



BUSINESS LINKAGES:

Lessons, Opportunities, and Challenges

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CONTENTS

| | | |
|------------|--|-----------|
| I | The Role of Business Linkages in a Changing Corporate Landscape | 5 |
| II | Examples of Corporate Action to Promote Business Linkages | 7 |
| | 1. Value chain SME development and linkage programs | |
| | 2. "Beyond the value chain" SME development and linkage programs | |
| | 3. Strengthening the enabling environment for business linkages | |
| | 4. Hybrid approaches | |
| III | Addressing Challenges in the Practice of Business Linkages | 12 |
| IV | Conclusions: Looking Toward Sustainability and Scale | 19 |
| | Appendix I: Sampling of Business Linkage Programs | 21 |
| | 1. MINERA YANACOCHA, PERU (Newmont and IFC) | 24 |
| | 2. EAGLE LAGER, UGANDA AND ZAMBIA (SABMiller) | 26 |
| | 3. SMES IN THE VALUE CHAIN, SOUTH AFRICA (National Business Initiative) | 28 |
| | 4. ECONOMIC LINKAGE PROGRAM IN RAJASTHAN, INDIA (Cairn India and IFC) | 30 |
| | 5. PROMINP, BRAZIL (Petrobras and Partners) | 31 |
| | 6. PRIVATE SECTOR INITIATIVE, SUB-SAHARAN AFRICA (SBP) | 33 |
| | 7. ANGLO ZIMELE, SOUTH AFRICA (Anglo American) | 35 |
| | 8. AGRICULTURAL SUPPLY CHAIN IMPROVEMENT, GLOBAL (Ecom Agroindustrial Corporation) | 37 |
| | 9. GULF OF SAN JORGE SME PROGRAM, ARGENTINA (Pan American Energy) | 39 |
| | 10. PARTNERSHIP FOR ENTERPRISE DEVELOPMENT IN AFRICA (UNIDO and Microsoft) | 40 |
| | 11. SME DEVELOPMENT AND LINKAGES IN CHAD (ExxonMobil and IFC) | 42 |
| | 12. VIETNAM BUSINESS LINKS INITIATIVE (International Business Leaders Forum) | 44 |
| | 13. ACG/BTC LINKAGES PROGRAM, AZERBAIJAN (BP and IFC) | 46 |
| | 14. DIAVIK DIAMOND MINES INC., NORTHWEST TERRITORIES, CANADA (Rio Tinto) | 47 |
| | 15. SUPPLY AND DISTRIBUTION LINKAGES WITH SMES, GLOBAL (Nestlé) | 49 |
| | 16. BARCLAYS MICROBANKING, GHANA (Barclays Ghana with the Ghana Cooperative Susu Collectors Association and Ghana Microfinance Institutions Network) | 51 |
| | 17. DISTRIBUTION AND RETAIL LINKAGES, GLOBAL (The Coca-Cola Company) | 53 |
| | 18. ASPIRE SME FACILITIES IN AFRICA (Shell Foundation and GroFin) | 55 |
| | 19. EMPOWERING MICRO, SMALL, AND MEDIUM RETAILERS, BRAZIL (Tribanco) | 56 |
| | 20. SUSTAINABLE TEA INITIATIVE, KENYA (Unilever and Kenya Tea Development Agency) | 58 |
| | 21. SMALL BUSINESS DEVELOPMENT GROUP, KAZAKHSTAN (Chevron) | 59 |
| | Endnotes | 61 |

“More than ever, companies realize that it is good business to share benefits with the communities in developing countries in which they operate. Enabling small, local firms to supply goods and services to larger enterprises creates more efficient supply chains. At the same time it maximizes development benefits by helping local companies to grow and create jobs.”

Lars H. Thunell

IFC Head

I The Role of Business Linkages in a Changing Corporate Landscape

For large firms, globalization has generated both new markets and new competitive forces. Constant pressure to reduce costs, shorten lead times, and focus on core competencies has driven firms to change their supply chain management strategies. Most large manufacturing companies now buy significant percentages of their inputs of both goods and services from other firms, with some spending as much as half of their revenues this way.¹ Managing the supply chain for an optimal mix of cost, quality, flexibility, and strategic advantage (such as access to innovation) is becoming an increasingly important source of competitive advantage.

In addition, many firms have become highly transnational, with increasing presence in developing countries. The 77,000 transnational corporations identified by the United Nations Conference on Trade and Development now count more than 770,000 foreign affiliates which, in 2005, “generated an estimated \$4.5 trillion in value-added, employed some 62 million workers, and exported goods and services valued at more than \$4 trillion.”² More and more of this activity is taking place in developing countries. Foreign direct investment (FDI) in these countries reached “the highest level ever recorded” in 2005 – \$334 billion.³ In the 10th annual CEO survey conducted by PricewaterhouseCoopers (PwC) for the World Economic Forum, 35% of respondents indicated that more than 10% of their value chains were sourced from, or located in, low-cost countries.⁴

Cost pressure and presence in developing countries combine to create an interesting set of opportunities and challenges for large firms. How to gain the local knowledge and contacts required to operate effectively? How to optimize cost, quality, flexibility, and other considerations in the value chain? How to manage any social or political controversy surrounding company activities? How to preserve “social license to operate”? H.R.H. The Prince of Wales has stated that “no business can survive for long as an island of wealth in a sea of poverty.”⁵ According to PwC, “the message is clear: companies need to be seen to be contributing, and not simply exploiting.”⁶ The CEOs responding to its survey recognized an “urgent need to forge stronger ties to the local communities in which they operate.”⁷ While these challenges are particularly pronounced for foreign firms with affiliates in developing countries, they are relevant to domestic developing country firms as well.

In developing countries, business linkages with local small-medium enterprises (SMEs) – including procurement, distribution, and sales – offer large firms an avenue through which to address some of these concerns. These relationships can

allow large firms to reduce input costs while increasing specialization and flexibility. They can also increase local integration and “rooting,” providing access to local knowledge and, by spurring growth and development in the local SME sector, bringing about positive social and economic impacts in the wider community. There are thus both competitiveness and corporate social responsibility arguments in favor of business linkages. Some of the potential benefits – to large firms, to local business communities, and to SMEs – are catalogued in the diagram below.

FIGURE 1 POTENTIAL BENEFITS OF BUSINESS LINKAGES FOR LARGE FIRMS, LOCAL BUSINESS COMMUNITIES, AND SMALL-MEDIUM ENTERPRISES

| SMALL-MEDIUM ENTERPRISES | LOCAL COMMUNITIES | LARGE FIRMS |
|--|---|---|
| <ul style="list-style-type: none"> ➤ Increased employment and wealth creation by local firms ➤ Acceleration of knowledge transfer and technology upgrading ➤ Enhanced skills, standards and capacity ➤ Access to new domestic and/or foreign markets ➤ Attraction of additional foreign direct investment in “cluster” effects ➤ More diversified client and market structures ➤ More stable relationships to buyer or producer organizations ➤ Risk-sharing through joint funding and/or operations ➤ Facilitation of access to finance ➤ Opportunities to innovate, upgrade and increase competitiveness | <ul style="list-style-type: none"> ➤ Stimulation of economic activity and enhanced local economic development ➤ Increased employment and production ➤ Long-term increase in local or regional competitiveness ➤ Added local purchasing power ➤ Access to more affordable, reliable, or better quality products and services ➤ Increased participation of large-scale companies in local business and community development ➤ Balance of payment benefits when products are exported and/or substituted for imports ➤ Development of local business service providers catering to SMEs | <ul style="list-style-type: none"> ➤ Reduced procurement, production and distribution costs ➤ Improved productivity ➤ Increased opportunities for corporate responsibility combined with profitability ➤ Enhanced reputation and local license to operate ➤ Improved integration in new overseas markets ➤ Increased ability to reach consumers at the base of the economic pyramid ➤ Proactively deal with downsizing ➤ Reduction of foreign exchange needs through import substitution ➤ Increase in flexibility in making design and production changes due to proximity of local suppliers ➤ Reduced environmental impacts from long-distance shipping ➤ Compliance with government local content requirements |

Sources: Adapted from Stanton, D and Polatajko, T. (2001). “Business Linkages: Their value and donor approaches to them.” UK Department for International Development. Other sources include The International Finance Corporation’s Global Linkages Unit; Nelson, Jane (2006). “Building Linkages for Competitive and Responsible Entrepreneurship: Innovative Partnerships to Foster Small Enterprise, Promote Economic Growth, and Reduce Poverty in Developing Countries.” Geneva and Boston, MA: United Nations Industrial Development Organization (UNIDO) and the Fellows of Harvard College; various UNIDO documents; and the International Business Leaders Forum.

II Examples of Corporate Action to Promote Business Linkages

Many large firms are, in principle, interested in developing relationships with local SMEs. However, such relationships can also be costly to form and maintain, and as a result, they rarely develop easily or smoothly.

A large firm's tendency to form linkages is a function of firm- and industry-specific risks, costs and benefits; firm-level perceptions and strategies, such as domestic or export market orientation; government incentives and requirements; and the availability of qualified SMEs. According to UNCTAD, the latter is often a key obstacle.⁸ SMEs may have limited access to market information and financing, lack management skills or production expertise, or be unable to match product quality requirements or to scale up quickly.

Nevertheless, some companies have moved ahead despite these challenges, working either on their own, collectively with other companies, or collaboratively with a variety of other stakeholders. A joint research project by UNIDO and Harvard University has identified six main types of mechanism through which large companies are partnering with each other or with other stakeholders to support business linkages and SME development, often with the explicit goal of overcoming some of the obstacles listed above. These mechanisms include: partnerships along individual company value chains; groups of companies in the same industry sector or location working collectively together; traditional trade and industry associations enhancing their capacity to better serve SMEs; joint public-private financing mechanisms; dedicated small enterprise support centers; and multistakeholder public policy structures.⁹

These companies' business linkage efforts have varied not only in the "how," but also in the "what." For instance:

- Many companies have forged SME linkages within their own value chains, usually complemented by supplier and/or channel development measures of various kinds.
- Some companies have, either in addition or instead, focused on SME development and linkages beyond their own value chains.
- And finally, some companies have taken action to strengthen the enabling environment for SME development and linkages.

In the next sections, we will highlight these efforts in general terms and illustrate with examples.

1. Value Chain SME Development Linkage Programs

Large firms operating in developing countries can forge linkages with local SMEs in many different areas of their own value chains. As the UNIDO-Harvard research outlines, these opportunities may include procurement, agricultural outgrowers schemes, manufacturing subcontracting, outsourcing non-core functions and services, distribution and retail, franchising and leasing, and sales of financial services, information and communications technologies, and other productive inputs and tools.¹⁰ Key to these programs is developing the capacity of SMEs to meet the needs of the large firm.

BOX 1 SMALL FARMER DEVELOPMENT AND LINKAGES: SABMILLER'S EAGLE LAGER

In 2002, in the face of business imperatives such as the high cost of imported barley and the low purchasing power of most Ugandan consumers, SABMiller launched a new beer, Eagle Lager. Eagle Lager costs about a third less than other lagers thanks to a two-pronged strategy: first, substitution of locally-produced sorghum for imported barley, and second, a policy of sourcing sorghum from small farmers – in return for which the Ugandan government has reduced the very high excise tax on beer.

SABMiller now works through farmers' cooperatives to source from 8,000 small farmers in Uganda. The company works through cooperative leaders, non-governmental organizations, and commodity brokers to transfer agricultural knowledge and business skills as well as help identify new markets for the farmers beyond SABMiller. In 2005, Eagle Lager expanded to Zambia, where it currently sources from 2,500 farmers. Independent studies have shown that the average farmer participating in the Eagle Lager value chain has raised his income by 50%. The beer has achieved market share of 50% in Uganda and 15% in Zambia.

2. “Beyond the Value Chain” SME Development and Linkage Programs

Recognizing the central role of a dynamic SME sector in local economic development, many companies are taking SME development and linkage programs beyond their own value chains. Often they do this for public relations or corporate social responsibility reasons, such as demonstrating their commitment to the community and thereby strengthening their license to operate, or mitigating social risks from the viewpoint of investors. Companies engaged in large infrastructure projects or mining activities may support “beyond the value chain” SME development and linkages in order to reduce dependence in the local economy and soften the blow when they leave. A company restructuring or privatizing may support such activities to compensate for massive job cuts inside the company. Companies can also choose to support such activities for the enhanced stability and opportunity a vibrant local economy offers over the longer term.

BOX 2 “BEYOND THE VALUE CHAIN” SME DEVELOPMENT: MICROSOFT-UNIDO

PARTNERSHIP IN AFRICA

In July 2006, Microsoft and the United Nations Industrial Development Organization agreed to partner in an effort to stimulate small-medium enterprise growth in Africa. The initiative has three components: supporting the promotion of foreign direct investment in sub-Saharan Africa through an e-portal for foreign investors, investment promotion agencies, and governments; establishing rural business information centers to provide capacity-building services for SMEs; and enabling UNIDO’s entrepreneurship education curriculum with information and communications technology (ICT) components.

The Microsoft-UNIDO business information centers will provide a range of training programs and ICT tools intended to improve SME productivity and competitiveness. To date, a pilot project has provided services in eight districts in Uganda. Over time, the project partners will use learnings from the operation of these centers to develop new technologies tailored to the needs of small businesses in developing countries.

3. Strengthening the Enabling Environment for Business Linkages

In addition to undertaking SME development and linkage programs, or prior to doing so, some companies are taking steps to increase the effectiveness of those programs by influencing some of the environmental factors that facilitate or hinder their work. It is quite common, for example, for companies to make social investments – of money, employee volunteer time, or both – in education and training in order to build a qualified local workforce.

Another common strategy is to promote the growth and development of organizations that help build the social and economic assets and infrastructure on which SMEs depend. These include schools and vocational training institutes, local non-profit or for-profit business service providers, credit bureaus, entrepreneurship organizations, small business associations and chambers of commerce, linkage “brokers,” and government agencies. Government capacity-building is gaining particular attention, as agencies’ efficiency in matters like business licensing, taxation, and regulatory enforcement can be critical to small business success.

