

5 SME Promotion Policies, Programs, Institutions, and Activities

5.1 Policy Direction for SME Development

The National Strategy for the Development and Promotion of Small Business in South Africa constitutes the basic national policy document on SME promotion. The Strategy is quite comprehensive, and includes visions, objectives, basic principles, support frameworks, organizational restructuring, and action programs for the period through 2005.

There is no consolidated law concerning SMEs and their promotion. SMEs are therefore regulated by applicable laws and regulations governing respective fields, including finance, taxation, employment and labor, and business deals. On the other hand, some SME promotion organizations are founded upon special acts that give them authority and power.

The National Strategy recognizes the need for a comprehensive SME promotion law, as seen in successful examples in other countries, and calls for at least legislation on business transaction, government procurement, and financing.

Meanwhile, laws and regulations related to SMEs have been reappraised in the National Small Business Regulatory Review, which evaluated the existing legal system from the standpoint of effects on SMEs and made recommendations, based on which amendments are considered (with some amendments effectuated).

Basic standpoint

Subsequent to the elections of April 1994 the issues of economic empowerment and growth have been placed high on the agenda of the Government of National Unity of South Africa. With millions of South Africans unemployed or underemployed, the government has no option but to give its full attention to the fundamental task of job creation, and generating sustainable and equitable growth.

The Strategy, in its Foreword, positions SMEs as an important means to achieve the goal. It points out that SMEs worldwide have been playing an important role in employment, penetration of new markets, and creative and innovative economic growth and expansion, and sets forth the basic standpoint of SME promotion in the country, namely to leverage such characteristics of SMEs as these, and enable them to contribute to diversification of the South African economy, productivity improvement, investment promotion, and the stimulation of entrepreneurship.

At the same time, the Strategy sets forth the desirable role of the government sector in SME promotion, namely that the government is to make maximum efforts to improve the

business environment, while sustainable and balanced growth should be promoted under the leadership of the private sector.

5.2 Current SME Promotion and Development Activities

An outline of the organizational setup for SME promotion is depicted in Figure II-5-1.

National level

Within the central government, DTI is responsible for overall management of the National Small Business Strategy, while its implementation will be delegated to various organizations that understand SMEs and their conditions. DTI therefore serves as the facilitator to provide (1) financial support and (2) support for capacity building of service providers, i.e., small organizations providing field service.

Within DTI, CSBP (Center for Small Business Promotion) is in charge of management and implementation of the Strategy, including implementation, monitoring and evaluation, as well as planning of activities, legislation, and support for capacity building of related organizations.

Under CSBP, two national organizations have been newly established under the Strategy, namely Khula Enterprise Finance and Ntsika Enterprise Promotion Agency. The former is responsible for financial support for SME promotion and the latter non-financial aspects.

Most of non-financial support activities for SME are undertaken by Ntsika.

The major activities of Ntsika evident in KZN are the support for establishment and operation of Local Business Service Centers (LBSCs). The Ntsika identifies service providers who provide quality business development services to SMEs, and accredited them as the accredited LBSC. They also support the establishment of new providers of the basic business development services to SMEs in areas where there is minimal service provision from other sources.

Another important activity of Ntsika is development of Tender Advice Center (TAC). This center is to assist SMEs to participate in tenders by the Government or large enterprises, aiming at establishment of linkage with them.

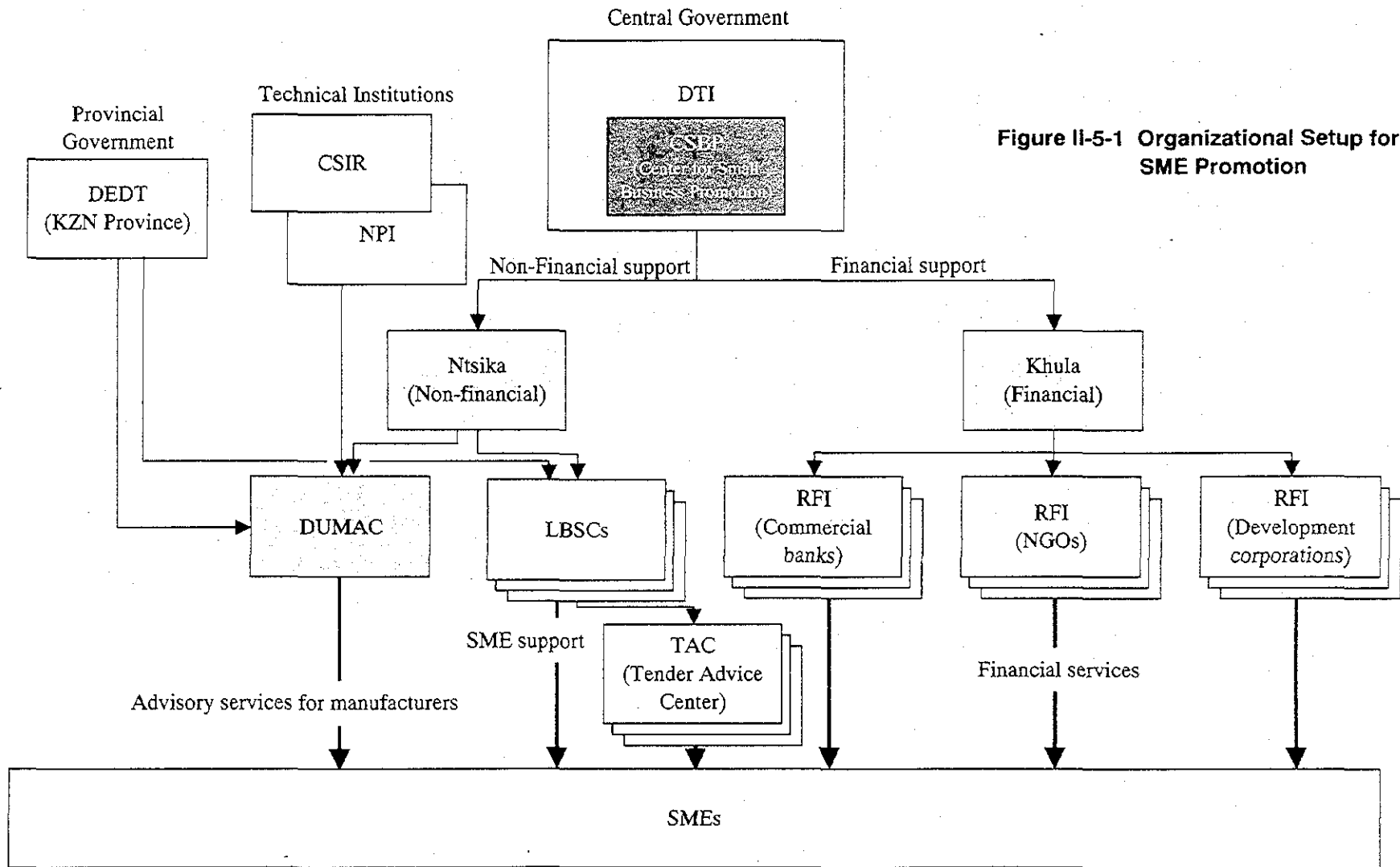


Figure II-5-1 Organizational Setup for SME Promotion

IS - S

The other major services provided by Ntsika include the following:

- 1) BRAIN (Business Referral and Information Network): This is the Web-based program for facilitating access to information useful for SMEs, including information supplied by outside sources. The service includes the referral of service providers, guidance for business methods, and information exchange among LBSCs and the local community.
- 2) SMEDP (Small and Medium Enterprise Development Program): The program subsidizes a part of new investments of enterprises in designated industrial sectors. The investments covered by the program are mostly those of labor-intensive businesses, and those for machines and equipment, in conjunction with foreign investments.

The Ntsika has established Manufacturing Advice Center (MAC) in Durban and Port Elizabeth together with the Provincial Department (DEDT in the case of KZN), CSIR, NPI and DTI. The Center is to promote competitiveness and growth among manufacturing SMEs.

For SME financing, the commercial banking sector plays a dominant role. Generally, established SMEs can obtain bank loans relatively easily because they offer good profitability for commercial banks. In contrast, smaller startups often feel difficulty in borrowing from banks.

Similarly, microenterprises cannot expect favorable treatment from banks because higher costs are required. For an upstart microenterprise, therefore, bank loans are hard to obtain because it is considered to be highly risky and costly.

In South Africa, Khula is responsible for the institutional lending program for SME promotion.

The major sources of funds for Khula's operations are Government disbursements, and grants and loans from foreign donors. The Khula operates through Retail Financial Institutions (RFIs), which include commercial banks, NGOs and Development Corporations at the provincial level.

The major activities of Khula are supply of business loans through RFIs, and credit guarantee to the RFIs. The grants from foreign donors are the main sources of these loans.

The major programs provided by Khula are as follows:

- 1) KhulaStart: This is an program primarily to first-time borrowers who need small amounts of money. The loans are provided through MCOs (Micro Credit Organizations), which are established in seven provinces and comprise in all 22 organizations. The average loan amount is around R859 per borrower.

- 2) Micro Lending Program: This program provides a larger loan than the above. The loan is provided through RFIs (Retail Financial Intermediaries) such as commercial banks and NGOs. The size of loans varies from R600 up to R500,000. Most borrowers are not able to obtain loans through commercial banks.
- 3) Credit Guarantee Scheme: This program assists the entrepreneurs to obtain larger sized loans. The Khula facilitates credit guarantees for the commercial bank loans for those who are not in a position to provide the necessary security or collateral. The scheme is utilized annually by 550 to 800 applicants on the average throughout the country.
- 4) Equity Funds: This is for even larger size loans. Khula becomes an equity partner in the business.
- 5) The Thuso Mentorship Program: The program provides both pre-loan support (business plan development and advisory service), and post-loan assistance (mentoring) to small and medium entrepreneurs applying for commercial bank loans. The objective of the scheme is to stimulate and increase the utilization of the Khula Credit Guarantee Scheme. The Khula has established a network of experienced mentors, both individuals and organizations, and will dispatch the mentors at the request of the applicants.

In addition to the loan and credit guarantee schemes, Khula is responsible for capacity building of RFIs and MCOs.

Others

Besides the DTI, other Departments supporting SMEs include the Department of Agriculture and Department of Social Affairs, focusing particularly on small and micro operations. One of the features of these departments are the cooperative activities.

The Department of Finance is providing SMEs with preferential treatment in Government procurement.

Many technical institutions have departments which provide SMEs with support within the arena. The major institutions include CSIR, NPI, and SABS.

Most of chambers of commerce and industry provide technological and managerial services in the form of seminars and workshops.

Many private enterprises have voluntary small business support programs, mainly contributing to nurturing of small businesses. NGOs, universities, and private consultants are also active in providing services to SMEs.

Provincial level

At the Provincial level, the SMME Desk is organized within DEDT in the case of KwaZulu-Natal, coordinating the implementation of the National Strategy. Under the auspices of DEDT, several LBSCs have been established.

LBSCs are regarded as the main service provider to SMEs in the non-finance service field. DUMAC (Durban Manufacture Advice Center) is the organization, established under the Manufacturing Advice Center Program of Ntsika, providing advisory service on manufacturers. There are also chapters of the major technical institutions, such as CSIR, NPI, and SABS, which provides services within the scope of their respective activities.

There are quite a few numbers of NGOs that are providing various kinds of business services mainly for PDI. Business consultants in the private sector and university sector also provide business services. Their services for SMEs are mostly limited to those under Government programs.

Many large enterprises offer programs to provide business opportunities particularly for PDIs. These include procurement programs and provision of office space for business, etc.

Provincial Governments provide SMEs with special preferential conditions in favor of them in the government procurement.

As for the financial services, Ithala is the only public organization providing financial services to SMEs. SMEs, however, rely mostly on commercial banks, because the commercial banks are familiar with them through day to day contact.

The current implementation system and activities, and the related issues

As for the present implementation system of the Strategy and activities executed under the Strategy, it must be pointed out that there has been an emphasis on promotion of PDI enterprises. Improvement of productivity and competitiveness of SMEs was not covered within the framework of SME policy. Rather it has been addressed as part of industrial policy and has been treated directly by the central government (DTI) and related industries.

