



# Enterprise Development

Global Experience & Best Practice

**edge**  
leading explosive growth

# Jason Goldberg

Jason is a founding Director of **edge** - a specialist Enterprise Development company - and architect of 2 of **edge's** business units:

- The **edge ED strategy** unit helps corporations maximise the social and financial impact of ED investments;
- The **edge Growth Accelerator** unlocks explosive growth in SME's through holistic, strategic, systematic growth support (focus on expansion phase).

Jason started his career in business strategy with Bain & Company, a global strategy consulting firm, where he spent 50% of his time at the interface between global corporations and local SME's (e.g. on SME subsidiary growth projects) before returning to South Africa to use business to help the poor. Jason was COO of one of SA's leading training businesses and COO of the Cida Investment Trust, doing BEE Private Equity deals with SME's. Jason developed an SME Growth Acceleration methodology for an African SME Private Equity Fund. The approach had such profound impact that Jason spun it off as a business to create jobs through SME incubation, and **edge** was born.

Jason has a BSc.Eng (Elec Eng, Honours, Cum Laude), a post-graduate B.Phil in Sustainable Development (Cum Laude), and is currently crafting a Masters thesis in global ED Best Practice.

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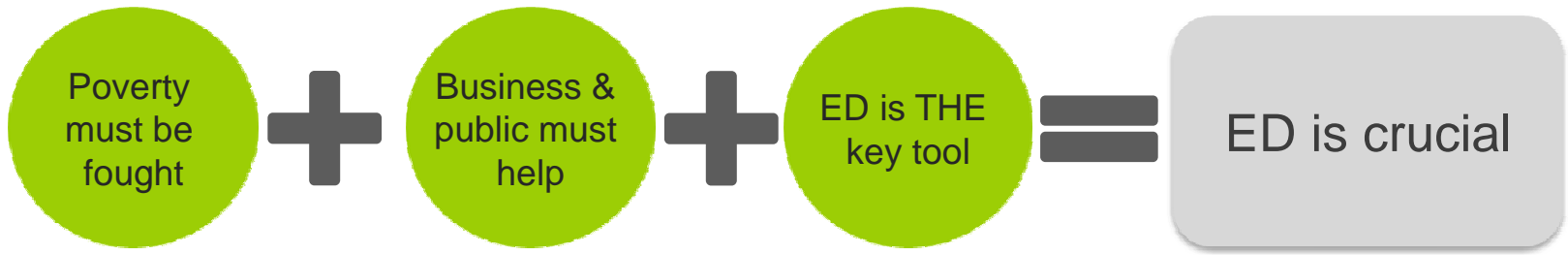
Challenges with ED in SA today

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Practical strategies for South African corporations

# Why does ED matter?

## Global perspective



## Local, long term perspective

- Business sustainability in SA hinges on a stable socio-economic climate
- A stable socio-economic climate hinges on job creation (and hence ED)

## Local, short term perspective

- B-BBEE codes
- Opportunity to translate ED “tax” into return generating investment, and competitive advantage



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# ED is growing SMME's to create jobs