Linked to this, a third strategy for strengthening the enabling environment for linkages is to engage in public policy processes. Large firms are starting to explore channels for dialogue on the kinds of policies, programs, and regulations that affect SMEs’ ability to incorporate, grow, and form linkages with larger firms.

BOX 3 STRENGTHENING THE ENABLING ENVIRONMENT FOR LINKAGES: SOUTH AFRICA’S NATIONAL BUSINESS INITIATIVE

South Africa’s National Business Initiative (NBI), founded in 1995, is a coalition of over 140 local and multinational companies. The organization is an alliance of forward-thinking South African and overseas companies that are committed to realizing the vision of a thriving South African society, with a market economy that functions for the benefit of all.

NBI aims to promote and facilitate the formation of business linkages through a number of actions to strengthen the enabling environment, including:

Development of guidelines and good practice: A number of large firms have adopted and implemented innovative approaches in the development of strong commercial linkages with SMEs in their value chains. Guidelines on good practice and case studies are being developed and successful initiatives marketed and promoted for a multiplier effect.

Policy and regulatory advocacy: NBI and its partner have performed substantial research on the policy and regulatory environment for small business development and linkages with large firms in South Africa. Given that SMEs generally lack a platform for influencing the government and large enterprises, NBI plays a direct advocacy role in the promotion of policies and improved business practices conducive to linkages formation.

Support for intermediaries: NBI has found that intermediary organizations can play instrumental roles in facilitating linkages between SMEs and large firms, and is evaluating strategies for building the capacity of such organizations to play their roles effectively.

4. Hybrid Approaches

It bears noting that many SME development and linkage promotion programs span two or all three of the categories above. For example, as described earlier, actions to strengthen the enabling environment for linkages may be undertaken simultaneously with value chain or “beyond the value chain” SME development and linkage programs in order to increase their effectiveness. Similarly, some companies may choose to expand value chain programs to SMEs “beyond the value chain” in order to leverage their investments for increased community impact.

BOX 4 A HYBRID APPROACH: YANACOCCHA SME LINKAGES

The Yanacocha SME Linkages Program was developed around IFC’s investment in the largest gold mine in Peru, to support IFC’s client, Newmont. The program consists of all three activity types described in this paper:

Supply chain SME development: Efforts to build the capacity of local SMEs in the construction and transportation sectors to win contracts with the mine and other large regional companies.

“Beyond the value chain” SME development: Efforts to build the capacity of SMEs in non-supply chain sectors that have potential for long-term sustainability – agribusiness and handicrafts – in order to develop a diversified economy outside the mining sector. This is important now, but will be even more important in the future, when the mine’s reserves are exhausted and it closes down. Capacity-building for agribusiness SMEs is provided in production, organization, financial management, marketing, and access to finance. In handicrafts, in addition to basic business areas such as new product development, accounting, and costing, there is a heavy focus on marketing and market development.

Strengthening the enabling environment for linkages: The Yanacocha SME Linkages Program complements the SME development efforts described above with more general work to address market and policy failures. For instance, in conjunction with the local government, IFC developed an administrative simplification project which drastically reduced the number of steps needed to register a small business – from 75 to 2 – resulting in a sharp increase in registrations of small businesses, bringing them into the formal sector for the first time. In addition, Newmont asked IFC to work with local municipality to optimize its revenue management systems and ensure that Newmont’s tax payments and other contributions to the budget effectively fund basic social and economic infrastructure. And lastly, assistance will be provided to help build the institutional capacity of the Asociación Los Andes de Cajamarca (ALAC), Newmont’s corporate foundation, so that it can manage regional SME development efforts over the long term, after IFC exits.

III Addressing Challenges in the Practice of Business Linkages

While innovation and experimentation to date have yielded many success stories, including the examples described above (and in Appendix 1), replication and scaling of linkage activity generally have been slow to follow from individual project successes, which “essentially remain isolated phenomena.”¹¹ Even companies with relatively well-established programs face ongoing challenges in their work. These challenges can be operational, reputational, and systemic in nature. A variety of approaches to tackling them, both internal to the company and collaborative, are being developed.

1. Operational Challenges and Approaches

Securing internal commitment within the large firm. Business linkage programs are long-term efforts, often requiring 5, 10, or even 15 years to achieve impact. Investments of money, time and expertise, and technology – and considerable personal persistence by key staff – are needed along the way. Strong internal commitment is required to sustain linkage efforts through the inevitable changes in leadership, organizational structure, and competitive landscape that occur as a normal part of doing business. Linkage practitioners need explicit support that starts at senior levels in the company and extends through to procurement managers making everyday decisions on the ground.

Approaches to the challenge of securing internal commitment to linkages include:

Procurement policies. Procurement policies that establish the mandate for managers to engage with SME suppliers can help institutionalize a firm’s commitment. BP in Azerbaijan and ExxonMobil in Chad have laid out explicit National Content Strategies which provide overarching frameworks for field managers to engage in SME development and linkage activities. Overarching commitments like these then set the stage for a variety of linkage-friendly procurement practices such as breaking up contracts into sizes more manageable for SMEs; introducing shorter payment cycles; and awarding contracts for longer terms.

Performance measures and incentives. Combined with overarching policies and linkage-friendly procurement practices, performance measures and incentives for staff can help to further cement a company’s commitment to linkages, ensuring that it goes beyond high-level “moral support” to influence the day-to-day decisions of rank-and-file managers. BP, for instance, is backing up its overarching commitment in Azerbaijan by incorporating local content targets

into performance metrics for delivery managers. Ecom, an agricultural trading company, is creating the incentive for managers in its coffee division to look at the farming practices of small suppliers by changing its traditional dollars-per-ton performance metric to dollars-per-ton-per-hectare, a measure of productivity.

Culture of long-term thinking. A culture of long-term thinking can create the space for linkage-friendly procurement policies and practices to be established and sustained long enough to bear fruit. At Nestlé, for example, “a belief that’s been institutionalized [is] that if you want to guarantee sustainable growth for your shareholders over the long term, you have to create value for the society in which you operate.”¹² This concept of “shared value creation” has opened the door for the Nestlé linkage programs described in this report, as well as a variety of others described elsewhere.¹⁴

Obtaining reliable, actionable information. It can be difficult for large firms operating in developing countries to identify SMEs offering relevant products and services and to assess their qualifications – information which is required to reduce the risk in transacting with them. This endeavor can be especially costly in linkage models involving large numbers of small transactions, for example when sourcing agricultural products from smallholder farms or marketing consumer packaged goods through kiosks or pushcart vendors.

Approaches to the challenge of obtaining reliable, actionable information include:

Dedicated staff or departments. Diavik Diamond Mines, Inc., a subsidiary of Rio Tinto operating in a predominantly indigenous part of Canada, has hired a venture development manager to identify potential local business partners. In South Africa, Anglo American, another mining firm, has created an independent organization – Anglo Zimele – to identify and perform due diligence on potential SME suppliers.

Supplier databases. In Chad, ExxonMobil has worked with external partners to develop a supplier database. The database contains contact details, goods and services offered, and needs information for over 60 potential suppliers that have been assessed by the company as well as over 1,000 additional SMEs surveyed by IFC and the local chamber of commerce. In a slightly different model of collaboration to reduce the cost of obtaining supplier information, South Africa’s SBP (formerly known as the Small Business Project), a non-governmental organization, has compiled supplier databases that are then shared by groups of large firms operating in the same geographic area. These databases are part of SBP’s Private Sector Initiative models in South Africa, Tanzania, and Malawi.

Network leveraging. On the supply side, Petrobras is working through the national small business association SEBRAE to identify small and medium enterprises that can be integrated into the value chain of the oil and gas sector.

The Petrobras-SEBRAE Framework Agreement has resulted in US\$113 million in transactions between oil and gas companies and SMEs thus far. On the distribution side, Unilever works through social entrepreneur M.G. Papamma in India to identify women who can serve as independent retailers of its products. In Vietnam, The Coca-Cola Company does the same thing through the local Women's Union. On the sales side, Amanco in Mexico operates through a social entrepreneur working with farmer cooperatives to sell its small-scale irrigation systems to smallholders.

Measuring impact. Business linkage activities can be difficult to monitor and evaluate for a variety of reasons. One problem is choosing appropriate metrics, of both business and development impact. Another is distinguishing between output metrics (such as the number of local contracts awarded) and outcome metrics (such as the increase in per capita income attributable to a linkage program). From a development perspective, the latter are more meaningful, but also much harder to evaluate. Complexity and the lack of a counterfactual – the inability to know what would have happened in the absence of a linkage program – complicate the task of establishing causality. In addition, many of the impacts occur over the long term, while stakeholders such as funders, communities, NGOs, and business managers often have shorter time horizons.

Approaches to the challenge of measuring impact include:

Participatory monitoring and evaluation agreements. Rio Tinto's Diavik Diamond Mines has approached this challenge by agreeing beforehand with local stakeholders what the relevant impacts will be. Diavik has signed a Socio-Economic Monitoring Agreement (SEMA) with the government and local indigenous groups outlining the company's commitments to local SME development and linkages, and it must report on its progress against those commitments twice a year. Separately, the company signed participation agreements with each of the five local aboriginal groups, outlining how it would work with them to maximize local benefit through scholarships, job creation, and local business capacity-building. Four of the agreements include implementation committees that externally verify Diavik's compliance.

2. Reputational and Relationship Management Challenges and Approaches

Managing expectations. Investments by large firms in low-income communities can generate very high expectations, particularly around generation of employment and business opportunities for local SMEs. While such investments often do have significant positive impacts, depending on the industry and business activity in question, these impacts are not always the ones local communities expect. For instance, a mining operation may generate substantial tax revenues for the central government, but create relatively few new jobs, and therefore translate into little obvious day-to-day improvement in local residents' lives. Where local community

expectations go unmet, significant risks – strikes, boycotts, even violence – can arise for the large firm.

Approaches to the challenge of managing expectations include:

Social responsibility agreements. Lack of communication or common understanding is a primary reason community expectations go unmet. Diavik's Socio-Economic Monitoring Agreement and Participation Agreements, described above, respond to this issue by going beyond consultation to involve relevant stakeholders in a decision-making capacity. Newmont has responded to this issue at its Ahafo mine in Ghana by convening a Social Responsibility Agreement Forum of traditional, local, and regional government officials to identify common goals and needs as well as pathways and processes for getting there. The company has committed to formalizing this process with a written Social Responsibility Agreement that will feed into a broader community development plan.¹⁴

Reducing dependence. While large firms' investments often provide important new sources of jobs and business opportunities for SMEs, underdevelopment in the surrounding economy can leave workers, local businesses, and entire communities dependent upon them. Such dependence is closely linked with the challenge of managing expectations. Where it exists, large firms may face resistance when trying to reduce costs, raise prices, or terminate contracts – when the construction phase of a pipeline is completed, for example, or when a mine closes.

Approaches to the challenge of reducing dependence include:

Market diversification for SMEs. In its agricultural business, Nestlé has worked to improve the productivity of milk farmers within its value chain so that they can sell their surplus milk to other buyers, and helped coffee farmers branch out into other crops to reduce their dependence on a single commodity market. A number of other companies have worked through intermediary organizations to help their suppliers diversify. For instance, CARE International and local commodities brokers have helped SABMiller's sorghum farmers in Uganda and Zambia find markets outside the company's value chain. IFC and the Asociación los Andes de Cajamarca have done the same thing for SMEs in the vicinity of Newmont's Yanacocha gold mine in Peru, regardless of whether they are suppliers for Yanacocha or not. There is also scope for large firms to help their SME suppliers and distributors diversify by sharing SME information among themselves – supplier databases like those used by SBP's Private Sector Initiative networks in southern Africa can be a tool for this.

Peer networking. Another way to reduce dependence among SMEs is to help them tap into the experience, skills, and support of their peers. In South Africa and Malawi, SBP's Business Bridge brings together SME owner-managers once a month to identify common concerns and problems, discuss difficulties, identify additional information they need, and bring in speakers to provide it –

for instance, a revenue service official to talk about tax returns or a corporate procurement manager to talk about large firm expectations. In a few cases, Business Bridge relationships have led to joint venture opportunities for the SME owner-managers.

Appropriate exit strategies. Two emerging strategies are to transition the ownership and operations of linkage programs to local community foundations and to embed them into national policy frameworks. While a full exit has not yet taken place in this case, the former is Newmont's approach at its Yanacocha mine in Peru, where the local Asociación Cajamarca de los Andes (ALAC), Newmont's corporate foundation, is taking on an expanding role in capacity-building and identification of new business opportunities for SMEs, particularly outside of Yanacocha's value chain. The latter has begun to happen in Vietnam, where the success of the Vietnam Business Links Initiative (VBLI) in the footwear industry has motivated the government to develop national training courses for supplier health and safety professionals. The government has also identified VBLI as a model which could be applied in other industries.

3. Systemic Challenges and Approaches

Building SME skills and capacity. Developing country SMEs are often unable to compete for large firm contracts due to lack of market information, management skills, or technology, leaving them unable to meet safety or quality requirements, to change their product or service mix, or to scale up quickly according to demand.

Approaches to the challenge of building SME skills and capacity include:

Standardized training modules. Together with IBM, IFC has developed an online SME Toolkit containing self-guided training modules in subjects such as accounting, business planning, human resources management, and marketing. The Toolkit also contains how-to articles, sample business forms, and free software. IFC has also produced 36 Business Edge training modules including self-study, classroom instruction, and train-the-trainer materials in marketing, human resources, production and operations, finance and accounting, and productivity skills. Many of IFC's clients feel that standard training modules like these can be shared widely, even across competitors, to distribute the costs – without sacrificing the potential competitive advantage a successful linkage program overall can provide. In a company-specific example, Martins Group in Brazil has provided online training to 11,000 people through its Martins Retail University.

Best practice guidelines. A number of companies have developed best practice guidelines specific to particular industries or business activities. For instance, Unilever's Sustainable Tea Initiative produced guidelines for tea farmers to produce crops with high yield and nutritional quality and low environmental impact. Starbucks' CAFÉ practices in the coffee industry are another example.

