulting local economic development through increased local procurement and a better-educated workforce.

E Oppenheimer & Son: Kopanang Projects

Large Company
E Oppenheimer & Son

Location
South Africa

Local Enterprise(s)
SMEs in mining regions

Other Partners
Local mining companies, Ezemvelo nature reserve, South African Department for Environmental Affairs and Tourism, World Wide Fund for Nature, Birdlife International and a range of other partners involved in tourism or agriculture, with support from DFID through the Business Linkages Challenge Fund (BLCF)

Brief Description of Partnership
The Kopanang initiative helps develop SMEs in traditional mining areas to use former mining land for tourism and agricultural businesses, which are then sold off to local stakeholders and ethical investors

How it works
Kopanang Projects is a not-for-profit company, financed by E Oppenheimer and others, that provides start-up capital and support to SMEs in mining areas. Kopanang initially owns SMEs supported through the program but as they are incubated, loans will be repaid and equity will be sold to employees, local communities and ethical investors. Typically the incubation period is three years, but as is necessary, Kopanang will continue to hold shares and provide management support for a suitable management fee.

Commercial opportunities focus on tourism and agricultural projects. General business development support is provided directly by Kopanang Projects, while specialist technical support comes through project partners and other interested service providers.

Why they did it
E Oppenheimer & Son have significant holdings in Anglo American and De Beers and have accrued considerable resources over many years through mining in South Africa and the region. While many mining activities continue, some are complete or reaching completion and alternative activities need to be developed to generate employment and utilize former mining land. Where mining activities continue, there are opportunities for increased local supply, particularly vegetables and poultry (for example, supplies for the Premier Mine canteen are currently sourced from Pretoria).

E Oppenheimer & Son are committed to supporting communities in mining areas and view the Kopanang project as a viable way to develop local commercial activities that can be transferred to local stakeholders after incubation.

Partnership approach
The partnership approach seeks to develop close links between the project promoters whose background is mining, and specialist organizations in the areas of likely business activity, in this case tourism, agricultural and environmental organizations. The promoters have established a stand-alone company with its own Board of Directors and management team, financed by E Oppenheimer & Son and other investors. Once potential projects are identified, a business plan is developed and agreed on by all parties before technical partners begin more detailed work on the project. E Oppenheimer and related mining companies are also well-placed to support project activities.

Results
The program was launched in August 2002 at the World Summit on Sustainable Development in Johannesburg so the results to-date are limited, but its promoters have successfully harnessed a wide range of partners to utilize former mining land for small business development. The intention is that by 2006, the program will be financed through private funding sources, with returns from previous investments contributing towards operating costs.

Key Learning Points
- Large well-resourced private sector companies are in a position to bring together cross-sectoral partnerships.

Deutsche Bank: Microcredit Development Fund

Large Company
Deutsche Bank

Location
Multi-country

Local Enterprise(s)
Small emerging entrepreneurs in both developed and developing countries

Other Partners
19 Microfinance institutions worldwide: ACCION, New York; ACME, Haiti; CFTS, India; Corporacion Nundial de la Mujer, Colombia; Emprender, Bolivia; FinComun, Mexico; Fundacion Mundo Mujer de Popayan, Colombia; Kashf Foundation, Pakistan; MI-BOSPO, Bosnia-Herzegovina; Milamdec Foundation, The Philippines; Project Enterprise, New York; PROPESA, Chile; Russian Women's Microfinance Network, Russian Federation; SHARE Group, India; XACBank, Mongolia

Brief Description of Partnership
Development Fund for Microcredit activities with local microfinance institutions

How it works
Deutsche Bank provides low cost financing (1%-3%) through subordinated loans with maturity between three to eight years to local microfinance institutions (MFIs).

Deutsche Bank funds are not used as funds to be directly lent to program participants. Rather, Deutsche Bank funds are used to leverage additional capital from local commercial financial institutions, at least at a 2:1 ratio, for direct lending to entrepreneurs and SMEs.

Why they did it
The Microcredit Development Fund is at the heart of Deutsche Bank's Corporate Citizenship Strategy. Through Microfinance programs, Deutsche Bank uses its core activity, lending, to achieve development and socially responsible goals.

Partnership approach
Deutsche Bank's Microcredit Development Fund grants loans to grass roots MFIs.

MFIs use Deutsche Bank's loan as collateral with a local financial institution to leverage additional funds. MFIs then grant micro-loans to specific entrepreneurs.

Results
With the $1.6 million that Deutsche Bank provided in loans, MFIs have been able to leverage an additional $32 million for their activities.