Does this mean that previous and ongoing activities have devoted resources for SME promotion to promotion of PDI enterprises? Not necessarily. Despite the fact that a large number of programs are available to meet various objectives of promotion of PDI enterprises, visible results have not been obtained. In particular, creation of black-owned enterprises has been limited to a small number. Furthermore, these enterprises have not used the programs fully.

The cause of the above problems, according to those who are directly involved in implementation vary greatly but seem to be that many programs are simply difficult to implement or cannot be implemented due to there being lack of a clear target for support. More precisely, they may not meet wants of both SMEs that aim to improve productivity and competitiveness, and PDI entrepreneurs who intend to start their own business⁷.

While the Strategy addresses a broad range of elements in a comprehensive manner and is supported by the legal framework and the organization setup, its implementation does not progress smoothly for several reasons.

Firstly, much effort has been devoted to the institutional setup, meaning that it is early for substantial results to be produced.

Secondly, programs are formulated and decided on the basis of agreement by a large number of related organizations, and a consensus must be formed by spending a great deal of time.

Further, many projects to create or support entrepreneurs and businesses are simply lacking the “market-in” concept. They seem to meet the needs of recipients, e.g., SMEs and PDI entrepreneurs, rather than the market needs. The projects have not been planned on the basis of the needs of market, or potential clients.

Instead, many small enterprises are limiting themselves to customers who give them favorable treatment, such as government procurement, purchases by private enterprises as part of social contribution, and purchases by charity organizations. These customers certainly serve as a good starting point, but further sales expansion requires efforts to explore more competitive markets outside the protected environment. In this connection, SME promotion efforts should include the planning and implementation of large scale projects, such as tourism development, which will play a core role in stimulating satellite projects as the ripple effects of the core projects.

5.3 Contribution by Private Enterprises to the SME Promotion

Many large and medium-sized enterprises have social contribution programs that include support for small enterprises, especially black-owned enterprises and entrepreneurs.

Automobile assemblers have been conducting similar activities, especially by giving favorable treatment to PDI enterprises in the procurement process. Nevertheless, they

⁷ Comments in the workshop held in November 2001, in Pinetown to discuss the SME development plan in the course of the current study.

find it difficult to procure automotive parts by this method to the extent that major portions of their procurement requirements are met. They have to find suppliers who can deliver parts that meet strict safety and accuracy requirements that are indispensable in production of automobiles. At the same time, parts must contribute to competitiveness of automakers that are facing fierce competition in the international market. In fact, automakers, under intense competitive pressures, are in the process of rigorously selecting suppliers. However, most PDI enterprises lack the production technology, management know-how and experience needed to supply assemblers with competitive products and are not in a position to become reliable suppliers for automakers.

In fact, only four PDI enterprises supply automotive parts to automakers in KZN and none of them are critical safety parts or require high levels of production techniques or skills. Also, parts supplied by PDI enterprises do not always satisfy automakers' CQD requirements.

5.4 Human Resource Development

Significance of human resource development in South America

In South Africa human resource development is a critical issue for sustainable development of the national economy as well as from the standpoint of SME promotion.

The country suffers from the high unemployment rate of 37%. Most of jobless persons are young and have completed at least nine years of school education. But they do not have enough skills to find jobs. On the other hand, industries have difficulty in finding qualified workers.

Future outlook of the education and training system in South Africa

In 1995, the South African Qualification Act was enacted and the South African Qualification Authority (SAQA) was established. SAQA is responsible for, among other things, the formulation of the National Qualification Framework (NQF). NQF seeks to merge the (separately developed) education and training systems into a new unified qualification structure that integrates learning in formal institutions with that in workplaces as well as in the development sector.

The strategy is currently being finalized through detailed discussion with SETAs. Then, required funds will be budgeted for implementation. It appears that it will take a few years to start implementation of the strategy.

The new education and training system

The new education and training system adopts its basic concept from the NSDS and consists of the following elements.

- 1) Reimbursement of Skill Development Levy to companies providing training
- 2) Establishment of NQF and SAQA's certification for trainees
- 3) Development of training programs on practical skills by the National Skills Authority

It should be noted that, the new training and education system has the following features: 1) Consideration is given to adult workers who have not received sufficient education, including ABET (Adult Basic Education and Training), and the establishment of courses for those who have not finished the middle school; and 2) In addition to educational institutions, training programs conducted within the shop or community are accepted as a module, thereby increasing access to and providing incentive for more workers.

In KZN, the Natal Training Center was recently closed as it lost eligibility for subsidies under the new system. Now, there is only one training center used for training of workers in the machinery, metal and engineering industries. This is operated by sugar mills to train engineering and maintenance staff and accepts trainees from companies other than sugar mills. Basically, however, the center and its program are designed for apprenticeship purposes and do not cover broad fields. Thus, there is no external training facility that meets the practical needs of the machinery, metal and engineering industries.

Future direction of skill training

The need for skill training is talked about in many places. Now it is time to discuss it in specific terms to define its content, purpose, eligibility and other details.

Viewpoint 1: To improve competitiveness of SMEs

Competitiveness of SMEs can be driven by human resource development in the areas of management and technology (i.e., senior and middle managers and engineers) and active participation of field supervisors and workers in business operation and production management. From this viewpoint, the following are in highly demand.

- 1) Managers (owners and senior managers) and engineers who have acquired management skills and production management techniques on the basis of production management in a broad sense (level 1);
- 2) Middle managers who understand the above management skills and production

- management techniques and are capable of initiating appropriate action under direction from above (level 2);
- 3) Field workers who have acquired practical skills and basic knowledge on production management (level 3); and
 - 4) Unemployed who have acquired basic knowledge or skills that make them eligible to work at a production facility (level 4). At present, many part-time workers who are engaged in unskilled jobs have not reached this level. Also, a large number of full-time workers lack basic knowledge or skills. For SMEs, it is a heavy burden to provide this level of training within their facilities.

While there are a number of vocational training institutes and schools that provide level 4 training and some of them face difficulty in filling all their trainee seats, many companies have to provide basic training for new employees because many of them do not have basic knowledge and skills.

On the other hand, level 3 training needs vary greatly among industries and individual companies. Large enterprises have their own apprenticeship system for this purpose. SMEs are supposed to provide level 3 training in the form of OJT, but this barely meets requirements. Finally, training for skill levels 1 and 2 is not provided at present. This presents a problem, as efforts are not made to meet the need for improvement of competitiveness.

Viewpoint 2: To increase opportunities for PDI employment and business startup

It is often pointed out that the lack of basic skills among the PDIs is a major obstacle to employment and business startups. Basic skills in this sense are primarily linked to two levels as follows:

- 1) Basic work skills (level 4): As discussed above, there are a number of organizations to provide this level of education and training. However, a large number of people cannot receive it due to the lack of money, time or basic education.
- 2) Level 3 skills: Many SME owners want to acquire this level of skill because they want to expand business but are unable to do so due to the lack of knowledge on production management. However, in this case, different types of skills are demanded according to the type of business and other factors, and practical levels of skill training is required. To meet demand, therefore, consultation service may be appropriate in some cases.

It is often the case that owners of microenterprises do not have knowledge on basic business skills, such as bookkeeping, business planning, and sales techniques. However, the problems are not limited to the lack of business skills. It is multi-faceted and should be solved by providing broad support including finance, marketing and procurement of raw materials.

III Conclusion and Recommendations

1 Conclusion

1.1 Rationale and Need for SME Promotion in KwaZulu-Natal Province

Judging from the various characteristics that clearly distinguish SMEs from large enterprises, they are expected to play a unique role in vitalization and strengthening of industry and economy, and at the same time, they are often placed in a vulnerable position. In fact, their characteristics and weaknesses for the most part originate in their small size.

While SMEs in South Africa have similar characteristics to their counterparts in industrialized countries, they are generally less developed and fail to make much contribution to the economy in terms of job creation and formation of competitive supporting industries.

SMEs do not fully contribute to industrial diversification, although they operate in a variety of product and service areas which large corporations find unattractive. As a result, both industries and consumers have to depend on imports in many areas.

Further, in regard to formation of the industrial base, the country has still to develop SMEs that have high levels of technology and competitiveness in various industries – which is required for them to serve as supporting industries (for instance, see the discussion of supporting industries in the automotive industry, in II-3.5). Thus, development of competitive SMEs is one of the most important issues for the country's industry to improve international competitiveness.

In addition, many SMEs operate in unstable conditions. Under the present government policy of pursuing liberalization of trade and investment, SMEs are exposed to competition with foreign products and many of them have been forced to go out of business.

At the same time, a major issue peculiar to South Africa is a clear disparity in employment and entrepreneurship conditions among population groups.

1.2 SME Promotion Policy

1.2.1 Basic consideration

Promotion of SMEs is desirable not because SMEs exist, but because SMEs including new startups help solve problems that impede social and economic development of South

Africa.

The Small Business Development Strategy states that promotion of SMEs is essential in promoting diversification of the South African economy, improvement of productivity, and promotion of entrepreneurship. It is based on the recognition that SMEs have been playing a major role worldwide in absorption of surplus labor, exploration of new markets, and creative and innovative initiatives in economic expansion. The present study shares this view and position, which should therefore be the rationale for promotion of SMEs in the country.

The study focuses on SMEs that serve as supporting industries for the machinery (especially automobile) sector for the following reasons.

Economic sanctions imposed by the international community up to 1994 have protected domestic industries within a closed and uncompetitive economy, and they have lost the ability to adapt themselves to the highly competitive environment in the world market. In fact, as economic sanctions are lifted and the government implements its market opening policy, large companies are exposed to international competition and opt for global sourcing, instead of giving priority to local suppliers as they had traditionally done so. As a result, economic growth causes increases in imports of capital goods and raw materials, often outpacing the economic growth rate, and creating recession conditions in the relevant domestic industries.

Market liberalization also makes maintenance of existing levels of labor productivity in South Africa untenable in the new international context, and domestic industries need to take drastic measures for productivity improvement. Thus, due to the effects of two factors - stagnation of domestic industries and the rise in labor productivity, economic growth effects will not be directly expressed in the form of employment growth.

To ensure attainment of full-fledged growth of the South African economy, there must be improved competitiveness in the supporting industries, that must broaden their own bases in keeping with the growth of large companies and basic industries. Large companies alone cannot serve as an engine hauling the rest of the economy.

At the same time, large companies cannot maintain competitiveness, which they have gained with government support, so long as they rely on imported materials and parts. From this standpoint, supporting industries need to be strengthened to form the foundation for the country's major industries that have international competitiveness.

SMEs in KwaZulu-Natal Province are diverse in nature and face varying issues to be resolved, depending upon their social and economic positions and the status of industrial development. SMEs that belong to supporting industries for the machine sector - which

are the subject of the present study⁸ - are broadly classified into three types as follows, with their respective development challenge.

1) SMEs in the automotive parts and related industries

They need to attain international competitiveness together with the automotive industry. This is an urgent imperative to achieve it in a relatively short period of time.

2) Other SMEs

They have to realize that they have been protected from competition by government policy and must strive to build up the foundation of their companies (technical, financial and other aspects) in order to survive and grow in the highly competitive environment created by market opening and liberalization of trade and investment.

3) PDI enterprises and potential PDI entrepreneurs

In recognition of the fact that various promotion policies and programs have been implemented since 1994 without substantial results, it is the time to review and reappraise them and develop effective policies and programs.

Because each of the three groups of SMEs have the different needs, in devising the SME promotion measures, the target group should be clearly defined, and measures and programs should be planned reflecting their specific needs. SME promotion policy for each group is outlined as follows.

1.2.2 Promotion policy for SMEs that serve as parts suppliers or related service providers for the machinery industry, mainly the automotive industry

Promotion of SMEs in this group has direct bearing on the major development challenge faced by the machinery industry (primarily the automotive industry), i.e., improvement of international competitiveness. Thus, the promotion policy has the nature of industrial policy, rather than SME policy.

Automakers throughout the world are engaged in fierce competition and those with a presence in South Africa are required to reposition their production bases in the context of their global business strategy. They also must decide whether to expand or reorganize their operations in South Africa. In this conjunction, improvement of competitiveness of parts suppliers, which is a critical element of international competitiveness, is an urgent issue for automakers must address.