Enterprise Centers. A wide range of large firms have used Enterprise Center models to provide one-stop shops for SMEs to access contract opportunities, e-procurement systems, training courses, information and communications technology tools, business development services, and more. Examples include BP's Enterprise Center in Baku, Azerbaijan; ExxonMobil's Enterprise Center in Chad, run jointly with IFC and the local chamber of commerce; and the rural business development centers UNIDO has established in Uganda in collaboration with Microsoft.

Peer networking. SBP's Business Bridge peer learning and networking model, described above, allows SME owner-managers to provide mentoring, capacity- and confidence-building support to one another. General Motors facilitates a similar model for suppliers within its own value chain, pairing large suppliers with smaller suppliers in mentoring relationships.

Improving SME access to finance. According to UNCTAD, "finance has been identified in many business surveys as the most important factor determining the survival and growth of SMEs in both developing and developed countries."¹⁵ Financial services are critical in enabling SMEs to scale up production, upgrade technology, or change or improve products and services. However, financial service providers often regard SMEs as high-risk, and the high transaction costs involved in assessing creditworthiness and making loans or investments can make it unprofitable.

Approaches to the challenge of improving SME access to finance include:

Joint financing mechanisms. BP suppliers in Azerbaijan now have access to a joint Supplier Finance Facility of \$15 million over eight years. BP and IFC are each 40% shareholders in the facility, while a local bank holds 20%. In Africa, the Aspire facilities co-established by Shell Foundation and GroFin, a specialist financier, have participation from development finance institutions, foundations, and leading local banks such as ABSA, Diamond Bank and Commercial Bank of Africa. The largest Aspire facilities are in South Africa (\$18 million) and Nigeria (\$30 million).

Links with commercial banks. In Brazil, Votorantim Papel e Celulose (VCP) is sourcing eucalyptus from small farmers, who it has connected with Banco Real to obtain commercial financing for their operations. VCP guarantees a market for 95% of the wood at a pre-determined price; Banco Real charges a reduced interest rate of 9% a year and accepts the wood, rather than the farmers' land, as collateral.¹⁶

Non-traditional forms of collateral. Access to financial products and services such as factoring, invoice discounting and stock financing enables SMEs to leverage non-cash resources in exchange for finance and credit, freeing up capital that can be used for business expansion. For example, Barclays clients in Zambia can borrow funds against stock – such as grain – held in warehouses, or get

advances on a percentage of the total amount owed to them by customers, as determined by invoices or sales ledgers. In some cases, Barclays also takes on the risk of debt collection as part of these services.¹⁷

Strengthening the public policy environment. Local and national public policy environments can also present challenges for linkage programs. Property rights regimes, business licensing fees and procedures, tax structures, and regulatory compliance requirements can all impose disproportionately high costs on SMEs and, in so doing, limit their growth and capacity to partner with large firms. These barriers may even keep SMEs in the informal sector, where they may not be able to enter certain types of legal contract or seek legal recourse in the case contracts are breached.

Collective platforms for business engagement in public policy dialogue. Organizations and networks such as the National Business Initiative in South Africa, the Zambia Business Forum, and Business Action for Africa enable companies to speak with one voice on relevant policy issues and to develop closer working relationships with government in support of local economic development.

Public sector capacity-building. Many companies are helping to build the capacity of governments to carry out a range of duties on which their businesses and the communities that surround them depend – including monitoring and enforcing regulation and efficiently providing public services. BP, for instance, is providing the Azeri government with tools to manage massive revenue flows from oil and gas projects in the country.

IV Conclusions: Looking Toward Sustainability and Scale

These key challenges and approaches in the practice of business linkages highlight a significant role for collaborative action. In the examples above, large firms have collaborated with one another and with other stakeholders for two primary purposes: first, to reduce the individual operating costs and risks of their linkage programs, and second, to strengthen the external environment for their efforts. Often, some kind of intermediary organization – such as an international financial institution like IFC, a non-governmental organization like SBP or Technoserve, or even a trading company like Ecom – plays a key role in driving and facilitating collaboration.

This mapping also suggests a number of opportunities for increasing collaboration even further, to begin to move from individual project success to widespread replication and scale in business linkage activity:

- **Sharing information**, such as supplier assessments and databases
- **Sharing “portable” tools**, such as training modules, needs and impact assessment tools, and mechanisms for identifying and vetting NGO and other potential partners for business linkage programs
- **Performing needs and impact assessments jointly**, for example by working together and with development agencies or NGOs to explore the specific socio-cultural, economic, and environmental conditions of a particular shared market. Similarly companies could work collaboratively to measure the totality of a group of companies’ impacts on a particular community
- **Exploring complementarities between the sales, procurement, and distribution linkages of different companies**, in order to create linkage programs in clusters or to build on already-established models where they exist
- **Investing in joint financing mechanisms**, involving where possible the commercial banking sector
- **Collectively engaging with government** to press for supportive public policies and build capacity for effective public service provision
- **Jointly supporting growth and development of effective intermediaries**, as a means of facilitating these and other collaborative actions to expand and improve business linkage activity

Business linkages with SMEs offer large firms a channel by which to reduce costs, increase productivity, enhance reputation and license to operate, access local knowledge, and integrate into foreign or base of the pyramid markets – while at the same time helping to create economic opportunity in underdeveloped countries or regions. Expanding and accelerating business linkage activity should therefore be a shared priority among firms, development agencies, governments, civil society organizations and research institutes. The challenges and approaches described here warrant further study, discussion, and, most importantly, experimentation and action.



Appendix 1

Sampling of Business Linkage Initiatives

Appendix 1

Sampling of Business Linkage Initiatives

| | | |
|-----|--|----|
| 1. | MINERA YANACOCHA, PERU (Newmont and IFC) | 24 |
| 2. | EAGLE LAGER, UGANDA AND ZAMBIA (SABMiller) | 26 |
| 3. | SMES IN THE VALUE CHAIN, SOUTH AFRICA (National Business Initiative) | 28 |
| 4. | ECONOMIC LINKAGE PROGRAM IN RAJASTHAN, INDIA (Cairn India and IFC) | 30 |
| 5. | PROMINP, BRAZIL (Petrobras and Partners) | 31 |
| 6. | PRIVATE SECTOR INITIATIVE, SUB-SAHARAN AFRICA (SBP) | 33 |
| 7. | ANGLO ZIMELE, SOUTH AFRICA (Anglo American) | 35 |
| 8. | AGRICULTURAL SUPPLY CHAIN IMPROVEMENT, GLOBAL (Ecom Agroindustrial Corporation) | 37 |
| 9. | GULF OF SAN JORGE SME PROGRAM, ARGENTINA (Pan American Energy) | 39 |
| 10. | PARTNERSHIP FOR ENTERPRISE DEVELOPMENT IN AFRICA (UNIDO and Microsoft) | 40 |
| 11. | SME DEVELOPMENT AND LINKAGES IN CHAD (ExxonMobil and IFC) | 42 |
| 12. | VIETNAM BUSINESS LINKS INITIATIVE (International Business Leaders Forum) | 44 |
| 13. | ACG/BTC LINKAGES PROGRAM, AZERBAIJAN (BP and IFC) | 46 |
| 14. | DIAMOND MINES INC., NORTHWEST TERRITORIES, CANADA (Rio Tinto) | 47 |
| 15. | SUPPLY AND DISTRIBUTION LINKAGES WITH SMES, GLOBAL (Nestlé) | 49 |
| 16. | BARCLAYS MICROBANKING, GHANA (Barclays Ghana with the Ghana Cooperative Susu Collectors Association and Ghana Microfinance Institutions Network) | 51 |
| 17. | DISTRIBUTION AND RETAIL LINKAGES, GLOBAL (The Coca-Cola Company) | 53 |
| 18. | ASPIRE SME FACILITIES IN AFRICA (Shell Foundation and GroFin) | 55 |
| 19. | EMPOWERING MICRO, SMALL, AND MEDIUM RETAILERS, BRAZIL (Tribanco) | 56 |
| 20. | SUSTAINABLE TEA INITIATIVE, KENYA (Unilever and Kenya Tea Development Agency) | 58 |
| 21. | SMALL BUSINESS DEVELOPMENT GROUP, KAZAKHSTAN (Chevron) | 59 |

Summarized and adapted from materials provided by IFC**Background**

Minera Yanacocha, Latin America's largest gold mine, is situated in Cajamarca, one of Peru's northern provinces. Rich in Incan history, the city boasts a population that is mostly indigenous. Since 1993, when IFC first invested in the mine, the population has swelled from 30,000 to 240,000 in 2004. About 8,000 new jobs have been created, directly or indirectly related to the mining activity. In addition to being the primary employer in Cajamarca, Yanacocha is one of the country's largest taxpayers.

IFC's partnership with the mine dates back to financing committed in 1993 and 1994, which was fully repaid. In June 1999, IFC's Board approved a new \$100 million debt financing package consisting of a \$20 million direct loan and \$80 million syndicated loan, now fully disbursed.

Drivers

Social and political controversy surrounding the mine, as well as a desire to strengthen the surrounding community, led IFC to undertake a program of SME development to catalyze economic diversification and reduce dependence on Minera Yanacocha within the region.

Activities

The goal of the Minera Yanacocha SME Linkages Program is to build a diversified and sustainable economic base extending beyond Yanacocha's mining operations. Therefore, the program works to strengthen SMEs both within Yanacocha's value chain and beyond it. For SMEs within Yanacocha's value chain, primarily in the transportation and construction sectors, supplier development efforts center around a total quality management program to improve productivity and optimize company management abilities. The program focuses on raising safety, environmental and business standards.

The Minera Yanacocha Program extends to SMEs outside the company's value chain as well, particularly in the handicrafts (ceramics and textiles) and agribusiness sectors. For example, in the ceramics and textiles sectors, local artisans have received technical and managerial training to upgrade their skills in product design and production capacity.

Marketing, another main focus for cash-strapped SMEs, has been addressed through group marketing events such as "Business Encounters" which spread costs and offer broad exposure to firms shopping for vendors. Finally, based on what local businesses identified as a critical need, the team developed an advisory services program to improve financial management and business processes. This has helped participating SMEs become more credit-worthy, opening up a wider range of financing options from local banks and microfinance institutions.

In parallel to these SME development efforts both within and beyond Yanacocha's own value chain, the program has worked to strengthen the enabling environment for business linkages. For instance, in conjunction with the local government, IFC developed an administrative simplification project which drastically reduced the number of days it took to register a small business – from 100 to 3 – resulting in a sharp increase in registrations of small businesses, bringing them into the formal sector for the first time. These SMEs are now legally able to compete for Minera Yanacocha and other firms' contracts, as well as access financial services from banks. In addition, Newmont asked IFC to work with local municipality to optimize its revenue management systems and ensure that Newmont's tax payments and other contributions to the budget effectively fund basic social and economic infrastructure. IFC also plans to provide assistance to help build the institutional capacity of the Asociación Los Andes de Cajamarca (ALAC) so that it can manage regional SME development efforts over the long term, after IFC exits. And lastly, in parallel with these efforts, Newmont has made significant investments in underlying socioeconomic conditions in the region – for example, in healthcare and education.

Results

SMEs bidding for contracts with the mine and with other enterprises increased their cumulative sales to \$10.5 million by 2005, comprising a \$4 million gain in new sales over the previous 18-month period. 150 entrepreneurs from the emerging construction sector received extensive training, and 25 SMEs became more competitive by acquiring modern technology and know-how. A capacity-building program for small agribusiness enterprises generated 54 new jobs and tripled aggregate sales to more than \$2 million over the previous 15-month period.

Lessons

- 1 Conduct extensive stakeholder consultations at the beginning of program design to obtain buy-in from all parties involved. This ensures alignment of program objectives with company and community objectives.
- 2 Start small and scale up. Low-profile feasibility studies can become pilot projects. After pilot projects become viable, go for second round grant funding for a longer term project.
- 3 A Memorandum of Understanding (MoU) is critical. The MoU should define clearly the roles and responsibilities of all parties involved in the SME Linkages Program.
- 4 Field-based implementation is key. At the beginning of the SME Linkages Program, IFC did not have a local presence in Peru. Hiring a local SME coordinator was crucial for day-to-day program management and ongoing program coordination with the mine and partner organizations.

Summarized and adapted from materials provided by SABMiller

Background

South African Breweries was founded in 1895 in South Africa. In 2002, it acquired the Miller Brewing Company, the second largest in the United States by volume. Today, SABMiller has a brewing presence in more than 60 countries on five continents. 29 of these countries are in Africa.

Drivers

Eagle Lager grew out of a business imperative to reduce the cost and price of beer, and in so doing, attract new customers and increase market share. In Uganda, where Eagle Lager was initially launched, approximately 60% of people live on less than \$1 a day. Imported inputs, primarily barley, accounted for 15% of the retail price of beer – and taxation was an even bigger factor.

SABMiller's response was to substitute a local ingredient, sorghum, for imported barley, and to source the sorghum from small-scale farmers – allowing the company to achieve a tax cut from the government. The result, Eagle Lager, is slightly more expensive to produce than other beers, but its retail price is around a third less than that of lagers that use imported barley.

Activities

Eagle Lager was launched in 2002 in Uganda and 2005 in Zambia. The company now works with 8,000 small scale farmers in Uganda and 2,500 in Zambia. It spends \$1.4 million on sorghum in each country, approximately 75% of which goes to farmers, with the balance going to post-harvest handling by third parties.

To overcome initial mistrust, stemming at least in part from previous experiences of unfulfilled expectations around new products and markets, SABMiller's local breweries had to invest in building trust, including by signing purchase agreements guaranteeing fixed farm-gate prices at levels considerably above market rates. In the case of Zambia, the company also protected farmers from a recent exchange rate appreciation.

SABMiller has worked with three types of intermediaries in its work with small scale farmers: farmer co-operatives, non-governmental organizations, and commodity brokers. Farmer co-operatives have simplified the process of communicating with, buying from and supporting large numbers of small farmers, and have demonstrated strong leadership representing the farmers' interests. Non-governmental organizations, notably CARE International in Zambia, have been instrumental in providing financial and non-financial support to farmers, including training and provision of inputs. CARE is actively helping farmers to improve the quality of their produce and to find new market opportunities beyond Eagle Lager, including export markets in Botswana. Commodity brokers have simplified the logistical process of purchasing raw materials and contributed important agricultural technical knowledge to the project team. The brokers have also helped to minimize post-harvest losses through the provision of effective storage.