Key Learning Points
- Deutsche Bank fulfilled a good corporate citizen strategy by launching a program in its core business — lending — that supports individual entrepreneurs worldwide.

Deloitte Touche Tohmatsu: Business Equity Initiative

Large Company
Deloitte Touche Tohmatsu (Deloitte)

Location
South Africa

Local Enterprise(s)
SMEs in South Africa

Other Partners
Corporations, franchisors, and public sector groups; Black business organizations and NGOs; financial institutions that focus on providing assistance to SMEs; Black accounting and consulting practices and professional independent service providers

Brief Description of Partnership
Deloitte's Business Equity Initiative focuses on Black economic empowerment by bringing together a range of partners

How it works

Deloitte established the Business Equity Initiative (BEI) in 1995 to focus on economic empowerment through community investment, broad-based ownership and the transformation of South African business at all levels. Since then, the firm has invested up to R2.5m per year and a full-time partner. BEI facilitates empowerment of individuals by:

- Identifying opportunities for development
- Bringing together potential partners
- Providing infrastructure support
- Offering strategic advisory services

One BEI initiative, Business Beat, offers viable SMEs business development services that include personalized business management development plans and, as a result, easier access to finance. Business Beat assists in the development of the entrepreneur, ensuring job creation and encouraging skills transfer thereby contributing to the economic upliftment of emerging black entrepreneurs and the growth of the South African economy. Business Beat does not use in-house capacity but uses professional independent service providers such as Black accounting and consulting practices.

Why they did it

While apartheid no longer exists in South Africa, its economic effects linger. Many efforts are currently under way to bring the black community into the economic mainstream. DTT has a strong presence in South Africa and has committed itself to confronting the challenges of apartheid – because the future of the firm, the long-term viability of the chartered accountancy profession and the viability of the country's economy depend on it.

Partnership approach

In order to provide these services, Business Beat enters into partnering arrangements with:

- Corporations, franchisors, and public sector groups that encourage the development of SMEs by creating profitable business opportunities and making them available to suitable entrepreneurs
- Professional independent service providers that develop entrepreneurial potential in previously disadvantaged candidates and assist them to develop sustainable businesses
- Financial institutions that focus on providing assistance to small, medium, and micro enterprises
- Training and mentorship programs that focus on skills transfer and access to specialists' advice in areas such as IT and taxation
- Black business organizations and associations such as the National African Federated Chamber of Commerce and Industry and the National Business Initiative, a private sector-funded organization that addresses job creation, enterprise development and crime prevention
- Entrepreneurs SA that provides entrepreneurial evaluation and business skills training

Results

- Since its inception Business Beat and one of its partners, Entrepreneurs SA, has conducted more than 200 training programs and assisted over 2000 entrepreneurs with establishing businesses.
- Seventy-eight per cent of the entrepreneurs trained are still in viable business, compared to the national average of 80% - 90% failure rate for start-ups.
- Business Beat is currently assisting 40 Black entrepreneurs a month with a wide range of issues affecting their businesses.

Key Learning Points

- Setting up the program to run on a commercial basis helps it to develop independent sustainable entrepreneurs; any surpluses generated are used to further develop SMEs.
- Employee/partner commitment to transformation and Black economic empowerment is measured by comparing actual performance against predetermined targets and through diversity workshops and an annual survey.
- Working in concert with existing legislation is beneficial.

Next Steps: Partnerships for SME Development Checklist

1. Assessing the current engagement with SMEs and exploring further engagement

From the Business manager standpoint:

- Is the corporation currently engaged with SMEs?
- If any, what is the current form of the corporation's engagement with SMEs?
- How close is the relationship with SME suppliers / distributors?
- Where are the opportunities for greater engagement?
  - Supply-Chain
  - Distribution
  - General Support
- How could the corporation benefit from SME engagement?

From the Corporate Social Responsibility (CSR) manager standpoint:

- Is the corporation engaged in some CSR activities?
- If so, do they include SME development or reach out to SMEs?
- If not, does the corporation want to expand its scope of CSR and could SME development be an opportunity?
- What type of action would be appropriate?
  - Strengthening existing small and medium suppliers / distributors
  - Engaging in dialogue with local authorities on SME policy reform
  - Supporting existing SME development programs
  - Establishing own SME development program alone
  - Establishing own SME development program with partners

2. Bridging the gap between Corporations' needs and SME capabilities

- In what areas do SMEs need to be strengthened to better serve the corporation's goals?
  - Quality standards
  - Cost management
  - On-time delivery
  - Labor standards
  - Legal / government requirements
  - Foreign government requirements (e.g. USDA)
  - Financial conditions (payment, financing working capital)
  - Access to finance
  - Environmental constraints and energy usage
  - General business skills
  - Marketing and logistical skills
  - Access to market information

- What are the approaches that can be followed by corporations to strengthen SMEs?