⁸ In KwaZulu-Natal Province, there are other industries that constitute the economic base of the province, including textile and apparel, wood, paper and printing, but the present study has not placed the focus on these industries.

The general organization of automotive parts suppliers and related manufacturers in KwaZulu-Natal Province is illustrated in Figure III-1-1. The present study focuses mainly on 24 out of 40 first- and second-tier suppliers (primarily making automotive parts); metalworking service companies serving automobile assemblers and parts suppliers; and other manufacturers that have the potential to become automotive parts suppliers.

Characteristically, SMEs in the automotive parts industry in KwaZulu-Natal Province establish themselves as second-tier suppliers that provide component parts for first-tier suppliers or processing companies that undertake a parts production process, such as metalworking and surface treatment. Generally, they are engaged in a relatively simple process that does not present a significant problem related to production technology. Instead, the major challenge is to build a highly efficient production chain that is integrated with the assemblers. In particular, suppliers in the country like South Africa, where the domestic market is small and many models are competing, are required to excel at small-lot and large-variety production, which requires sophisticated production management techniques and process technologies. Thus, a primary goal for promotion of SMEs in this group is to teach them such techniques and technologies to become small-lot and large-variety suppliers.

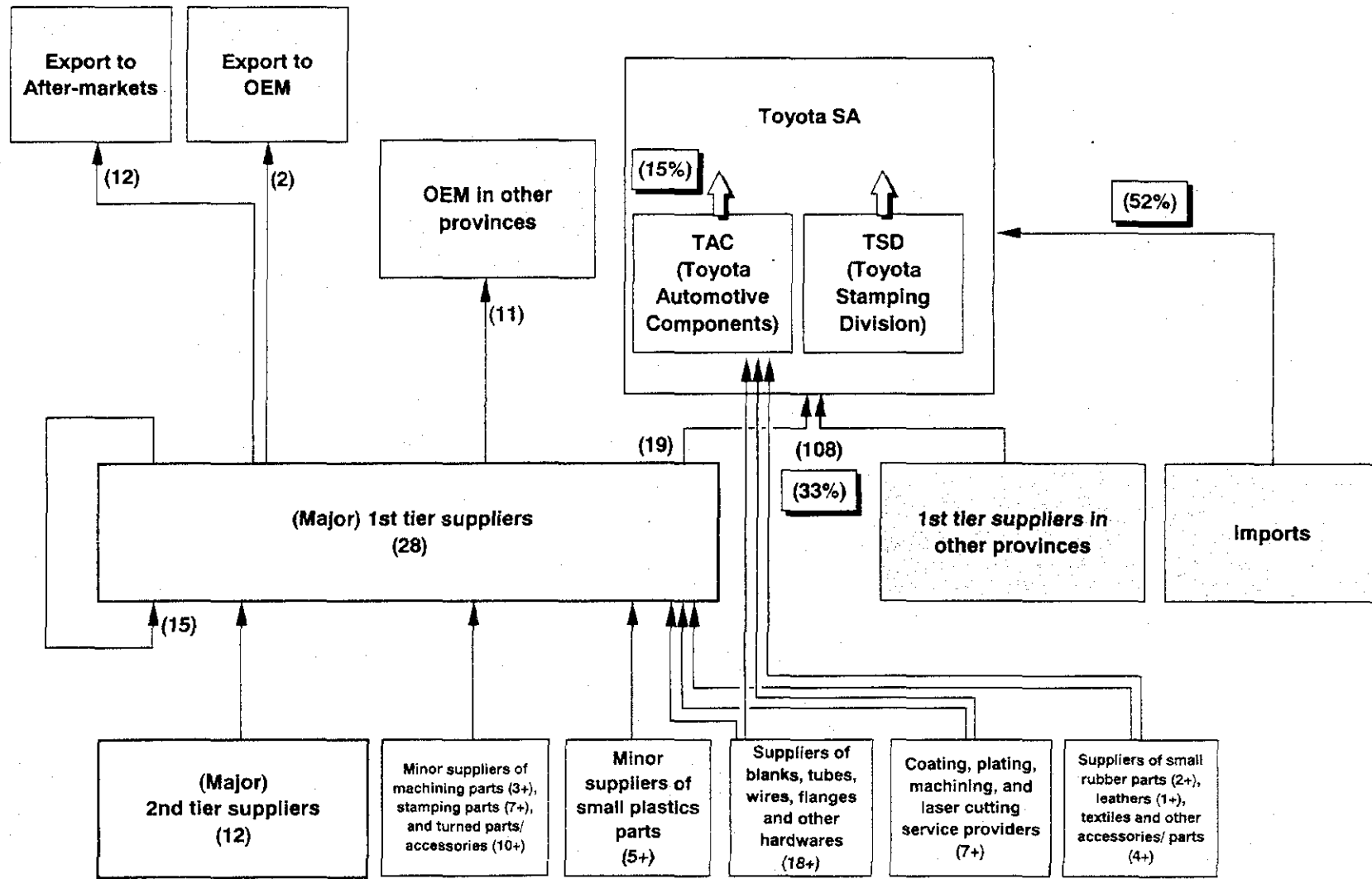
1.2.3 Promotion policy for other SMEs

SMEs in this “other” group are expected to play a supplemental role in serving niche markets that are not feasible for large companies to enter, and thus prevent industrial hollowing-out. However, they often retain attributes that have been acquired under import substitution and protectionist policies. Thus, they have to build up the corporate foundations (technical, financial and other aspects) they need to have in order to survive and grow in the highly competitive environment created by market opening and liberalization of trade and investment.

These companies are found in a variety of industries, and the approach for their promotion should be considered in the context of SME development, rather than industrial policy.

For the purpose of this study, “other SMEs” refer to those in supporting industries for the machinery sector (mainly the automotive industry) and other than manufacturers that primarily make automotive parts. In other words, those listed in Figure III-1-1, except for SMEs in the automotive parts and related industries (described in 1.2.2), are classified in this group.

Figure III-1-1 Estimated Automotive Parts Supply Structure in KwaZulu-Natal Province



S - 64

Notes: Figures in brackets mean the estimated number of companies involved on the flows or the jobs.

Figures in boxes mean the approximate percentage of parts supplied to Toyota SA, through the route.

They should be positioned as a group of companies that can meet diverse demand that is not suitable for large companies and play a flexible role in supporting industrial diversification.

In addition to the companies in the metal, machinery and engineering sectors, most plastics processing companies (estimated to be around 200 – 300) may be classified in this group.

The major obstacle to promotion of these companies is the lack of incentives for reforming and augmenting the corporate foundation, as compared to SMEs in the automotive parts industry.

Most programs and measures that are deemed necessary share common elements with those required for companies in group (1). The major difference is that development goals cannot be clearly defined for the former group of programs because target companies are operating in diverse industries. Therefore, they have to be proposed as general support programs.

1.2.4 Promotion policy for PDI enterprises

Promotion of PDI enterprises is primarily designed to provide support for willing PDI entrepreneurs in the startup, management and expansion of businesses, thereby to allow this population group to enjoy the fruit of industrial development initiatives.

Key elements of promotion of PDI enterprises are twofold: the provision of comprehensive support; and market creation.

They must be addressed in a coordinated manner by implementing multi-faceted programs if public support is to provide effective help for PDI enterprises facing difficulty.

There are few automobile parts suppliers that are classified in this group. In consideration of technical and management capabilities of PDI enterprises, it is difficult to expect that they can enter the business of supplying key parts and components to the automotive industry within a short period of time.

Nevertheless, they can serve as suppliers of non-automotive parts because the automotive industry purchases large quantities of them from local sources. This means that the strengthening of the automotive parts industry leads to increased competitiveness of the automotive industry as a whole, and sustainable growth of the automotive industry leads to increased procurement of a broad range of products and services. In other words, increased participation of SMEs in the automotive parts industry is not the only one way to

promote equal distribution of fruits of economic development to all the population groups. The increase in employment and procurement of non-automotive products and services are proven to be effective measures to help achieve the goal.

There are few PDI enterprises, particularly those owned by members of the black population, which are or can become reliable suppliers to automobile assemblers by meeting their procurement requirements.

Promotion of PDI enterprises should not be considered as a major solution for the unemployment problem. As discussed below, PDI entrepreneurs generally lack knowledge or experience in business planning and management. In terms of cost effectiveness, therefore, focused support for potential entrepreneurs with basic knowledge and skills is desirable, rather than for PDI entrepreneurs. So far as they lack knowledge and experience, PDI should acquire them by working for companies. Unfortunately, however, learning opportunities are also limited because they cannot find employment easily in the current job market situation. Thus, public support for PDI entrepreneurs cannot be discussed from the economic viewpoint alone.

1.3 Institutional Setup for SME Promotion

Demarcation of responsibilities between the central and local governments

Each provincial government is expected to promote industrial and/or regional development that is primarily concerned with its own province. In reality, however, most industrial policies currently implemented in South Africa, which deal with issues related to international coordination, rather than those concerning an individual province. Thus, it is very difficult for the provincial government to handle industrial policy in terms of staffing and budget, and it seems that it will continue to be the central government that is solely responsible for industrial policy.

Similarly, SME policy is difficult for the state government to deal with due to human resource and budget constraints, although it is often concerned with an individual province or region and it is therefore desirable for the provincial government to take leadership in planning programs and coordinating their implementation in the future. Moreover, SME policy must address three strategic areas, namely improvement of competitiveness of SMEs, promotion of PDI enterprises, and improvement of the business environment for SMEs. Among them, improvement of competitiveness is closely related to industry policy and should preferably be handled by the central government. On the other hand, promotion of PDI enterprises entails implementation of carefully designed programs, so

that the central government sets policy direction and the state government leads program development and coordination.

Program Implementation and use of service providers

Use of service providers for program implementation has major advantages in that it introduces the market principles to public programs and ensures competition among service providers, and that it relieves government organizations from staffing requirements (not only in number but also in expertise and knowledge requirement). Thus, the current system merits continuation in the future, provided that care be taken to allow recipients to benefit from a program and receive its service fully by defining and communicating the program's intent, content and implementation procedures to the service provider. Also, in the program preparation stage, an organization that has expertise and experience in the field covered by the program should be used for efficient and effective program design.

2 Master Plan for SME Promotion in KwaZulu-Natal Province

2.1 Direction and Strategic Goal of SME Promotion

Direction of SME promotion

The direction of SME promotion is recommended as follows:

- To enable SMEs to play their expected social and economic roles
 - To make a contribution to improvement of competitiveness of industry in the country
 - To correct social and economic disparities through improved distribution of economic effects through SMEs' activities
- To assist SMEs in coping with their special, difficult situation
- To promote business startups by PDI

(1) To enable SMEs to play their expected social and economic roles

Promotion of SMEs in South Africa and KwaZulu-Natal Province is recommended firstly to undertake from the standpoint of enabling them to play the following social and economic roles that they are expected to fulfill.

1) To contribute to improvement of competitiveness of industry in the country

SMEs have a potential to serve as a major engine driving industrial diversification because they can be easily established in diverse fields. Also, they can be agile and creative enough to develop and provide products and services that large corporations cannot provide. Moreover, they are flexible, enabling them to meet highly customized production requirements, if the circumstances permit. Thus, improved competitiveness of SMEs will help develop and maintain the multi-tier industrial structure in which SMEs and large corporations supplement each other. In this way, the promotion of SMEs is justified for the sake of enabling them to contribute to raising international competitiveness of industry on the whole.

2) To correct social and economic disparities through improved distribution of economic effects through SMEs' activities

During the years apartheid was enforced, South Africa developed significant social and economic disparities, which continue to exist, especially in the form of mass unemployment. This is a major problem that cannot be neglected in the country's

social and economic development process. As SMEs generally use easily accessible technologies, and a high degree of manual work, they are inherently suitable for small scale production, are labor intensive in nature and have relatively large job creation effects. Also, SMEs can be easily established in response to business opportunities and in many geographic areas because of their small service area, so that they can contribute greatly to amelioration of regional and income disparities. It is therefore recommended to encourage the establishment of SMEs for the purpose of utilizing their potential power to equalize throughout the population the benefit of economic activities.