Results

Over 10,000 farming families are now involved in the Eagle Lager value chain. Assuming six dependents per household, this encompasses 63,000 people. Sorghum is drought and flood resistant, higher yielding, and has more stable prices compared to other local crops, and Eagle Lager provides a stable, long-term market for it. Studies by CARE International in Zambia and the SABMiller brewery in Uganda have shown that the average farmer producing sorghum in Eagle Lager's value chain can expect to see his income rise by 50%.

Eagle Lager has also been a success from the company's business perspective, as the brand now has 50% market share in Uganda and 15% in Zambia.

Lessons

- 1 A clear business case ensures long-term commitment by the business, and has a far greater chance of being sustainable than philanthropy-driven initiatives.
- 2 Government and business need to work in partnership to explore the scope for synergies between a company's core business and

the country's development objectives.

- 3 Effective intermediaries are central to the success of supply chain projects, from both the farmers' and the businesses' perspectives.
- 4 Effort put into understanding the specific socio-economic and cultural factors driving the farmers, and into communication with them, helps build trust and ultimately a more reliable supply chain.
- 5 As with many success stories, this one has been driven by a group of committed individuals using a multidisciplinary technical approach, clear allocation of responsibilities, and strong leadership.

Challenges

- 1 Lack of sufficient technical agribusiness knowledge and business skills among farmers, including understanding of quality requirements and marketing skills. In the Eagle Lager context, a practical first step would be to finance the distribution of CARE International's guidance material on sorghum across the Eagle Lager supply chain.
- 2 Access to finance. Partnerships with NGOs and microfinance institutions can play an important role in enabling poor people to access new market opportunities and should be explored further in the Eagle Lager context.
- 3 Scale and effectiveness of intermediaries' operations. Given the direct benefit that their activities are having for the breweries, the breweries should consider contributing to the costs of scaling up CARE's activities.
- 4 Quality of governance, investment, and policy climate.
There is a clear business case for promoting enabling business environments – with effective governance, investment and policy climates, particularly for small-scale enterprises. Companies can also play an important role in policy dialogue on infrastructure, a key constraint for small-scale farmers, and explore partnerships for supporting low-cost irrigation solutions.

Summarized and adapted from materials provided by the National Business Initiative

Background

The National Business Initiative (NBI), founded in 1995, is a coalition of more than 140 companies working to mobilize business leadership and resources for sustainable growth and development in South Africa. It implements research and strategic projects, facilitates collective business action, and helps build relationships and trust among government, business, and other key stakeholders.

Drivers

NBI believes that without socio-economic transformation, political stability in South Africa will not be sustained. A 2005 study found that South Africa had the lowest rate of entrepreneurial activity of eight roughly comparable developing countries, and for historical reasons, the economy has long been dominated by a small number of large firms. In order to contribute to the socio-economic transformation it believes so critical, NBI has undertaken a key program of work on enterprise development: supporting economic growth and social cohesion by promoting the integration of SMEs into larger firms' value chains.

Activities

Linkage activity was already taking place in South Africa, but NBI was concerned that it had neither reached desired levels nor was growing at desired rates. To identify key obstacles and opportunities, NBI conducted a foundational study entitled "Is Big Business Serious about Small Business?" The study looks at:

- the development rationale for SME development and linkages, as well as the "business case" for large firms in the South African context
- the South African public policy environment for SME development and linkage formation, including the effects of black economic empowerment (BEE) requirements such as sector-specific BEE scorecards

- types and prevalence of existing linkage activities in South Africa
- The study also included in-depth case studies on successful linkage programs, including those by Anglo American, Eskom, Dimension Data, and SABMiller.

Results

Based on its early studies and convenings, NBI has identified a number of opportunities to play a catalyst role in the replication and scaling up of business linkage activity in South Africa. Because the regulatory environment and unfavorable procurement and other business practices have presented key obstacles, NBI's SME development and linkage efforts going forward will address both the government and the private sector. The work will have two key strands:

Information and awareness: NBI will develop guidelines, case studies, and international good practices on business linkages and conduct stakeholder engagement activities to disseminate and encourage discussion.

Advocacy: NBI will press the private sector and government for reforms in business and public policies via a variety of multi-stakeholder dialogues.

NBI is also considering activities to promote cluster development and strengthen linkage intermediary organizations.

Lessons

- 1 With appropriate capacity-building and mentoring, SMEs can become flexible and cost-effective suppliers to large firms.
- 2 Avoid building dependence on a single large firm, for example by facilitating horizontal networking.
- 3 Changing procurement policies can help; for example, facilitating access to information on business opportunities; awarding contracts for longer terms; introducing shorter payment cycles; breaking up contracts; issuing performance guarantees; introducing price matching; setting aside tenders for SMEs.
- 4 NBI cautions that these practices can raise costs and risks to the large firm, and emphasizes that SME linkages must make commercial sense.

- 5 And lastly, because linkages are or ought to be strategic business partnerships, not a form of corporate social investment, leadership and board commitment within the large firm are vital.

Challenges

- 1 SMEs in South Africa face a considerable amount of regulatory red tape.
- 2 Among large firms, current attention is on compliance with BEE requirements rather than strategic investment in SMEs.
- 3 Many companies are forging ahead independently. To date there has not been much sharing of ideas or collective impact, and there is a need to replicate and scale successful experiences.

Summarized and adapted from materials provided by

Cairn India

Background

Cairn India has been developing its interests in India for more than a decade. It is now one of the biggest private oil and gas exploration and production firms operating there. At the beginning of 2004, Cairn India made a major oil discovery in the Barmer district of Rajasthan state in the northwest region of India – one of India's most economically-challenged states. Barmer is located in a drought-prone region of the Thar Desert with very low agricultural productivity and almost no industry.

Drivers

Several new oil fields in Rajasthan are set to come on-stream in 2009 and 2010, and the company believes future discoveries are likely. Cairn is matching its aggressive growth plans with a commitment to respect, relationships, and responsibility in its dealings with stakeholders in the region – ranging from government agencies, to employees, to business partners, to surrounding communities. In the words of the company's K Jaishankar, "Engaging communities through linkages is fundamental to allow economic growth to be developmentally sustainable."

Activities

Cairn and IFC have designed a Linkage Program that will focus on building SME capacity within and beyond the company's value chain. Poor availability of skilled and semi-skilled manpower and low operating capacities of existing SMEs prevent local communities and businesses from participating in economic growth associated with the development of the hydrocarbon discoveries in the region. To help remedy this lack of capacity, a needs assessment of local SMEs has been performed, and an Enterprise Center is being created. In addition, a pilot project to support traditional dairy activities was launched in January 2007. This project aims to increase income generation opportunities for dairy farmers with low volumes of surplus milk through technical assistance and the

creation of self-help groups for milk collection and sale.

The Cairn-IFC Linkage Program will also be investing in the enabling environment by working to strengthen the skills base of local youth and to improve health conditions in the area. Health initiatives will focus on building the capacity of local health NGOs and state health authorities; raising public awareness; and improving infrastructure. Cairn and IFC are partnering with a number of NGOs in this work. The enterprise development efforts will be launched in partnership with the International Center for Entrepreneurship and Career Development, which has 20 years of experience in 60 countries. The dairy sector development efforts will be conducted in collaboration with the local non-profit Society to Uplift Rural Economy. And the health initiatives will be implemented by the international non-profit Center for Development and Population Activities.

Results

The Linkage Program is in its early stages, with one component implemented to date and the other two about to be launched. The component in implementation stages, the dairy cluster development project, has already reached five villages and over 125 households in its first two months, ensuring more regular incomes for dairy farmers. Plans are now in place to expand the program to over 400 households.

Lessons

At this early stage, preliminary lessons have highlighted the value of a participatory approach and of alignment with government goals and programs.

Challenges

Current challenges include geographic isolation, inadequacy of the local skills base, lack of local business and education hubs, and general economic under-development in the region.

Summarized and adapted from materials provided

by Petrobras

Background

PROMINP, the National Oil & Natural Gas Industry Mobilization Program, was created by federal government decree in December, 2003, as a multi-stakeholder initiative comprised at the Steering Committee level of the Mining and Energy Ministry, the Development, Industry, and Trade Ministry, Petrobras, the Brazilian Development Bank, the National Organization of the Petroleum Industry; and the Brazilian Petroleum Institute. PROMINP also has an Executive Committee and five Sector Committees which include major industry and supplier associations.

Drivers

Considering massive investments planned in the oil and gas sector in Brazil, PROMINP was created with the objective to maximize national goods and services content, on a competitive and sustainable basis, in the implementation of oil and gas projects in Brazil and abroad. Domestic investments of \$41 billion over five years were forecast in 2003; now \$100 billion are planned, and \$75 billion of these will be by Petrobras. PROMINP is intended to help ensure that these investments become engines of growth more generally in Brazil – by catalyzing the development of national goods and services industries and by generating jobs and wealth.

Activities

PROMINP's overarching function is to analyze the demand and supply of goods and services required by major investment projects in the oil and gas sector. The organization then identifies gaps and structures a variety of actions to fill those gaps.

To date, major gaps that have been identified include industrial infrastructure, supply of materials and equipment, and availability of qualified professionals. Representative actions in each area include:

Industrial infrastructure: PROMINP conducted a feasibility study for a new dry dock.

Supply of materials and equipment: Petrobras has invested \$18.2 million in a national supplier development program. In addition, Petrobras and SEBRAE, a national small business support association, have signed a framework agreement for micro and small business inclusion in the oil and gas sector value chain. The agreement encompasses 12 states and \$14 million in investments – including \$3 million each from Petrobras and SEBRAE.

Availability of qualified professionals: PROMINP developed a National Plan of Professional Qualification, which is now being supported and carried out by Petrobras, the Labor Ministry, the Science and Technology Ministry, and companies that invest in their employees' training. The Plan represents a total of \$150 million in investment. 113,000 people will be trained through December 2008 through 911 courses offered in 34 cities. 80 different educational institutions are participating.

Results

In infrastructure, PROMINP's dry dock feasibility study has resulted in the initiation of construction on a new dry dock in the state of Rio Grande do Sul. It will be used for offshore construction, shipbuilding, conversions, and repairs.

In the development of local materials and equipment supplies, the Petrobras-SEBRAE agreement has generated \$113 million in transactions between oil and gas companies and small businesses. And lastly, on the availability of qualified professionals, the National Plan of Professional Qualification has been underway for one semester cycle in which 11,500 places were offered in 263 courses.

Lessons

- 1 Financial investments are essential, but not enough, to convert demand into job and wealth generation for the country.
- 2 A framework is required such that all stakeholders know the value proposition and are committed to participating in the complex action of developing the industry.

Challenges

- 1 Driving local supplier development on a competitive and sustainable basis, enabling local suppliers to increase their share of the oil and gas industry and to become world class.
- 2 Achieving sufficient scale in PROMINP's training initiatives to meet the enormous demand for qualified personnel in all regions of the country where investments will take place.

Summarized and adapted from materials provided by SBP**Background**

Founded in 1998, SBP (formerly known as the Small Business Project) is an independent private sector development and research organization based in Johannesburg, South Africa, with experience across sub-Saharan Africa. Its mission is to promote a policy, regulatory, and operating environment conducive to business growth in Africa. It focuses on SMEs as contributors to economic growth and job creation.

Drivers

SBP recognized that South Africa, Tanzania, and other sub-Saharan African countries – like many developing countries – were characterized by a “missing middle.” The economy was dominated by large, mostly foreign firms at one end of the spectrum and many small, often informal enterprises at the other. Weak or non-existent linkages between the two limited the developmental impact of large firms’ investments, in terms of employment, domestic capacity development, and wealth accumulation.

Activities

SBP has three primary workstreams, which combine to strengthen the enabling environment for SME development and linkages. These workstreams are research and policy advocacy; promotion of strategic partnerships; and facilitation of practical business development programs.

SBP’s business development programs focus on creating linkages between large firms and SMEs. SBP’s Private sector initiative (Psi) is a model by which companies can collaborate with each other and with relevant government and donor agencies to decrease the costs and increase the benefits of SME linkages. Areas of collaboration include supply chain and local content development; cost management; outsourcing; subcontracting; procurement; lobbying; and sharing of information and experience.

Psi programs have been implemented in South Africa, Tanzania, and Malawi. In Tanzania, the effort has involved the compilation of a

database of local SMEs on an intranet accessible to all corporate participants. This data was initially collected on the ground by SBP. Psi Tanzania’s corporate participants took over full ownership and maintenance responsibilities in 2004. In Malawi, SBP is providing the tools for participating companies to rank and accredit SMEs. In South Africa, SBP is working on novel capacity-building programs for SMEs – one, Business Bridge, which uses a facilitated peer-group networking model, and the other which uses commercial business service providers. Business Bridge has been successfully replicated in Malawi. An informal networking association for SMEs, it is designed to allow small entrepreneurs to mine each other’s wisdom, build relationships, and collectively tackle issues of mutual interest.

Results

Psi was launched in South Africa in 1998. In its first five years, the initiative involved over 80 companies in eight programs in different geographic regions. These programs generated contracts worth over 1 billion rand to SMEs and led to the creation of 3,000 new jobs. 600 SMEs were introduced into local supply chains for the first time.

Psi Tanzania achieved a \$9 million increase in spending on inputs from local SMEs in its initial two years, a 43% increase. Another result, which was not foreseen in the design stage of the project, is that Psi Tanzania companies became acutely aware of the policy and regulatory barriers to SME growth and development and began to lobby the government to introduce reforms.

Lessons

- 1 Active facilitation has been essential. All of the companies participating in Psi Tanzania, for example, had been engaged in supplier development and linkage activities prior to joining Psi. Through the program, SBP has played an important role in allowing these companies to collaborate cost-effectively and at a large scale. SBP both reduces the duplication of effort and facilitates learning from experience across companies. It also helps to identify synergies among the companies’ local supplier

development programs.