Provide services to help local enterprises overcome growth constraints



Grow local enterprises

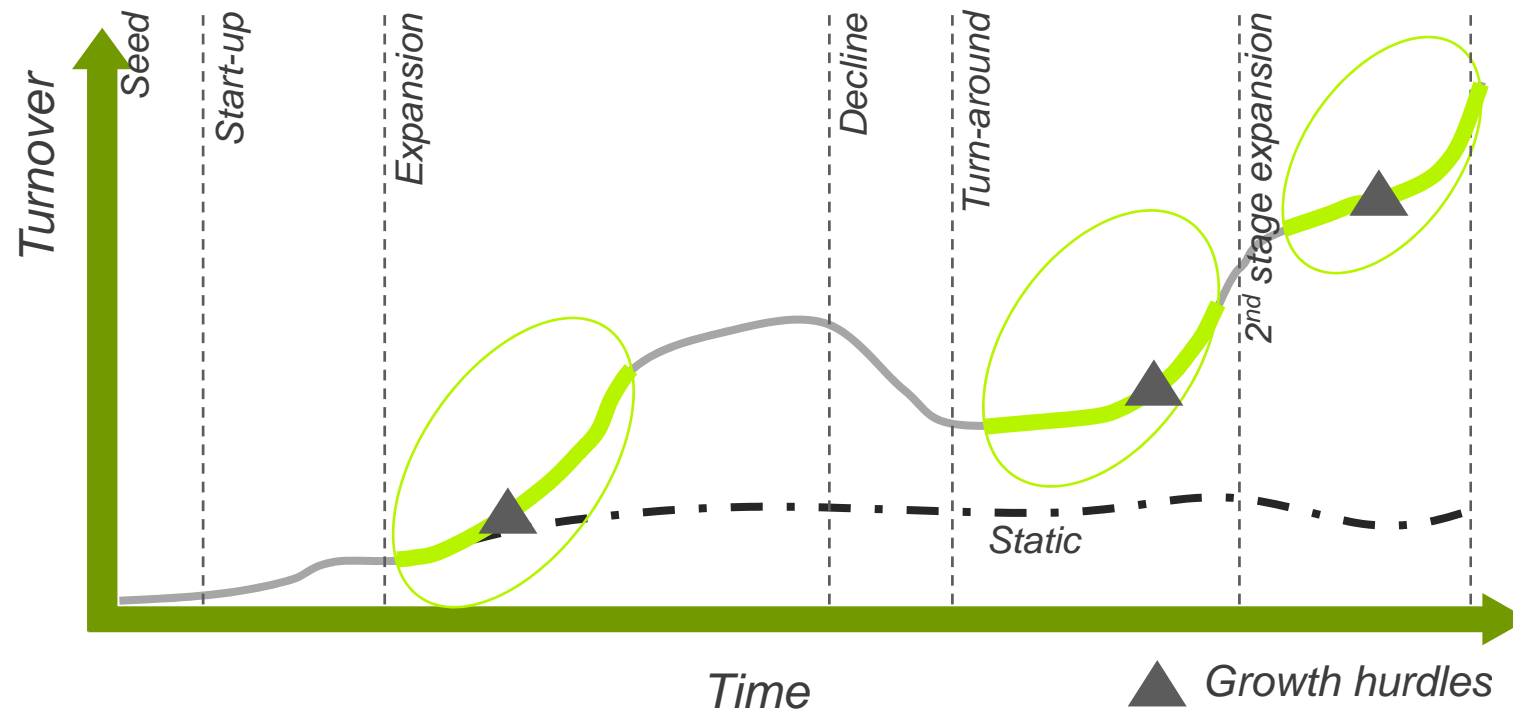


Create more and better jobs



Grow the economy & improve lives of the poor

# But ED is more complex than ad hoc help



ED must always target sustainable, profitable growth. No growth, no jobs and no corporate benefits!

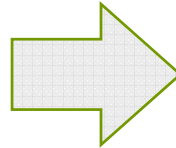


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# What have we learned from global experience?

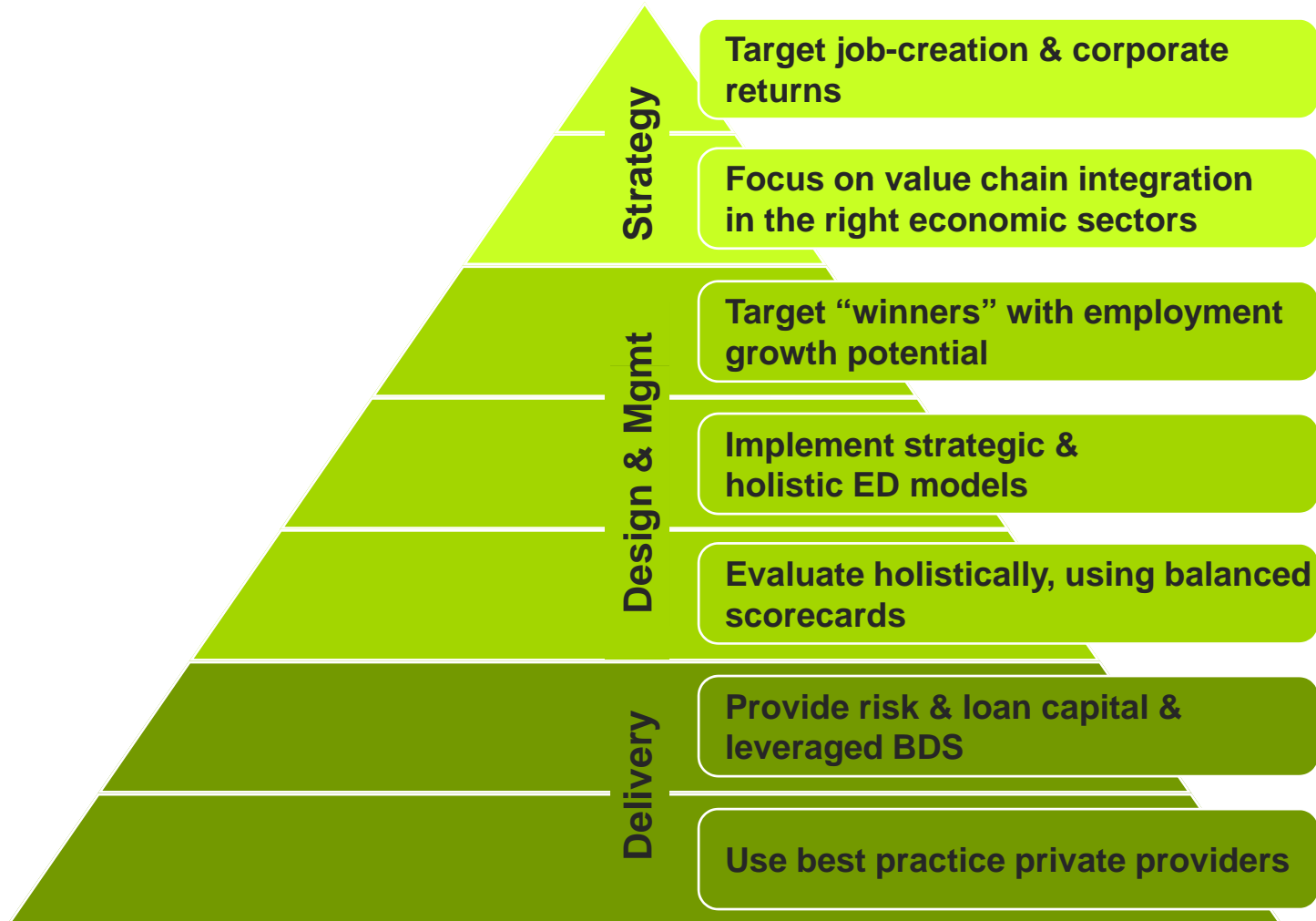
- 60 years of effort
- Governments
- Development specialists (World Bank, IFC, USAID, DFID, etc)
- Corporations (Shell, BP, etc)
- 10 years of intensive efforts
- Several billions of dollars spent