(2) To assist SMEs in coping with the difficult situation

As discussed earlier, many SMEs are not endowed with managerial resources that maximize their strengths, and hence fail to take advantage of their potential. As a result, they are weak in resistance to competitive pressure from foreign companies under the government policy to promote liberalization of trade and investment and face many difficulties. If this problem is left unsolved, industrial diversification will be impeded, tending to increase reliance on imports and to erode the competitiveness of industry. Furthermore, under such conditions SMEs will be less able to absorb labor, and the jobless rate will rise. Clearly the problem cannot be mitigated or solved through the market mechanism alone, because SMEs are in a weak position because of having much smaller capital and weaker organization than large corporations. Thus, promotion of SMEs is recommended to assist them in overcoming problems and growing on a sustainable basis.

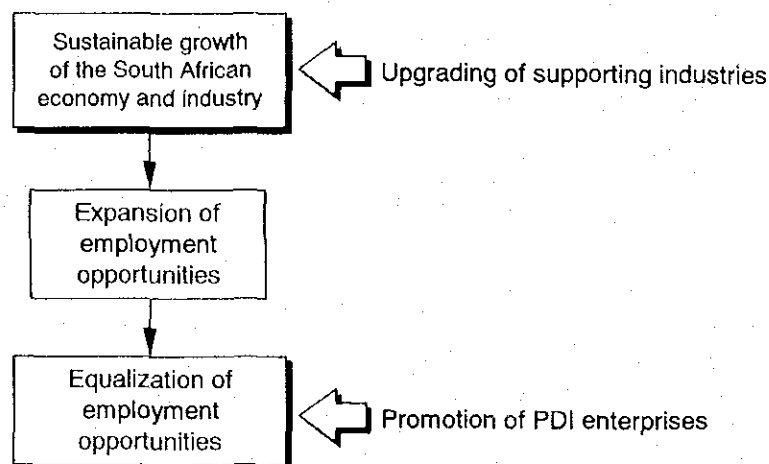
(3) To promote business startups by PDI

In South Africa, there is a clear difference in SME ownership among major population groups, which has been created by the historical racial discrimination policy. This most important social and economic problem can be resolved to a substantial extent by enabling SMEs to play a crucial role by creating employment opportunities in areas where the PDI population is high. Nevertheless, the problem should not be treated within a general framework of public support for SMEs' business startup alone. As the low rate of business startups by PDI is a product of various factors that are based on the long history and its aftermath, it cannot be simply improved by focusing on a single issue. In this sense, one of the several goals of SME promotion efforts should be directly focused on PDI's business startup.

“Reduction of unemployment” and “correction of racial inequality in employment” are the most important challenges for social and economic development efforts in South Africa.

To achieve these goals, employment opportunities must first be expanded, followed by equalization of expanded opportunities among all population groups.

Accordingly, in promotion of SMEs, two major indispensable goals should be tackled; i.e., the improvement of competitiveness of SMEs that are expected to serve as the foundation for “sustainable growth of the South African economy and industry” and equal distribution of economic benefits obtained from the resultant economic growth among all population groups.



As stated in the National Strategy for Small Business Development, these goals have been treated as inseparable to each other under the theme “promotion of SMEs.” However, these two goals are by no means suitable for every company, and rather, each should be established for different groups of companies from another. Accordingly, public policy designed to achieve each goal necessarily differs from each other in terms of its focal point on policy element, i.e., industrial policy, SME policy or social policy. As each goal has an important bearing on the future course of industrial and economic development in the country - with promotion of SMEs as core - programs to achieve each goal should be planned and implemented by taking into account the above differences among the goals.

Strategic goal

On the basis of the above discussion, the following strategic goals for promotion of SMEs in KwaZulu-Natal Province are recommended.

Strategic Goal of SME Promotion

- Promotion of upgrading of automotive parts manufacturers
To contribute to sustainable growth of the South African economy.
- Promotion of PDI enterprises
To promote equalization of economic benefits among different population groups.
- Development of the business environment to foster and support SMEs
To develop the environment where SMEs have a level playing field relative to large companies in a wide range of areas.

For each of the above strategic goals, a set of policies and programs is recommended, as shown in Figure III-2-1 and outlined in the following sections.

2.2 Policies and Measures Related to SME Promotion in General

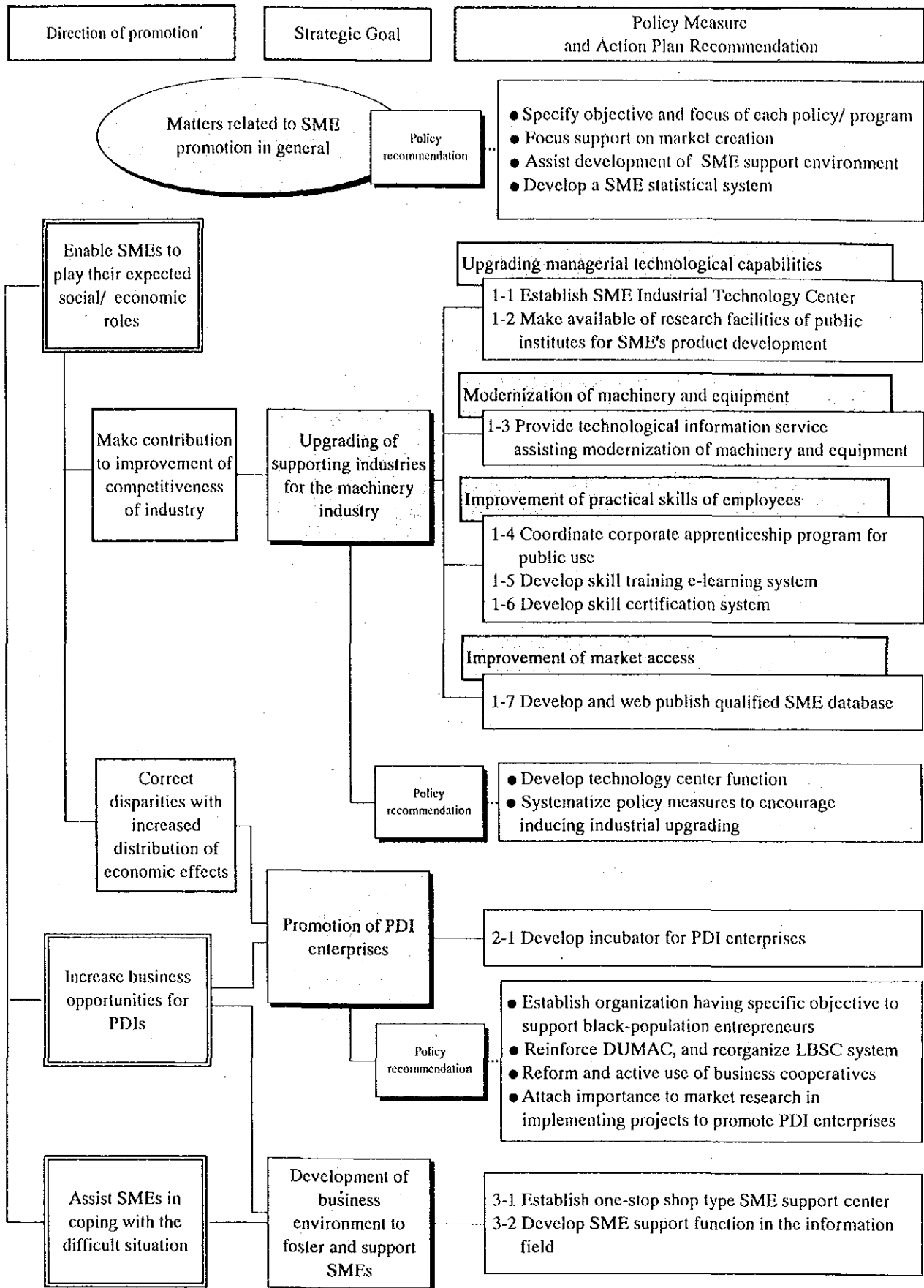
Recommendation 1: To specify the objective and focus of each policy and program

Major issues related to SMEs vary according to the target SMEs. This implies that each promotion policy and program is established by defining its objective and focus clearly.

For instance, promotion of SMEs in South Africa is expected to address at least three issues: improvement of international competitiveness of small suppliers in the automotive parts industry; support for SMEs in other industries in terms of survival or conversion to other businesses; and support for PDI enterprises and potential entrepreneurs. Although some programs may cover the different targets together this would result in their producing optimum results for none of them.

Clearly, each program must be designed for a specific target, and designate an implementation organization that is most suitable for the program purpose, so that lessons learned from its implementation can be effectively fed back for application in the next step.

Figure III-2-1 Overall System of SME Development Master Plan



Recommendation 2: To focus on support in the area of market creation

Government policy for SME promotion should focus on creation and improvement of the environment to foster SMEs through the creation of markets for SMEs, the development and strengthening of managerial and technological capabilities, and provision of a credit and loan system accessible to SMEs. In particular, support for market creation should be emphasized. A primary example is found in the use of government procurement projects that currently favor procurement from SMEs. Implementation of economic development projects targeting creation of projects dedicated for SMEs is also effective. Affirmative action by private companies is another example of creating business opportunities for SMEs.

Recommendation 3: Need for further financial assistance of the Government to the development of the environment to support SMEs

To develop the environment to support SME promotion (as discussed below), continued financial assistance by the government is called for.

The government has been providing financial assistance for programs to develop the environment to support SMEs, as well as those supporting promotion of SMEs. At the same time, the government requires public organizations to become financially independent in their operation and management. This is a global trend and is effective to prevent wasteful or inefficient management of public resources. However, it is also the fact that those public organizations that are required to become financially self-supporting tend to work against their original function to serve public interest if they charge expensive user charges or technical service fees. The expensive fees often become a major obstacle to SMEs when they try to receive service under a support program.

The government seems to address the problem by encouraging public organizations or independent non-profit organizations to become finally independent in general operation and management, while providing financial assistance (such as subsidies) for recipients (users) of an individual program. This is considered to be an effective method to prevent wasteful disbursement of limited funds. For the establishment and operation of the following plans, the financial support of the Government is also essential, and a similar approach is recommended to apply to these plans:

- 1) To provide low-interest loans or grants-in-aid for interest payment for equipment purchase or R&D projects as part of the financial program for upgrading of automotive parts manufacturers; and

- 2) To provide subsidies for qualified SMEs to cover user charges or technical fees under the support program implemented by the SME Production Technology Center.

Finally, raising initial investment funds required to build the environment to support SMEs is the most difficult task for implementing bodies, especially in the case of public projects. The government should therefore play a leading role by providing financial assistance for that purpose, especially by the provision of initial funds (or loans as the case may be) for the development of a system to support information access, market access, and the development of a management and technology support system.

Recommendation 4: Development of a statistical system covering SMEs

This recommendation concerns the development of a statistical collection and compilation system that will provide an always-current picture of SME for policymaking purposes.

To ensure availability of appropriate statistical data on SMEs, the following actions should be taken on an urgent basis:

- 1) Periodical surveys to collect relevant data (e.g., sample surveys to identify general trends and problems);
- 2) Manipulation of available statistical data to produce relevant data; and
- 3) Introduction of a standard survey of business establishments and labor relations by size to the various industrial and economic surveys, using uniform standard classifications.

2.3 Policies and Measures for Upgrading of Supporting Industries for the Machinery Industry

In light of the high significance of the automotive industry in KwaZulu-Natal Province and the country as a whole, as well as its extensive linkages to downstream industries and the volume of its consumption of raw materials and parts, the strategic goal that should be established is to support upgrading of SMEs in the automotive parts industry as a means of fostering the supporting industries for the automotive industry which in turn is required to improve international competitiveness on a continuous basis.

Proposed policy measures and action plans

Automobile assemblers have been encouraging suppliers, mainly first-tier ones, to upgrade management and technical capabilities by providing assistance. Now they

increasingly recognize that the strengthening of second-tier suppliers is essential in maintaining competitiveness on a continuous basis.

Upgrading of automotive parts manufacturers in the broad sense should be promoted in the following four areas: 1) improvement of managerial and technological capabilities; 2) modernization of production machinery and equipment; 3) upgrading of workers' skills; and 4) improvement of market access (Figure III-2-2).

By achieving improvement in these areas, automotive parts manufacturers are expected to become capable of: 1) providing competitive parts through a production process integrated with automobile assemblers; 2) supporting localization of parts development capability of the automotive industry in the future; and 3) competing in the international market by leveraging scales of economy, regardless of the small market size in South Africa.