- 2 The potential for large businesses to lobby on behalf of small businesses on the basis of real, practical experience is worthy of replication and a key systemic benefit of linkages.

Challenges

- 1 Demonstrating to corporates that linkages can be driven by good business sense, rather than philanthropy.
- 2 Building buy-in and commitment at leadership levels within companies.
- 3 Building capacity of local SMEs to enter corporate value chains.
- 4 Increasing participant ownership – among large firms and SMEs – as each program matures, allowing SBP to transition to an arms' length strategic support role.

Summarized and adapted from materials provided by Anglo Zimele as well as publications by IBLF¹ and UNIDO²

Background

Anglo American was founded in South Africa in 1917, and today the company is a global leader in platinum group metals, gold, and diamonds, with significant interests in coal, base and ferrous metals, industrial minerals and paper and packaging. The group has operations in Africa, Europe, South and North America, Australia, and Asia.

Drivers

Anglo American, with its long history operating in South Africa, was concerned about – and at the same time felt it could play a role in – employment and black empowerment needs facing the country. Simultaneously, the company saw the potential for long-term business gains from outsourcing non-core products and services to external firms and focusing its own energies on the core business. Anglo Zimele (meaning “to be independent” or “to stand on one’s own feet”) was created to address these concerns and business interests. Zimele began in 1989 as the Anglo American Group’s Small Business Initiative and was established as a separate organization in 2000.

Activities

Anglo Zimele’s work falls into three primary categories: procurement, business development, and participation in the junior mining sector through the Anglo Khula Mining Fund.

On the procurement side, Anglo Zimele works closely with Anglo American’s divisional procurement departments, helping to identify black economic empowerment (BEE) suppliers, including black-owned and/or managed SMEs, who can participate in their value chains.

In the business development arena, Anglo Zimele makes loans and equity investments and provides a range of business support services, such as skills transfer and strategic guidance on business principles, marketing, legal issues, corporate governance, and

health, safety and environmental management. To be eligible for investment, an enterprise must be commercially viable and have growth prospects. It must also have a BEE entrepreneur or agree to partner with a BEE. Many of Anglo Zimele’s investments are linked in Anglo American’s value chains, but this is not required – SMEs “beyond the value chain” also qualify for support.

Where Anglo Zimele takes minority equity stakes, Anglo Zimele is represented on the new company’s board of directors. At first, Zimele’s support can be significant, but it is gradually reduced over time in order to promote independence. Clear exit strategies are also defined from the start.

Lastly, the Anglo Khula Mining Fund is a 40 million rand joint initiative between Anglo American and Khula Enterprise Finance, run out of the government Department of Trade and Industry. The Fund provides financial assistance to mining ventures in the pre-feasibility stages of operation, such as exploratory drilling, preparation of environmental reports, or application for permits and licenses. Once these stages are complete, the ventures are positioned to find commercial sources of financing in the marketplace.

Results

During 2006, Anglo Zimele invested in 14 new and existing BEE SMEs in a range of sectors, from drilling consumables to corporate advisory services to engineering while the Anglo Khula Mining Fund approved four new projects. Since 1989, Zimele has invested in approximately 150 enterprises. Procurement from black-owned and managed SMEs was 8.9 billion rand in 2005 and 12.3 billion rand in 2006.

Lessons

- 1** Enterprises must be commercially viable prior to investment; realistic business plans are essential and reducing dependence on the large firm should be an ongoing goal.
- 2** Investments and the entrepreneurs behind them require intensive support in the early stages, but dependence must gradually be reduced, and the investor must have a clear exit strategy.

- 3** The support and commitment of Anglo American's senior management have ensured availability of the company's expertise and its employees' participation.
- 4** Clear policy statements, combined with mechanisms for line managers to monitor the process, have created a framework for successful enterprise development.
- 5** Progress has been facilitated by measurable targets, time-specific goals, and systematic performance monitoring and evaluation.

Challenges

Anglo Zimele is a mature, 18 year-old initiative. However, one ongoing challenge has been the inability of commercial banks in South Africa to take on higher risk when funding SMEs.

1. Brew, Peter and Francis House (2002). "The Business of Enterprise: Meeting the challenge of economic development through business and community partnerships." London: International Business Leaders Forum.

2. Deloitte (2004). "Partnerships for Small Enterprise Development." Report prepared for the United Nations Development Programme and the United Nations Industrial Development Organization, under the auspices of the UN Global Compact, for the workshop "Partnerships for Small Enterprise Development," January 15 and 16, New York, NY.

Summarized and adapted from materials provided by Ecom

Background

Ecom is an agricultural trading company founded in Barcelona in 1849. It is now headquartered in Switzerland, with operations in 20 countries, and is one of the world's largest traders of coffee, cotton, and cocoa.

Drivers

Coffee and cocoa are grown by millions of scattered smallholders. In the words of Teddy Esteve, CEO of Ecom's coffee division, "We've been in this business for more than 150 years. If we want to be trading coffee in another century, we need to help ensure that coffee farmers, and the environment that sustains them, endure." For Ecom, this means helping small producers meet the standards required to participate in roasters' value chains. In the coffee business, this is no longer a matter of cheapest price. Consumers, and therefore roasters and retailers, are demanding various combinations of high quality, sustainable production, fair trade, traceability, and improving social conditions in farming communities. To ensure these characteristics, a daunting array of initiatives now exists, ranging from certification schemes, to supply chain assurance systems, to enhanced reporting, to branding. It can be difficult for small producers just to pick, much less to come into compliance on their own.

Activities

Ecom's country offices have large networks of buyers, agronomists, and quality specialists who can reach out to large numbers of geographically dispersed small farmers. This enables Ecom to assess their needs. For example, among cocoa producers, it was found that the most common problems included severe cash shortages before the harvest; declining soil fertility; volatile prices; lack of current market information; lack of health care; and limited knowledge of management and marketing strategies. Based on such needs assessments, Ecom can then provide recommendations

and targeted support to help small producers come into compliance with any given set of best management practices. Some examples include:

Rainforest Alliance certification: Ecom helps farmers with training and other assistance necessary to achieve farm certification.

Certification signals that the farm treats workers fairly, protects the environment, honors community values, and conserves natural resources. It also makes farm goods traceable. The certification also adds value in the marketplace. Ecom has, to date, helped farmers achieve certification in coffee, cocoa, and timber. Evaluation along Rainforest Alliance criteria has also helped determine coffee farmers' eligibility for the Nespresso AAA Quality Program.

Starbucks CAFÉ standards: Since 2003, Ecom has collaborated with Mexican coffee cooperatives and Washington DC-based NGO Conservation International to supply Starbucks' Shade-Grown Mexico brand coffee. More than 2,000 farmers are now participating in a program to implement the CAFÉ practices in the region, and Ecom plans to replicate these efforts in other key origin areas such as Indonesia and Papua New Guinea.

Fairtrade certification: Ecom is registered as an active trader of Fairtrade products and works to promote those products to customers of all sizes in Europe and North America. One such customer is Nestlé, for whom Ecom has organized farmers' groups in El Salvador to produce certified beans for the company's NESCAFÉ Partners Blend.

Other best management practices Ecom has helped farmers select and implement include Utz Kapeh certification; the Sustainable Agriculture Initiative; and the Common Code for the Coffee Community.

One of the most exciting opportunities Ecom has is to catalyze the adoption of best management practices, and then facilitate small producer-large buyer linkages based upon them, on a large scale – across its 20 countries and various commodities. To pursue this opportunity, Ecom has created a Supply Chain Improvement Desk, which is working to contribute to the availability of traceable and sustainable supply, initially in the coffee business.

Results

To date, Ecom's efforts have reached tens of thousands of farmers in the coffee business alone, enabling them to produce more efficiently and sustainably and to capture higher prices in the marketplace. Its efforts have also helped large buyers connect with small producers at lower cost. This success has generated interest from a number of prospective partners and created the potential to scale up both geographically and across commodities.

Lessons

A large-scale trading company such as Ecom can play a catalytic role in bringing large numbers of small farmers, NGOs and other certification- or standards-promoting bodies, and large buyers together, essentially enabling linkage-based business models in agricultural commodities sensitive to social and environmental concerns.

Challenges

Many customers are beyond the "defensive game," but have not yet developed an internal shared vision for how procurement will work with marketing and CSR to leverage the potential to do good for themselves and for society in developing countries. In addition, there is an ongoing need to convince customers, across different commodity areas, that there is more they could profitably be doing today – without necessarily waiting for consumer demand.

Summarized and adapted from materials provided by Pan American Energy

Background

Pan American Energy (PAE), owned 60% by BP and 40% by BRIDAS Corporation, is a leading regional player in oil and natural gas in the Southern Cone, especially Argentina. PAE operates a major production site in the Gulf of San Jorge (GSJ) region.

Drivers

PAE observed that the regional economy in the GSJ region was characterized by little local value added, low employability, and structural disadvantages for SMEs – including technological, organizational, and financial disadvantages. PAE sought to address some of these obstacles in order to pave the way for local procurement and to improve the overall business and community environment for its operations.

Activities

The GSJ SME Program was initially conceived in June 2004 and implemented in January 2005. It is expected to run for at least five years. The program has four priority areas of action:

- 1 Implementing a purchasing policy that favors products and services of local SMEs, provided they are of comparable quality and cost.
- 2 Providing technical assistance to build the capacity of local SMEs, both within the PAE value chain and beyond it; such assistance covers production management systems, operational and organizational management, consulting, ISO certification assistance, training, and transfer of soft technology.
- 3 Facilitating access to finance and to markets outside the company's value chain.
- 4 Coordinating the participation of a number of different institutions and agencies that support provincial and national SMEs, with which PAE has entered into cooperative agreements. These third party partners help to deliver the technical, commercial, and financial assistance described above. In

addition, PAE participates in a Framework Cooperation Agreement with the Steel Productive Forum, comprised of government agencies at various levels and the chamber of commerce, which serves as a forum to coordinate actions to foster local SMEs among the different stakeholders.

Results

To date, 47 SMEs have been involved in the GSJ SME Program, for an increase of more than \$1.6 million in the amount invoiced by SMEs. 10 new products are manufactured and three new services are provided by local companies.

Lessons

- 1 It is difficult, but important, to transfer competitive values in a business community unused to competing.
- 2 The program gains in strength and reputation when working with third parties, both public and private.

Challenges

The primary challenge facing the Gulf of San Jorge SME program is changing the organizational culture prevalent in most local SMEs, promoting a focus on quality and continuous improvement to enable sustainable growth.

Summarized and adapted from materials provided by UNIDO as well as the UNIDO-CSRI publication “Building Linkages for Competitive and Responsible Entrepreneurship”¹

Background

The mission of the United Nations Industrial Development Organization (UNIDO) is to reduce poverty in emerging and transition countries through sustainable industrial growth.

Drivers

UNIDO seeks to enable the poor to earn a living, rather than provide help to cope with the symptoms of income poverty. This overarching goal has led to a focus on SME growth and development.

Activities

UNIDO is approaching the challenge of SME development in two ways: via clusters and via business partnerships. The cluster approach aims to integrate small companies horizontally into a network; the business partnership approach aims to link companies vertically in value chains.

One example among many of UNIDO’s business partnerships for enterprise development is its recent agreement with Microsoft on Africa, signed in July 2006. The agreement sets the stage for three kinds of activity, collectively addressing SME development and linkages broadly speaking – not limited to the value chain of any company – as well as the enabling environment for linkages:

Promotion of foreign direct investment: UNIDO and Microsoft are developing an investment monitoring platform for AfrIPAnet, a network of African investment promotion agencies. The portal will contain information relevant to foreign investors, investment agencies, and governments, and enable users to interact directly with each other.

Rural business information centers: These centers will help SMEs improve competitiveness and productivity by providing integrated IT solutions and services, along with training for

entrepreneurs in IT and entrepreneurship. The learnings from these centers’ operations will ultimately be used to tailor technologies to the needs of developing country SMEs. Eight pilot rural business information centers were launched in eight districts in Uganda in January 2007.

Entrepreneurship education curriculum: UNIDO and Microsoft will integrate IT into the Entrepreneurship Education Curriculum UNIDO has developed for secondary schools to generate an interactive teaching method that exposes students to technology while they learn.

Results

Following signature of the agreement in July 2006, the eight pilot rural business information centers receive additional value added through the UNIDO-Microsoft partnership, including tailor-made software and training tools to better serve their SME clients. The first prototype version of the AfrIPAnet investment monitoring platform was successfully launched in Addis Ababa in March 2007.

Lessons

The UNIDO-Microsoft partnership has only just gotten underway; however, lessons UNIDO has learned from its SME development and linkages work more broadly include:

- 1 The more companies that use UNIDO’s SME development services and programs – as well as those of others – the better the result. It is therefore valuable to organize those services in as open and accessible a manner as possible.
- 2 Governments must take a vital role in facilitating partnerships in strategically important economic sectors.
- 3 Business linkages should build on local resources.

Challenges

Again, in the context of its work more broadly, UNIDO is currently facing the question of scale – how to reach significantly higher numbers of SMEs? How to support more large firms needing support in their linkage activities? The organization sees potential

in coordinating among the different programs operated by multilateral and bilateral agencies, but creating synergies is an open challenge. It also sees potential in comprehensive value chain mapping, which would enable agencies, governments, NGOs, and the private sector in any given country to coordinate their actions in support of enterprise development.

1. Nelson, Jane (2006). "Building Linkages for Competitive and Responsible Entrepreneurship: Innovative Partnerships to Foster Small Enterprise, Promote Economic Growth, and Reduce Poverty in Developing Countries." Geneva and Boston, MA: United Nations Industrial Development Organization (UNIDO) and the Fellows of Harvard College.

Summarized and adapted from materials provided by ExxonMobil and IFC

Background

After building a 1,070 km pipeline from Doba, Chad, to offshore oil loading facilities off the coast of Cameroon, with financial support from IFC, a consortium led by ExxonMobil is developing oil fields in southern Chad to tap into the country's rich oil reserves.