- Achieving powerful impact is possible (several success stories)
- But it is not easy: **most ED efforts fail**
- ED is complex and highly nuanced
- Good intentions are not good enough!
- Customised best practice is essential

So what is best practice? How do we achieve impact?

# Best practice does exist, though it must be tailored to each specific ED context





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The way ED is being done in SA today, it is unlikely to have a fraction of the impact it could





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## 5 crucial principles

- 1** *Take it seriously... Invest in impact*
- 2** *Focus on value chain opportunities*
- 3** *Think incubation*
- 4** *Pick the right incubation models & partners*
- 5** *Be strategic about impact*



# Key takeaways

## Situation

- Enterprise Development (ED) is recognised globally as the most powerful weapon against poverty
- For corporations, it is the pinnacle of CSR: able to generate greater impact than any other form of CSR, and able to generate direct shareholder value
- In SA, BBBEE regulations create a R10Bn (est.) market for private-sector driven ED
- This has the potential to double the rate at which jobs are created in South Africa!

## Complication

- 60 years of global ED experience makes it clear how difficult it is to get ED right
- But locally we are paying very little attention to lessons learnt globally, which will result in one of the most powerful CSR opportunities ever afforded this nation being squandered
- Alas, most of SA's ED efforts are currently doomed to failure for lack of effective strategy and execution in a very complex field

## Key question

- How can we (corporate SA) turn this around use and ED as an effective tool to build the nation?

## Most crucial principles:

- Take it seriously – invest in capacity, capability, best practice & the best partners
- Focus on the value chain
- Incubate - provide systematic, medium- to long-term support to unlock growth and jobs
- Pick the right ED model and partners. Different models are suited to different ED ventures. In SA in particular, creating globally competitive SME's is essential to truly create impact
- Be strategic! ED does not automatically solve all problems. Pick ED projects that will generate the right forms of impact

# Appendix: Case studies

## **Supply Chain**

- Anglo Zimele, SA
- Delta Motor Corporation, Zimbabwe
- Fiat Automotive, India
- Du Pont, Columbia

## **Distribution**

- Coca Cola SA
- Unilever, Vietnam

## **General SMME support**

- Shell, Global
- Chevron Texaco, Kazakhstan

# Anglo Zimele, SA

*Combine support to Black Economic Empowerment (BEE) SMEs that supply Anglo with non-core inputs, along with more general support to the SME sector*

## **How it works**

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

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

The Zimele program has two main elements:

