

BUSINESS LINKAGES
Practice Notes

Developing a Transparent System for Local Contracting

A MANUAL FOR PRACTITIONERS
BASED ON THE ePROCUREMENT EXPERIENCE IN CHAD



ExxonMobil



IFC

**International
Finance Corporation**
World Bank Group

Developing a Transparent System for Local Contracting

A Manual for Practitioners Based on the eProcurement Experience in Chad

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Abbreviations

AFVP – Association Française des Volontaire de Progres

BDS – business development services

CDE – Enterprise Center (Centre de Development des Enterprises)

CEO – chief executive officer

EC – Enterprise Center

EMP – environmental management program

eRFX – Exxon Mobil's proprietary eProcurement system [eRFX= Electronic Request for (x), where x can be a Proposal (RFP), Quote (RFQ), Information (RFI), or Tender (RFT)]

HSE – health, safety, and the environment

IFC – International Finance Corporation

JV – joint venture

KPI – key performance indicator

LBO – local business opportunity

M&E – monitoring and evaluation

NGO – nongovernmental organization

Q&A – question and answer

SMEs – small and medium enterprises (also referred to as local businesses)

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Overview

Executive Summary

This manual provides a step-by-step guide on how to enable local small and medium enterprises (SMEs) in emerging economies to get access to procurement opportunities with large companies through a transparent system for local contracting. An important component of this system is the company's electronic procurement (eProcurement) system.

Rationale

Large company operations in developing countries have millions of dollars of annual procurement needs. SMEs in developing countries can help meet these needs and thus find valuable business opportunities. Increased local procurement can not only improve efficiencies for the large company, but also help stimulate the local economy.

Moreover, enhancing the opportunities for local procurement offers the large company an ideal vehicle with which to spread the benefits of its investment to a wider cross-section of society. This can strengthen the company's social license to operate in a remote region. Such a social license is especially important to companies in extractive industries, such as oil, gas, and mining. The absence of a social license can be detrimental to the future of the project.

An eProcurement system, in particular, offers additional benefits. By making the bidding process electronic, it reduces human contact during sensitive steps in the process of awarding business contracts. This can help avoid the potential flow of corruption between SMEs and company staff. In addition, it ensures that procurement procedures for a company are consistent and transparent around the world, greatly reducing the volume of procurement-related work.

However, it is a challenge to incorporate local SMEs into the supply chain of large companies effectively (especially using their eProcurement systems) because of:

- Lack of access to a comprehensive database of SMEs
- Information asymmetries regarding tender opportunities
- Technology, language, and infrastructure barriers
- Poor delivery capacity of local SMEs.

The Local Supplier Development program in Chad aims to build linkages between the oil industry consortium and local suppliers by devising a transparent system for local contracting using the eProcurement system developed by Ariba software for ExxonMobil.¹ The program is being implemented by the International Finance Corporation (IFC), in association with ExxonMobil and the Chamber of Commerce of Chad.

The Chad Model

The transparent system for local contracting helps to tackle the challenges of implementing an effective eProcurement system. Highlights of this system include:

¹ This eprocurement system is also called eRFX in this manual. eRFX = Electronic Request for (x), where x can be a Proposal (RFP), Quote (RFQ), Information (RFI), or Tender (RFT).

1. **SME mapping.** A comprehensive survey of local SMEs is conducted to locate SMEs and maximize the outreach for the company's tender announcements. **For example,** in Chad, ExxonMobil had a list of only 117 SMEs, while the Enterprise Center jointly run by IFC and the Chamber of Commerce of Chad developed a list of more than 1,300 SMEs. (For more information about the Enterprise Center, see p. 20).
2. **SME rating system.** All the SMEs are evaluated according to their level of competency and given a rating of 0 to 3 stars. Tender announcements publicly specify the prerequisite rating required for bid applicants, eliminating the potential for special interest favors.
3. **Public workshops.** Open to all, public workshops correct information asymmetries in the market by providing SMEs with access to information regarding the pipeline of bidding opportunities over a medium to long term (six months to two years), as well as standards demanded by ExxonMobil from its suppliers. As a result of the workshops, applications per bid in Chad increased five-fold, from 5 to 25 SMEs.
4. **eProcurement system.** Introduction of an eProcurement system ensures that the actual procurement process is transparent, as well as free of corruption and error.
5. **Access to infrastructure.** The SMEs are provided access to computers and the Internet.
6. **SME capacity building.** SMEs are offered continuous training and capacity building to use the lead company's eProcurement system, submit required documentation and tender bids, and deliver contracts effectively.
7. **Access to finance.** Strategies and programs have been developed in association with financial institutions to help SMEs get access to resources and demonstrate their ability to execute a contract.

These activities are conducted by a team of trainers and are based out of the Enterprise Center promoted by the program partners. Figure 1 summarizes the system.

Benefits

This procurement system provides many benefits:

Benefits for the Company

Outreach. Companies can reach a larger number of local suppliers, with the help of the Enterprise Center.

Quality. Firms gain access to low-cost and high quality suppliers.

Accuracy. The electronic system ensures that applications are complete and free from errors.

Efficiency. The logistics of handling paperwork and processing information is streamlined and expenses are reduced.

Benefits for Local Suppliers

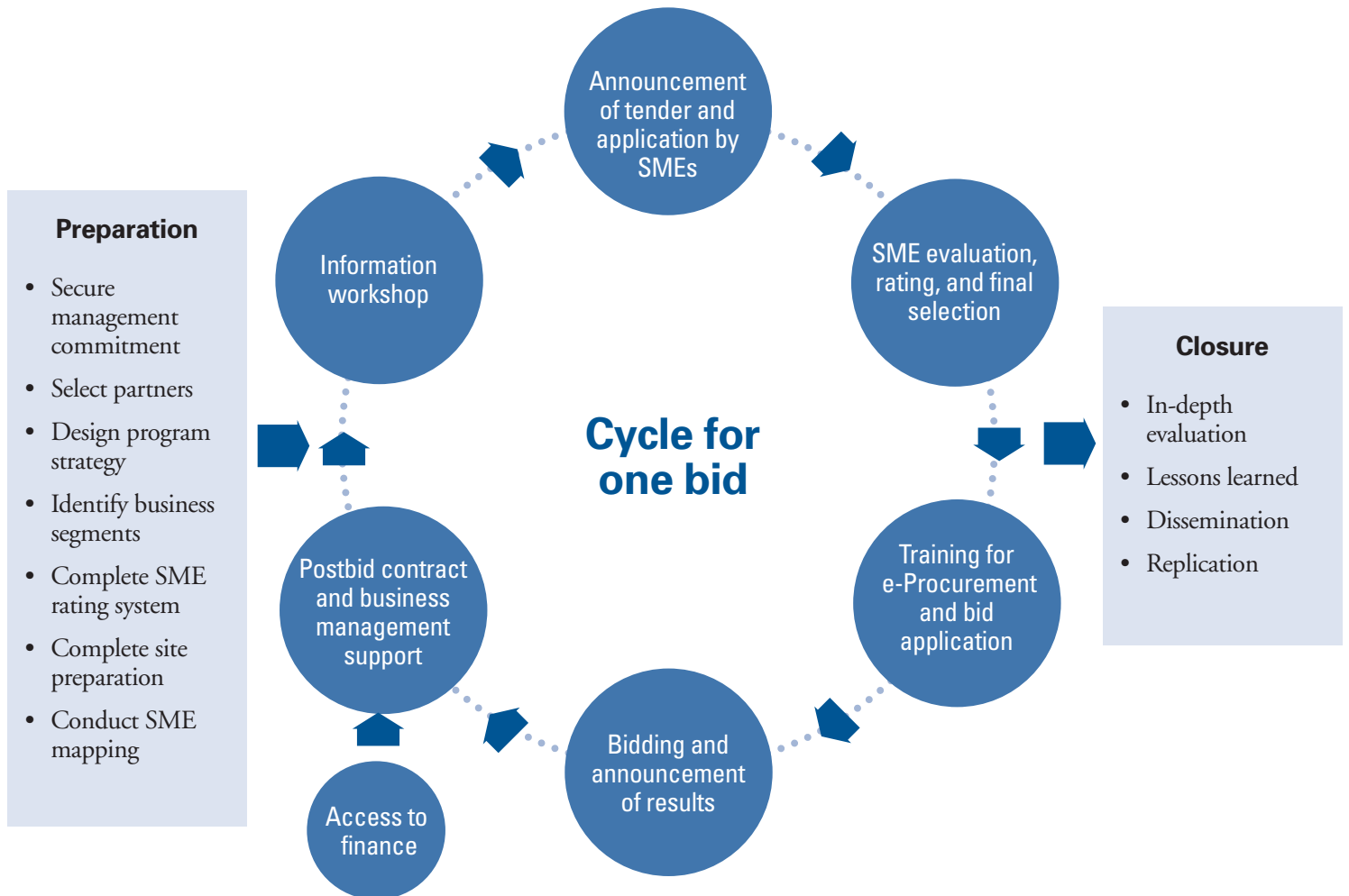
Transparency. Suppliers have access to the same bid information, are rated using a transparent rating system, and transmit their bids through a secure system.

Accessibility. Tender applications can be accessed and submitted remotely.

Capacity building. SMEs can develop their ability to respond to tenders, using technology effectively.

Opportunities. SMEs gain access to previously unavailable procurement opportunities.

Figure 1. Developing a Transparent System for Local Contracting (Version 1.0)



Context	Partners	Program Components	Key Success Factors
<ul style="list-style-type: none"> Construction and operation phase Existing local SME base Local business development service providers 	<ul style="list-style-type: none"> Lead company Development institutions Local business organization Big subcontractors Finance institutions SMEs 	<ul style="list-style-type: none"> Enterprise Center Development of a transparent procurement process <ul style="list-style-type: none"> Use of eProcurement SME rating system Communication workshops Training for eProcurement and business development 	<ul style="list-style-type: none"> Early lead company buy-in Alignment of incentives among internal stakeholders in the lead company Highly motivated team of Enterprise Center staff SMEs' drive to learn and change business practice Transparent communication of bid opportunities

About this Manual

This manual describes the approach adopted in Chad to introduce a transparent system for local contracting to integrate local SMEs into the supply chain of a large company (ExxonMobil).

Objective

This manual aims to:

- Demonstrate how companies can use their existing eProcurement systems for local procurement
- Provide step-by-step guidance on how to introduce a transparent system for local contracting to integrate local SMEs into a company's supply chain effectively
- Distill and highlight the key lessons learned in implementing a local supplier development program of this nature.

Target Audience

The target audience for this manual is organizations attempting to develop transparent procurement processes in their local supplier development programs. These include:

- Development institutions
- Companies with operations in remote regions
- Local chambers of commerce
- Nongovernmental organizations (NGOs).

Version 1.0

This is a live document that will continue to be revised with new project cycles and replications within Chad and elsewhere. Thus the steps described should be considered only as a guide and not as a required sequence. Parts of the document may be altered with subsequent revisions, based on ongoing experience.

Customize this Manual

Replicating the program in other companies or countries might require altering some of the phases and steps within the framework to fit the environment where the program is going to be implemented. ***Before beginning implementation, care should be taken to customize the program prescribed in this manual to suit local conditions, as well as the requirements and policies of the company involved.***

Introduction

The transparent procurement system described in this manual is currently under operation in Chad, and connects local small and medium enterprises (SMEs) with an oil consortium led by ExxonMobil. A key component of the system is ExxonMobil's proprietary eProcurement platform, eRFX.

Background

Large company operations in developing countries with millions of dollars in annual procurement needs provide a business opportunity for procurement from local companies—particularly SMEs, and especially in labor-intensive activities. Not only can increased local procurement stimulate the local economy, but it also offers the potential to improve efficiencies for the large company.

However, it is a substantial challenge to incorporate local SMEs into the supply chain of large companies effectively, especially using methods enabled by modern technology, such as electronic bidding. Several challenges may arise:

- **Lack of access to a comprehensive database of SMEs.** Large companies may not know that SMEs are eligible and available for procurement. Poor outreach may result in a suboptimal number of applicants for contracts, low quality, and high price.
- **Information asymmetries.** Local SMEs sometimes never hear about a tender opportunity or know why they were not selected. As a result, they often accuse the company of not giving them an opportunity and favoring their existing suppliers. Moreover, an opaque procurement system often leads to supplier collusion and corruption.
- **Technology, language, and infrastructure barriers.** Local SMEs are not technology savvy enough to be able to use a company's eProcurement system, have limited access to good infrastructure such as computers and the Internet, and may find the company's bidding requirements and procedures complicated or even incomprehensible.
- **Poor delivery capacity of local SMEs.** The differences between prevailing local and international standards results in substandard contract delivery.
- **Barriers to access to finance.** Poor availability of finance may prevent SMEs from demonstrating that they can tap the resources required to execute large contracts.

Where some or all of these barriers exist, it becomes very difficult for companies to use the eProcurement system that they may use in operations in other parts of the world, and they turn to a more labor-intensive approach. As a result, local procurement of companies can be undermined by corrupt practices such as supplier collusion, leading to high prices and low quality.

The Local Supplier Development program implemented by IFC in Chad in association with ExxonMobil and the local Chamber of Commerce aims to build linkages between ExxonMobil and local suppliers by devising a transparent system for local contracting.

Developing a Transparent System for Local Contracting in Chad: Evolution of the Program

In 2001, the International Finance Corporation (IFC) financed the Chad Cameroon Pipeline Project (CPP) with US\$200 million in loans. The CPP was the first greenfield project undertaken by ExxonMobil in 15 years.

Construction Phase

IFC established a program office in Chad in 2002 with the intention of maximizing the benefits of the CPP for the people of Chad. One objective of the program focused on promoting local supplier development through IFC's Business Linkages program. However, given the demands of the construction phase of the project, and in light of the challenges of working on a cross-border pipeline in two African countries, the consortium was initially more focused on meeting its deadline for the construction phase than on incorporating local suppliers into its supply chain. As a result, little progress was made for local supplier development and the initial results for SME development in Chad were limited.²

Operational Phase

Several key changes occurred during the operational phase. First, with the pressure of the deadlines of the construction phase disappearing, ExxonMobil's management was more receptive toward a local supplier development program. Second, part of ExxonMobil's increased receptiveness was to appease the local business community, which was disgruntled from not being included at all during the construction phase. Third, there was a clear commitment from the procurement department of ExxonMobil to make procurement with local suppliers a reality.

The Enterprise Center

IFC Business Linkages' Supplier Development Program officially started in 2004 with the establishment of the Enterprise Center, in association with the local Chamber of Commerce. The Enterprise Center was a one-stop shop for a spectrum of services, such as local supplier identification and evaluation, training, consultations on contract management and delivery, information dissemination, and access to finance. In addition, efforts were begun to increase communication between ExxonMobil and the local suppliers regarding the company's procurement procedures to make contracts more accessible for the local businesses.

Launch of the eProcurement System

In 2005, ExxonMobil decided to carry out all its procurement for Chad (approximately US\$300 million annually) electronically through its eProcurement system, eRFX.³ This was a challenging task, considering that Chad has little Internet connectivity, extremely low computer literacy, and sporadic electricity (as little as one to two hours a day). IFC partnered with ExxonMobil to make eProcurement a reality by introducing training related to the eProcurement system at the Enterprise Center.

Success

Through its supplier development program in Chad, IFC, along with ExxonMobil and the local Chamber of Commerce, managed to:

- Promote a transparent procurement process that minimizes corruption
- Provide increased business opportunities to local SMEs
- Increase the capacity of local SMEs
- Provide the client access to a wider pool of suppliers, giving them access to low cost, high quality suppliers.

² Moreover, it is difficult in general to get the commitment of a large company for local supplier development during the construction phase, for the reasons mentioned above. What might work is to have a vocational training program during the construction phase that can phase into a supplier development program during the operational phase.