Drivers

Despite its rich oil reserves, Chad offers little by way of a natural economic base – it is characterized by a harsh desert climate and limited educational opportunities for its citizens, 80% of whom live on less than a dollar a day. ExxonMobil is committed to a National Content Strategy in the areas of workforce development, community investment, and supplier development. Increasing and improving the capacity of local suppliers in Chad is a business imperative; however, ExxonMobil found that local businesses were ill-equipped to win contracts and that they had difficulty sustaining acceptable performance levels (in safety, quality, and business) when they did win.

Activities

ExxonMobil's Local Business Opportunities (LBO) program is the supplier development component of its National Content Strategy in Chad. IFC has played a critical enabling role in ExxonMobil's work in Chad, serving as a training resource, an intermediary in the procurement process, and a source of information.

After a major supplier assessment program over the last two years, over 60 suppliers have been assessed for their skills in the areas such as safety, quality control, commercial skills, organization, personnel management, equipment, and operations. Significant gaps were found in accounting, risk management, human resources, and other areas. Based on these assessments, ExxonMobil recommends candidates for training at an IFC-managed facility.

IFC has also worked with the ExxonMobil-led consortium to expand SME development activities more widely. IFC has surveyed over 1,000 vendors to compile names, addresses, and types of goods and services supplied. Through an Enterprise Center in N'Djamena, Chad's capital, and regional centers in the south, IFC – in collaboration with the local chamber of commerce and a variety of non-governmental organizations – provides SME capacity-building, access to finance, and e-procurement support activities. These services are available to SMEs generally, with the hope that many will then qualify for participation in ExxonMobil's value chain or those of other companies. Would-be suppliers can only bid in areas in which they are qualified, which ensures that candidates are capable of doing the work and that the bidding process is efficient.

SME capacity-building services include general business training, consulting, and mentoring, with offerings based on a detailed mapping of nearly 500 local SMEs and their needs.

Finally, the program supports SMEs' participation in ExxonMobil's e-procurement process, which had previously been very difficult due to sporadic electricity, poor Internet connectivity, low levels of supplier capacity, and language barriers. The Enterprise Center addresses these obstacles to allow large numbers of local suppliers to participate in the e-procurement process. The system helps eliminate supplier collusion and insider dialogues between suppliers and company staff; ensures that applications are complete and error-free; and reduces the logistics and expense of processing paperwork.

Results

To date, nearly 300 SMEs have been trained, and sizeable contracts awarded in non-hazardous waste recycling and civil works. 13 contracts have been signed for a total value of \$22.5 million, and 107 new jobs have been created. Bidding processes are ongoing in supply of work clothes; light vehicle maintenance; spare parts; personnel transportation; and office equipment maintenance.

Future training strategies include using standard IFC SME training

packages, known as Business Edge, in a joint initiative funded by ExxonMobil and IFC.

Lessons

- 1 Linkage program design should occur before implementation of the investment project. The earlier in the process that program design occurs, the greater the potential to tap into the full range of local business opportunities. This is particularly relevant when the first stage of the project involves construction work.
- 2 Establish plans, including boundaries, early in the process. ExxonMobil's supplier development program in Chad started with 10 components in 2002, but was refocused more narrowly in 2004 to deliver improved results.
- 3 Early sponsor buy-in is critical. Project sponsors must understand the value proposition of a linkages program, and express willingness – and a commitment – to share responsibility.
- 4 Start small and build on small successes. With community expectations running high around large capital investment projects, disappointments can run deep. Therefore, it is important to begin with a smaller-scale program, with an eye toward expansion over time.
- 5 Linkage programs should be integrated into and funded by an overall business strategy for the project area and for the country. A National Content Strategy should provide a long-term integrated plan, with short-term milestones that demonstrate and measure impact along the way, and should be clearly communicated to lenders, governments, value chain participants, and non-governmental organizations throughout the lifecycle of the project.

Challenges

Supplier capacity-building and access to finance are ongoing challenges in ExxonMobil's linkage work. Suppliers will have to grow their capacity, capability, and assets in order to continue to compete as goods and services providers for the consortium and

their major sub-contractors. They will need to maintain or exceed their levels of performance in the areas of safety, quality, and controls to be sure of their positions in the value chain. And they must do all this in the face of serious obstacles in the Chadian business and social environments which must be overcome for short- or long-term success. A final challenge is to ensure that the vision for a successful National Content Strategy – and its supplier development components in particular – is shared by the government, NGOs, major suppliers, and internal stakeholders within the consortium.

Summarized and adapted from materials provided by IBLF as well as publications by IBLF, UNIDO and UNIDO-CSRI^{3,4,5}

Background

Footwear is an important industry in Vietnam, employing more than 500,000 people. In the late 1990s, a number of large multinational buyers sought to consolidate and expand sourcing in the country. At the same time, they faced the “sweatshop” controversy and negative publicity regarding chemicals use and disposal at the factory level.

Drivers

In response to these pressures, many prominent international brands adopted supplier codes of conduct, and suppliers faced the need to improve their environmental and occupational health and safety (OHS) standards to comply – often with multiple codes at the same time. It became clear that both supplier capacity-building and systemic change were required. A number of prominent brands, including Nike, Pentland, and adidas-Salomon, came together with a range of suppliers and other stakeholders to explore ways of collaborating to achieve greater scale and effectiveness in their efforts. Vietnam Business Links Initiative (VBLI) was created in 1999 with intermediation from the International Business Leaders Forum and day-to-day management from the Vietnam Chamber of Commerce and Industry.

Activities

VBLI is now in Phase II of implementation. In Phase I, its primary goal was to help SME suppliers throughout the industry meet international standards for chemicals use and disposal and occupational health and safety. Its primary actions were to:

- articulate a statement of good practice for participants to adopt;
- develop a management support system to assist factory managers in reviewing conditions and identifying steps they could take to improve;
- develop a “train the trainers” program for factory managers, supervisors, and workers;

- update and improve these materials continuously, and keep participants abreast of latest practice; and
- perform monitoring and inspection to ascertain factories’ progress.

The program is open to factories throughout the industry, regardless of whether or not they participate in the value chains of any of VBLI’s founding companies. The program sought to create competitive advantage for the factories themselves and for the Vietnamese footwear industry as a whole.

Results

With Phase I complete, VBLI’s industry code of conduct, the Commitment to Good Practice, is now in place. Its management support system has been completed, tested, approved by the government, and disseminated. Similarly, training courses for factory OHS managers have been developed, tested, and delivered. 60% of footwear factories in the country have participated in the program in some form.

The Vietnamese government has begun to develop national training courses for OHS professionals and is working to build the capacity of government inspectors in order to improve regulatory enforcement.

VBLI is now in Phase II, with the following five objectives:

- to increase the scale and impact of the program;
- to support the institutionalization of health and safety standards within Vietnam;
- to transfer VBLI learning and processes to the garment industry;
- to reposition VBLI itself as facilitator for health and safety promotion rather than a direct service provider, e.g. of training; and
- to achieve local sustainability by the end of 2007.

Lessons

- 1 For factories to meet international standards, they require capacity-building, not just auditing.
- 2 In a broad multi-stakeholder initiative such as VBLI, ongoing consultations – in which each participant is asked what its

contribution will be going forward and how it proposes to achieve it – are invaluable.

- 3 Systems change is gradual and it is important to build a firm foundation, including supportive government policies and regulations.
- 4 An intermediary can be very effective when companies in the same industry work together, helping to build trust among corporate partners.
- 5 Local management is essential for sustainability.
- 6 It will be important to achieve real and measurable impact in footwear and garments before transferring the VBLI model to other industries.

Challenges

Working toward financial sustainability is an ongoing challenge for VBLI; there is a need to raise more resources from participants themselves. Another challenge, given the initiative's goal of industry-wide impact, is to engage a wider range of state, private, and foreign factory owners.

3. Brew, Peter and Francis House (2002). "The Business of Enterprise: Meeting the challenge of economic development through business and community partnerships." London: International Business Leaders Forum.

4. Deloitte (2004). "Partnerships for Small Enterprise Development." Report prepared for the United Nations Development Programme and the United Nations Industrial Development Organization, under the auspices of the UN Global Compact, for the workshop "Partnerships for Small Enterprise Development," January 15 and 16, New York, NY.

5. Bekefi, Tamara (2006). "Viet Nam: Lessons in Building Linkages for Competitive and Responsible Entrepreneurship." UNIDO and the Kennedy School of Government, Harvard University.

Summarized and adapted from materials provided by IFC**Background**

The Azeri-Chirag-Gunashli oil field and Baku-Tbilisi-Ceyhan pipeline are BP's massive projects in Azerbaijan, a country that has struggled economically since the break-up of the Soviet Union. Azerbaijan is one of the world's oldest oil exporters, and development of the country's extensive reserves can play a central role in its economic future.

Drivers

A lack of opportunity, a dearth of financing sources, and gaps in business skills pose major obstacles to local economic growth and to the country's ability to benefit from BP's investment specifically. The ACG/BTC Linkages Program, designed by BP, IFC, and other partners, aims to address these obstacles.

Activities

The program comprises the following major components:

Supply chain development. The ACG/BTC Linkages Program is working to increase procurement opportunities for local businesses through the Baku Enterprise Center (EC). The EC was set up to support the development of local companies as potential suppliers to BP, regardless of whether or not they already participated in BP's value chain. It provides a supplier database and job board; training in technology, bidding, basic business disciplines, and other fields; and other forms of technical assistance intended to enable the beneficiary enterprises to bid for and win contracts with the company.

Simultaneously, BP has implemented a number of procurement policy changes making it easier for small, local firms to compete – such as breaking up contracts into smaller, more manageable quantities.

Access to business services. With partial funding from the ACG/BTC Linkages Program, the Azerbaijan Bank Training Center is delivering small business courses in local languages using a fee-based system. The goal is to build up the local small business services sector, create a market for such services, and improve the skills of the local consultants providing them.

Access to finance. Early on in the project, it became apparent that this

technical and business support was insufficient by itself. Local enterprises also required access to affordable financing in order to invest in the new technologies and equipment they needed to compete on quality with international suppliers. Local banks required collateral amounting to 100-150% of the loan amount and terms were inflexible, effectively putting their services out of reach of SMEs.

As a result, IFC and BP have developed a Supplier Finance Facility pilot project, which was implemented through the Micro Finance Bank of Azerbaijan. The main objective of this pilot was to test the viability of supplier finance and, through experience, to identify lessons going forward.

Results

In 2006, BP spent approximately \$77 million per year on procurement from local SMEs. During 2006 the company worked with 444 SMEs. 35 new small business management courses have been developed in Russian and Azeri, with demand for these fee-based courses outpacing availability.

The newest component of the program, the Supplier Finance Facility pilot, evaluated applications from eight suppliers in a number of industry sectors – from transportation services to printing to engineering to waste management. Two applications were approved, and one disbursed (the other was withdrawn).

Lessons

- 1 An on-the-ground SME Linkage Program coordinator who manages day-to-day implementation and relationship-building is critical.
- 2 Early buy-in from the large firm is essential. In this case, BP's full endorsement at an early stage allowed program priorities and objectives to be designed jointly.
- 3 A central entity, the Enterprise Center, provides a unique platform to advance the interests of SMEs with BP in an efficient fashion.
- 4 Custom-tailored components, based on local needs, are important.
- 5 While the local supplier base in Azerbaijan is currently still small, it can be expanded through greater access to finance.

Summarized and adapted from materials provided by Rio Tinto

Background

Diavik Diamond Mines Inc. (DDMI), a subsidiary of Rio Tinto Mining Group, began construction of the Diavik Diamond Mine in January 2001. Mining operations formally commenced in 2003. The mine is situated 300 kilometers northwest of Yellowknife in the arctic tundra region of Canada’s Northwest Territories, an area larger than Western Europe with fewer than 50,000 residents, some 40% of whom are indigenous.

Drivers

Diavik’s diamond mine was established at a time when the industry’s legacy of environmental liabilities and limited benefits to local and indigenous communities did little to engender communities’ trust of new mining companies. A new regulatory regime providing indigenous communities with meaningful participation in a variety of management boards that now regulate resource development in the Northwest Territories, as well as DDMI’s own corporate commitment to sustainable development, have underpinned the company’s efforts to support northern economic development through the provision of training, employment, and business opportunities. In particular, the company has committed to develop the local and indigenous supply of materials and services during the projected 20-year life of the mine, challenging itself to surpass 70% local purchasing.

Activities

DDMI, in collaboration with government bodies, local and indigenous leaders, NGOs and business groups has implemented a variety of mechanisms to help facilitate and monitor mutual commitments, which offer beneficial models for other locations and projects.

Socio-Economic Monitoring Agreement (SEMA): At the government level, DDMI entered into a Socio-Economic Monitoring Agreement with the federal and territorial governments and affected indigenous groups. The agreement articulates Diavik’s commitment to training,

employment, and business opportunities and establishes a Communities Advisory Board comprising representatives from all parties, with majority representation of indigenous groups. The Communities Advisory Board meets regularly to help DDMI achieve its commitments.

Participation Agreements: At the community level, DDMI signed five Participation Agreements directly with its neighboring indigenous communities. Specific undertakings within these agreements include assistance in identifying business opportunities for service providers, employment and training opportunities for community residents, and support for community educational initiatives.

Northern Business Participation Policy: Within the company itself, DDMI developed a publicly available policy that lays out a clear set of principles and commitments to providing business opportunities and creating long-lasting business relationships with neighboring communities. To pursue these activities, DDMI hired a venture development manager to work closely with potential and existing local business partners, created a Northern Vendors and Contractors Capacity Database, adjusted contracting requirements to fit local business capabilities, and facilitated and monitored joint-venture partnerships.

Results

To date, the amount of operational expenditure that DDMI has allocated to indigenous firms surpasses \$1 billion, and the mine continues to pursue its preference to work with local partners on basic materials and services, as well as some large capital projects. Today, over 70% of the mine’s workforce are northern residents, with the majority indigenous, and the vast majority of its outsourcing contracts – over 90% – are with northern and aboriginal firms.