  Supply chain and Distribution approaches

  - Providing business training
  - Transferring / sharing higher technology for cost-efficiency or environmental purposes
  - Improving financial terms
  - Providing market knowledge / linkages
  - Improving marketing techniques

  General Support approaches

  - Working with local government and development agencies in supporting local SME development initiatives
  - Participating in dialogue and advocacy on broad SME policy reform
  - Supporting mechanisms that provide greater access to finance for SMEs (including microfinance)

3. Establishing partnerships

- What partnership arrangements can be concluded to develop closer relationships with SMEs?
- What partner or partners could best help the corporation maximize its engagement with SMEs?
  - A SME representative organization (business associations, cooperatives)
  - Government (agencies, parastatal organizations)
  - Development agencies (UN, World Bank, bilateral donors)
  - NGOs and other private sector partners

Effectively Harnessing the Efforts of Corporations in the Development Arena: Experience from South Africa

" The fiduciary duty placed on investment funds to only include companies in their portfolios with an acceptable track record on social spending will make this a key component for the top 500 companies in future."

PREPARED BY: ***Burger Müller***
BLCF: Regional Fund Manager
(Central & Southern Africa)

The Future Role of Corporations

The international summit on sustainable development, held recently in Johannesburg, placed tremendous emphasis on the need for corporations to become more directly involved in the development and upliftment of the poor. The same is true for corporations to adopt a more benevolent stance towards the environment and ensure that day-to-day operations are sustainable over the long run. This recent shift towards social corporate responsibility will see a sizeable flow of funds over the next few years as pressure mounts on companies as well as investment funds to become actively involved in uplifting the poor through sustainable development.

There is already growing pressure worldwide for fund managers to incorporate their policy on socially responsible investment in their statement of investment principles — the document that sets out the aims, scope and restrictions for investments of a pension fund. Trustees, in the UK for instance, are held responsible not only for the performance of the fund, but also for their ethical stance. Legally the two components, if not morally, are regarded as equally important before the law.

In South Africa the emphasis of this obligation is slanted towards the fund manager's track record with regards to successfully investing in development projects. Trustees can opt out but government is increasingly saying that it regards the socially responsible investment policy as an important fiduciary duty. This is becoming equally important to other Southern African countries, with Namibia, for instance, requiring a substantial re-investment of funds within the country, with an increasing emphasis on development projects.

Companies will soon also be obliged to report on the effectiveness of social spending and will be rated on their impact on poverty reduction. The fiduciary duty placed on investment funds to only include companies in their portfolios with an acceptable track record on social spending will make this a key component for the top 500 companies in future.

Delivering Value for Money on Social Spending

Whether or not a company in the private sector should actively engage in development aid has been a controversial question for years. Those opposed largely follow Milton Friedman's reasoning that a company has but one moral obligation: to maximize its profitability by every lawful means. To allocate company resources for humanitarian purposes is unwarranted and runs counter to the immediate interests of the company and its shareholders. If people in management feel philanthropically inclined they would be better advised to dig into their own pockets and not those of shareholders who have not been asked. And if the latter wish to see a part of company earnings donated to worthy causes, then it is they who should so decide.

Although this line of argument has certain logic, it falls short of common sense. The sheer fact that more than 1.3 billion people live in absolute poverty should suffice as a justification, as evidenced by the further fact that a great many national and international companies have committed themselves to philanthropic efforts. They, for example, help support social welfare programs in the regions where their offices or factories are located.

Everything costs something, be it money, time or other resources. The decision to undertake a humanitarian commitment is therefore value-loaded and rests on enlightened self-interest. Recent studies (see, for example, Journal of Business Ethics, Vol. 15, No. 3) even discern a positive correlation between practiced social responsibility and the financial success of a company. They find that not only are loyalties forged that go well beyond the commercial sphere; managers who are receptive to social problems are also better equipped, thanks to their broadened horizon, to resolve company problems.

Social Responsibility Reporting

Influential lobbyists are currently mooting the idea of including social responsibility reporting as part of the required standard reporting for multinationals. During one the preparatory committee meetings for the World Summit on Sustainable Development the following recommendations were made:

- "Sustainable entrepreneurship" in less developed countries is to be included in company reporting as part of the expanding on the current environmental and sustainability reporting.
- "There is a growing awareness among business and industry that the social side of global sustainable development needs to be taken into account alongside environmental and economic aspects".
- "In a world increasingly interconnected economically, environmentally and socially this will require not only partnerships with governments and civil society, but also for industry to be fully transparent about its level of progress. This UNEP-facilitated reporting initiative is an important step toward reaching this goal".