³ The system is provided to ExxonMobil by Ariba, a software vendor that provides comprehensive spend management solutions ranging from sourcing to procurement to contract management. See <http://www.ariba.com>

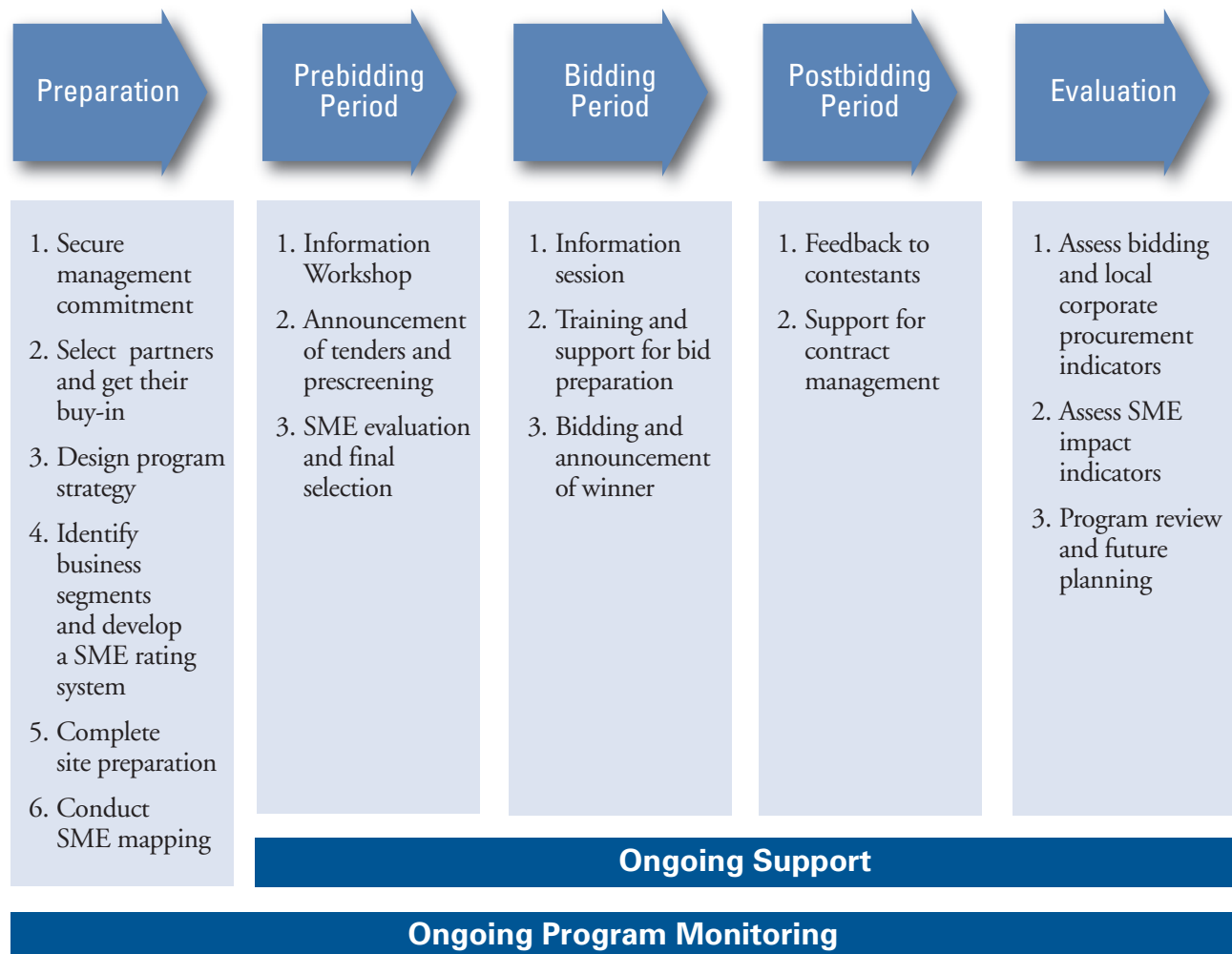
Between the official start of the program in September 2006 and October 2007, 131 Chadian SMEs had bid for contracts worth almost US\$32 million. Ninety-nine of these SMEs were assisted through the services of the Enterprise Center.

The Process

The process to introduce a transparent system for local contracting in Chad is divided into five phases: preparation, the prebidding period, the bidding period, the postbidding period, and evaluation. Figure 2 summarizes these phases and their associated steps.

The discussion that follows in the next section of this manual describes each phase and the steps involved in detail. Concrete examples and lessons learned from the Chad experience have been provided to demonstrate an idea or step in further detail.

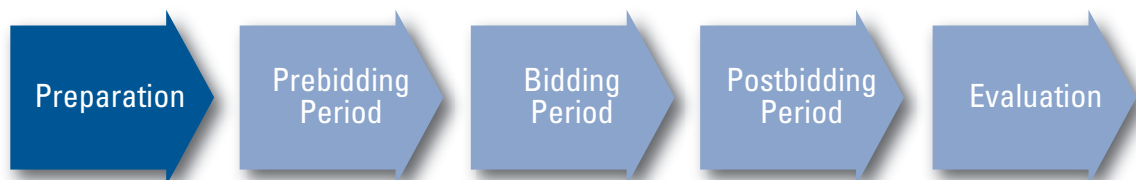
Figure 2. The Local Contracting Framework and Phases



Note: The phases for the bidding periods are repeated with every bid cycle.

The Five Phases of Establishing a Transparent System for Local Contracting

Phase 1 Preparation



	Step	Objective
Step 1	Secure management commitment	To ensure that management, internal departments, and major sub-contractors of the lead company are committed to the goals of the local supplier development program and to providing resources to build the program.
Step 2	Select partners and get their buy-in	To gain wider support for the program and access to resources, and ensure sustainability by involving local parties.
Step 3	Design program strategy	To develop an overall strategy for the local supplier development program that addresses the local procurement, finance, management, program monitoring and evaluation, communication, and access to finance components of the program.
Step 4	Identify business segments and develop a SME rating system	To categorize business segments and develop a SME rating system to make the procurement process more transparent and effective.
Step 5	Complete site preparation	To prepare program infrastructure and staff to enable local suppliers to win contracts using an eProcurement system.
Step 6	Conduct SME mapping	To prepare a comprehensive database of SMEs in the region through an extensive mapping exercise.

Key Success Factors

- Corporate procurement policy favoring local SMEs
- Established internal champion within the lead company
- Alignment of all internal departments/clients and subcontractors
- Clear indication of contract pipeline by the lead company
- Supportive and enthusiastic local business organization
- A competent and dedicated local team.

Step 1. Secure Management Commitment

Objective

To ensure that management, internal departments, and major subcontractors of the lead company are committed to the goals of the local supplier development program and to providing resources to build the program.

Process

The first and most crucial step to ensure the success of the program is securing the commitment of management—especially at the corporate and senior management level—toward increasing engagement with local businesses.

Drivers for a Local Supplier Development Program

A number of factors can drive a local supplier development program.⁴ In Chad, there were four main factors driving the development of a local supplier development program.

Driver 1. Increased Engagement with Local SMEs

A local supplier development program provides the large company with an ideal vehicle to create opportunities in the local economy and spread the benefits of its investment to a wider cross section of society. Above all, it provides the company—especially in the extractive industry—with the much-needed social license to operate in a remote region. The absence of such a social license can be detrimental to the future of the project. **For example**, the participation of local SMEs in the Chad Cameroon Pipeline project was minimal during the construction phase. This was not well received by the local Chamber of Commerce and local businesses. There was a general perception that the consortium was not interested in working with local companies and preferred external suppliers. ExxonMobil wanted to change this perception and hence introduced the local business opportunity (LBO) program during the operational phase to increase local content in its procurement.

Driver 2. Reduction in Long-term Costs

A local supplier development program can lead to significant cost reductions in the long run, if executed properly. **For example**, ExxonMobil estimated that substituting local suppliers for external suppliers—especially in delivery of services such as catering and construction (road, labor, basic buildings)—could lower the total system cost by 10 to 15 percent in the long run.

Driver 3. Increased Transparency in the Procurement Process

Introducing an eProcurement system that makes the bidding process electronic—hence reducing human contact during sensitive steps—ensures that procurement procedures for a company are consistent and transparent around the world. This can greatly reduce the volume of procurement-related work. More importantly, the potential flow of bribes between SMEs and company staff can be avoided.

⁴ExxonMobil used the term “local business opportunity” (LBO) to describe the Local Supplier Development program. For the sake of consistency, this manual uses the term “local supplier development.”

For example, rumors of corruption in the paper-based bidding system at ExxonMobil led to the decision to introduce eRFX—the online bidding system used by ExxonMobil worldwide—in Chad, to increase transparency in the bidding process. At some level, eRFX was also introduced by the procurement department to prove to internal clients/departments in ExxonMobil that it was possible to use an online bidding system, even in as challenging a business environment as Chad.

Driver 4. A Sustained and Proximate Support System

The availability and proximity of the Enterprise Center and its staff provided an impetus to develop and begin a local supplier development program. Two local counselors and one expatriate were dedicated full time to the program

Facilitators

Management commitment in a company can be achieved with the help of the following facilitators:

Lead Country Manager

It is absolutely essential for the lead country manager of the project to demonstrate his/her support for encouraging local procurement. Only then will the same drive permeate through the organization at all department levels. This commitment from the country manager can be obtained by including local supplier development indicators in his/her key performance indicators. **For example**, at ExxonMobil, one of the key performance indicators for the lead country manager was to develop local SMEs in international safety standards and to involve local SMEs in procurement.

Internal Champion

It is very important to have an internal champion in the company who acts as the torchbearer for the program, markets its importance to all the departments, and motivates them to participate. Identifying the right person within the company at the beginning of the program is critical. Failure to do so can have substantially negative consequences for the establishment and successful running of the program. Ideally, the role of the internal champion should fall to the head of procurement, as he/she tends to work across departments.

For example, the local supplier development program would not have succeeded if not for the dedicated efforts of the procurement manager at ExxonMobil to make the program a success.⁵

Lesson 1

Having an internal champion with relevant experience—ideally, the head of procurement in the lead company—greatly increases the potential of the local supplier development program to succeed.

⁵ Jean-Christophe Petit was the procurement manager at ExxonMobil from 2002 to 2007. The LBO program was essentially his initiative, in association with IFC.

Procurement Department

As the procurement department of a company is usually given the responsibility of creating win-win relationships with suppliers and reducing costs over the long term (seven to ten years), this department is aptly placed to be the interface between the company's internal clients—operations and service departments—and the suppliers it deals with directly. The key role of the procurement department is to:

- Centralize all the contracting and procurement needs of various parts of the company, so that local SMEs are aware of and included in upcoming opportunities over a reasonable time horizon
- Ensure that all the internal clients are aligned toward the goals of the program
- Be the facilitator for the local supplier development program by being an effective interface
- Help translate (sometimes complex) internal needs for local SMEs.

Internal Clients

For the program to succeed, all the end users within the company must buy in to the local supplier development program. Without their alignment to the goals of the program, it is difficult for the procurement department to have an idea of upcoming contracting opportunities. The process of gaining the approval of internal clients can often be long and arduous. **For example**, the procurement manager at ExxonMobil had to make more than 20 internal presentations and follow up with numerous calls and meetings to ensure internal client alignment.

Lesson 2

Early alignment of the lead company's internal clients/departments/end users and the major subcontractors is necessary.

Major Subcontractors

It is also important for the procurement department to ensure that all their major subcontractors are aligned toward the goal of increasing local content in the supply chains. The buy-in of the subcontractors is essential, as a large number of contracts would be under their direct supervision. **For example**, in Chad, subcontractors such as Catering International Services (CIS), Kellogg Brown Root (KBR), Schlumberger, and Tchad Cameroun Logistique (TCL) were contractually obligated to participate in the local supplier development program and also use ExxonMobil's eProcurement system to centralize all local procurement. It is worth remembering that the procurement department can successfully involve the subcontractors only if they want to be involved or they are mandated to do so by their contracts.

Challenges

Securing management commitment and aligning internal clients can be a long and challenging process, as it often involves:

- Changing the way business is done in the company
- Changing the mindsets of managers and convincing them of the merit of the program
- Taking away lucrative business from international subcontractors.

Lesson 3

It is helpful to utilize an annual increase in local content as a key performance indicator (KPI) for major subcontractors.

Step 2. Select Partners and Get Their Buy-In

Objective

To gain wider support for the program and access to resources, and ensure sustainability by involving local parties.

Process

Selecting the right partners is an important step for a local supplier development program in order to:

- **Gain wider support for the program.** For a local supplier development program to be successful, it is necessary to have support from all the locally relevant stakeholders, particularly a local business organization representing local companies.
- **Gain access to resources.** It is not possible for the company, on its own, to have all the knowledge or resources needed to implement the program. It is not easy for a company with new operations in an unknown country to get reliable information about local suppliers. Access to these resources can be obtained by partnering with the right organizations.
- **Ensure sustainability.** It is important to make sure that appropriate local partners are selected so that the program is designed to become self-sufficient and sustainable over time.

Number and Nature of Partners

The Chad experience suggests that it is important to have a number of complementary partners for an effective local supplier development program: the lead company; its main subcontractors; a development institution such as IFC/World Bank; a local or regional business organization such as a local Chamber of Commerce; and local financial institutions.⁶ The roles and benefits of involving various partners are summarized in table 1.

A big challenge in working with all the partners is building consensus and making sure that the lines of communication among them are open. The development institution plays a key role in the successful implementation of the program. Not only does it provide the much-needed financial, technical, and program coordination support, but above all it plays the role of the honest broker and communicator among the various stakeholders. **For example**, ExxonMobil relied heavily on the IFC program coordinator and the team at the Enterprise Center to mobilize all the necessary resources for the training and to coordinate the day-to-day running of the project. It would have been difficult for ExxonMobil to directly work with the Chamber of Commerce of Chad, as such direct involvement could have made ExxonMobil a target for allegations of corruption and bribery and also cast a doubt over the real motivation of the Chamber.

Lesson 4

The development institution is ideally placed to play the role of an honest broker in local supplier development programs.

⁶The partners in Chad were: Exxon Mobil; its main subcontractors, such as CIS (Catering International Services), PSN (Production Services Network), and TCL (Tchad Cameroun Logistique), PRIDE, and Schlumberger; IFC, as the development institution; the Chamber of Commerce, Industry, Agriculture, Mines and Artisans of Chad; the Enterprise Center jointly run by IFC and the Chamber of Commerce; and an NGO, the Association Française des Volontaire de Progres (AFVP).

Table 1. Partners in an Effective Local Supplier Development Program

Partners	Role	Benefit
Company	<ul style="list-style-type: none"> • Provide management support • Contribute to program budget • Identify work packages for SMEs • Select SMEs to participate in the program • Clarify and judge submitted bids • Mentor SMEs 	<ul style="list-style-type: none"> • Access to tenders and contracts • Exposure to and experience in global industrial standards • Technical support • Access to resources
Major subcontractors	<ul style="list-style-type: none"> • Identify work packages for SMEs • Mentor SMEs 	<ul style="list-style-type: none"> • Exposure to and experience in global industrial standards
Development institution	<ul style="list-style-type: none"> • Design program and provide program coordination • Monitor and evaluate program results • Facilitate communication among all the stakeholders, particularly the company and local SMEs • Provide seed funding • Mobilize funding from other sources • Evaluate and train the SMEs to bid for contracts with the company and effectively deliver them 	<ul style="list-style-type: none"> • Access to financial resources • Access to technical expertise • Access to best practices from other countries • Other support from a globally recognized organization
Local business organization	<ul style="list-style-type: none"> • Take ownership/leadership • Be the platform for interaction with local SMEs • Provide administrative and resource support • Create awareness for program using its SME network and database • Interface with government and media when needed 	<ul style="list-style-type: none"> • Access to databases of local businesses and resources such as space and staff • Access to local resources • Access to networks of government officials and local experts • Sponsorship
Local financial institutions	<ul style="list-style-type: none"> • Provide the link to the financial sector 	<ul style="list-style-type: none"> • Access to financing for local SMEs
Other local organization (local business development service providers, NGOs, technical training institutes, and the like)	<ul style="list-style-type: none"> • Help develop training and mentoring programs for SMEs • Conduct and monitor training programs under the supervision of the development institution 	<ul style="list-style-type: none"> • Access to technical and business capacity building for local SMEs

The Chad experience also demonstrates the importance of getting an early buy-in from the lead company to participate actively in the program and having an active local Chamber of Commerce that will work for the long-term sustainability of the program. The local Chamber of Commerce:

- Provided a voice for local businesses when ExxonMobil was not actively incorporating local SMEs (as well as in other situations)
- Provided office space and furniture for the Enterprise Center
- Provided credibility for the program in government meetings
- Was constantly supportive of new initiatives.