Lessons

- 1 Regular, consistent and systematic consultation from the outset: Community consultation processes were started when the area was first being explored in the mid-1990s, and the company made a commitment to ensure repeat visits by the same people throughout this period. During the feasibility stage of the project

over 300 meetings were held with affected communities, regulators, the general public, and others.

- 2 Specific employment and procurement targets: DDMI committed to targets through both the construction and operation of the mine. How the mine monitors its collaborative objectives forms an integral part of Diavik's community consultation process.
- 3 Advisory role for communities: In addition to consultation, communities were given a formal advisory role in the project, providing a new level of transparency and a platform for planning, monitoring and ongoing development.
- 4 An integrated approach to training, employment and procurement: Company- and partnership-based training, on technical, operational, and leadership skills, has been linked with hands-on business advice, venturing and contracting activities.

Summarized and adapted from materials provided by Nestlé as well as the FSG Social Impact Advisors publication “The Nestlé Concept of Corporate Social Responsibility”¹

Background

Nestlé, headquartered in Vevey, Switzerland, was founded in 1866 by Henri Nestlé and has since grown to be the world’s biggest food and beverage company. The company employs approximately 250,000 people and has factories or operations in almost every country in the world. It is a significant buyer in several agricultural commodities markets. For example, Nestlé purchases approximately 25% of global coffee production.

Drivers

One of Nestlé’s strategic principles is never to sacrifice long-term potential for short-term performance. The company reconciles the demands of shareholders and the demands of other stakeholders by working to create shared value. In the developing world, analysis has revealed four major areas of opportunity for shared value creation: agricultural sourcing, manufacturing, distribution, and consumption. In the first three areas, much of the shared value – especially among very low-income people – is created through linkages with small producers and retailers. This summary will focus on agricultural sourcing and distribution linkages.

Activities

Nestlé’s linkage activities are aimed at creating improved business conditions for the company, including high-quality, reliable sourcing; improved government regulatory performance; a skilled, loyal workforce; and, ultimately, superior products that can compete successfully in the marketplace.

Agricultural sourcing: Nestlé’s linkages with small farmers involve sourcing standards, purchasing practices, supplier development efforts (including research and capacity-building in sustainable agriculture), and the use of partnerships to increase scale. The company currently has approximately 850 of its own agricultural extension workers serving 400,000 farmers in India, Pakistan,

Brazil, Colombia, Indonesia, South Africa, and other countries.

In addition, it has entered into partnerships with a variety of external organizations.

In coffee, for instance, Nestlé works with the Rainforest Alliance in Costa Rica to source beans for its Nespresso AAA blend. Through farmer capacity-building and other measures, the partnership ensures that the beans are of highest quality, that they are sustainably produced, and that they are traceable all the way back to the farm. Similarly, Nestlé sources Fairtrade certified beans in El Salvador and Ethiopia, working through its own agronomists; Ecom, a trading company; and other partners to provide small farmers with technical support, assistance with market diversification, and infrastructure.

Across commodities, Nestlé’s agricultural extension workers train farmers extensively on water management. Milk farmers, for instance, need help managing effluents. Coffee farmers need to increase efficiency during irrigation and post-harvest washing and treating of beans. Nestlé’s techniques have helped farmers save up to 90% of previous water use.

Distribution linkages: In many developing countries, Nestlé products are sold through small shops, kiosks, and even pushcarts, a distribution chain which provides a number of business opportunities for small, medium, and micro (even one-person) businesses. In Thailand, for example, the chain extends through 400 micro-distributors and 4,000 sellers. Nestlé provides micro-distributors with materials to support seller recruitment and coaching to improve operations. Sellers receive continuous training and recognition – for example, best seller awards, newsletters, New Year’s gifts – which the company has found highly effective in seller retention. In Brazil, where all kinds of products are sold door-to-door, and where personal relationships are important in economic transactions, Nestlé has initiated the “Nestlé Comes to You” program. As in Thailand, the program allows the company to get close to low-income communities through a network of micro-distributors and, aggregated below them, individual retailers – in this case, mostly women, who have lived in the target communities at least five years and have built up relationships of trust. Nestlé provides credit at the

micro-distributor level and heavy training all around. The women retailers can work up to four hours daily, without having to make changes to their daily routines and responsibilities at home.

Results

Nestlé's agricultural supply chain work has resulted in a number of benefits for the company, including reduced risk of contaminants; protection of longer-term sourcing requirements; assurance of quality, availability, and competitive price; and appeal to consumers with social and environmental purchasing criteria. The company's distribution chain work has resulted in access to vast new pools of low-income consumers.

Suppliers and distributors have benefited from improved economic stability, skills, and earnings. As reported by consulting firm FSG Social Impact Advisors in its 2006 report "The Nestlé Concept of Corporate Social Responsibility," the company's purchasing from local suppliers in Latin America alone exceeds 4 billion swiss francs, supporting an estimated 150,000 suppliers and 650,000 jobs.²

Lessons

- 1 Partnering with other companies and stakeholders, as in Nestlé's work with the NGO Rainforest Alliance or the trading company Ecom, can help achieve scale of impact.
- 2 Integration into local cultures and priorities is important. In Thailand, for instance, Nestlé's small-scale distributors initially absented themselves during harvest time, forcing the company to refine the value proposition for individuals to engage in Nestlé's distribution chain in the context of other locally available economic alternatives.

Challenges

"The Nestlé Concept of Corporate Social Responsibility" articulated the company's primary challenge as "moving beyond individual initiatives to encompass its entire global value chain of activities."³

The report suggests, among others, the following steps especially applicable to linkages:

- 1 set goals and measure progress on a global basis;
- 2 replicate best practices across all markets; and
- 3 apply partnership models common in agricultural sourcing to other areas.

1. FSG (2006). "The Nestlé Concept of Corporate Social Responsibility As Implemented in Latin America." Vevey, Switzerland: Nestlé.

2. FSG 2006:11.

3. FSG 2006:8.

Summarized and adapted from materials provided by Barclays and Business Action for Africa¹

Background

Barclays is one of the largest financial services companies in the world, engaged primarily in banking, investment banking and investment management activities. Barclays has operated in Ghana for 90 years and now has a major commercial banking network in the country with branches in all large commercial centers.

Drivers

Currently, nearly 70% of Ghana is unbanked. The individual incomes of the poor in Ghana are too small for ‘high street’ banking. However, many access indigenous systems, such as Susu collection, which collectively amount to a £75 million economy thriving below the traditional banking radar.

By extending financial services to some of the least affluent, like the small trader at the market or the micro-entrepreneur selling from a road-side stall, Barclays can expand its market reach while providing much-needed capital and banking services to the poor.

Activities

Ghana’s 4,000-strong Susu collectors offer basic banking to people who are employed in the informal sector. For a small fee they personally gather the savings of their clients and return it at the end of each month, providing greater security for their client’s money.

Barclays worked with the Ghana Cooperative Susu Collectors Association to develop a specialized banking service in Ghana which provides Susu collectors with 1) capital they can loan to their clients, helping them to establish or develop businesses, and 2) savings accounts into which they can deposit funds for security and growth purposes.

In conjunction with the Ghana Microfinance Institutions Network, Barclays also provides Susu collectors with training to ensure that they have correct credit risk understanding and are able to provide

quality financial services to the people they serve. Similarly, Barclays uses its expertise to educate the clients of the Susu collectors in basic financial skills so that they can effectively manage their money.

Results

The bank is currently running a trial program with over 300 Susu collectors. Following the initial successes of the program, plans are being put into place to roll the model out to other African countries. From February 2006 to February 2007, the project in Ghana achieved the following:

Awareness Creation: Over 1,000 clients attended the financial awareness program in Accra and Kumasi. Topics included banking information, savings, insurance and business record-keeping.

Banking: Total cumulative deposits of c40 billion (£2.2 million) were made. c3.4billion (£188,000) in loans were granted with a 100% repayment record.

Capacity-Building and Training: 300 Susu collectors undertook training in the fundamentals of banking and microbanking, credit risk management and delinquency management.

Lessons

- 1 When providing financial services to previously unserved markets, it is important to ensure that complementary capacity-building services are made available to educate people on, for example, how to utilize a savings account or how credit works.
- 2 Improving cash flow by enabling SMEs to access capital that is tied up in inventory or invoices can contribute to the growth and productivity of small businesses.
- 3 Through savings and investment opportunities, the poor can begin to rise above their current means, protect against sudden financial shocks, and experience more secure livelihoods.
- 4 Basing product and service offerings on traditional practices that take into account local norms and cultures can help to ensure their market success.
- 5 It is also important to raise financial awareness for the clients –

such as petty traders, artisans, and so on – of the participating intermediaries, be they Susu collectors, financial NGOs, or other individuals or organizations.

- 6 Local knowledge and involvement of local people on the ground is crucial.
- 7 Relationship management and close monitoring of account portfolios is important.

1. Wadie, Iain and Andrew Chen (2006). "Enterprise Development in Sub-Saharan Africa: Case Studies." Study conducted by Accenture Development Partnerships on behalf of Business Action for Africa.

**Summarized and adapted from materials provided by
The Coca-Cola Company**

Background

The Coca-Cola Company is the largest beverage company in the world with more than 100 years of international operating experience. It recorded its first international sales in 1897 and established its first overseas manufacturing facility in 1906. Today, products of The Coca-Cola Company are manufactured and distributed in more than 200 countries around the world through a franchise bottling system managed and operated at local levels.

Drivers

One of the key drivers of business success for Coca-Cola is the company's ability to offer cold soft drinks anywhere in the world through its unparalleled distribution network, consisting of thousands of customers from one-man operated kiosks to large grocers.

Activities and Results

To quantify the economic impact of its business on communities, The Coca-Cola Company has sponsored various types of economic impact studies over the years in countries around the world, from Chile to China and from India to Ireland. A study conducted by an independent economist in South Africa showed that for every employee of the Coca-Cola system in South Africa, 16 indirect jobs were created both upstream and downstream of production through ancillary industries such as transportation and distribution, production of raw ingredients and packaging materials.

At the core of the company's supply chain is the principle of customer value creation: supporting distributors and retailers to grow. Formal customer development training centers in Latin America, for example, provided basic business training for more than 21,000 independent retailers on a range of topics at little to no cost to the retailer. In East Africa, the local bottler Coca-Cola

Sabco has trained local entrepreneurs in Kenya, Tanzania, Uganda and Ethiopia on finance and business skills to establish themselves as local distributors. This project, in partnership with IFC and the Africa Project Development Facility, has resulted in 900 small-scale distribution companies generating more than \$114 million in revenues, each creating up to seven employees. In Vietnam, The Coca-Cola Company and its Bottler have partnered with the Vietnamese Women's Unions to give more than 2,000 underprivileged women the opportunity to develop sustainable livelihoods with custom-made pushcarts selling a range of Coca-Cola products. The Company provides participants with an initial quantity of discounted product and business and sales training to help get their small retail businesses started. Regular deliveries are made by distributors who cover small areas, enabling them to form personal relationships that are important to pushcart operators, many of whom are first time businesspeople. Training workshops are regularly organized to equip each vendor with the knowledge and skills to improve their business performance and build and maintain a sustainable income.

Lessons

The Coca-Cola Company recognizes that small business linkages are a fundamental part of its operating culture of generating and capturing shared value at all points along the value chain.

Key lessons include:

- 1 Local retailer capacity-building. Retaining the company's competitive edge requires a constant focus on building relationships with its local retail partners, working with them to accelerate their profitable growth, improve their efficiencies and effectiveness, and create differentiation.
- 2 Understanding sources of impact. Being accountable for the societies in which it operates goes beyond sales reports and balance sheets. The Coca-Cola Company, together with its bottling partners, suppliers, and the distributors who sell its beverages from grocery stores to roadside kiosks, plays an integral role in local economies and communities through

salaries, taxes, and relationships with local businesses. Imparting business skill sets, harnessing entrepreneurship, and establishing start-up retail outlets helps build sustainable societies.

Challenges

Many markets apply elements of the shared value creation operating culture, but to leverage it holistically requires changes in local capability and leadership behaviors to move away from one-track profitable volume growth. Ensuring a common understanding and commitment to implementation is critical to step changing the capability of the Coca-Cola system and ensuring that shared value creation takes place at every step within the chain.

Further, accurately measuring the linkages of the Coca-Cola system to other sectors of the local economy via elasticity analyses and input-output or social accounting matrices is complex, time-consuming and expensive, and requires drawing upon the resources of the entire Coca-Cola system in a consistent way.

Summarized and adapted from materials provided by Shell Foundation and Business Action for Africa¹

Background

Aspire facilities provide both business development assistance and appropriate medium-term finance to support the sustainable growth of SMEs in Africa – and in turn bring much-needed jobs and economic growth to the continent. Based on an innovative business model co-developed in 2003 by the Shell Foundation and GroFin – an African specialist business developer and financier – Aspire facilities have been established in South Africa (\$18 million), Kenya, Uganda, Rwanda and Tanzania (collectively totaling \$43 million) and Nigeria (\$30 million), with the aim to become Pan-African by 2012.

Drivers

In Europe, more than 50% of jobs are created by SMEs. In Africa, the figure is less than 10%. Two key reasons for this disparity are a lack of skills and a lack of access to capital. Typically, SMEs in Africa lack the business skills, track record and collateral to meet the existing lending criteria of risk-averse local banks. This creates a “finance gap” in most markets. Unable to obtain skills and funding, many SMEs fail to fulfill their potential – and Africa misses out on a key driver for sustainable economic growth and social development.

Activities

By integrating provision of business development assistance (BDA) and appropriate medium-term finance (in local currency equivalent to \$50,000 to \$1 million), Aspire facilities target viable start-up and early-stage entrepreneur-owned businesses. All Aspire facilities are locally-managed by teams of GroFin specialists. Unlike banks, applicants are assessed on the basis of the credibility of the entrepreneur and the viability of their business plans rather than proven track record or availability of collateral. In addition to pre-investment BDA, GroFin provides close mentoring support to the

business during the term of the investment.

Results

In addition to delivering attractive financial rates of return to investors, existing Aspire facilities generate a suite of development benefits. For instance, as of December 2006, over 1,000 jobs had been created and maintained, enhancing the livelihoods of an estimated 6,500 people.