A proposed set of policy measures and action plans required to accomplish the strategic goal is summarized in Table III-2-1.

(1) Upgrading of managerial and technological capabilities

- 1) The first area requiring the upgrading of managerial and technological capabilities is production management capability that is essential in forming a production and transportation system integrated with an automobile assembly line. The upgrading in this area is highly demanded, particularly OE suppliers.

Within the category of production management capability, transfer of advanced production management and process technologies is required urgently. In addition, various production technologies, which are widely used in industrialized countries but have not been adopted by South African companies, need to be disseminated quickly.

For the purpose of achieving progress in this first area, the establishment of an organization responsible for dissemination of industrial technology that ties into production management is proposed as an action plan. (*1-1 Establishment of SME Industrial Technology Center*)

- 2) The second area is the strengthening of product development capability. At present, most suppliers make parts according to specifications furnished by assemblers and they do not possess product development capability. Nevertheless, product development capability is essential for manufacturers selling their products in the aftermarket if they are to develop proprietary products and differentiate themselves from competitors. Also, suppliers to the OE market need to have product

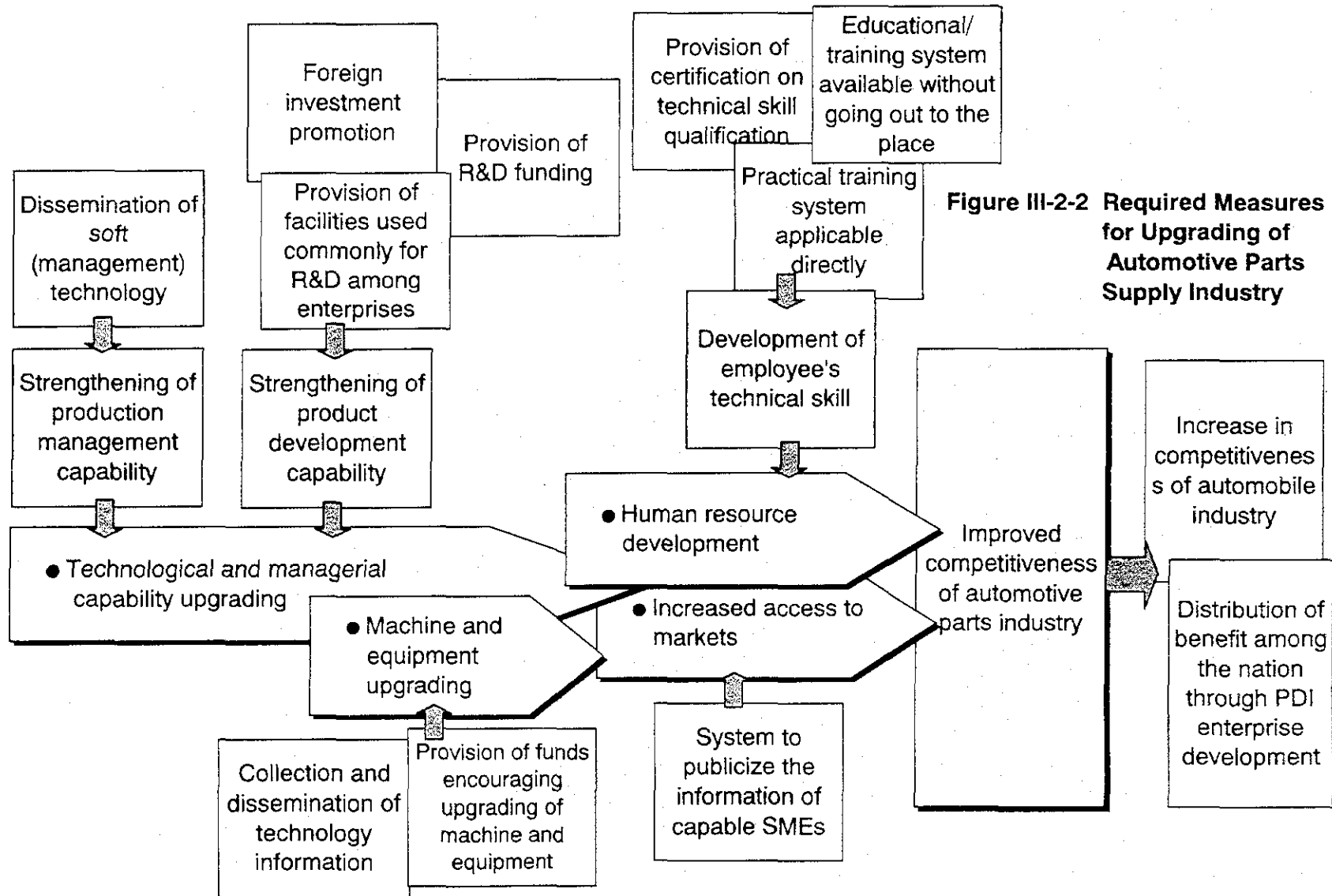


Figure III-2-2 Required Measures for Upgrading of Automotive Parts Supply Industry

**Table III-2-1 Upgrading of Supporting Industries for the Machinery Industry
(Mainly focus on automotive parts and related industry)**

Requirements	Recommended policy measures and action plans	Current status/relevant policy measures	
Technological and managerial capability upgrading	Production management technology		
	Production management technology, process technology, and production technology	<p>R-1: Development of technology center function (as the core for technological information in the province)</p> <p>A 1-1: Establishment of SME Industrial Technology Center for dissemination of production management technology mainly through field guidance</p>	<p>AIDC: remote location from KZN. Expensive service fee. Work Place Challenge program: Production management technology is not included. DUMAC Program: Insufficient experience in automotive parts manufacturing technologies.</p>
	Product development capability		
	Advanced technology		<p>Encouragement of foreign direct investment Policy to liberalize investment</p>
	Facility and equipment for R&D	<p>A 1-2: Open-use of testing and research facility of public institutes to encourage and assist R&D activity of SME</p>	Contract research program (CSIR)
Investment on R&D	<p>R-2: Systemized policy measures to encourage and help induce industrial modernization</p>	<p>SMEDP Program (by DTI): Grant on general investment. Applicable only to newly started projects. Khula: General-purpose loan programs</p>	
Machine and equipment upgrading	Technological information	<p>A 1-3: Provision of technical information to assist upgrading machine and equipment</p>	
	Technological information	<p>Development of technology center function</p> <p>R-1: (as the core for technological information in the province)</p>	
	Funds for procurement of machine and equipment	<p>R-2: Systemized policy measures to encourage and help induce industrial modernization</p>	<p>SMEDP Program (by DTI): Grant on general investment. Applicable only to newly started projects. Khula: General-purpose loan programs</p>

Requirements		Recommended policy measures and action plans	Current status/relevant policy measures
Development of employee's technical skill	Practical training system applicable directly	A 1-4: Use of idle portion of corporate apprenticeship program for public training purpose	New educational and training system under NQF, prepared by MERSETA Many vocational training facilities, but lack of practical skill training (particularly for SME employees, and unemployed)
		A 1-5: Development of e-learning system using computer network, for comprehensive skill training of employees	
	Public certified system of education and training	A 1-6: Development of public certification system of skill	New educational and training system under NQF, prepared by MERSETA
Increased access to markets	Assisting measures to increase market access	A 1-7: Development and web publication of database of qualified SME	Preferential market access: EU, SADC, etc. SME Database developed and operated by DEDT: need for marketing function.

Notes: A: Action plan, R: Policy recommendation

development capability in response to assemblers that plan to localize development of parts and components in the near future.

To support them in initiating product development efforts, an action plan is proposed to make necessary equipment owned by public organizations available to SMEs. (1-2 Provision of an Open-type Testing and Research Center for Supporting Improvement of Automotive Parts Development Capabilities)

(2) Modernization of machinery and equipment

This is also a priority matter requiring urgent action. Among 40 suppliers specialized in production of automotive parts in KwaZulu-Natal Province, one half (large enterprises and foreign companies) has installed relatively new equipment. On the other hand, the rest of suppliers are mostly using old, second-hand equipment. The equipment conditions are worse in the case of other manufacturers not specialized in automotive parts and metalworking shops.

It is imperative to introduce new equipment in order to reduce dependence on manual work. It is particularly important when high levels of quality and precision are required.

Modernization of production equipment needs to start with collection of information on what type of equipment is currently available, how advanced it is, and what benefits it will bring. For this reason, an action plan is proposed to establish an information service on technical information on machine and equipment. (1-3 Dissemination of Information for Equipment Modernization and Upgrading for SMEs)

(3) Improvement of practical skills of employees

In South Africa there are a number of vocational training institutes and similar organizations but their training is not sufficient in terms of practical skills that can be used on the shop floor immediately. In most cases this type of skill is taught by large companies as part of their in-house training programs. However, most SMEs do not have resources to conduct such training.

The use of apprenticeship programs provided by large- and medium-sized enterprises is proposed as an immediate action, i.e., vacancies in these programs are to be made available to SME employees. (1-4 Use of the Unused Portion of Corporate Apprenticeship Program for Public Training Purposes)

As an action plan from the long-term and nationwide viewpoints, the development of an "e-learning" system based on computer networks is proposed to provide systematic vocational training for SME employees. (1-5 Development of the "E-Learning System"

for Vocational Training Using Computer Networks)

Further, an action plan is proposed to establish a skills certification system after training in order to strengthen applicability of the MERSETA system and provide incentive for training. (1-6 Development of the Skill Certification System)

(4) Support for improvement of market access for automotive parts suppliers

Because of the small size of the domestic market, automotive parts manufacturers in South Africa cannot enjoy economies of scale compared to counterparts operating in large markets. Moreover, seven automobile assemblers are operating in the country and make a variety of models. As a result, it is difficult for suppliers to make sufficient profits from production of parts for a specific model of a specific company because the sizes of production runs are limited. They have to look for other customers, including other OEM contracts, in and outside the country.

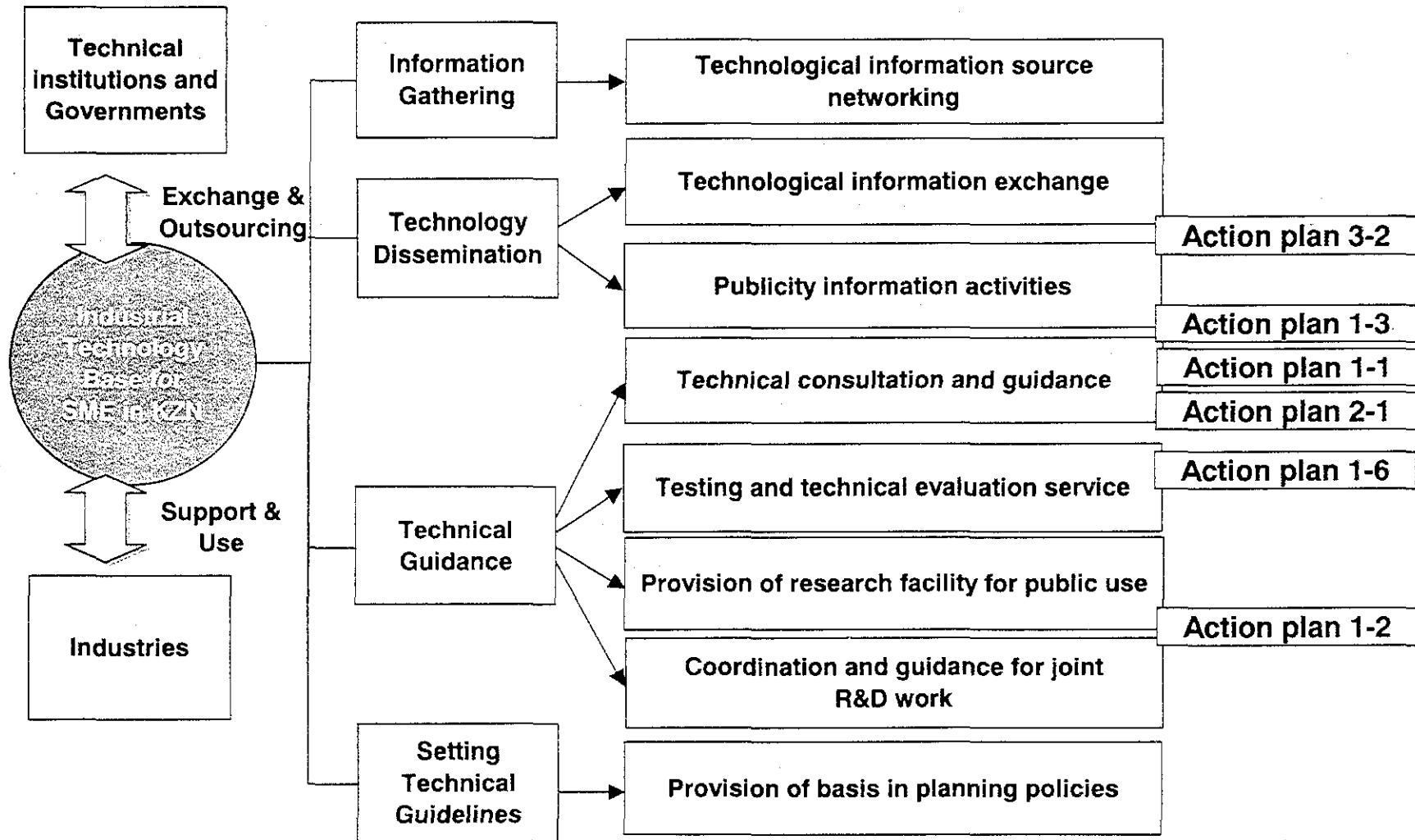
In this study, the development of a database on parts suppliers and its Web publication is proposed as an action plan. It is proposed as a low-cost market access method to allow a focused approach to a specific group of customers. (1-7 Development and Web Publication of the Database on Qualified SMEs)