Lesson 5

To enhance the sustainability of the local supplier development program, get early buy-in from the lead company to participate actively in the management and financing of the program.

TIP

In conflict-affected environments, local business organizations often may exist, but be dormant. In such cases, it might be necessary initially to invest in and support these organizations.

Enterprise Center

In markets with reasonably well-developed business infrastructure, the functions performed by the development institution are typically outsourced to professional business service providers. However, in cases with inadequate local capacities, the creation of an entity like an Enterprise Center is warranted. The development institution usually establishes the Enterprise Center, with the support of the client company and the local business organization. The Center is envisioned to be a one-stop shop for disseminating information about upcoming contracts and tenders, developing SMEs, and building capacity through technical, financial, and managerial training and similar activities.

Lesson 6

It is important to have a supportive and enthusiastic local business organization to promote effective stakeholder participation, provide credibility, and work for the long-term sustainability of the program.

Steering Committee

Once the partners are identified, a Steering Committee is formed to monitor the implementation and progress of the local supplier development program. The committee should consist of the program leaders, preferably senior managers/partners of the partner organizations.

The main role of the Steering Committee is to:

- Plan the local supplier development program and its strategy
- Oversee all the activities of the program
- Meet regularly to monitor the progress as specified in the plan
- Propose any changes/modifications to improve the program
- Secure sufficient budget and allocate to different program stages.

Step 3. Design Program Strategy

Objective

To develop an overall strategy for the local supplier development program that addresses the local procurement, finance, management, program monitoring and evaluation, communication, and access to finance components of the program.

Process

Before implementing the local supplier development program, it is essential to have a clear strategy for the program at six levels.

1. Procurement

It is important to have a strategy for local procurement that encourages increasing local content in the supply chain of the company:⁷

- **Identify linkage opportunities.** The company management and different internal departments, in association with the procurement team, need to identify potential opportunities for local procurement within the framework of company policies and operations. The internal clients (departments) of the company often know what goods and services can be sourced locally. It is important that the management of these departments actively liaise with the procurement department to participate in the process of identifying which services and materials will be open for local content. Step 4 discusses how to identify and classify linkage opportunities in further detail.
- **Establish a price-preferencing policy.** It is important to make it clear that preference will be given to local businesses over nonlocal ones in cases where quality, safety, and cost demonstrated by the companies are equal.⁷ While no compromise should be made on quality and safety, some concessions on cost can be given to a local company. The selection of the preference level is usually arbitrary by the company, and can be up to 15 percent of the contract price during the initial stage.⁸

Lesson 7

Adopt a price-preferencing policy whereby bid values from local companies that are higher than nonlocal bids are accepted in the short run to be able to get cost reductions in the long run.

2. Program Finance

Having a financing strategy that supports the local supplier development program is essential to ensure smooth and sustainable implementation. Such a strategy should:

- Originate from the partners
- State the cost components of the program
- State the funding source (partner) for each component of the program
- Be approved by the Steering Committee
- Form the basis of a two-to-three-year business plan for the local supplier development program.

⁷ IFC is in the process of developing a diagnostic tool to assess a company's strategies and policies with regard to local contracting.

⁸ Engineers Against Poverty (2007).

SMEs should be encouraged to contribute via a fee to program components—especially training and one-on-one consultations—as this would help inculcate a sense of ownership and responsibility toward the program by the SME and ensure their active participation. However, this can be challenging and difficult to achieve. **For example**, the Enterprise Center initially charged the SMEs for eProcurement training, but later scrapped the fee at Exxon Mobil’s request, as the SMEs that did not win a contract felt that they had been cheated into paying for the training.

3. Program Monitoring and Evaluation

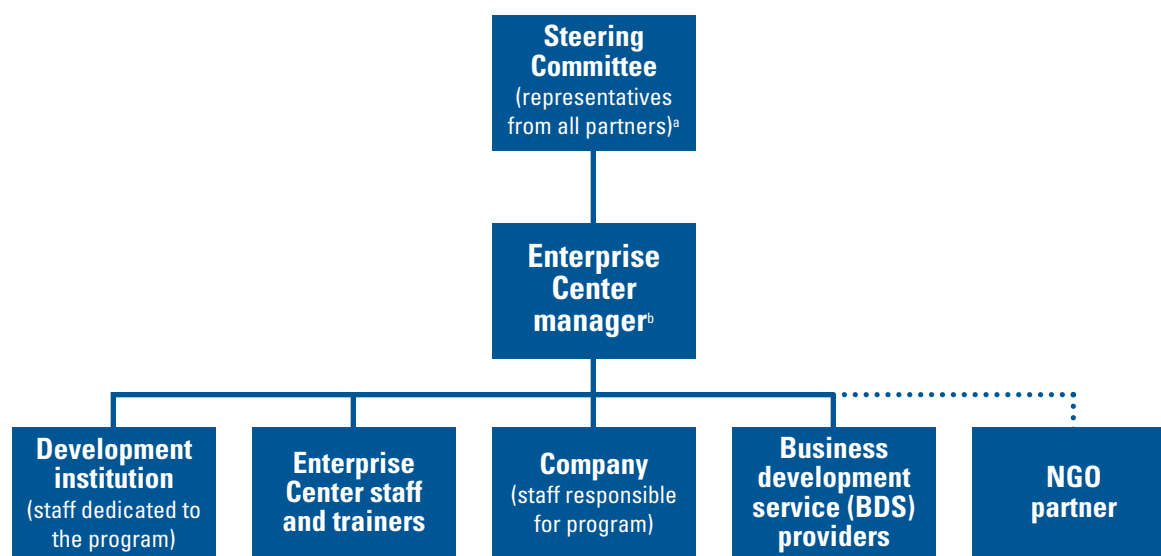
To ensure that the program achieves its stated objective of increasing procurement and building the capacities of local companies, a monitoring and evaluation tool should be developed. Such a tool should:

- Be devised and implemented by the Steering Committee
- Keep in mind the stated objectives of the program
- Identify key performance indicators (KPI) for measuring change in lead company procurement from local business
- Identify key performance indicators (KPI) for measuring the impact of the program on the local businesses
- Have a well-defined tracking system in place for each phase of the program
- Aim to monitor the progress of the program using the KPIs at regular intervals, preferably quarterly, under the leadership of the program coordinator
- Be aligned with the monitoring and evaluation (M&E) indicators of the development institution partners.

4. Program Management

Because there are multiple partners involved in this program, it is important to have a well-defined management/organizational structure to ensure a clear line of reporting and accountability. The Steering Committee should have the responsibility of overseeing the management structure. Figure 3 presents an example of the basic organizational structure that can be followed, based on the structure adopted in Chad.

Figure 3. Basic Organizational Structure of the Transparent System for Local Contracting



^a Partners include the development institution, lead company, main subcontractors of lead company, and a local business organization.

^b Appointed by IFC in Chad.

As far as possible, efforts should be made to develop a management team consisting of local people. Doing this ensures that:

- Local expertise is utilized
- The project is sustainable in terms of cost (which would not be the case if the management is composed of expatriates)

Lesson 8

A competent and dedicated local team is invaluable to ensure the continuity and sustainability of the program.

5. Communication

One of the biggest hurdles to getting more local SMEs into a large company's supply chain is communication. Often local SMEs fail to get contracts because of:

- **Information asymmetries in the market.** SMEs are not aware of an upcoming bid.
- **Language barriers.** The language of business of the lead company and the local language differ.
- **Difference in expectations.** There is often a wide difference and ignorance regarding the standards expected by the company and those to which local SMEs are accustomed.
- **Difficult bidding procedures.** SMEs often find the bidding requirements and procedures of large companies daunting and complicated.
- **Limited preparation time.** Sometimes SMEs have very little time to build their capacity and prepare themselves between the time a tender is announced and the time when a bid has to be submitted.

Hence it is essential to have a clear communication policy that demystifies and simplifies the company's procurement process for the local SMEs, provides them with information about upcoming procurement opportunities, and educates them about the requirements and standards of the company.

6. Access to Finance

The Chad experience also highlights the importance of having in place a strategy to provide access to finance for SMEs before starting to implement the program. **For example,** SMEs often lost bids because they failed to demonstrate sufficient financing for contract delivery. Hence it is important to work with the partner financial institutions to develop access to finance strategies that are appropriate for the local SME population.

Step 4. Identify Business Segments and Develop a SME Rating System

Objective

To categorize business segments and develop a SME rating system to make the procurement process more transparent and effective.

Process

Before program implementation begins, it is useful to segment all possible procurement opportunities according to their level of difficulty (easy to difficult) and develop a rating system for the SMEs (incompetent to competent). Once this exercise has been performed, it is possible to list the business segments and the corresponding rating required by a SME to become a supplier for that business segment. The main idea behind developing a rating system for SMEs is to make sure that only qualified suppliers make it to the bidding stage. This concept is further explained below, using examples from the Chad experience.

Business Segments

Business segments are divided into three levels, with various qualifications specified. Level 1 is the lowest and Level 3 is the highest.

Level I (lowest)

- Business opportunity limited to less than three years
- Business opportunity requires relatively unskilled workforce
- Direct contract to suppliers for goods and material
- Indirect contract with suppliers for services totally supervised by the lead company
- Less critical to the lead company's operations
- Fewer technical skills required
- Cost is a key driver.

Level II (middle)

- Business opportunity present in the next five to ten years
- Business sustainability for a supplier could be linked to key performance indicators
- Business opportunity requires basic skilled workforce
- Contract for service could be partially supervised by the lead company or main contractor
- Business opportunity may require basic knowledge of technology.

Level III (highest)

- Business opportunity lasts for more than ten years
- Contract-based performance
- Business opportunity requires skilled workforce
- Business opportunity may require high level of knowledge about technology
- Lead company does not exercise any supervision
- Business risk is critical and cost is a less of a factor.

Once the levels are formed, different business segments and their subcomponents are sorted according to the three levels. Table 2 provides an illustration for civil works. Appendix A contains a detailed list of business segments.

The list of business segments should be updated regularly, preferably once or twice a year.

Table 2. Business Segments and Subcomponents Sorted by Level: An Example

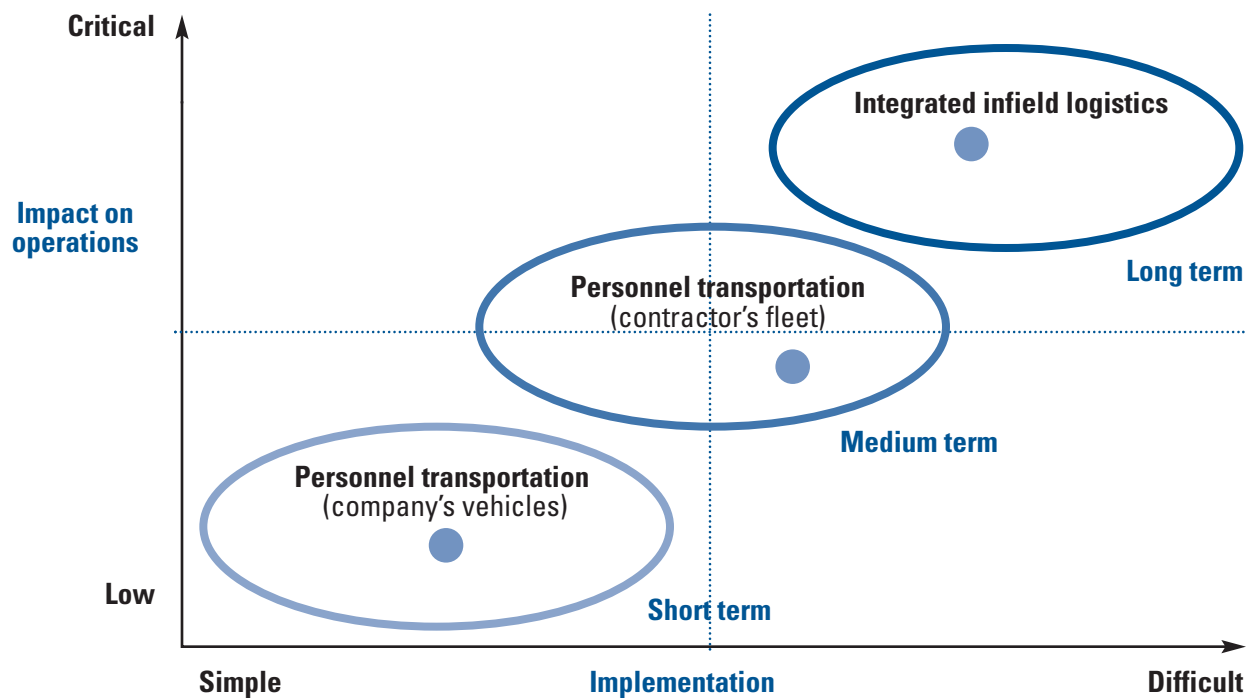
Business/segment	Level I	Level II	Level III
Civil works	<ul style="list-style-type: none"> • Road maintenance • Install scaffolding • Install electric pole 	<ul style="list-style-type: none"> • Road tar • Road marking • Scaffolding management • Pipe rack 	<ul style="list-style-type: none"> • Remote area road project • Pipe line project • Heavy bridge construction • Sewer system project • Underground cable project

Business Segments Viewed over a Time Horizon

Once all the business segments are identified, it is useful to classify them into short-, medium-, and long-term opportunities in terms of their level of difficulty (simple to difficult) and their impact on the company's operations (weak to critical).

Figure 4 provides an illustration of the classification scheme in the area of transportation. Appendix B contains a detailed diagram with business segments placed according to their level of difficulty and importance.

Figure 4. Business Segments Classified by Short-, Medium-, and Long-term Opportunity



For example, the Chad experience demonstrates that it is good to start small with local suppliers that can do contracts that are simple and have a low impact on operations, such as transportation of personnel.

Lesson 9

Start small with simple and small contracts (Level I) and slowly build up toward more complicated contracts.

SME Rating: The Star System

The idea behind the SME rating system is three-fold:

1. To be able to make a clear distinction between the capacities of the local SMEs to ensure that only SMEs capable of delivering the contract bid for it
2. To create a transparent system whereby contracts are awarded solely on the basis of the capacity of the SME to perform that particular contract
3. To help the SME chart a “development path” that it can follow in order to grow and improve its rating.

In Chad, local SMEs were rated according to four star categories:

- **Zero star contractors.** Those that do not have the adequate level to work on the company’s contracts. They lack a structure and border on being in the informal sector.
- **One star contractors.** Base suppliers. Those that have the attributes to perform Level I services. They are established SMEs with proper administration and paperwork, but lack basic form of management tools and practices.
- **Two star contractors.** Aspiring world class suppliers. Those that have the attributes to perform Level II services. The SME is fairly well run, specializes in specific sectors, and is managed using modern practices. At the same time, there is room for growth.
- **Three star contractors.** World-class suppliers. Those that have the attributes to perform Level III services.

Appendix C contains a detailed list of supplier attributes for each star level. The SMEs are given the star ratings according to the points that they receive during an evaluation conducted by Enterprise Center staff, as shown in table 3.