What exactly is Sustainable Development?

Sustainable Development is a broad term relating to the global economy's ability to grow — based on a renewable model of procurement. In short it proposes a developmental plan whereby development is not done at the detriment of the environment but as a holistic activity supporting the latter. This philosophy has also highlighted the sustainable approach in social responsibility programs.

Although certain social responsibility projects will never be self reliant in their design (and this kind of assistance will probably always be around), the trend is to seek and develop projects that have the capacity to be self-reliant. Companies will typically exit from these projects after the initial embryonic phase where intervention and mentoring is needed.

This kind of sustainable entrepreneurship is the new developmental approach and the kind that companies in future will have to report on as part of progressive international reporting standards.

The Latest Company Initiatives

Some of the more progressive companies are currently pre-empting the moves towards expanded reporting and are coming up with Sustainable Development Guidelines of their own. Although most multinationals already report on social and environmental projects as part of normal reporting, few are in a position to report on sustainable entrepreneurship projects for the poor and fewer still have an action plan or the organizational skill and resources to put such a plan in place.

The complexities associated with sustainable development projects as well as the potential ongoing commitment and liabilities stemming from these initiatives are potential thorny issues. Companies are increasingly coming to the conclusion that this function would require outside expertise.

Issues Facing Companies:

- Finding suitable projects – Finding suitable sustainable entrepreneurial projects can prove to be a difficult and politically loaded task. For most companies this is an expensive and frustrating exercise.
- Objective Vetting Process – The selection process is fraught with difficulties and companies might find it difficult to say no to unsustainable projects as influential people might promote them.
- Structuring Projects – Most projects of this nature would require a substantial amount of structuring to turn them into sustainable projects with the ability to proudly carry the name of its sponsor.
- Funding projects – Most companies are unaware of the different funding options open to them for projects of this nature. Companies typically end up funding the entire project themselves.
- Tax Implications – Setting up projects of this nature may impact on the balance sheet of companies. These projects need to be set up in special purpose vehicles and the funding mechanism taken into account when doing so.
- Monitoring Projects – Projects of this nature need to be monitored and tweaked during the rollout phase. This requires skill and the necessary manpower to do so.
- Exit Strategy – All good things must come to an end - and to a happy end at that. Companies rarely prepare an exit strategy for extracting them from projects and the potential ongoing liability and legacy. This part is of the utmost importance, as a well-planned strategy will reduce overall project cost.

Sustainable Development Services

A Deal Pipeline

Finding the correct project that is in line with company focus might prove to be the most difficult part of the exercise. A due process needs to be followed in the sourcing and selection of projects to ensure sustainability, address liability issues and to access available co-finance. This process might differ from company to company and should be carefully considered.

Selection Process

Although a third party may facilitate the selection process, active input from the corporate donors would be required during this phase to ensure true ownership. A company should identify and feel at one with the project in order to obtain maximum exposure from its involvement. The suggested route is therefore to set up a panel consisting of members of the company as well as external independents. Panel members would appraise projects presented to them and select on pre-designed criteria unique to the company. The criteria followed by the panel would be an extension of project sourcing criteria laid down in the brief to the third party.

Structuring Projects

Experience has learned that very few projects enter the arena ready made and perfectly structured. Definite input on the part of the fund manager is needed to structure proposals in order to meet criteria, ensure sustainability and to access finance. Structuring should take place at both the proposal as well as full application stage and before the Panel makes its final decision. This involves fine-tuning the concept, reviewing potential partners and finding off-take agreements or distribution networks to ensure sustainability.

Securing Finance for Projects

It is envisaged that sustainable entrepreneurship projects will be co-funded on a matching basis and that the company will not provide 100% finance. Projects will be co-funded with multilateral or bilateral donor agencies, foreign companies with industrial participation commitments and discretionary funds of institutional investors. If correctly structured, commercial funding will also be an option.

Tax and Legal Implications

The tax review will focus on legislative and statutory compliance in respect of all direct and indirect taxes. The legal review will focus on corporate, employment, competition and environmental legislative compliance. We anticipate that the various reviews will be done in consultation with, and with the assistance of the company. This is necessary to ensure knowledge transfer to facilitate ongoing risk assessments relating to the compliance tax and legal affairs of the company. During this review, we will also investigate areas where there might be opportunities for savings.

Employees and Employment Benefits

Our objective is to ensure compliance with labour legislation in respect of agreements with employees, company policies, arrangements with trade unions and share incentive schemes and to advise on corrective action.