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

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

## **Why they did it?**

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

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

## **Partnership approach**

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

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

## **Results**

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

## **Key Learning Points**

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

Source: UNIDO (2004), *Partnerships for Small Enterprise Development*. Report prepared by Deloitte, for UNDP and UNIDO. Pp 15

# Delta Motor Corporation, Zimbabwe

*Support SMMEs development by assisting entrepreneurs in establishing their own businesses*

## **How it works**

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

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

## **Why they did it**

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

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

## **Partnership approach**

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

## **Results**

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

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

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

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

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

## **Key Learning Points**

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

Source: UNIDO (2004),  
Partnerships for Small  
Enterprise Development.  
Report prepared by Deloitte,  
for UNDP and UNIDO. Pp 21

# Fiat Automotive, India

*Develop a clear-tiered market structure among automotive component suppliers through strategic development of automotive component suppliers, by providing support and training particularly in plastics, rubber and metalworking*

## **How it works**

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

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

## **Why they did it**

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

## **Partnership approach**

- The Automotive Component Manufacturers Association of India provides access to component manufacturers in India, day-to-day management of the program, and access to a well-established

information infrastructure to disseminate know-how to local companies. The Automotive Research Association of India, a leader in automotive engineering and testing, provides technical/engineering support to the program.

- The Prince of Wales Business Leaders Forum advises SMEs on social and environmental auditing. The Ministry of Industry of the Government of India also participates in the program to provide financial support and policy guidance. Fiat, UNIDO, and the Government of India make financial contributions to the program. All partners make contributions to staff time, travel costs, and technical advice.

## **Results**

### **Quantitative Improvements:**

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

### **Qualitative Improvements:**

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

## **Key Learning Points**

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

Source: UNIDO (2004), *Partnerships for Small Enterprise Development*. Report prepared by Deloitte, for UNDP and UNIDO. Pp 15

# Du Pont, Columbia

*Financing for farmers so that they can purchase inputs from DuPont to maximize their yields for the season*

## **How it works**

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

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

## **Why they did it**

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

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

## **Partnership approach**

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

## **Results**

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

## **Key Learning Points**

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

Source: UNIDO (2004),  
Partnerships for Small  
Enterprise Development.  
Report prepared by Deloitte,  
for UNDP and UNIDO. Pp 28

# Coca Cola SA

*Developing the capacity of the distribution network comprising individual entrepreneurs in underdeveloped markets*

## **How it works**

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

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

## **Why they did it**

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

- Penetrating new markets
- Increasing the sustainability of retailers

## **Key Learning Points**

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

## **Partnership approach**

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

## **Results**

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

Source: UNIDO (2004), *Partnerships for Small Enterprise Development*. Report prepared by Deloitte, for UNDP and UNIDO. Pp 30

# Unilever, Vietnam

## *Developing a range of sourcing and distribution “partnerships” with local SMMEs*

### **How it works**

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

#### ■ **Raw Material and Packaging Suppliers and Distributors**

For its 3 local suppliers of raw materials, 6 suppliers of packaging materials and 330 distributors, Unilever defined quality standards, established the technology input necessary to achieve these requirements and, where appropriate, provided the financial support to ensure their long-term growth. Training programs on quality standards, inspection and testing methods and warehousing specifications were undertaken. In total, Unilever provides them with \$28 million of business each year with guaranteed volume at agreed prices and quality levels, providing technical support from internal experts or technical consultants.

#### ■ **Contract Manufacturers**

Unilever Vietnam's response to the capability problems faced by local manufacturers was “if capabilities do not exist, help develop them”. Adopting a pragmatic incremental building block approach, it complements the inherent “can do” attitude of the Vietnamese people.

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

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

### **Why they did it**

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

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

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

### **Partnership approach**

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

### **Results**

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

Source: UNIDO (2004), *Partnerships for Small Enterprise Development*. Report prepared by Deloitte, for UNDP and UNIDO. Pp 24

# Shell, Global

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

## **How it works**

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

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

## **Why they did it**

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

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

## **Partnership approach**

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

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

## **Results**

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

Source: UNIDO (2004), Partnerships for Small Enterprise Development. Report prepared by Deloitte, for UNDP and UNIDO. Pp 35

# Chevron Texaco, Kazakhstan

*Support of entrepreneurs through the creation of a business center supported financially by ChevronTexaco and Citigroup Kazakhstan and implemented by*

## **How it works**

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

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

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

## **Why they did it**

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

## **Key Learning Points**

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

Source: UNIDO (2004), Partnerships for Small Enterprise Development. Report prepared by Deloitte, for UNDP and UNIDO. Pp 36

## **Partnership approach**

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

## **Results**

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

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