In addition to the above action plan proposals, following are the policy recommendations related to promotion of parts supply industry upgrading.

Recommendation 1: Need for a industrial technology center function that provides information on modernization and upgrading of management and technical capabilities, and that serves as the basis of promoting collaborative efforts of the public and private sectors to develop and share technical guidelines

As discussed earlier, the upgrading of management and technical capabilities, and particularly the learning and use of production management technology, is critical to the development of a production process virtually integrated with automobile assemble lines. The upgrading of managerial and technical capabilities entails modernization and upgrading of production machinery and equipment. In this connection, it is also important to have a mechanism to provide guidelines and suggestions as to how SMEs should work with equipment modernization. There is no organization that provides such information now and SMEs have to act without any guidelines. Thus, it is recommended to build up such function in KwaZulu-Natal (Figure III-2-3).

Figure III-2-3 Concept of Industrial Technology Base for SME in KZN



Recommendation 2: Need for systematized policy measures to encourage and induce upgrading of the automotive parts industry

The action plan to promote the upgrading of the industry should be accompanied by systematized policy measures to encourage and induce the upgrading efforts.

In particular, the following activities should be emphasized to promote the upgrading of managerial and technical capabilities of SMEs:

- 1) Modernization and upgrading of production equipment conducive to rationalization of SMEs, including quality improvement, cost reduction, and improvement of production efficiency
- 2) Research and development

The existing financial programs aim at supporting SMEs in their financing in general. However, there is a need to establish financial programs, which have clearly defined encouraging objective to solve the problems in view of industrial development or SME promotion.

In encouraging the upgrade of the automotive parts industry, the financial program should be prepared in line with an established technical guidelines defining directions of upgrading.

2.4 Policies and Measures for Promotion of PDI Enterprises

By supporting the startup and growth of businesses by the PDIs, that account for majority of population, benefits from economic development are to be distributed among all the people in the nation.

Difficulties involved in startup and development of PDI enterprises can be summarized as follows, although detailed conditions vary among different business fields.

- 1) Difficulty in finding customers and markets;
- 2) For startups: Lack of business information, managerial knowledge and experience required, and difficulty in raising funds for initial investment and operation; and
- 3) For viable business operation: Difficulty in securing management skills, technology, and other skills required, and difficulty in obtaining credit and loans.

A large number of programs to support PDI enterprises have been implemented but have failed to produce significant results. Here, the recommendation is to provide integrated measures for PDI enterprises and potential entrepreneurs, to meet the diversified

requirements.

It is proposed, further, on the basis of problems identified and analyzed, to implement effective programs (other than the ongoing ones), identify problems, and provide feedback information for the subsequent action.

Proposed policy measures and action plans

Figure III-2-4 shows the factors which may contribute to promotion of PDI enterprises or potential entrepreneurs.

Table III-2-2 summarizes proposed policy measures and action plans for attaining the goal. The key factor in, PDI enterprise promotion is identification of appropriate market needs and potential customers.

Nevertheless, based on a limited number of cases observed and analyzed during the study, it seems to be feasible to create opportunities for PDI enterprises to explore customers and markets by using government procurement projects and social contribution programs by private enterprises, in view of promotional objective at the present stage alone. Rather, the real problem is the fact that PDI enterprises do not have enough knowledge and experience to seize these opportunities for their own advantage.

Startup and operation of PDI enterprises face rather complex problems. To help them overcome these problems, Ntsika and Khula have been providing a number of support programs in terms of both startup and ongoing operation.

However, the disappointing results of most programs raise a serious doubt about whether they have been effectively used by PDI entrepreneurs. What they need is effective guidance on solving the many problems that are met when starting and operating a business, and comprehensive support for coping with multiple problems systematically. The action plan therefore proposes the incubator that can serve as an all-round supporter for SMEs (Figure III-2-5). *(2-1 Incubator for PDI Enterprises (or PDI Business Cooperatives))*

In addition to the above action plan proposal, following are the policy recommendations for the objective of promoting PDI enterprises.

Recommendation 1: Establishment of an organization having a specific objective of supporting black-population entrepreneurs

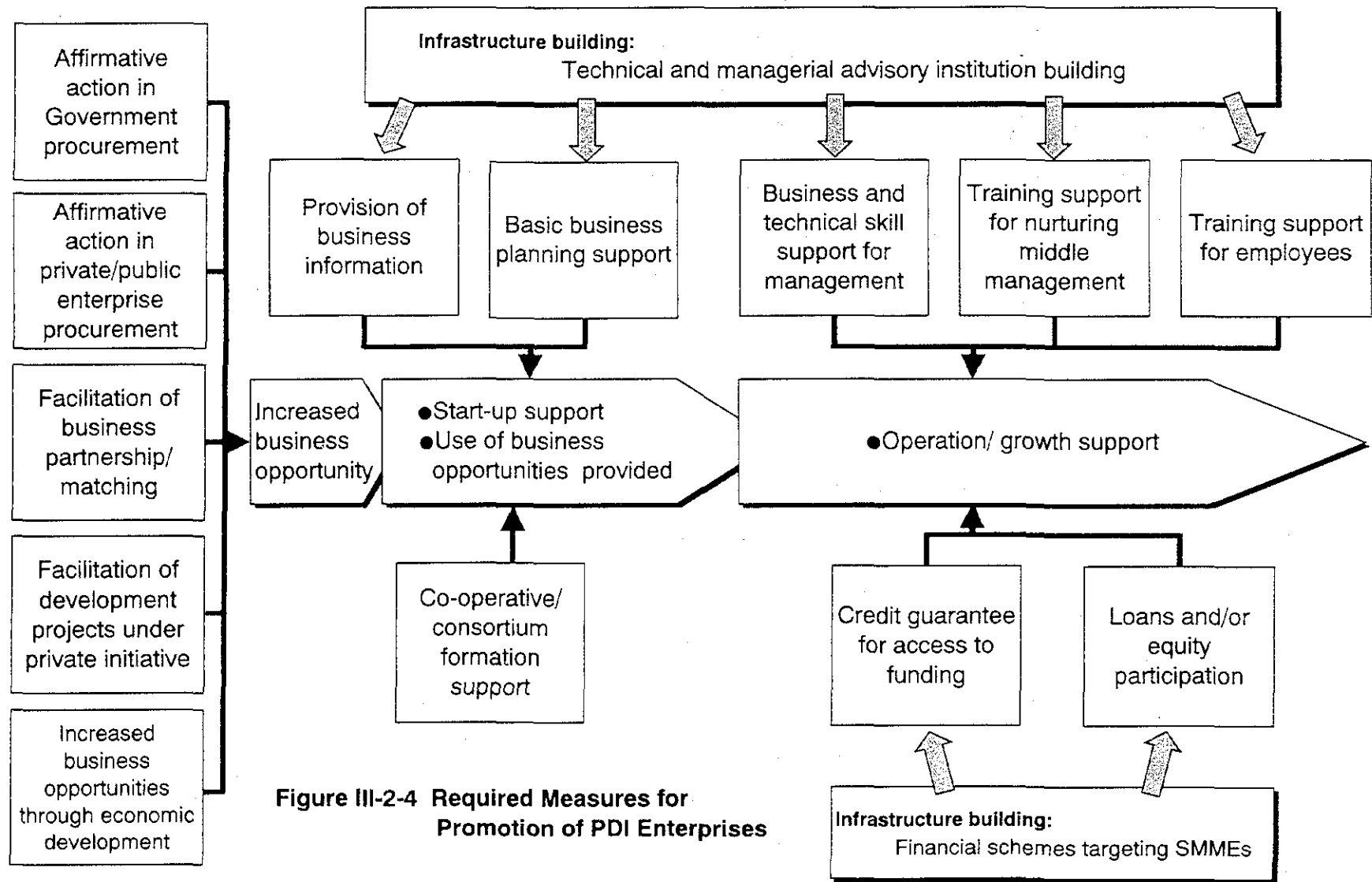


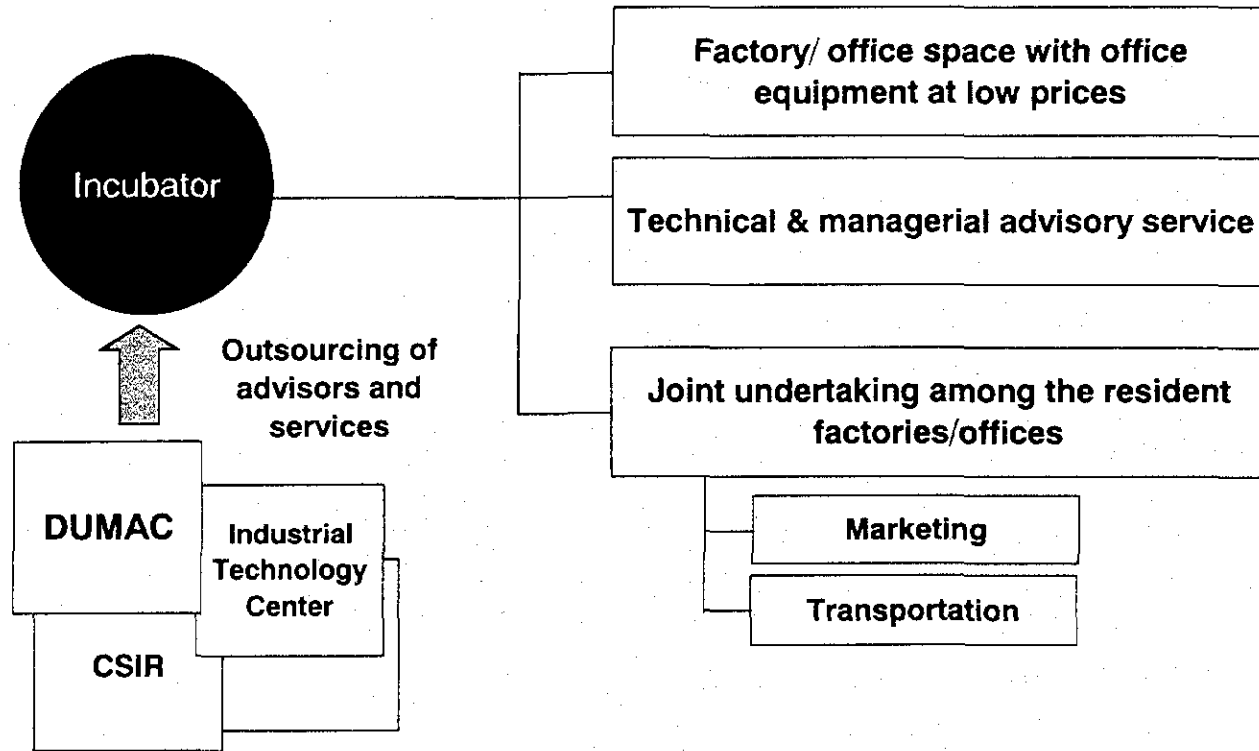
Figure III-2-4 Required Measures for Promotion of PDI Enterprises