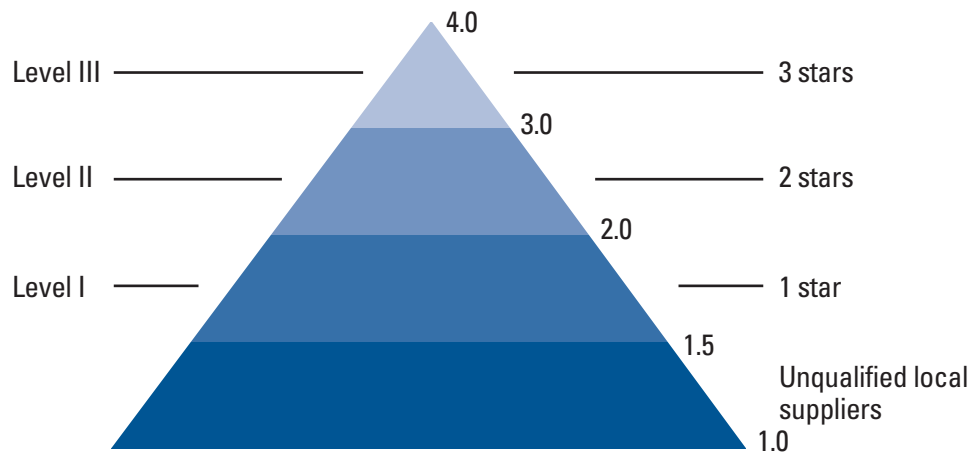
Table 3. The SME Rating System

Points	Stars
1.0–1.5	0
1.5–2.0	1
2.0–3.0	2
3.0–4.0	3

Combining the Business Segments and SME Ratings

Once the business segments and SME ratings have been developed, they can be put together. As shown in figure 5, Level I activities can be done by an SME with at least 1 star, Level II activities can be done by an SME with at least 2 stars, and so on.

Figure 5. Combining Business Segments and Star Ratings



Step 5. Complete Site Preparation

Objective

To prepare program infrastructure and staff to enable local suppliers to win contracts using an eProcurement system.

Process

The six steps detailed below must be taken before the program can be implemented.

1. Establish the Enterprise Center

This document assumes that the Enterprise Center (EC) or an equivalent program office has already been established. The level of staffing of the EC will depend on the availability of local skills. **For example**, in Chad, where capacity is available locally, counselors were hired and trained locally. However, the EC may not need local counselors at all, as these services could be contracted out.

2. Develop an Evaluation Questionnaire

A questionnaire must be developed to evaluate the SMEs, in order to assign them their star rating. The evaluation questionnaire usually covers areas such as:

- Health, safety, and environment (HSE), quality control, personnel, and maintenance
- Financial competencies, general service delivery process practices, business controls, contract management, risk management
- Policies and business ethics
- Management capacity.

The questionnaire can be developed by the Enterprise Center or an external consultant. **For example**, in Chad, an external consultant of ExxonMobil developed the questionnaire. Appendix D-1 contains the questionnaire used to evaluate SMEs in Chad. Appendix D-2 presents a guide to carry out the evaluation.

3. Recruit and Train Staff

It is usually a good idea to have at least two counselors in the Enterprise Center dedicated to the local supplier development program.

Roles

The main roles of the counselors are to:

- **Evaluate and rate the SMEs.** The evaluation is conducted using the evaluation questionnaire discussed above.
- **Enable SMEs to overcome the technology barrier.** Depending on the country, suppliers may be intimidated by technology and computers, as they have never used them before. The Enterprise Center counselors help suppliers overcome this barrier.
- **Help SMEs understand the company's bidding process.** Local suppliers are often accustomed only to traditional paper-based tender applications and are not familiar with sophisticated bidding processes and eProcurement systems. The EC counselors demystify these complex systems for the local suppliers and help them develop a better understanding of what the company demands of them.

- **Train SMEs to prepare a good bid and submit it using the company's eProcurement system.** Often, many bids by suppliers get rejected for reasons that can be overcome, such as incorrect formatting. This results in frustration for the suppliers and creates a barrier between them and the company. It is the role of the EC counselors to identify and correct such gaps in suppliers' bids. ***It is important to remember, however, that the counselors are forbidden from helping SMEs with crucial bidding data such as prices.***
- **Help SMEs meet the company's procurement standards and requirements.** Large multinational companies must follow international procurement standards that local suppliers may not be aware of, such as ISO 9002 standards for oil companies. As the large company might not have the time, energy, or willingness to provide suppliers with information about these standards, the counselors can be the bridge between the company and its suppliers by communicating these requirements to the suppliers and assisting them in building their capacities.

Qualification/Criteria

Working with local SMEs, building their capacity, and helping them overcome the fear of technology can be a very challenging process. Thus the two main qualities to look for in the staff are *patience* and a *love for teaching*. **For example**, SMEs often called the Enterprise Center staff as late as 8:00 in the evening on days when they were facing difficulty while preparing a bid using the eRFX system; the counselors would somehow have to find a way to help them. In addition, the counselors need to be computer literate, and have a business or economics education background.

Training in the eProcurement system

It is important for the Enterprise Center staff to be well trained in using the company's eProcurement system before they start training local SMEs. If the EC staff is computer literate, this specialized training in the eProcurement system should take one to two hours, at most.

In addition, the eProcurement counselors should be given further training on ways to address supplier's questions regarding using the e-Procurement system.

4. Set Up Computers, Internet Access, and the eProcurement System

Computers and high-speed Internet access need to be set up in the Enterprise Center for use by suppliers to submit bids through the company's eProcurement system.

Localization of the eProcurement system to the local language

Often the company's eProcurement system is in a language different from the language of commerce in the country where it has its operations. Thus the eProcurement system must be adapted to the local language so that local SMEs can use it. **For example**, as French was the language of commerce in Chad, the eRFX eProcurement site that the local suppliers used was translated into French. The eRFX system already had the capability to operate in different languages and simply required some adjustments in the settings.

5. Establish Anti-corruption Controls

Guidelines clarifying the role of Enterprise Center staff

The Enterprise Center staff is often exposed to sensitive and confidential procurement-related information, which they could potentially use to help suppliers improve their bids. To prevent this, the EC and the lead company should sign an agreement detailing the activities that are and are not within the EC's domain while working with suppliers on bids. Appendix E contains sample guidelines clarifying the role of EC staff.

Agreement between the Enterprise Center and EC Staff

Since EC staff will evaluate the SMEs, there is a possibility that a conflict of interest could arise if staff had to evaluate a relative's or friend's SME. Such conflicts of interest can be avoided by getting the EC staff to sign an agreement at the time of recruitment whereby they agree to disclose if they know the SME, and that if they know an SME, another counselor will evaluate the firm. This agreement also clarifies other issues such as gift taking and conduct expected from the EC staff. Appendix F contains a sample agreement between the Enterprise Center and its staff.

Confidentiality Agreement between Suppliers and the Company.

All the suppliers need to sign a confidentiality agreement with the company to ensure that any tender-related information is not released (leaked) until the bidding process is complete and that the suppliers do not collude on prices.

6. Develop Training Modules

The evaluation of SMEs can identify common gaps in SME capacity. Training modules should be developed to address these gaps.

The training modules should aim to cater to two groups of SMEs:

Beginners. SMEs with no or very little training (1 star or fewer)

Advanced. SMEs with some training and experience (2 stars or more).

As far as possible, training material already available from the development institution or lead company should be used. **For example**, there are plans to launch Business Edge— an IFC capacity-building product for SMEs across the world—in Chad.⁹

⁹ Business Edge is an integrated training solution developed by IFC to address private sector management performance gaps and business needs using self-study workbooks and training seminars in five areas: human resources; finance and accounting; marketing management; general and operations management; and personal productivity skills. See www.businessedge-me.com

Step 6. Conduct SME Mapping

Objective

To prepare a comprehensive database of SMEs in the region through an extensive mapping exercise.

Process

Large companies often do not have access to a comprehensive database of local SMEs. This results in poor outreach of procurement opportunities and leads to suboptimal number of applicants for contracts, low quality, and high price. **For example**, ExxonMobil initially had a list of only 17 local SMEs that they could consider for local procurement. After the Enterprise Center conducted an SME mapping exercise, the list expanded to more than 1,300 SMEs. This provided ExxonMobil with a much richer pool of SMEs to work with for local procurement.

Developing a comprehensive database should be a top priority, as it would go a long way toward making the local supplier development program more effective through greater outreach.

While in the case of Chad, this task was conducted by the Enterprise Center staff through on-the-ground surveys, as far as possible, existing sources of SME databases should be used, such as those available from a local Chamber of Commerce, business associations, and government ministries.

Approximate Time Required

SME mapping can be an exhausting process, as it requires the evaluators to survey the entire SME market. While the time required depends on the size of the local economy and availability of staff, it can take between two to four months to draw up an initial base, to be elaborated in subsequent phases of the program.

Phase 2 **Prebidding Period**



	Step	Objective
Step 1	Information workshop	To inform SMEs about upcoming procurement opportunities; educate them about the standards, business ethics, and criteria demanded by the company from their suppliers; and introduce the SMEs to the company's eProcurement system.
Step 2	Announcement of tenders and prescreening	To ensure that information about procurement opportunities is well publicized, all potential SMEs apply, and an appropriate pre-screening is conducted.
Step 3	SME evaluation and final selection	To distinguish which of the prescreened SMEs meet the evaluation and rating requirements for a particular contract so that a final list of eligible SMEs can be prepared.

Key Success Factors

- Honest and timely communication of procurement opportunities with local SMEs
- Deep understanding of the lead company's value chain by the Enterprise Center staff
- Ensuring that every SME receives its evaluation report
- Incorporation of SME rating in tender advertisements acts, to serve as an incentive for SMEs to get evaluated
- Active involvement of local business associations.

Step1. Information Workshop

Objective

To inform SMEs about upcoming procurement opportunities; educate them about the standards, business ethics, and criteria demanded by the company from their suppliers; and introduce the SMEs to the company's eProcurement system.

Process

The lead company organizes a general meeting or workshop in association with the Enterprise Center and the Chamber of Commerce and invites local SMEs to attend it. The main components of the workshop are:

- An overview of procurement opportunities coming up with the company in the next 6 to 12 months, thereby providing the entire SME community with access to information regarding bid opportunities
- A presentation on the standards, ethics, and criteria demanded by the company from its suppliers
- A presentation about the Internet, e-mail, and the company's eProcurement system.

Not only does the workshop provide SMEs with previously inaccessible information about tender opportunities and company expectations, but it also gives them time to prepare themselves better for the upcoming opportunities.

Lesson 10

The information workshop plays a key role in introducing transparency by eliminating information asymmetries that exist in the market regarding tender opportunities, company standards, and procurement process.

A maximum of 50 SMEs should participate in each workshop. Workshops should be free. Workshops should be held quarterly or twice a year.

Approximate Time Required

Each workshop requires two to three hours.

TIP

An introductory half-day hands-on training session was offered at the Enterprise Center, where entrepreneurs could come to practice using the eProcurement system on-line for a fee of US\$10. This training was later stopped, as it was discovered that the SMEs forget the training by the time they bid for a contract. As a result, it was decided that eProcurement training should be offered only to those SMEs that are short-listed to bid for an upcoming contract in the near future.

Step 2. Announcement of Tenders and Prescreening

Objective

To ensure that information about procurement opportunities is well publicized, all potential SMEs apply, and an appropriate prescreening is conducted.

Process

Announcement and Marketing of Procurement Opportunity

The company usually announces a procurement opportunity through the local newspapers. In addition, the EC helps publicize this opportunity to its network by putting up posters and calling/SMSing selected entrepreneurs that might be well suited for that particular opportunity. Other media such as the radio can also be used if necessary. **For example**, in Chad the EC would notify its network of over 1,300 SMEs through posters, newspapers, and phone calls. The EC in the southern parts of Chad also announced tender opportunities over the radio, as newspapers are not widely read.

The EC counselors can play an important role in ensuring that entrepreneurs most relevant for the approaching procurement opportunity are informed. It is essential for the counselors to know the value chain of the lead company and its subcontractors well. Only then can they know when to bring in the right SME.

For example, only after the EC staff understood all the ingredients required by ExxonMobil's main caterer, CIS, could they bring in local suppliers for specific ingredients such as eggs and fruit.

Lesson 11

It is important for the Enterprise Center staff to thoroughly understand the value chain of the lead company and its subcontractors in order to be an effective bridge between the local SMEs and large companies.

Including Rating in Tender Advertisements

Once the rating system for SMEs is well established, the tender advertisement can specify the minimum number of stars required by an SME to be able to apply for that particular contract. **For example**, after implementing this program for over one year, ExxonMobil now specifies the minimum ratings required in the advertisement for every procurement opportunity. Appendix G presents an example of a tender advertisement with rating criteria for SMEs.

Publicly specifying the minimum rating required for a contract:

- Introduces another layer of transparency into the procurement process
- Ensures that only qualified SMEs apply for the contract
- Saves time and effort for the procurement staff
- Creates an incentive for SMEs to get themselves evaluated by the Enterprise Center in preparation for upcoming bids.

Lesson 12

Specifying the minimum required SME rating in order to respond to a tender advertisement increases transparency and provides SMEs with an incentive to get evaluated.

Approximate Time Required

Depending on the tender, the notice is advertised for a period ranging from two weeks to two months.

Prescreening

After the local SMEs have sent in their initial interest in bidding for the contract, the company returns this list for initial prescreening. This prescreening ensures that all the applicants meet the basic criteria demanded by the company, such as:

- Number of years in business (minimum three years)
- Registration and administrative documents for tax purposes
- Size of annual sales
- Defined core business
- Good standing regarding tax payments.

The list of prescreened suppliers is then provided to the company.

Step 3. SME Evaluation and Final Selection

Objective

To distinguish which of the prescreened SMEs meet the evaluation and rating requirements for a particular contract so that a final list of eligible SMEs can be prepared.

Process

Once the company gets the list of the prescreened SMEs, it checks whether they have been evaluated by the EC. The list of the prescreened SMEs that have not been evaluated is sent to the Enterprise Center for detailed supplier evaluation.

Evaluation

The evaluation is conducted by the counselors dedicated to the program in the Enterprise Center. Figure 6 illustrates the areas covered by the evaluation in Chad.

The counselors give SMEs a score between 1 and 4. SMEs with scores below 1.5 are disqualified. Those with scores between 1.5 and 2 are given 1 star. Those with scores between 2 and 3 are given 2 stars. Those with scores between 3 and 4 points are given 3 stars.

Figure 6. Areas Covered by the SME Evaluation



Once the SMEs have been evaluated, a new short list is prepared using the rating specified by the company for that particular contract. **For example**, ExxonMobil would inform the EC staff that the current contract requires at least 2 stars. The EC staff would prepare a short list of all the SMEs with at least 2 stars.

TIP

To avoid conflict of interest:

- Two counselors should conduct each evaluation.
- The EC counselors should not evaluate an SME that they know well. In such a case, they should pass on the evaluation to the other counselor.
- The final score should be ratified and approved by someone other than the counselor that conducted the evaluation.

These procedures also help insulate the counselor from accusations of corruption if the SME ends up winning the contract.

Preparation and Distribution of the Evaluation Report

Once the evaluation has been completed, the EC counselors prepare a report for the company, as well as for the SME. Appendix H contains a sample evaluation report. The report educates the SME about its strengths and weaknesses. This information can help the SME improve itself in specific areas, if need be.

Lesson 13

It is important to ensure that every SME receives its evaluation report so as to enable each SME to address its weaknesses and build its strengths in preparation for bidding.

Technical Screening

The new short list is sent to the company for any technical screening necessary. **For example**, if it is a drilling contract, the technical team will assess the prescreened suppliers for drilling capabilities and make a final short list. On average, 20 percent of contracts in Chad required technical screening.

Final List

The final list of SMEs that can proceed with the actual bidding is sent back to the Enterprise Center and preparations for the bid are started. While the final list could range from two and ten SMEs, the average number is usually five.