Aspire facilities have attracted a range of investors, including development finance institutions, foundations and leading local banks (including ABSA, Diamond Bank and Commercial Bank of Africa). Of the \$100 million currently under management by GroFin, 60% has been secured from investors based in Africa.

Lessons

- 1 Start-up and early-stage businesses face daunting barriers when attempting to access local finance. Their sustainable growth depends upon the provision of both business skills and appropriate finance.
- 2 A viability-based approach towards supporting SMEs is necessary to overcome the lack of proven track record or collateral endemic in this sector.
- 3 Facilities need to be managed locally by teams with specialist knowledge of both business development assistance and finance.

1. Wadie, Iain and Andrew Chen (2006). “Enterprise Development in Sub-Saharan Africa: Case Studies.” Study conducted by Accenture Development Partnerships on behalf of Business Action for Africa.

Summarized and adapted from materials provided by Tribanco and IFC

Background

Banco Triângulo S/A – Tribanco – was created in 1990 to finance the whole value chain of Brazil's largest wholesale distribution company – Martins Group. For over 50 years, the Martins Group has been the leading distributor of foodstuffs, electronic appliances, building materials, pet food and pharmaceuticals to independent retail shops throughout the continental area that forms Brazil.

The strategy for Martins' success has been to serve the base of the pyramid in Brazil. When large foreign retail chains started coming to Brazil, Martins decided to carve out its own market by serving the small retailers – most of them family-owned micro, small and medium enterprises (MSMEs). Martins modernized its logistical and warehousing technology to rival the foreign competition, but it does not invest in real estate and premises, as it does not own a chain of stores. Its main operation is to distribute diversified retail merchandise to over 200,000 neighborhood markets and small shops all over Brazil, with its own fleet of trucks equipped with GPS monitoring devices.

Currently, Tribanco extends credit to over 23,000 retail shops and provides consumer credit to over 2.5 million individual customers. For many of these individuals, this is their first credit card, which will build up their credit history and increase social inclusion. Tribanco is recognized as the success story for microfinance in Brazil. While other banks shy away from lending to MSMEs, Tribanco devotes over 80% of its lending to that market segment and reaches remote locations in areas that are completely unattended by the formal banking system.

Drivers

Martins' main driver is to grow together with its MSME retail clients. Helping client entrepreneurs grow their business has a direct correlation with sales growth for Martins. Martins is willing

to offer integrated solutions to its clients – retail business best practices (optimizing their product mix, display cases and lighting) as well as financing (working capital and/or remodeling loans).

Tribanco's driver is to be a financial solution integrator for Martins.

This means to understand customers' challenges, identify their needs and provide complete financial and management solutions throughout the value chain – suppliers, retailers (MSMEs) and final consumers (often under-served populations).

Activities

Martins Retail University was created to offer the necessary training for Martins clients. Many clients come from remote locations to learn basic skills that make them better managers, sales people, and financial intermediaries by issuing private label credit cards. Others come to learn how to make their stores more energy efficient through new lighting and remodeling.

More recently, Tribanco and IFC entered into a Capacity Building Technical Assistance agreement (TA) to strengthen the financial intermediation role of retailers, who are part of the value chain of Martins. Through this TA, Tribanco will play a wholesale capacity-building role to train its own credit officers as trainers who will then train the retailers, approximately 23,000 clients, as well as individual consumers, to get better access to finance. Tribanco will become a wholesale training conduit, and offer increasingly valuable products to the independent store owners. In addition to building the capacity of Tribanco as a financial intermediary, IFC and Tribanco are jointly developing sustainability awareness programs, with local NGOs, to be piloted throughout the value chain all the way to the individual consumer. The three areas to be covered are responsible consumer credit, environmental issues and social responsibility.

Results

- 1 Over 90,000 individuals have been trained through Martins Retail University.
- 2 Over 11,000 people have been reached through e-learning,

making the Martins Retail University a model for distance learning.

- 3 The Tribanco – IFC TA is in its early stages of implementation. Tribanco has been able to grow its client card product much more rapidly than originally expected, from 500,000 clients in 2004 to 2.5 million clients by mid-2007.

Lessons

- 1 Martins and Tribanco are fully committed to serving the MSME clients for both their distribution and financial services as their growth is directly reflected in the larger company/bank's future growth.
- 2 Commitment from the top as well as integration throughout the Martins Group is key for their success in serving MSMEs.

Challenges

To continue to be true to its vision of serving the base of the pyramid as they grow and to be able to roll out the sustainability awareness programs to reach even those at the base of the pyramid.

Summarized and adapted from materials provided by Unilever and Business Action for Africa¹

Background

Unilever is a consumer goods company with over 400 brands spanning 14 categories of home, personal care and foods products. Unilever relies on agriculture for more than two-thirds of its branded products. It is the world's largest supplier of black leaf tea – accounting for 16% of world volume.

Unilever Tea Kenya (UTK) has over 8,000 hectares of tea gardens and accounts for 12% of Kenya's tea output.

Drivers

Economic, environmental and social pressures – fueled by, for example, competition for land, dwindling water resources and soil erosion – increasingly challenge Unilever's agricultural supply chain. At the same time, consumers are demanding that the products they buy benefit the communities from which they are sourced.

Through its Sustainable Tea Initiative, Unilever wanted to ensure the availability of essential tea supplies over the long term by encouraging the smallholder farmers in its supply chain to adopt sustainable agricultural practices. This would help farmers to sustain their livelihoods by improving productivity and crop quality; increase Unilever's knowledge about emerging issues that have the potential to affect the business; and enable the company to establish sustainability indicators and standards that could be rolled out across its tea operations and adapted for use with other key crops.

Activities

The Sustainable Tea Initiative began at UTK in 1999 with a series of pilot projects on its own tea estates aimed at better understanding sustainable tea production techniques. Unilever used the findings to develop good practice guidelines that would enhance productivity, market value, and environmental and social performance.

Unilever shares its good practice guidelines with suppliers through the

distribution of two detailed manuals, one for large-scale growers and one for local farmers. The company works with local organizations to develop participatory learning schemes that help individual farmers implement these practices. The company is increasingly incorporating the guidelines into discussions and agreements with suppliers of tea for Unilever.

Results

The good practice guidelines produced by Unilever's Sustainable Tea Initiative have introduced tea suppliers to new farming methods by which to improve soil fertility, minimize soil erosion, produce crops with high yield and nutritional quality, implement Integrated Pest Management, enhance the biodiversity value of farms, increase efficiency of water use and energy utilization, improve the working environment and help local communities and the local economy. Unilever has now extended its Sustainable Tea Initiative in Kenya to other tea-producing areas in India and Tanzania. It also runs similar sustainable agriculture initiatives for other key crops such as palm oil, spinach, tomatoes, and peas.

In 2006, Unilever entered into partnership with the Kenyan Tea Development Agency (KTDA), a cooperative of about 450,000 farmers that produces 60% of Kenya's tea, in an extension of its program to provide best practice agricultural and management techniques to farmers.

Lessons

- 1 The benefits of employing renewable energy and recycling activities, and working to incorporate sustainable business practices throughout the supply chain, can often outweigh the costs.
- 2 Providing services, infrastructure and efficient practices to supply chain partners can help to motivate and inspire a mainly rural workforce, improving both productivity and welfare.
- 3 Working in partnership with competitors to improve agricultural practices and crop productivity, and bring development to the industry as a whole, is good for all.

1. Wadie, Iain and Andrew Chen (2006). "Enterprise Development in Sub-Saharan Africa: Case Studies." Study conducted by Accenture Development Partnerships on behalf of Business Action for Africa.

Summarized and adapted from materials provided by Chevron Corporation

Background

Chevron's joint venture, Tengizchevroil (TCO), was created in 1993 with the Republic of Kazakhstan to develop the Tengiz oil field in the Atyrau region in western Kazakhstan. Tengiz is one of the largest oil fields in the world, containing between six and nine billion barrels of recoverable oil.

Drivers

Kazakhstan is undergoing a visible transition from an internal Soviet republic to independent democratic state and from command to free market economy. The government endeavors to build on the country's rich natural resource base to generate employment and diversify the economy, and recognizes small business development as a key priority and strategy. Chevron became the first major Western oil company to operate in Kazakhstan. As a partner in TCO and through its independent operations, Chevron remains committed to supporting national economic development goals, which include community engagement programs.

Activities

TCO's Small Business Development (SBD) Group, formed in 1997, originally funded organizations with charitable social objectives. In 2001, the SBD Group was reoriented to provide assistance to small businesses that would create jobs and stimulate local economic development in the Atyrau region and broader Kazakhstan. The program is also designed to strengthen the capacity of the local manufacturing industry. The reorientation of SBD's program is aligned to Chevron's corporate community engagement theme of economic growth through capacity-building.

The SBD Group's main function is to review and finance small businesses that can support TCO's operations, as well as the broader business community. Small businesses with the

potential to supply products and services to TCO are prioritized to receive financial support, as are those in the manufacturing sector generally. Businesses with environmental, social and job creation benefits are also considered, such as medical and dental clinics.

Financial assistance is provided through a joint financing program with local financial institutions BankTuranAlem and KazKommertzBank. As part of the program, candidates are initially identified by the SBD Group, and their information is furnished to the bank for review and assessment of lien property. After bank review, the candidate's information is returned to TCO for approval or rejection, which is performed by the Small Business Contract Review Committee, which comprises the Bank's Deputy General Director, financial controller, deputy legal manager, the SBD Group Supervisor, and others. The bank makes the final decision on whether to finance candidates that are approved by TCO. Loans are made out of the bank's own capital, and the bank takes responsibility for monitoring the performance of its clients and ensuring that they make timely repayments. The bank's administrative costs are covered by TCO so that the loans can be provided interest-free. Loan size ranges from \$5,000 to \$750,000.

Results

Between 1997 and 2005, \$5.7 million in loans were disbursed to 157 small businesses, creating approximately 2,000 jobs. At least six of these businesses now supply goods and services as part of TCO's supplier chain in the areas of consumable goods, printing, and electrical services.

Overall, TCO's general and support spend in Kazakhstan has steadily increased from year to year, with 58% of 2006 total spend directed at local businesses.

Lessons

For small business development and linkage programs offering access to finance, transferring loan administration to a local financial institution can increase sustainability and reduce the

operating burden on a large sponsoring organization, such as Chevron. It also provides a range of value-added services to clients, including consultation with bank specialists on financial and business-related issues.

In its earlier days, TCO's loan process was different. TCO issued the loans, formulated loan and mortgage agreements, and monitored each loan repayment. Today, TCO is working with local banks, such as BankTuranAlem and KazKommertzBank, and has transferred part of its functions to these Banks, particularly loan and mortgage agreements and repayment collection. TCO is responsible for identification, review and approval of projects.

Endnotes

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Notes

Notes

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Anna Akhalkatsi is an Operations Officer in the Global Linkages Unit within the SME Department at the International Finance Corporation. She brings eight years of private sector development, investment and advisory experience from across the World Bank Group. Prior to joining the Department, Anna worked in the Strategy Unit within IFC's Central and Eastern Europe Department on the development of regional, country and sector strategies. Prior to that, she was IFC's Country Representative for Georgia, with new business development responsibilities for IFC's investment/advisory work, and portfolio supervision functions for IFC's investments/advisory in Georgia's banking sector. Before joining IFC, Anna worked as an Economist for the World Bank in Georgia, focusing on private sector development and structural reforms. Anna holds a Master's degree in Economic Policy Management from the University of Auvergne, France.

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Brad Roberts is an Operations Officer in the Global Linkages Unit within the SME Department at the International Finance Corporation. In this capacity, Brad has worked with several IFC investment clients to develop and implement linkages programs and sustainable income generating activities in surrounding communities. As part of his career with IFC, Brad has lived in Mozambique and Peru, providing direct support to clients in those countries and neighboring regions. Currently, Brad is working to increase the number of linkages programs related to IFC agribusiness investments. Previous to IFC, Brad was a United States Peace Corps Volunteer in Paraguay working in small business development. Brad also spent several years in the private sector with a marketing firm. He is a graduate of James Madison University and the Johns Hopkins University School of Advanced International Studies.

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THE CSR INITIATIVE, KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

The Corporate Social Responsibility (CSR) Initiative at the John F. Kennedy School of Government, Harvard University, is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public role of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy and the media, with a focus on the role of business in addressing global development issues. The initiative undertakes research, education and outreach activities that aim to bridge theory and practice, build leadership skills, and support constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company and General Motors.

www.ksg.harvard.edu/m-rcbg/CSRI



THE INTERNATIONAL BUSINESS LEADERS FORUM

The International Business Leaders Forum (IBLF) is a not-for-profit organization established in 1990 to promote responsible business leadership and partnerships for international development. It is supported by over 100 companies from around the world and a range of other partners including inter-governmental organizations, bilateral development agencies, and NGOs. IBLF works in over 50 countries, mobilizing visionary leadership, building cross-sector partnerships and engaging the capabilities of companies to create innovative and sustainable development solutions.

www.iblf.org



INTERNATIONAL FINANCE CORPORATION

IFC, the private sector development arm of the World Bank Group, adds value to private sector investment by offering its client a range of Advisory Services. To catalyze local economic growth, IFC designs and implements programs to integrate Small and Medium Enterprises (SMEs) into the supply chains of its clients to create income generation opportunities for communities around clients' project sites. These results are achieved through a mix of interventions, such as local supplier development programs, training in business/technical skills for SMEs and micro-entrepreneurs, and facilitating SMEs' access to finance and entry into new markets. IFC also provides client companies with skills, tools and support to implement HIV/AIDS programs within their workplaces and surrounding communities.

www.ifc.org



BUSINESS ACTION FOR AFRICA

Business Action for Africa is an international coalition of businesses and business organizations committed to ending poverty in Africa. Business Action for Africa was created to build on the momentum generated by the Commission for Africa and G8 in 2005. The network has three objectives: 1) to positively influence policies needed for growth and poverty reduction, 2) to promote a more balanced view of Africa, and 3) to develop and showcase good business practice.

www.businessactionforafrica.org

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