Table III-2-2 Promotion of PDI Enterprises

Requirements	Recommended policy measures and action plans	Current status/relevant policy measures
Creation of business opportunities	<p>R-4: Attach importance to market research in implementing projects to promote PDI enterprises</p>	<p>Preferential treatment in Government procurement</p> <p>Affirmative actions by private companies</p>
Support for business startup and operation	<p>Establishment of incubator for PDI enterprise promotion</p> <p>A 2-1: (To provide integrated assistance to PDI enterprises)</p>	<p>Following assistance programs in respective field</p> <ul style="list-style-type: none"> - Training program by LBSC - Tender Advice Center program - Loan and credit guarantee scheme by Khula - The Thuso Mentorship program
	<p>R-1: Establishment of an organization having a specific objective of supporting black-population entrepreneurs</p>	<p>DEDT, LBSC, etc.</p>
	<p>R-2: Reinforcement of DUMAC and reorganization of LBSC</p>	
	<p>R-3: Reform and active use of business cooperatives</p>	

Notes: A: Action plan, R: Policy recommendation

Figure III-2-5 Concept of Incubator



Organizations currently involved in SME promotion appear to give priority to support for PDI enterprises. However, actual programs do not have well-defined target SMEs in many cases. Furthermore, support for PDI enterprises is provided under the same program and by the same implementation organization that provides support for black-population entrepreneurs. As a result, urgency for black-population entrepreneur support is not effectively reflected in the programs, which should be the multi-faceted support.

Recommendation 2: Reinforcement of DUMAC and reorganization of LBSC

It is recommended to expand advisory functions of DUMAC to extend coverage beyond the manufacturing sector and include managerial support. Local organizations that do not have advisory functions, such as LBSCs, should use DUMAC to provide the same in order to ensure quality service.

As for LBSCs, each LBSC is financially independent and is required to be self supporting. As a result, its operating status depends on availability of financial and other assistance from local industries. Generally speaking, most LBSCs cannot operate only on revenues from service fees, except for some areas where favorable conditions exist. It is difficult for them to recruit qualified staff. It is therefore recommended to treat all LBSCs as an integrated organization and rearrange them in consideration of overall operating efficiency.

Recommendation 3: Reform and active use of business cooperatives

It is recommended to recognize the potential value of business cooperatives as the place for black-population entrepreneurs (or potential entrepreneurs) to acquire the knowledge and experience required for a business startup, viable operation, and expansion, and to use them effectively for promotion of black-owned enterprises by creating or modifying the legal framework and implementing a support program focusing on business cooperatives.

It should be noted, however, that the business cooperative discussed here differs from cooperatives currently used in many community projects in that the former is more business-intensive and profit-oriented to pursue a financially viable business without outside help. At the same time, the business cooperative should capitalize on various advantages of the traditional cooperative, e.g., mutual financing (contribution of small funds by cooperative members), collective marketing and distribution, and cooperation in the areas of management and technology. This will be a different approach from the traditional one.

In addition, the proposal is made for the procurement of enterprises, which have difficulty in finding the successor of the current owners, for continued operation by PDI enterprise or business cooperative. The plan is to provide the PDI entrepreneurs with the business basis, succeeding the employees and customers.

Recommendation 4: Attach importance to market research and identification in implementing projects to promote PDI enterprises

Many projects designed to support business startup are incepted to develop a product or create a service that can be sold on the market. However, they do not give thought to marketing in many cases – what takes to actually find a customer. When they are implemented as part of a community development project, no one cares about selling the project or service. This is a major reason why many projects cannot be viable once support from a donor organization, be it domestic or foreign, is terminated. These projects are primarily designed to develop a product, without regarding its marketing. This is called the “product-out” approach. Any project that involves development of a product or service as a tangible outcome will not succeed unless the product is developed to meet the customer needs, which must be identified from market research and analysis.

A workable approach is therefore to incept a project that serves as a core project to induce other projects or economic activities under joint planning (and possible investment)⁹ by the government and private sectors. Then, projects that support SMEs are introduced around the core project, receiving a trickle-down from the core project.

Another approach is to procure enterprises, which have difficulty in finding the successor of present owners, and hand it over to PDI entrepreneurs. Thus, they can leverage on experienced employees and current customers.

2.5 Policies and Measures for Development of the Supporting Environment for SMEs

Strategic goals 1 and 2 address the major urgent issues facing SMEs in South Africa and aim to improve competition of SMEs in the open market and foster development of PDI enterprises. However, there are a large number of SMEs that do not make automotive parts or are not PDI enterprises. They are also expected to play the same role in job creation and industrial diversification, and furthermore, they encounter various problems under liberalization and opening of the South African economy.

⁹ A typical example is a tourism development project in a specific area.

Strategic goal 3 is designed to develop the supporting environment for SMEs in general, including SMEs of the above category.

Proposed policy measures and action plans

To create the environment to support SMEs, improvement and enhancement of policies and programs are required in many aspects.

Support functions, which have discussed so far can be classified into the following four categories:

- 1) Management and technical support;
- 2) Information gathering and dissemination;
- 3) Financial support; and
- 4) Human resource development support.

Here, two action plans are proposed to cover the information gathering and dissemination function (Table III-2-3), namely:

- 3-1 Establishment of the One-stop Shop Type SME Support Center
- 3-2 Development of the Information-related SME Support Function

The former is designed to provide an information center consisting of related organizations to advertise diverse SME support programs to SMEs and facilitate their use through consulting service. It is expected to encourage the active use of SME promotion programs.

The second plan proposes the establishment of an information center function that helps SMEs to develop new businesses and customers (Figure III-2-6).

At present, Ntsika has started operation of the BRAIN (Business Referral and Information Network) program to serve as the information collection and dissemination function for SMEs. It disseminates business and other information useful for SMEs via BRAIN.

Again, the SME element of the BRAIN program focuses on promotion of PDI enterprises and fails to pay much attention to the industrial development perspectives - improvement of competitiveness of SMEs and market development, which are the main focus of the plan. Thus, the action plan is intended to substitute for or supplement BRAIN and its function.

Table III-2-3 Development of Supporting Environment for SME

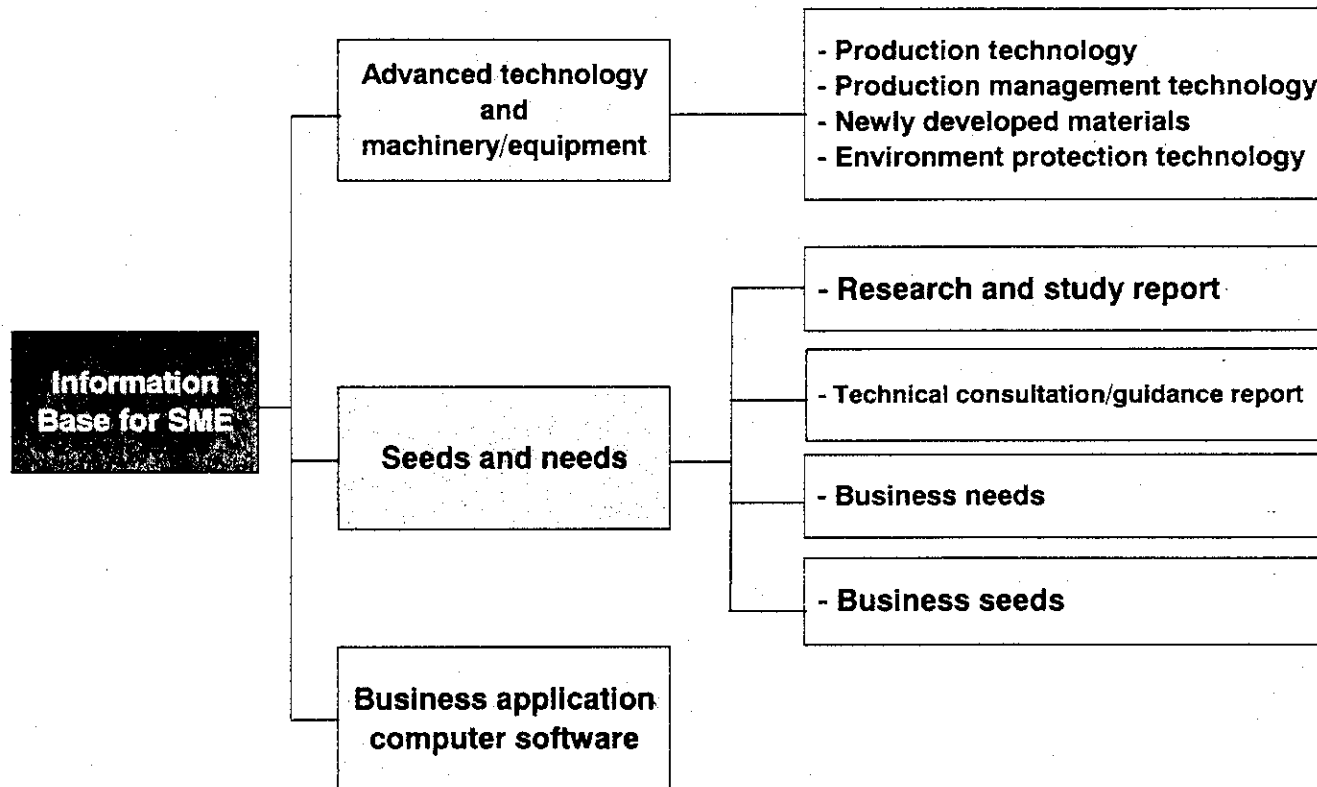
Requirements	Recommended policy measures and action plans	Current status/relevant policy measures
Management and technical support	A 1-1: Establishment of SME Industrial Technology Center for dissemination of production management technology mainly through field guidance	Following organizations are available, but competitiveness development is not regarded as their major theme. - DUMAC - LBSC
Information gathering and dissemination	A 3-1: Establishment of One-stop shop type SME support center, with staff from relevant organizations	Following organization is available, but main focus is placed on PDI enterprise promotion. - LBSC
	A 3-2: Development of information center function	Following is available, but competitiveness development is not regarded as their major theme. - BRAIN
Financial support	R-2: Systemized policy measures to encourage and help induce industrial modernization	General loan program by Khula - SMEDP program (by DTI)
Human resource development support	A 1-4: Use of idle portion of corporate apprenticeship program for public training purpose	New educational and training system under NQF, prepared by MERSETA Many vocational training facilities, but lack of practical skill training (particularly for SME employees, and unemployed)
	A 1-5: Development of e-learning system using computer network, for comprehensive skill training of employees	
	A 1-6: Development of public certification system of skill	New educational and training system under NQF, prepared by MERSETA

Notes: A: Action plan, R: Policy recommendation

Figure III-2-6 Concept of SME Information Base

Key Objective:

- Competitiveness improvement
- Market/customer development
- Business seeds development



2.6 Implementation Plan Proposal

Table III-2-4 summarizes implementation procedures and preliminary schedules for action programs.

The plan is designed in consideration of the level of urgency for each action program as well as interdependence with other actions.