Positive Outcomes of the Rating System

Once a company makes supplier rating through evaluations mandatory, it can lead to a positive outcomes whereby SMEs start directly approaching the EC to be evaluated in preparation for upcoming bids. This is what happened in Chad. SMEs started asking for evaluations themselves.

Moreover, some SMEs, without any guidance, started hiring accountants and consultants to write contracts and other documents when they saw it as a way to maximize their chance of getting a good score on the evaluation and accessing new business opportunities. This turn of events revealed that the availability of financial resources was not the constraint preventing the SMEs from having higher operational standards. They had simply not seen the value of raising those standards.

Lesson 14

Finance is not always the constraint preventing firms from attaining high performance and operational standards. Often, SMEs do not see the value of raising their performance and standards. When they do, they start mobilizing resources to achieve higher evaluation scores and hence new contracts.

Reevaluation

Reevaluations are usually conducted under two circumstances:

- Sometimes SMEs themselves come to the EC for reevaluation after some time has passed since the first evaluation.
- Other times, the lead company might ask for a certain SME to be reevaluated, as a decline in its performance might have been noticed.

Approximate Time Required

While the time required for an evaluation depends on the size of the company, the average time needed to conduct an evaluation ranges from three to five hours. Another five hours are required, on average, to analyze the evaluation results and prepare the report.

Phase 3 Bidding Period



	Step	Objective
Step 1	Information session	To provide information regarding upcoming bids and the bidding process, and to answer SME's questions related to the bid.
Step 2	Training and support for bid preparation	To enable SMEs to use the company's eProcurement system and prepare effective bids through training and provide troubleshooting support related to their application.
Step 3	Bidding and announcement of winner	To submit the completed bids and announce the winner.

Key Success Factors

- Customized eProcurement training according to the capacity of the SMEs
- Training in effective tendering and other bid-related matters to ensure that SMEs make successful bids.

Step 1. Information Session

Objective

To provide information regarding upcoming bids and the bidding process and to answer the SME's questions related to the bid.

Process

Once the final list of SMEs eligible to bid for a particular contract is ready, a meeting is organized with the SMEs, EC, and the lead company. The purpose of the meeting is to:

- Provide SMEs with more information and details about the procurement opportunity
- Explain the entire bidding process to them
- Inform each SME that the company will send a username and password to access the eProcurement system directly to their email address
- Provide information about the eProcurement training course to those SMEs that do not know how to use the computer and Internet
- Answer any questions that the SMEs have regarding the bid.

Approximate Time Required

Approximately one hour is required for this session.

Step 2. Training and Support for Bid Preparation

Objective

To enable SMEs to use the company's eProcurement system and prepare effective bids through training and provide troubleshooting support related to their application.

Process

SMEs are provided support for bid preparation with the help of eProcurement trainings, training in tendering, and an online Q & A board.

eProcurement training sessions

The EC staff provides intensive training on how to use the lead company's eProcurement system to those SMEs that are not adept at using computers and the Internet. This might seem like a daunting task, but if SMEs see value at the end of the chain, they are willing to commit themselves to the training.

The EC staff trains and assists selected suppliers intensively over the course of two to three weeks in a series of two-hour training sessions. There is no standardized training format to follow, as often the nature of the training depends on the technical capacity of the SME. The training schedule in table 4 provides a rough idea of the areas that should be covered for an absolute beginner.

Table 4. Sample Training Sessions for a Beginning SME

Session 1	Learning how to use a computer, use the user name and password to log in, set up a new password, access a Web site, and explore the eProcurement site preliminarily
Session 2	Exploring and understanding the eProcurement Web site, printing and downloading all bidding documents. The enterprises can transfer these documents onto a USB drive to work on at their home/offices.
Sessions 3–6	Working on the bidding documents
Session 7	Uploading the completed bid (information can still be changed at this stage)
Session 8	Final revision and submission of uploaded bid documents.

Location

The training is usually conducted in the Enterprise Center. Another option is to ask the lead company to provide a training facility for the SMEs. However, this should be done right from the start of the program. If this is not done, it would be advisable to ask the lead company to provide the facilities step by step, as needs become apparent.

For example, in Chad the training was first scheduled to take place at the Enterprise Center. Because the Internet connection speed at the EC was slow, ExxonMobil offered to let the EC staff use its computers. Over time, as it saw the success of the program, ExxonMobil started providing more facilities. Today, it has dedicated a section of its training center for eProcurement training.

Fee

While it is typically advisable to charge a fee for training, this is difficult to implement in the case of eProcurement. **For example**, SMEs were initially charged a fee of \$50 for the eProcurement training. But when the SMEs that had paid for the training but did not win the bid started complaining, ExxonMobil asked the EC to stop charging a fee.

Lesson 15

It is a challenge to charge a fee for the eProcurement training. SMEs that do not win the contract are often dissatisfied with the lead company and EC staff.

Training in Tendering

Usually bid applications demand documentation and answers to various questions. **For example**, ExxonMobil required documentation of the following:

- Background information on the company and its employees
- Specific contract plans, including résumés of key employees
- Project bid amount, broken down by subcategory
- Preapproval by a financial institution for a loan.

Often local SMEs have limited experience in filling out the detailed tenders of a large company. This skill gap can be mitigated through training in tendering at the Enterprise Center, conducted in association with the lead company's procurement staff. This training is usually broken down into two components:

- **Narrative.** In this component, the EC staff discusses how to think about a bid application by presenting a sample business project to the SMEs.
- **Finance.** The finance component introduces SMEs to issues related to pricing and costing for the bid application.

At the same time, the staff must be careful not to give any specific advice or feedback to the entrepreneurs on their bids. Specific questions on the bid should be posed directly to the lead company staff via the online Q & A board.

Online Q & A

Use of the eProcurement system makes it possible for SMEs to post questions regarding the bid on an online Question and Answer (Q & A) board. These questions can be promptly answered by the relevant department in the lead company.

This system helped the Enterprise Center staff as well as the procurement staff of ExxonMobil maintain transparency and prevent corruption. **For example**, if the SME had a question, the EC staff could protect themselves and direct the SME to the online Q&A board instead of answering the question personally.

Alternatively, once the SMEs are aware of this system, they can complain to Exxon or the Enterprise Center if they are approached by the staff of either.

Lesson 16

Reduced human interaction between SMEs and the ExxonMobil rank and file procurement staff was key is maintaining transparency and reducing any attempt to propose or ask for bribes.

Approximate Time Required

eProcurement training sessions. The time needed for training tends to decline over time. **For example,** when the EC staff in Chad was also new to ExxonMobil's eRFx system, it would take them almost 24 hours of one-on-one training to prepare the SMEs. Now that they know the system well, they can often complete training in three two-hour sessions.

Training in tendering. Workshop will require one or two days, depending on the aptitude of the SMEs.

Step 3. Bidding and Announcement of Winner

Objective

To submit the completed bids and announce the winner.

Process

Once the SMEs have been trained, they are ready to bid for the contract.

Bidding

The bid period usually lasts from two to four weeks. During this period, the SMEs can bid at any time. The SMEs spend hours preparing all the documentation and filling in the required information on the company's eProcurement system online. **For example**, in Chad, SMEs that had only recently learned how to use computers would spend hours and even days before they could upload their final bid documents and make the bid. They did this because they saw value at the end of chain. Also, when they saw a fellow Chadian win contracts with ExxonMobil, it encouraged them to try to win one themselves.

Lesson 17

SMEs are willing to spend substantial amounts of time to make their bids through a company's eProcurement system if they see value at the end of the chain.

Announcement of the Winner

It usually takes the lead company two to three weeks after the bid to make a decision regarding the winner. In the case of ExxonMobil in Chad, sometimes two to three companies were selected if they bid the same price. In this case, a new tender would be issued and the selected companies would be asked to bid again.

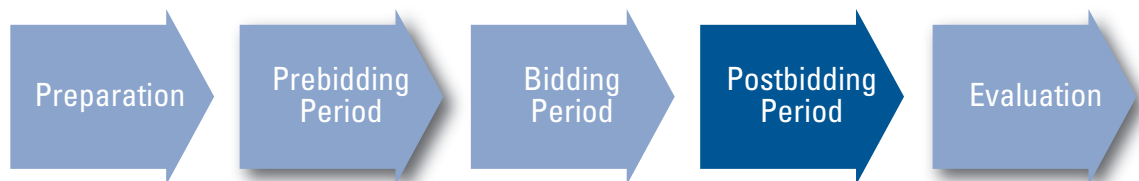
Lesson 18

It is important to award a few successful contracts because SMEs are inspired by the success of fellow SMEs.

Approximate Time Required

The bidding period and decision period can last two to four weeks and the decision period can last two to three weeks, for a total of four to seven weeks, altogether.

Phase 4 **Postbidding Period**



	Step	Objective
Step 1	Feedback to contestants	To provide honest and objective feedback to the losing contestants to maintain transparency and encourage them to reapply effectively.
Step 2	Support for contract management	To provide SMEs with support to implement their contracts effectively.

Key Success Factors

- Honest feedback to losing SMEs
- Greater focus on one-on-one coaching with SMEs for business development instead of group training sessions
- A detailed training plan that helps the losing SMEs build their capacity and put them on the growth path to becoming more competitive.

Step 1. Feedback to Contestants

Objective

To provide honest and objective feedback to the losing contestants to maintain transparency and encourage the SMEs to reapply.

Process

One of the biggest challenges during the procurement process is handling losing contestants effectively. There is often a danger that the losing bidders will turn hostile toward the company and the EC staff, and accuse them of procurement malpractice.

Regret Letters

The lead company should send regret letters to those SMEs that did not win the bid. The letter usually specifies the technical and/or commercial reasons why the SME did not win the bid.

It is important to be honest in the feedback in order to:

- Give the SME an opportunity to improve itself and potentially bid again in the future
- Maintain transparency in the procurement process
- Ensure that the EC staff is not held responsible for the SME's shortcomings.
- Support the reputation of the company as a respectable and committed member of the local private sector.

For example, the EC staff in Chad often had to bear the fury of losing SMEs. In such situations, the mechanisms established for a transparent procurement process such as the rating system, eProcurement system, and feedback letters from the company proved to be key in allaying any doubts the SMEs had about the fairness of the system.

Lesson 19

It is important to provide positive and honest feedback to SMEs that did not win bids, to maintain transparency in the procurement process, protect the EC staff, and enhance the reputation of the lead company.

Moreover, it is important to keep in mind that a transparent procurement system will not prevent entrepreneurs from complaining when they lose contracts. In fact, not only does such a system increase the number of bid applications, but it also raises expectations for getting new contracts in the SME community. Often, when SMEs lose, they do not like to believe that they were not the best.

Step 2. Support for Contract Management

Objective

To provide SMEs with support to effectively implement their contracts.

Process

Specific training sessions designed to address the weaknesses identified during the evaluation phase provide support to SMEs for effective contract delivery.

Technical Training

The lead company usually provides technical training related to health, safety and environment (HSE), quality, and maintenance issues. **For example**, ExxonMobil provided free HSE training to all its suppliers. SMEs are also encouraged to offer training opportunities to their employees for technical areas directly related to their contract.

Business Training

The EC staff provides business-related trainings to two sets of SMEs: beginners and advanced. **For example**, the EC in Chad offered training in six business-related modules for beginners. These included: marketing, finance, human resources, organizational management, legal affairs, and materials management. Plans are underway to launch IFC's Business Edge for advanced SMEs.

Follow-up

Once the training modules are completed, the EC staff follows up with the SMEs to see whether they are implementing what they learned in the modules. Often, SMEs themselves come back for more guidance.

One-on-One Mentoring

The EC staff should also make provision to provide one-on-one coaching to SMEs to provide direct and concentrated input to correct the SME's areas of weakness. The Chad experience has shown that SMEs prefer coaching to the training sessions.¹⁰

Lesson 20

SMEs prefer one-on-one mentoring to group training sessions to build their capacity.

Business Plans

SMEs often need to prepare business plans to be able to access financing from banks to deliver on their contracts. In such cases, the Enterprise Center staff can help the SME prepare a business plan. Appendix I presents a sample business plan.

¹⁰ For more information on how to develop a mentorship program, please refer to "Developing SMEs through Business Linkages—the MozLink Experience," a manual recently developed by IFC in association with BHP Billiton (<http://www.mozlink.co.mz/en>).

Cost

Training. The EC charged 2,000 CFA (about US\$4.50) for training in each business module.

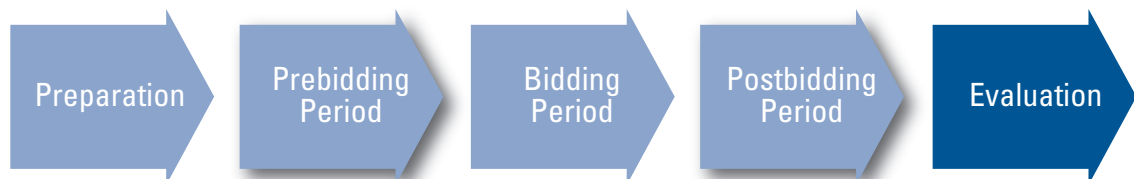
Mentoring. The EC charged 4,000 CFA (about US\$9) for six hours of mentoring and 25,000 CFA (about US\$56) for mentoring for three months (two hours/week).

Approximate Time Required

Business training. Each training module takes three to four days.

Technical training. Each training module takes approximately one to two days.

Phase 5 Evaluation



	Step	Objective
Step 1	Assess bidding and local corporate procurement indicators	To use the results from the monitoring system to assess the impact of the local supplier development program on the bidding process and the lead company's local procurement patterns.
Step 2	Assess SME impact indicators	To assess the impact of the local supplier development program on the SME, its business, and performance.
Step 3	Program review and future planning	To review the program, integrate the lessons learned, and plan for the future sustainability of the program.
Key Success Factors <ul style="list-style-type: none"> Align evaluation of the program with the development institution's monitoring and evaluation (M&E) indicators. 		

Step 1. Assess Bidding and Local Corporate Procurement Indicators

Objective

To use the results from the monitoring system to assess the impact of the local supplier development program on the bidding process and the lead company's local procurement patterns.

Process

The change in the local procurement patterns of the lead company is a good indicator of the impact of the program. The indicators related to the local procurement patterns are obtained from the ongoing tracking system devised under the monitoring and evaluation strategy in the preparation phase. Such indicators should measure:

- the value of goods and services procured locally
- the quantity of goods and services procured locally
- local procurement as a percentage of total corporate procurement.

Further, indicators related to the bidding process should also be assessed *for each bid*, such as:

- number of potential bidders evaluated
- final number of bidders
- number of bidders assisted by the EC (especially for eProcurement)
- number of new bidders assisted
- hours assisted
- jobs created
- percent increase in local spending
- training sessions attended
- access to finance.

These indicators should be compared over the entire project period in order to assess the impact of program on the lead company's procurement patterns, as well as the bidding process.

Approximate Time Required

This step entails an ongoing process across program cycles. Data are collected at scheduled times: ideally, every month.

Step 2. Assess SME Impact Indicators

Objective

To assess the impact of the local supplier development program on the SME, its business, and performance.

Process

Indicators measuring SME business and performance are used to understand whether or not the program is having a positive impact on the SME. The following indicators should be tracked for each bidding contract:

- whether the firm is a joint venture (JV) or entirely local
- amount of contract in local currency and U.S. dollars
- number of jobs created
- contract term.

The following indicators should be tracked over time:

- change in employment
- change in the quantity of contracts
- change in the size of contracts
- change in turnover
- change in the number of client companies (reduced dependency on the lead company over time)
- range of contract sizes
- average contract size
- average number of jobs created.

These indicators should be compared over the entire project period in order to assess the actual impact of the program on the SMEs.