Competition

With the introduction of statutory requirements in this regard, many business practices are now illegal and punishable, albeit inspired by benevolent motives. A professional third party review would identify these risk areas and will suggest remedial steps.

Environmental Compliance

The project's environmental aspects must be reviewed and impacts against environmental regulatory compliance standards, including both the direct and indirect environmental impacts, must be analyzed. The review will include an assessment of compliance with environmental corporate governance standards, director and officer personal liability for environmental harm and the environmental performance of the company, as well as legal avenues to create fiscal incentives for the company to improve its environmental performance and to meet liability obligations.

Exit Strategy

An effective and well thought-out exit strategy is regarded as a crucial component of the entrepreneurial cycle. This, however, is often neglected and left to chance or a 'wait and see' attitude is adopted. Long term planning will allow for the correct exit when conditions are favorable and would permit the correct strategy to be invoked. This phase is not only important to the fledgling business, but also to the company that initiated it. Again tax, liability, financial commitments and other unforeseen issues come to play. A well thought-out plan will address this and make use of the most appropriate funding and structuring instruments. Convertible debt instruments for instance can be effectively used to address funding, tax and liability issues and would form an integral part of an exit strategy.

Outsourced Fund Management

A Corporate Social Responsibility Fund would probably take the form of investing in outsourced SME opportunities through the top 500 corporations. The fund would co-finance the setting up of linkages between SMEs and corporations and would focus on outsourced services. This way, corporations would have 'branding and ownership' opportunities and the fund would lower its risk profile by investing in ventures with predictable and reliable income streams (done on outsourced contract work). Joint ventures between SMEs and corporations would thus be the focus. The exit strategy would be through the sale of an equity stake to the SME stakeholders at a pre-determined period. Debt/equity conversions could also be utilized as well as other financial structures.

Existing Corporate Spending in South Africa

For the purpose of this document, available examples of social responsibility spending in South Africa were highlighted to show the magnitude of the existing corporate market in this region. The following companies in South Africa have dedicated annual budgets for social development projects.

SASOL	R43 million p.a.
First Rand Group	R41 million (pledged 1% of after tax profit)
Standard Bank	R28 million
Absa	R13 million (2% of declared dividend)
Telkom	R20 million (dedicated fund of R100 million topped up every 5 years)
Anglo American	R63,4 million p.a.
Harmony	R15 million (dedicated fund to be increased to R38 million)
Sanlam	R10 million p.a.
Old Mutual	R20 million (0.5 % of after tax profit)
Iscor	R2 million p.a

A benchmark that is starting to emerge among the top 40 companies in South Africa is that companies are pledging 1% of after tax profits for social corporate responsibility projects. According to the latest available South African Revenue Service statistics, the corporate tax contribution to the South Africa tax base amounted to R54.9 billion in 2002 / 2003. This would equate to a corporation turnover after tax of R126 billion and an available R1.2 billion per annum for corporate social investment.

Conclusion

Given the realities of the African continent, it is imperative to find new and innovative ways to stimulate capital flows towards sustainable development. It is clear that official development assistance alone will never be sufficient to have a significant impact on poverty reduction. The mobilization of private funding is, therefore, a significant shift in conventional thinking and should be encouraged and its efforts harnessed to ensure maximum impact.

Useful Web Links

International Organizations

UNDP Business Partnerships	www.undp.org/partnerships/index.html
UNIDO Business Partnerships	www.unido.org/doc/4364
International Finance Corporation SME Department (World Bank group)	www.ifc.org/sme
UN Global Compact	www.unglobalcompact.org
World Bank	www.worldbank.org
OECD	www.oecd.org

Non-Profit Organizations

Prince of Wales International Business Leaders Forum	www.iblf.org
CSR Forum	www.csrforum.com
CSR Europe	www.csreurope.org
Foundation for Sustainable Development of SMEs	home.fundes.org
CSR Wire	www.csrwire.com

Business Organizations

World Business Council for Sustainable Development	www.wbcsd.org
Business for Social Responsibility	www.bsr.org
Worldwide Responsible Apparel Production	www.wrapapparel.org

Donors

U.S. Agency for International Development (USAID)	www.usaid.gov
Germany's Gesellschaft fur Technische (GTZ)	www.gtz.de
Swisscontact	www.swisscontact.org
U.K. Department for International Department (DFID)	www.dfid.gov.uk

Partners for SME Development

Deloitte Emerging Markets	www.deloitte.com/emergingmarkets
Business Linkages Challenge Fund	www.challengefunds.org

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