TIP

The indicators obtained at the end of a bid cycle might not indicate the actual impact of the program. The real impact of the program on areas such as turnover, employment, and new clients can be measured only over a period of two to three years. For this reason, ongoing monitoring that goes beyond the program period is essential. It is the responsibility of the program coordinator to ensure that monitoring occurs at regular intervals.

Approximate Time Required

This step entails an ongoing process across program cycles. Data are collected at scheduled times: ideally, every month.

Step 3. Program Review and Future Planning

Objective

To review the program, integrate the lessons learned, and plan for the future sustainability of the program.

Process

This is an important part of any project process, as it will determine the direction in which the program evolves.

Program Review

A program review can be conducted by collecting feedback from all the stakeholders, including the SMEs, EC staff, operational team from all partners, and the Steering Committee. Once the feedback has been consolidated, the lessons learned from the program can be distilled.

Learn from Failures

While it is tempting to simply notice and commend the program's successes and the winning SMEs, it is equally important to focus on what did not work and why, and learn from that. A few cases of SMEs that failed in the evaluation stage or reached the bidding stage but repeatedly failed to win should be analyzed to understand what went wrong. Such an analysis might reveal gaps in the program design or implementation and shed light on areas of improvement.

Integrate Lessons Learned and Make Adjustments

Once the lessons learned and areas of improvement in the program have been identified, the program should be adjusted accordingly to ensure that the same problems do not arise in the next program cycle.

Future Planning

It is important to start considering strategies to make the program operationally and financially self-sustaining in the future. A large component of such strategies would involve reducing dependence on funding from development institutions and increasing dependence on local resources: human as well as financial.

Approximate Time Required

A program review should be conducted at regular intervals: perhaps every one to two years. It should require one month or less.

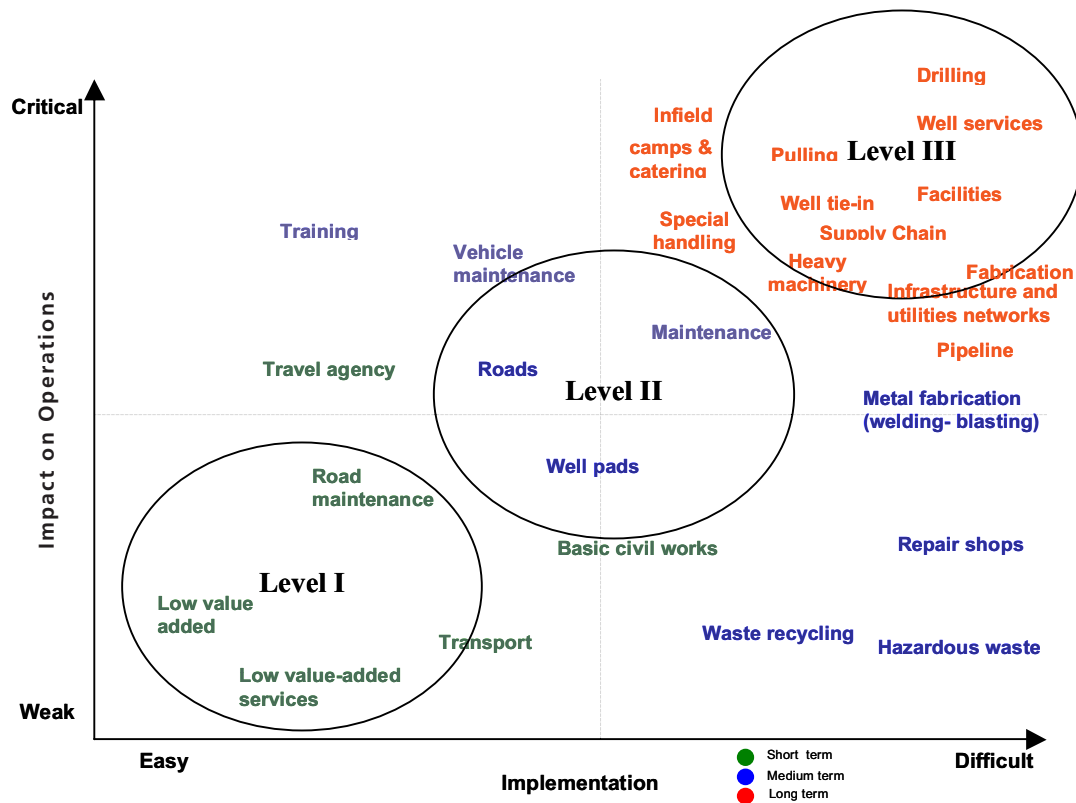
Appendixes

Appendix A. Detailed List of Business Segments Sorted According to the Three Levels of Competency

Business/segment	Level I	Level II	Level III
Civil works	<ul style="list-style-type: none"> ▪ Road maintenance ▪ Scaffolding installation ▪ Electric pole installation 	<ul style="list-style-type: none"> ▪ Road construction ▪ Road tar ▪ Road marking ▪ Scaffolding management ▪ Pipe rack ▪ Metrology 	<ul style="list-style-type: none"> ▪ Remote area road project ▪ Pipe line project ▪ Heavy bridge construction ▪ Sewer system project ▪ Underground cable project
Building	<ul style="list-style-type: none"> ▪ Foundations ▪ Structural construction ▪ Paintings ▪ Fences ▪ Stone wall 	<ul style="list-style-type: none"> ▪ Construction of building per plan provided ▪ Renovation of building ▪ Piling activity ▪ Plumbing installation ▪ Electrical installation 	<ul style="list-style-type: none"> ▪ Building project management ▪ City planning ▪ Camp construction ▪ Housing project
Material manufacturing	<ul style="list-style-type: none"> ▪ Basic tools for repair ▪ Water pump ▪ Basic flange and fittings ▪ Electrical switch 	<ul style="list-style-type: none"> ▪ Gate/block/check valves ▪ Pump motor and normal pump ▪ Underground electrical cable ▪ Trailer builder 	<ul style="list-style-type: none"> ▪ Instrumentation valves ▪ Exotic pipe manufacturer ▪ Generators ▪ Heat exchangers ▪ Tower ▪ Vessel ▪ Car/truck equipment
Oil and gas well pads construction	<ul style="list-style-type: none"> ▪ Flow lines 	<ul style="list-style-type: none"> ▪ Well pads civil work 	<ul style="list-style-type: none"> ▪ Construction/tie-in project
Equipment maintenance	<ul style="list-style-type: none"> ▪ Grease and lube ▪ Basic repair (change bulb, screw, nails) ▪ Clean filter when filter removed 	<ul style="list-style-type: none"> ▪ Pump seal/repair ▪ Welders ▪ Piper ▪ Electrician for substation ▪ Electronic 	<ul style="list-style-type: none"> ▪ Preventive maintenance ▪ Material inspection ▪ Small turnaround
Facilities/office maintenance	<ul style="list-style-type: none"> ▪ Handyman small repair (plumber, painter, electrician, carpenter) ▪ Basic cleaning activity (dust removal, clean desk only) ▪ Basic gardening activity (cut grass, spray water on plants) 	<ul style="list-style-type: none"> ▪ Cleaning management of one facility ▪ Canteen service 	<ul style="list-style-type: none"> ▪ Network maintenance ▪ Facility management for all repairs, food service, and cleaning
Oil and gas wells maintenance	<ul style="list-style-type: none"> ▪ Basic surface tasks 	<ul style="list-style-type: none"> ▪ All surface tasks 	<ul style="list-style-type: none"> ▪ Subsurface project (pulling)

Logistics	<ul style="list-style-type: none"> ▪ Goods from point A to point B ▪ Nonhazardous material ▪ Logistics limited to Chad operations 	<ul style="list-style-type: none"> ▪ Express service for mail ▪ Transport through at least with two modes ▪ Hazardous material transportation ▪ Logistic project 	<ul style="list-style-type: none"> ▪ Supply chain project that could be have implications outside Chad and Africa ▪ Real time information through technology ▪ Supply chain optimizer
Waste management	<ul style="list-style-type: none"> ▪ Collection/segregation ▪ Nonhazardous material recycling 	<ul style="list-style-type: none"> ▪ Disposal/recycling of nonhazardous material ▪ Hazardous material treatment 	<ul style="list-style-type: none"> ▪ Waste management

Appendix B. Business Segments According to their Level of Difficulty and Importance



Appendix C. Detailed List of Supplier Attributes for Each Star Level

Supplier attributes	One star	Two stars	Three stars
General	<ul style="list-style-type: none"> Perform single task under supervision Committed to implement existing continuous improvement programs under supervision 	<ul style="list-style-type: none"> Perform complex/multi-tasks (limited supervision) Follow self-developed continuous improvement processes 	<ul style="list-style-type: none"> Perform complex operations independently Manage own processes in a proactive manner Manage subcontractors
Business conduct	<ul style="list-style-type: none"> No unethical records Sound financial stability Basic accounting program in place 	<ul style="list-style-type: none"> Full alignment with Esso business conduct code Availability of yearly/externally audited accounts 	<ul style="list-style-type: none"> Leadership in business conduct Full records in place Procurement/subcontracting programs in use
Management	<ul style="list-style-type: none"> Structure in place (roles & responsibilities) Management committed to implement programs 	<ul style="list-style-type: none"> Structure well defined/coordinated Supervisors committed to new developed processes 	<ul style="list-style-type: none"> Efficient structure working proactively All levels committed to project deliverables
Health, safety, and environment (HSE)	<ul style="list-style-type: none"> Understand Esso/project standards and objectives Committed to implement programs (supervised) 	<ul style="list-style-type: none"> Own specific programs developed/in place Committed to continuous improvement process 	<ul style="list-style-type: none"> Lead own/subcontractors organizations Proactive/leadership attitude
Environment management program (EMP)	<ul style="list-style-type: none"> Understand Esso/project standards and objectives Committed to implement programs (supervised) 	<ul style="list-style-type: none"> Own specific programs developed/in place Committed to continuous improvement process 	<ul style="list-style-type: none"> Lead own/subcontractors organizations Proactive/leadership attitude
Quality	<ul style="list-style-type: none"> Understand Esso/project standards and objectives Committed to implement programs (supervised) 	<ul style="list-style-type: none"> Own specific programs developed/in place Committed to continuous improvement process 	<ul style="list-style-type: none"> Lead own/subcontractors organizations Proactive/leadership attitude
Training	<ul style="list-style-type: none"> Management familiar with project processes Competency programs understood Critical positions with minimum training 	<ul style="list-style-type: none"> Competency programs introduced/basic records in place Supervisors/critical positions proficient in all programs/processes 	<ul style="list-style-type: none"> Competency assessment program effectively implemented Experienced staff with active training program
Maintenance	<ul style="list-style-type: none"> Equipment fit for purpose Basic maintenance programs defined Basic maintenance structure 	<ul style="list-style-type: none"> Specific programs developed/in use Records in place Adequate maintenance structure in place 	<ul style="list-style-type: none"> Management of programs including subcontractors Full maintenance chain in place to proactively ensure assets integrity

Appendix D.1. Evaluation Questionnaire for SMEs

		Date: 02/08/07			Comments	
		Subcontractor: XYZ Trading Chad				
		Name of auditors: Mme KOULLO Sylvie and DEUBALBE Patalé				
I	Organizational structure		3	<----- Score 1 to 4		
	I-a	Management positions are assigned on the basis of abilities, not family ties	Y			
	I-b	Management understands and supports the project objectives (hygiene & security; quality)	Y			
	I-c	The CEO has appointed competent deputies for all necessary functions	N		The financial administration officer in particular is an Arabic speaker	
	I-d	Management visibly and unequivocally supports the operations	Y			
	I-e	Designated representatives can be contacted and are available at all times	Y			
	I-f	Effective representation has been set in place in the field (close to the client)	Y			
	I-g	Existence of good communication (English-French): written and spoken	Y		French, English, and Arabic	
	I-h	Satisfactory level of field supervisors (to meet the need for close supervision)	Y			
	I-i	Field supervisors able to work semi-independently (loose supervision)	Y			
	I-j	Proactive, effective supervision, capable of working independently	Y			
2	Commercial and contractual management		3	<----- Score 1 to 4		
	2-a	Understanding of basic contractual rules	Y		Contracts with FMC and Wood Group	
	2-b	Capacity to prepare consistent requests for bids (implementation plan, risks and contingencies, direct and indirect costs)	Y			
	2-c	Understanding and control of operating costs	Y			
	2-d	Monitoring of costs related to each job (individual management system for each contract, including monitoring of implementation plans)	Y			
	2-e	Availability of a monthly balance sheet for each contract (linked to the management system)	N			
	2-f	Understanding of the cost fluctuation concept (contractual amendment justification process)	Y			

	2-g	Capacity to develop an effective contractual/financial strategy (e.g. transform a loss situation into a profitable operation)	Y	
	2-h	Capacity to establish transparent and effective contracts with its own subcontractors	Y	
	2-i	Use of a system of acceptance of work done and oversight of quantities provided and invoiced (internal and external daily checks)	Y	
	2-j	Habit of paying its own suppliers and subcontractors on time	Y	
	2-k	> 5% of earnings reinvested in staff training	Y	
3	Finance		2	
	3-a	Results of last 2 years available and audited by a firm of good reputation	Y	By the Allabom Totiga firm
	3-b	Acceptable financial stability (debt versus current and anticipated revenues)	Y	
	3-c	Low exposure to risky markets/financial independence between affiliates of the same group	Y	
	3-d	Favorable opinion on the part of financial institutions (banks, IFC)	Y	Financial bank
	3-e	Tangible evidence of payment of taxes, CNPS, IRPP, and other licenses	Y	
	3-f	Acceptable accounting practices	Y	
	3-g	Availability of a competent accounting organization	N	No appropriate software except Excel
	3-h	Filing system for accounting data in order (files classified by year, etc.)	N	
	3-i	Use of effective accounting software (not Excel spreadsheets)	N	Accounting records kept in Excel and manually
	3-j	Use of comprehensive management software (inventory, accounting, pay, invoicing, etc.)	N	
	3-k	Use of banks of good reputation	Y	
	3-l	Bank account reserved solely for Esso operations	Y	
	3-m	Less than 5% of transactions conducted in cash (system of bank payments to suppliers)	Y	
	3-n	Separation of powers (dual signature, separate approval of orders, etc.)	Y	Both the CEO and the financial administration officer sign checks
	3-p	Internal and external audit process	N	

4	Staff and training		3	<----- Score 1 to 4
	4-a	Adequate personnel policies: work permits, consistent wage scales, etc.	Y	
	4-b	Private medical coverage	Y	80% coverage by Star Nationale insurance and SAFAR
	4-c	Availability of a good pool of competent staff	Y	
	4-d	Clear commitment to attract and retain qualified staff (CDI)	Y	
	4-e	Basic training provided to new arrivals (security, technical training, etc.)	Y	But not structured
	4-f	Individual monitoring of internships and training activities (licenses, diplomas, refresher training)	N	
	4-g	Existence of a structured staff training and development plan	Y	
	4-h	Training resources available (within the enterprise or by subcontract)	N	
	4-i	Skills assessment system in place	Y	Mainly for field staff
	4-j	Wages tied to skills and level of responsibility	Y	Engineer's wage of 850,000 Kwacha
	4-h	Annual staff evaluations (linked to individual development plans)	Y	
5	Equipment		2	<----- Score 1 to 4
	5-a	Equipment stock is sufficient to cover low-volume operations (with the possibility of equipment rental, if necessary)	Y	
	5-b	Equipment stock is sufficient to cover standard-size operations (with the possibility of equipment rental, if necessary)	N	
	5-c	Equipment stock is sufficient to cover all types of operations (with the possibility of equipment rental, if necessary)	N	
	5-d	Equipment is relatively new and looks good	Y	
	5-e	Equipment is in good operating condition	Y	
	5-f	A basic maintenance system is in place and is functioning	Y	Mahamat Zacharia garage
	5-g	Critical spare parts are available (in stock or through contracts with suppliers)	N	
	5-h	Maintenance records are up to date	Y	
	5-i	A plan for analyzing breakdowns is in place (with linkages to the quality improvement process)	Y	

	5-j	An effective preventive maintenance program is in place	Y	
	5-k	An investment management system is in place (use of equipment, unit costs, optimization process)	N	
6	Health, safety, and environment (HSE)		3	<----- Score 1 to 4
	6-a	Understanding and implementation of HSE standards required by Esso (risk identification and prevention)	Y	Partial understanding and implementation
	6-b	Drug and alcohol policy in place and supported by management	Y	
	6-c	Acceptable HSE results (no one is injured)	Y	
	6-d	Prevention systems actually in place	Y	Safety with Esso
	6-e	The company develops and promotes its own safety meetings	Y	But not structured
	6-f	A system for taking corrective action exists (after identifying a risk or an incident)	N/A	
	6-g	An accident investigation process is in place (with the active participation of management)	N/A	
	6-h	A risk management process exists (risk identification and control/elimination) and is supported by management	N/A	
	6-i	Work procedures are developed in line with HSE	Y	
	6-j	A HSE management system is in place: HSE policy, etc.	Y	
	6-k	A HSE auditing process is in place (minimum of 1 audit/evaluation per year)	N	
	6-l	Critical safety equipment (pressure, lifting) is regularly inspected and certified	N	
7	Quality management		2	<----- Score 1 to 4
	7-a	Understanding of quality criteria	Y	
	7-b	The level of quality of services provided is acceptable	Y	
	7-c	Understanding and monitoring of quality indicators required by Esso	Y	
	7-d	Continuous monitoring of operational efficiency criteria (implementation plan versus current results)	N/A	
	7-e	Monitoring and updating of production plans (current results versus implementation plan). Client information	Y	
	7-f	Active participation in the Esso quality control process (monthly reviews, etc.)	Y	
	7-g	Responsiveness to client requests for corrective action	Y	
	7-h	Development of a quality improvement system in progress	Y	

	7-i	Continuous quality improvement process actually in place		N/A	
	7-j	System for managing changes in situation actually in place		N/A	
	7-k	Quality management system actually in place		N/A	
	7-l	Audit procedures actually in place		N/A	
8	Quality control			3	<----- Score 1 to 4
	8-a	The work procedures are clearly documented		Y	
	8-b	The origin of all supplies provided can be tracked (spare parts, aggregates, etc.)		Y	
	8-c	An acceptance testing process is in place for different stages of task execution		Y	
	8-d	The acceptance tests are clearly targeted and filed		Y	
	8-e	The equipment needed for inspection, measurement, or grading is available		N	
	8-f	The daily records are properly filled out and signed		Y	
	8-g	Minutes of meetings exist and are kept on file		Y	
	8-h	Confidential information is filed appropriately		Y	
9	Experience, image, and reputation			3	<----- Score 1 to 4
	9-a	The company has a good reputation		Y	
	9-b	The company has good references (other work completed)		Y	FMC and Wood Group
	9-c	The company has already worked successfully with Esso or its subcontractors		Y	With Esso subcontractor
	9-d	The company's infrastructure can adequately support the planned operations		Y	
	9-e	The company's facilities present an acceptable image		Y	
	9-f	The company presents a professional image		Y	
General note			<----- Mathematical average		
	Additional notes				
	The company has good command of its work; it has an open-ended contract with both clients				

Appendix D.2. Guide to Conduct the Evaluation

Esso Evaluation Discussion Guide

Business Set-up

Background (How was the business created? By whom? Based on what idea? In what year? Also, if the business is the affiliate of a foreign company, indicate the parent firm, its number of employees, its activities, and its links with the affiliate.)

Legal form and shareholders (If there are shareholders, indicate their connections [family ties, business ties, etc.]. What are the occupations of the other shareholders? Do the shareholders work in the business? etc.)

Ancillary activities of the CEO and shareholders (Do the CEO or shareholders have other jobs [civil service, another business, ask for details of such activities]? Is the business a shareholder in another company? Are the different companies managed separately in terms of accounting, facilities, staff, equipment, etc.?)

Administrative documents (Administrative authorization + authorization from the supervisory ministry for specific activities, How recent is the latest tax clearance? What are the tax regulations that apply to the business? etc.)

Business Activity

Products and services sold (List them all and, for each, identify the chain of supply and manufacturing/preparation. What is the method of sale or distribution? How are outputs stored? etc.)

Volume of each activity in relation to total activity

Customers (Who are the customers for each activity?)

Contracts (Type of contracts with customers: order form/multiyear contract, tracking of accounts by customer?)

Contract/order form with Esso or Esso subcontractor (Dates, length of contract, detailed activity, how did the contract work out?)

Government contracts (Does the company work with the government? Claims, etc.)

Suppliers (Nationality, cargo transport, certification of spare parts)

Subcontractors (Selected on the basis of connections, pro forma, competitive bidding? Formal/informal contact? Payment after how many days?)

Human Resources

Organizational structure of the company (Indicate the name and telephone number of the CEO. Is he/she a shareholder? Specify whether the organizational structure is written or verbal, etc.)

Training and experience of the management team (Country in which team members studied and, for Chad, indicate the name of the institution. Provide further detail on the CEO's background: experience in what companies, in what positions?)

Family connections within the company

Number of employees (Indicate the number of permanent/temporary employees, temporary replacements, consultants, experts, etc., and the recruitment methods, if relevant.)

Contracts (Written/oral, fixed term/open-ended, ONAPE or not ONAPE, etc.)

CNPS (Indicate the number of employees stated on the update, and the date of the latest update.)

Wages (Ask the wage of a type of employee.)

Medical coverage (None, targeted coverage, agreement with a clinic [what type of agreement?], written ceiling, insurance/mutual benefit subscription, etc.)

Training (Type, place, and institution of training dispensed to employees at company expense, type of in-house training provided)

HR policy (Indicate the existence of manuals of procedure, job descriptions, staff development/training plans, employee evaluations, etc.)

Languages (What languages are spoken? If English, indicate how it was learned.)

Accounting and Finance

Bookkeeping (Nothing, paper, Excel, software, outsourced to what firm, etc.)

Filing (How accounting records are filed)

Computerized management tools (Does the company have other, management-type software for payroll, invoicing, inventory, integrated system, etc.)

Account certification (Who certifies the accounts?)

Balance sheet and income statement (Board of directors, income, claims, debt. Ask for an explanation if anything is out of the ordinary. Does balance sheet meet OHADA standards?)

Separation of powers (Dual signature? Management audit?)

Relationship with banks (Accounts held at what banks, different use for each account? Loans obtained/rejected? etc.)

Payment of suppliers and employees (Cash, transfer? Cash maximum?)

HSE and Quality

HSE (*Understanding/knowledge, how does the company know HSE? Some procedures in place, which ones? Manual of HSE procedures, HSE officer within the company, etc.*)

Quality management (*Is there a written/unwritten quality management procedure? Are there tools for measuring quality? Is the company bound by standards imposed by suppliers/customers or has it developed its own quality system? Is there a person in charge of quality management? ISO certification, etc.*)

Facilities and Equipment

Facilities (*Size, condition, renter/owner, written lease?*)

Equipment (*List of equipment, age, origin, appearance, etc.*)

Equipment maintenance (*Internal/subcontracted, preventive maintenance or just repairs? Equipment maintenance forms up to date? Stock of spare parts? etc.*)

Projects

Projects (*What are the company's current projects (Short and medium term? At what stage of implementation are they? etc.)*)

Observations

Reputation

Inconsistencies (*Inconsistencies between the information provided and the realities observed*)

Personal opinion

Appendix E. Guidelines Clarifying the Role of the Enterprise Center Staff

The Enterprise Center (EC) will engage with potential ExxonMobil suppliers in the following manner before, during, and after the ExxonMobil bidding process. The EC will:

1. Meet with suppliers to explain the role of the EC and the assistance we are offering them
2. Establish a system of controls to ensure privacy in bidding and guard against collusion
3. Provide a secure and private web access during the bidding process
4. Assist suppliers in understanding the technical aspects of the bidding process, including navigating the eRFX* site and responding to a bid
5. Work with the suppliers to support their growth and development after the bidding process.

During the bidding process, the EC *will do* and *will not do* the following:

What the EC <u>WILL DO</u> to help suppliers	What the EC <u>WILL NOT DO</u> to help suppliers
Controls	
1. Provide strict controls to maintain privacy and guard against collusion.	--
Training	
Internet <ol style="list-style-type: none"> 1. Provide high-speed and secure Internet access. 2. Provide a printer to print documents. 3. Provide a training and ongoing support for providers on navigating the eRFX site. Bidding <ol style="list-style-type: none"> 1. Provide <i>general</i> instructions on how to respond to the bid, raise questions, and urge suppliers to think their responses through thoroughly. 2. Respond to general questions posed <i>orally</i>. 3. Provide written resources on how to respond to a bid and industry standards. 4. Ensure that bidding documents are filled out completely. Contract <ol style="list-style-type: none"> 1. Respond to <i>general</i> questions and give guidance about what one might consider when reviewing a contract. 	Internet <ol style="list-style-type: none"> 1. Allow suppliers to use the Internet at times that are not prescheduled. Bidding <ol style="list-style-type: none"> 1. Provide <i>specific</i> feedback or guidance on questions provided by entrepreneurs. If entrepreneurs need further guidance, they are referred to counselors at the Enterprise Center. 2. Respond to or provide feedback on any <i>written</i> documents. 3. Give any response to questions on the pricing section. Contract <ol style="list-style-type: none"> 1. Give <i>specific</i> feedback or advice on the terms of the contract.

*eRFX= Electronic Request for (x), where x can be a Proposal (RFP), Quote (RFQ), Information (RFI) or Tender (RFT)

Appendix F. Agreement between the Enterprise Center and its Staff

CODE DE CONDUITE CODE OF CONDUCT FOR CDE TRAINER-ADVISERS IN RELATION TO ECONOMIC OPERATORS

The daily work of Trainer-Advisers places them in continuous contact with CDE partners: i.e. economic operators. However, this contact exposes Trainer-Advisers to all sorts of temptations and, in particular, opportunities for corruption. To resist these temptations, Trainer-Advisers must adopt transparent, rigorous, and resolute behavior in regard to themselves, their colleagues, and economic operators so as to maintain their integrity and their autonomy in making decisions and taking action. The foundations of this conduct are summarized in the points below.

1. The Trainer-Adviser must systematically refuse any gifts worth more than CFAF 5,000 offered by economic operators. He or she may, however, accept promotional articles: date books, calendars, ordinary pens, caps, T-shirts, etc.
2. The Trainer-Adviser must clarify all of his or her contacts with economic operators: all professional contact must take place at the worksite (CDE or company facilities) and all friendly contact must take place outside the worksite.
3. When family or friendly ties exist between the economic operator and the Trainer-Adviser, the latter must disclose this information to his or her work colleagues and will not be authorized to evaluate the business of this economic operator.

Any behavior (brought forward and proven) that runs counter to these rules of conduct constitutes grounds for dismissal.

To the full extent of the law,

Trainer-Adviser

Manager

(full name and signature preceded by Read and Approved)

Appendix G. Example of Tender Advertisement with Rating Criteria for SMEs

PRE-SELECTION NOTICE

Esso Exploration & Production Chad, Inc. (EEPCI) intends to carry out a pre-selection of suppliers in advance of a request for bids to hire a candidate to provide catering and lodging management services in its N'Djamena guest houses.

Preselection Criteria

1. Possess all administrative documents (administrative authorization, trade register, tax identification number, CNPS registration number, tax clearance)
2. Provide a certified record of accounts for the last two years
3. Provide at least two references of customers in the above-mentioned area of activity
4. Provide a list of employees and their qualifications
5. **Have a score of 2 or above in the evaluation developed by Esso/IFC/CDE or be available to be evaluated.** If the company has already been evaluated under the LBO process, please go ahead and file your candidacy and score at the CDE closest to your company (Doba, Moundou, Sarh, N'Djamena) at the address below or send an e-mail to the following address: cdetchad@yahoo.fr.

Enterprise Development Center (Centre de Développement des Entreprises CDE)
s/c CCIAMA (N'Djamena or Moundou, Doba, and Sarh delegations)
To the attention of Rimtebaye Banayal

Documents to Submit

1. Photocopies of all administrative, tax, and corporate documents
2. Banking domiciliation certificate
3. Photocopy of balance sheet and working account for the last two fiscal years, certified by a certified public accountant
4. List of references for services rendered or in progress in the above-mentioned area of activity.

Applications must be submitted no later than October 31, 2007 to the following address:

Consulting Africa
Former Caisse Coton, opposite AFD Building
Route de Farcha
B.P. 1592 N'Djamena, Chad
Tel: 235 251 61 10
Mobile Tel: 625 73 92

Appendix H. Sample Evaluation Report



**Chamber of Commerce, Industry, Agriculture, Mining, and
Handicrafts**

**ENTERPRISE DEVELOPMENT CENTER
(CENTRE DE DEVELOPPEMENT DES ENTREPRISES: CDE)
B.P. 458 TEL 51 72 58 FAX 52 44 84 - N'DJAMENA - CHAD**

Company: ABC

Date of evaluation: 08/08/07

Auditors: Kouollo Sylvie and Ngakene Faba

Total Score: 2.8

General note

Organizational structure	3	Human resources	2	Quality management	2
Commercial management	3	Equipment	3	Quality control	3
Accounting and financial management	3	Hygiene and safety	3	Experience, image, and reputation	3

Strong points

- ABC is a well-structured company: management appears transparent, procedures are in place and documented, activities are smoothly organized, etc.
- The CEO possesses adequate professional experience to support the company's activities in an effective way and has surrounded himself with a young, educated, and dynamic management team.
- ABC generates a large volume of activity and appears to enjoy good financial stability.
- A major share of the profits has been reinvested in the company (facilities, vehicles, equipment, etc.).
- The company has very good business references: Esso, AFD, ADB, MILLICOM, and CST.

Points that need improvement

- Although in good condition, the current facilities do not reflect the true image of ABC.
- Human resources management: HR position not yet filled, medical coverage not comprehensive, a portion of staff reported to CNPS.

Recommendations

The structure and management approach of ABC appear appropriate for the company's current volume of activity. With an eye to continuous improvement and development, it still would be advisable to:

- Further structure human resources management in order to optimize staff productivity (during the visit, a personnel management audit was announced): develop an incentive human resources policy, wage scales, job descriptions, job advancements, career management, training, institutionalized medical coverage, etc.
- Give ABC the image of an innovative, high tech, and professional company by properly outfitting, as soon as possible, the facilities under construction.

Appendix I. Sample Business Plan



**Chamber of Commerce, Industry, Agriculture, Mining, and
Handicrafts**

**ENTERPRISE DEVELOPMENT CENTER
(CENTRE DE DEVELOPPEMENT DES ENTREPRISES: CDE)
B.P. 458 TEL 51 72 58 FAX 52 44 84 - N'DJAMENA - CHAD**

BUSINESS PLAN FOR STARTING OR DEVELOPING AN ENTERPRISE

CUSTOMER SUPPORT

Teaching Objectives

- ☐ Identify and understand the stakes involved in preparing a business plan
- ☐ Understand the structure and content of a business plan
- ☐ Incorporate the business plan into the project promoter's strategic approach.

Operational Objectives

- ☐ Prepare the business plan for starting or developing the project promoter's enterprise
- ☐ Prepare estimated financial statements for the project
- ☐ Rely on the business plan to steer the enterprise.

COURSE DESCRIPTION

Introduction to Business Plans.....	.....
Financial Statements in a Business Plan .....	.....
Investment Plan.....	.....
Initial Financial Plan .....	.....
Three-year Financial Plan .....	.....
Projected Three-year Income Statement.....	.....
Income and Income Statement .....	.....
Cash Forecast.....	.....
Stakes of a Business Plan for the Project Promoter.....	.....
Stakes of a Business Plan for Future Business Partners.....	.....

Introduction to Business Plans

Some categories of information recur systematically in all business plans: a project summary, the leadership team and its motives, the origin of the business idea, the target market and the competitive environment, a description of commercial offerings (products or services), the company's resources and how they are organized, projected financial data, and annexes.

Project Summary

This involves a brief description of the project (15 to 20 lines maximum): type of products or services, profile and background of the project promoter, target market and positioning of products or services in relation to the competition, financial projections (projected business volume and results), and, if applicable, the type and amount of funding requested.

Leadership Team and Its Motives

The project promoter is the key to the enterprise's success. The quality of the project will hinge on the quality of the person.

This section addresses the issue of who the project promoter is: his or her training, recent professional background, job experience related to the project, motivation for devising the project, factors having triggered the project, his or her strengths and weaknesses. With respect to weaknesses, it is useful to describe, if necessary, the mechanism planned by the entrepreneur to correct any weak points (training, association with an additional person, etc.).

If the project is brought forward by a team, then a description of each member involved in starting the business is indispensable. This should be rounded out with a description of the motives and complementarities of team members, and their common motives or the reasons underlying their collective commitment to the project (friendship, classmates, former employees of the same company, members of the same family, etc.).

The information needed for this section is drawn from the detailed CV of each associate, the cover letter drafted by the project promoters, and an information sheet to be filled out by each project promoter in the event of a request for financing.

Origin of the Business Idea and Its Evolution as a Business Opportunity

Where does the project idea come from?

- ☐ Observation of the economic environment (analysis of customer satisfaction with competitors already in place, emergence of new needs)
- ☐ Operational research
- ☐ An invention
- ☐ Travel (discovery of new ways of satisfying the same need, new concepts)
- ☐ Training or professional experience (after receiving technical training as an electrician, one might consider starting an electrical business, etc.)
- ☐ Family (pursuing a family trade)

What makes this business idea relevant?

- ☐ Interest shown by potential customers
- ☐ Results of market study

- ❑ Competence of project promoter (reputation, relational network, professional experience), proven existence of latent demand
- ❑ Existence of companies already engaged in the same activity but not fully covering market needs
- ❑ Results of market tests performed by project promoter
- ❑ Project promoter has prior experience in this area and can demonstrate the results obtained (business volume, profits, customer database, etc.)

This information will generally be collected and provided by the project promoter. The Enterprise Center (CDE) adviser must, however, verify that it is relevant and adequate to the project (newspaper and magazine clippings, market studies, specialized publications, customer letters of intent, etc.).

Target Market and Competitive Environment

A brief description of the market is recommended. This will permit the project promoter to limit his or her micro-environment and thereby work to achieve the means to satisfy same. The market represents, in the largest sense, all the actors involved in various operations or transactions related to a particular product. The cotton market in Chad is one example of this. In some cases, a geographic dimension can be ascribed to the market: e.g. the Soukhala market. For a business, the market consists of its current or potential customers. The term “theoretical market” is used when estimating the potential of this market.

Under this heading, the following points warrant particular attention:

Customers

- ❑ **Targeted customers** (number, location, type of needs, validation of potential business volume if necessary)
- ❑ **Their location** (if necessary)
- ❑ **Means and term of payment**
- ❑ **Customer catchment area**

Competition

- ❑ **Direct competition** (number, location, analysis of strengths and weaknesses, differentiation with the business’s offerings)
- ❑ **Indirect competition** (number, location, analysis of strengths and weaknesses)

Suppliers

- ❑ **Main suppliers of the business** (number, location, justification of choices)
- ❑ **Delivery time**
- ❑ **Payment arrangements**

Description of Commercial Offerings (products or services)

This section answers the following questions:

What am I going to sell to my customers? (commercial offerings)

A product or a service, or a combination of the two. Increasingly, the services associated with a commodity make it possible for entrepreneurs to distinguish themselves from the competition. The product definition must be clear (technical characteristics, packaging). Example: A poultry farm that sells eggs develops a free delivery service for customers who order more than a certain quantity.

At what price? (pricing policy)

The proposed selling price must be justified (relationship to production cost, alignment with the competition, psychological price, government-imposed price, etc.). The production cost constitutes a minimum basis for setting the selling price.

Assorted methods for determining price:

- ☐ Cost + markup
- ☐ Multiplier
- ☐ Calculation of break-even point
- ☐ Competition
- ☐ Psychological pricing

How will my product be distributed? (distribution policy)

This includes selecting the distribution system and organizing sales and sellers. In the start-up phase, entrepreneurs should be careful not to spread themselves too thinly and should choose a distribution method consistent with their resources, the products or services that they are providing, and customer needs.

The main criteria to take into account, depending on the type of distribution, are as follows:

- ***For retail trade:*** Site selection, quality of reception, arrangement and presentation of products, quality of service

Customer loyalty should be a primary goal. A customer retained is two or three times more profitable than a prospect.

- ***For wholesale trade:*** Quality of the sales force, personalized oversight of sellers, term of payment.
- ***For mail order sales and e-commerce:*** Delivery time, security arrangements, product tracking, after-sales service (type, quality, length of time, price, etc.), method of financing (credit, collection period).

The Business's Resources and How They Are Organized

Tangible property:

Description of the business's facilities (types, surface area, necessary installations, compliance with compulsory standards, etc.)

Intangible property: Certificates, licenses, goodwill, leasing rights, etc.

Moveable property: Description of necessary equipment, method of acquisition, cost validated by quotations

Human resources: The persons needed for the business to function (including the project promoter), along with their skill profiles, functions, projected gross wages, and the breakdown of responsibilities

Financial resources: Amount of inputs and borrowings, cash holdings of a business already in operation

Projected Financial Data

Investment budget, depreciation table, initial financial plan, three-year financial plan, projected income statement. Specific attention will be given to explaining the formation of business volume in Year 1 and its progression in following years. This section could also include a brief analysis of business volume projections.

Annexes

Information on individuals

Detailed CV + description of pre-service training, copy of identification card
Data form on personal situation
RIB form with bank account details
Affidavit of non-suspension of banking privileges
Supporting documents (bank statement + bills paid)

Information on the business (or the project)

Draft articles of agreement
Copy of the lease
Invoices and schedule of investments
Supplier documentation (leaflets, cost estimates)
Customer documentation (letter of intent, order forms)
Abstract of accounts (businesses in development)

Financial Statements in a Business Plan

Investment Plan

Start-up Investment Plan

Investments and fixed assets	Amount excl. tax	VAT	Cost est./Invoice	Date of acquisition
Preliminary expenses				
Entrance fee				
Tax exemption				
Cooking equipment				
Furniture				
....				
Total				

Source: Adapted from *Créer ou Reprendre une entreprise*, APCE, 2002.

Initial Financial Plan

Durable requirements		Durable resources	
Items	Amount excl. tax	Items	Amount excl. tax
Intangible assets		Capital/personal input	
Tangible assets		Current accounts of associates	
Financial assets		Loans on trust	
Working capital requirement		LMT borrowings	
Fixed assets VAT		VAT bridging facility	
		Investment grants (confirmed prior to start up)	
Total requirements		Total resources	

Working Capital Requirement

Nature of working capital requirement:

- ☐ What sum must I tie up to finance my operating cycle on an ongoing basis? (terms of customer credit, terms of payment for suppliers, necessary volume of inventory, amount of structural costs to be financed before receiving the first payments from customers)
- ☐ Will I need to grant an extension to certain customers? (amount of debt, average term of credit)
- ☐ Are my suppliers inclined to extend the term of payment for me?

Basic Rule of Financial Equilibrium

The durable requirements of a business must be financed with durable resources (equity inputs, medium- and long-term borrowings).

Bankers do not have authority to finance the working capital requirement for a business start-up. These needs must be covered by equity capital, loans on trust, or a PCE.

Three-year Financial Plan

In the case of a developing enterprise, the start-up column corresponds to the enterprise's situation at the beginning of the current year or the accounting year, and the end-of-year column takes into account projections through the end of the accounting year.

Three-year Financial Plan				
Application of Funds	Start-up	End Year 1	Year 2	Year 3
<i>Intangible assets</i>	-	-	-	-
Preliminary expenses				
Agency fee				
Start-up advertising				
Goodwill (material)				
<i>Tangible assets</i>				
Land				
Buildings				
Fittings, facilities				
Equipment and tools				
Furniture and computer equipment				
Rolling stock				
Other				
<i>Financial assets</i>				
Security deposit and HQ guarantees				
Other (VAT/assets advance)				
<i>Repayment of borrowings</i>				
Banks and similar organizations				
Operator deduction				
Repayment IMF loan				
Working capital requirement				
Total Application of Funds	-	-	-	-
Resources	Start-up	End Year 1	Year 2	Year 3
<i>Equity capital</i>	-	-		-
Personal inputs/capital stock				
Associated current accounts				
<i>External capital</i>				
Banking services				
IMF loan				
<i>Self-financing capacity</i>				
Total Resources				
Balance (net release)				
Cumulative Balance				

The required assets are listed in the financial plan at their value exclusive of tax. This is the durable portion of these requirements, since the VAT, which is added on top of the value exclusive of tax, is generally deductible. The VAT should be incorporated into the requirements and should be funded through short-term financing.

Projected Three-year Income Statement

The balance sheet indicates the business's income (profit or loss) at the end of the fiscal year, but it does not show how these results were achieved. In reality, the business has purchased goods or raw materials that it has processed. To that end, it has made expenditures for purchases from suppliers; it has been a consumer of services from third parties (lessor, insurer, advertising agency, certified public accountant, subcontractors, etc.); it has paid wages and fringe benefits; it has paid taxes; it has used its equipment (depreciation); it has paid interest on borrowings; etc.

Basic Concepts

Projecting the three-year income statement revolves around the following basic concepts:

Accounting year

The accounting year is a prescribed period of time. Usually it lasts 12 months, but the first accounting year may be less than 12 months if the business wants its accounting year to match the calendar year.

Expenses and revenues

Operating activities should be broken down between expenses and revenues.

Expenditures made or recorded (expense accounts)

Revenues deposited or recorded (revenue accounts)

Expenses and Revenues

Expenses	Revenues
Operating expenses	Operating revenues
Financial expenses	Financial revenues
Special expenses	Special revenues

The amounts are recorded exclusive of tax, which means that the VAT does not at first sight have a direct impact on business income (VAT rate = 18 %).

The income statement is prepared by applying the principles and techniques of general accounting (principle of double entry bookkeeping, inclusion of accounting entries in the company records, etc.).

Income and Income Statement

What is business income?

The income of a business (profit or loss) at the end of a given accounting year is the difference between the sum of its revenues (what it has sold or manufactured for itself) and all that it has consumed to achieve this level of sales. Total operating revenue equals business volume.

Projected Income Statement

	Year 1	Year 2	Year 3
Revenues			
Store sales			
Commercial unit sales			
Sales deposits			
Sales at meetings			
Rebiling			
Total Revenues			
Expenses			
Purchases			
Raw materials			
Goods			
External Expenses			
Subcontracting (comm. agent)			
Rent and rental fees			
Shop rental			
Maintenance supplies			
Insurance			
Fees			
Transportation			
Lease			
Travel/mission expenses			
Postal and telephone expenses			
Taxes			
Personnel Expenses			
Wages and salaries			
Personnel expenses			
Operator deduction			
Operator contribution			
Endowment for Depreciation and Contingencies			
Financial Expenses			
Interest to banking organizations			
Bank loan interest			
Special Expenses			
Total Expenses			
Accounting Income			
Corporate Tax			
Actual Self-financing Capacity			

Cash Forecast

The cash forecast or cash budget is a document that incorporates projected business receipts and disbursements over a given period in order to assess cash position at regular intervals, generally monthly. It indicates for each month the receipts/disbursements balance and the cumulative cash position.

To differentiate the cash budget from other projected financial statements, it is important to highlight a few basic concepts. In addition, cash balance principles will be reviewed.

Review of Basic Concepts Concerning the Cash Forecast

All expenditures subject to VAT must be recorded inclusive of tax.

The cash budget is not a monthly version of the income statement. It is not the equivalent of an income statement divided by 12 for the following reasons:

- ❑ Impact of VAT (expenditures and revenues are recorded inclusive of tax)
- ❑ Discrepancies between receipts and disbursements are taken into account.

This is the case with the terms of payment extended by the business to its customers and the terms of payment extended to it by its suppliers.

There may therefore be a gap between the figures in the income statement and those in the cash forecast or cash budget.

In the case of a developing business, the initial balance of the cash forecast should reflect the cash position of the preceding month (bank + cash). When a bank statement can be obtained, the initial balance will be the amount of the last known bank statement. In the absence of a bank account, the project promoter will need to prove the existence of the stated funds (cashbook, personal inventory certified on one's honor, etc.).

Stakes of a Business Plan for the Project Promoter

Even if it is sometimes perceived as cumbersome to implement, the business plan remains a tool of primary importance for starting or developing a business. The value of this document is clearly evident for the project promoter, but also for business partners. A business plan is the primary tool for defining business strategy.

The business plan is a tool of negotiation.

Drafting the business plan is a way for the entrepreneur to determine the financing requirements for starting the business or launching the business project. This stage is also a time to take stock of requests to be addressed to outside parties:

- ❑ Additional expertise
- ❑ Resources to be mobilized (type, amount).

The exercise of simulating financial projections provides a look at the profitability of the business. The project promoter may then enter into negotiations with financiers and other partners, in light of the earlier analyses involved in preparing the business plan.

Inasmuch as the project promoter remains in control of preparing the business plan, he or she has broad latitude in negotiations with potential investors aimed at securing bank financing or capital inputs.

The business plan is an instrument for steering the business.

The business plan is the enterprise's primary tool for strategic and operational planning. For a developing business, it is also a blueprint that the entrepreneur can use to assess discrepancies between outputs and projections.

In strategic terms, this document reflects the entrepreneur's principal policies, taking into account his or her analysis of the environment, resources, and objectives. Thus it contains the foundations for the enterprise's competitive advantage.

In operational terms, the business plan is a tool that places the life of the enterprise in perspective. The juxtaposition of resources is shown schematically in the business plan. The entrepreneur thus has a useful basis for assessing the effectiveness of his or her resource allocation choices. Preparation of the business plan can help to point out possible inconsistencies in the way the business is organized.

Stakes of a Business Plan for Future Business Partners

In relation to the various partners, the business plan is a tool of liaison and communication. As a liaison tool, its completion builds and justifies the exchanges that develop between the Enterprise Center, the bank, and the guarantee fund.

The quality of the project promoter's involvement in preparing the business plan may result in fuller support from the services of the Enterprise Center. Furthermore, when the Enterprise Center takes a position based on an opinion of the project, this represents a strong commitment to the guarantee fund and indirectly to the bank monitoring the project.

For the various partners, the business plan is a document that allows them to take a position on the matter. The form and substance must therefore be appropriate to hold their attention. Insertion of a few images related to the project (product mock-ups, excerpts from suppliers' catalogues, a photo of the facilities) will provide details that can positively influence the attitude of partners when they analyze the project. Of course, form alone can never replace or conceal substance.

In short, the business plan is a key document in the process of starting or developing a business. The structure of a business plan has been highlighted, and the projected financial statements that are often the keystone of the business plan have been discussed. The business plan enables the entrepreneur to formalize his or her strategy for starting or developing a business. In addition, preparation of the business plan provides the entrepreneur with an operational planning document. For the enterprise's various partners, it is a liaison instrument, and their analysis of the plan will inform their decision about the project.

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Interviews

Enterprise Center, N’Djamena, Chad

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- Patale Deulbalbe
- Sylvie Roinouba Mbangodji
- Faba Ngakene
- Barry Mahamat Oumar
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- Simon Forbes, Procurement Manager (current)
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- Alexander Burger, Enterprise Center Manager (now in South Africa)
- Ferdinand Ngobounan, Associate Operations Officer
- Tite Demba, Enterprise Center Manager (current)

SMEs

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- Eric Goerres, SETER
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- Kolingar Khadidja, King Le Select (KLS)