Table III-2-4 Step-wise Draft Implementation Plan

Strategic Goal / Action Plans	2002	2003	2004
1 Upgrading of supporting industries for the machinery industry			
1-1 Establishment of SME Industrial Technology Center (1st step)			
1) Plan detailing/ finalization	██████████		
2) Preparation for implementation	██████████		
3) Start of implementation		▲	
1-2 Provision of an open-type testing and research center for supporting improvement of automotive parts development capabilities (1st step)			
1) Plan detailing/ finalization		██████████	
2) Preparation for implementation		██████████	
3) Start of implementation			▲
1-3 Dissemination of information for equipment modernization and upgrading for SMEs			
1) Plan detailing/ finalization		██████████	
2) Preparation for implementation		██████████	
3) Start of implementation			▲
1-4 Use of the unused portion of corporate apprenticeship program for public training purpose			
1) Plan detailing/ finalization	██████████		
2) Preparation for implementation	██████████		
3) Start of implementation		▲	
1-5 Development of the "e-learning system" for vocational training using computer networks			
1) Plan detailing/ finalization		██████████	
2) Preparation for implementation	(up to 3rd quarter of 2005)		██████████
3) Start of implementation	(4th quarter of 2005)		
1-6 Development of the skill certification system			
1) Plan detailing/ finalization		██████████	
2) Preparation for implementation		██████████	
3) Start of implementation			▲
1-7 Development and web publication of the database on qualified SMEs			
1) Plan detailing/ finalization	██████████		
2) Preparation for implementation	██████████		
3) Start of implementation		▲	
2 Promotion of PDI enterprises			
2-1 Incubator for PDI enterprises (or PDI business cooperatives)			
1) Plan detailing/ finalization	██████████		
2) Preparation for implementation	██████████		
3) Start of implementation		▲	
3 Improvement of the supporting environment for SMEs			
3-1 Establishment of the one-stop shop type SME support center			
1) Plan detailing/ finalization	██████████		
2) Preparation for implementation	██████████		
3) Start of implementation		▲	
3-2 Development of the information-related SME support function			
1) Plan detailing/ finalization		██████████	
2) Preparation for implementation		██████████	
3) Start of implementation			▲

3 Details of Action Plans

Strategic Goal 1: Upgrading of Supporting Industries for the Machinery Industry

1-1 Establishment of SME Industrial Technology Center

To reinforce international competitiveness of the automobile and automotive parts industries, it is essential to establish a production and distribution system on the parts and components supplier side, which is integrated with the automobile assembly system. This action plan proposes the establishment of an Industrial Technology Center to disseminate three key technology elements to develop the integrated production chain, i.e., production management technology, process technology, and production technology.

The center will disseminate information related to and required for upgrading of capabilities in the areas of management and production technology, particularly those required to be acquired by supporting industries supplying goods and services to the machinery sector in South Africa. In the initial stage, production management and process technologies will be emphasized to meet the immediate needs. Also, various production techniques, which are widely used in industrialized countries but have not been adopted by South African companies, need to be disseminated quickly. The detailed content of information dissemination should be designed flexibly according to the needs of the companies and of the times.

Dissemination of information should preferably be conducted in the form of field (shop floor) guidance, rather than lectures. Thus, the center will primarily provide field guidance service, plus some educational functions where a classroom venue is appropriate.

In the initial stage, the center will serve companies engaged in production of automotive parts in order to meet their urgent needs. Then, the scope of service will gradually be expanded to other industries and companies that require these key technology capabilities.

It is proposed to establish and expand the center in the following three steps.

- 1) To establish the center with the initial function of promoting dissemination of technology information through field guidance (based on factory diagnosis and consultation). The center will also have an organization to provide management and technology consultation service for the incubation center.

- 2) To establish workshop type training courses (lecture style). At this stage, training equipment will be equipped.
- 3) To add the functions related to support for improvement of production techniques, including collection and dissemination of technology information, a skill level examination certification system, and provision of research facilities and equipment for upgrading of technological development capabilities.

1-2 Provision of an Open-type Testing and Research Center for Supporting Improvement of Automotive Parts Development Capabilities

The action plan is to establish a testing and research facility, which will provide equipment and instruments that must be used by but are not owned by automotive parts suppliers, to conduct testing and research activities for product improvement and other purposes.

The center's function should be strengthened in the following three steps.

- 1) To create a system that collects information on testing and R&D equipment owned by laboratories, research institutes and universities, and on their availability for public use, and to provide this information to individual companies upon request. In South Africa, a large number of networks have been created to establish this type of collaboration in sharing resources, and the networked system can easily be established.
- 2) To purchase equipment not available in the laboratories and other organizations and install it in the center for use by SMEs upon request. It is important to plan this step on the basis of the result of the first step, i.e., actual use of available equipment by SMEs. Based on information as to which equipment has been used in the first step and how often each piece of equipment has been used, as well as actual availability and accessibility of equipment at each facility, the center should select the equipment that is to be purchased. Also, the user needs identified through technical consultation and guidance at the center should be reflected in the equipment procurement plan.
- 3) To introduce advanced production machinery and equipment, which may be widely used in the automotive parts industry, to the center. The center staff learns their functions and operations, teaches them to user companies upon request and make them available for their use.

As the service needs are expected to emerge a few years later, only the first step should be focused in the initial stage.

In the future, the center will be able to help joint R&D projects of local companies and public organizations (including companies in different fields) by providing a laboratory space and equipment, while providing technical advice on joint projects, including general arrangements.

1-3 Dissemination of Information for Equipment Modernization and Upgrading for SMEs

The plan is designed to provide supporting industries in the machinery sector with information on the latest production machinery and equipment through computer networks.

The plan calls for collection of information on the latest production machinery, testing equipment and measuring instruments from various media and Web sites and compilation of it into a database. The center will create its own Web site and allow subscribers to access and use the data.

The plan also will involve recruiting the following organizations and companies as information sources to ensure periodical renewal of information published on the Web site: CSIR, SABS, NPI, universities, NAAMSA, NAACAM and their member companies, trade associations related to industrial machinery and member companies, and foreign companies in the related industries.

1-4 Use of the Unused Portion of Corporate Apprenticeship Program for Public Training Purposes

Various companies operate an apprenticeship program to train their employees, but there are often vacancies in some programs because of the small number of new employees. The plan will prepare a system, which is designed to provide training employees of SMEs by using vacancies in the apprenticeship program, with cooperation of relevant enterprises, thereby to provide them with an opportunity to receive systematic vocational training.

To initiate the plan, companies that have an apprenticeship program and those wishing to send their employees to participate in such program will be invited to form an ad-hoc organization to arrange use of vacancies in the program. Then, vacancy information will

be obtained from members to arrange, through the intermediation process, apprenticeship training for those who wish to use them.

1-5 Development of the "E-Learning System" for Vocational Training Using Computer Networks

The objective is to build an "e-learning system" for vocational training using computer networks for the purpose of providing systematic vocational education and training for company employees or other persons.

The proposed system allows workers to receive systematic vocational education and training in the course of or after everyday work without leaving the workplace. Each company participating in the program will provide computers, space and time for employees, who receive education and training at their own pace and can obtain skill certification after completion.

Actual training will be entrusted to an outside organization (i.e., a company operating its own apprenticeship program, such as Technikon) to be responsible for operation of the e-learning system.

The system will not be limited to KwaZulu-Natal Province and will cover the entire country.

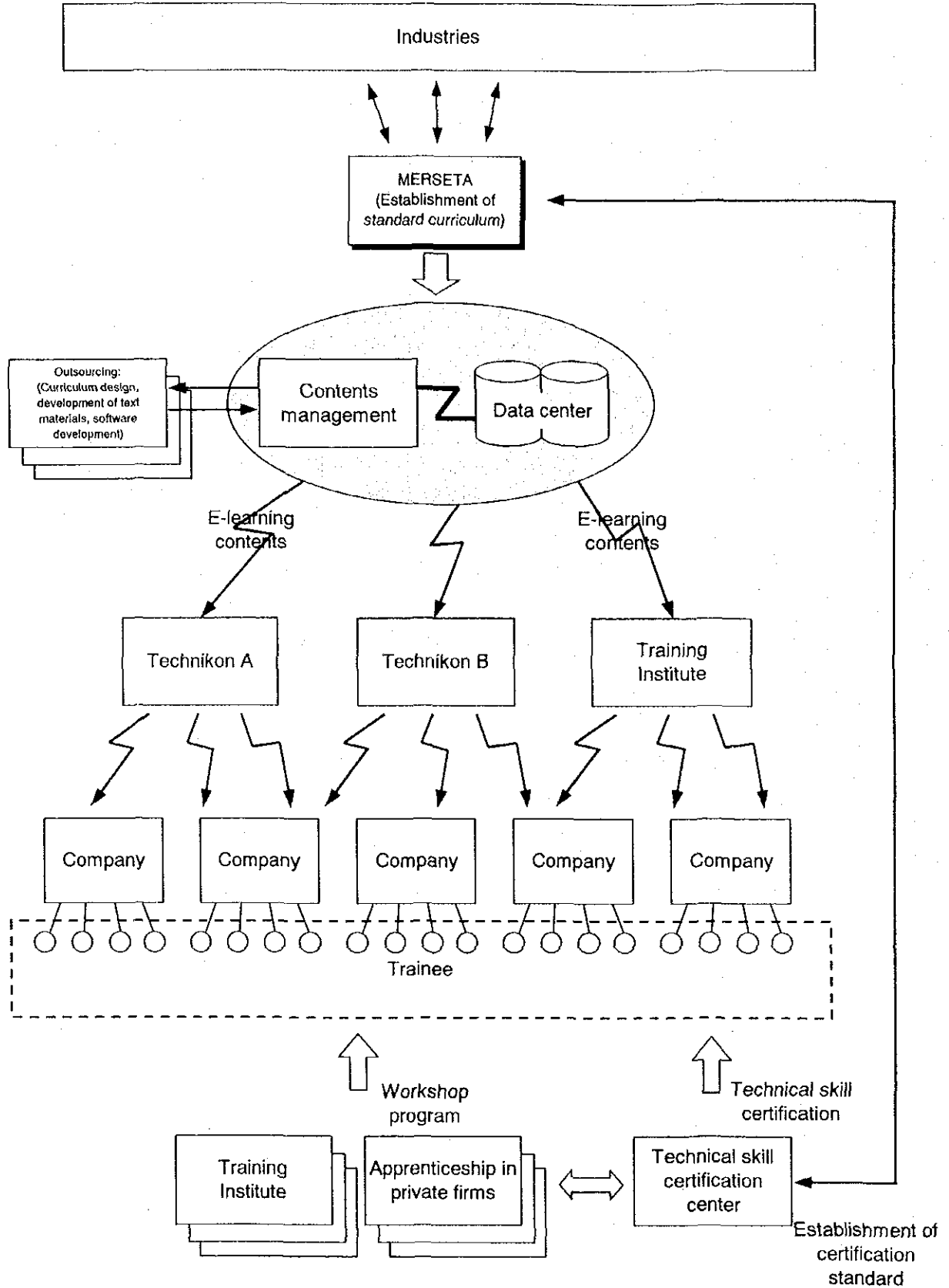
A conceptual view of the system is shown in Figure III-3-1.

1-6 Development of the Skill Certification System

The objective is to certify workers' skills according to a specific standard and issue a certification. This will provide incentive for workers to learn various skills and establish the confidence of industry in vocational training. The action plan aims to build infrastructure for the certification system, including the establishment of certification methods and standards, and the securing of equipment required for skill certification and examiners.

The certification system will cover skills related to the metal and engineering industries. In the first stage, skills related to plastics molding, machining, and die and mold making (skills related to manufacture of stamping dies and plastics molds) will be certified.

Figure III-3-1 Concept of E-learning System for Vocational Training



1-7 Development and Web Publication of the Database on Qualified SMEs

The objective is to build a database containing automotive suppliers who are qualified under specific criteria and publish it on a Web site that can be accessed by potential customers for search.

Qualification will be based on certification under ISO9000 or comparable quality system standards, certification or awards by automakers such as an excellent supplier award (e.g., QS1, VD6).

The database will store vital data on each supplier that allow a potential customer to evaluate it accurately, including human resources, production machinery and equipment, and reputation or rating by existing customers. It will also be hyperlinked to the supplier's Web site for advertisement purposes.

Strategic Goal 2: Promotion of PDI Enterprises

2-1 Incubator for PDI Enterprises (or PDI Business Cooperatives)

The plan is to provide proposed PDI enterprises (or PDI business cooperatives) or new PDI enterprises with a workspace and/or PC and other business machinery at a low cost, and provide comprehensive support required for smooth business startup and operation, including financial management, accounting, business consultation, and technical assistance.

The action plan design calls for construction of an incubator facility to provide the above support and assistance and develop an official support system, while facilitating collective operation of PDI enterprises in the incubator facility in the areas of physical distribution, sales and marketing.

Strategic Goal 3: Improvement of the Supporting Environment for SMEs

3-1 Establishment of the One-stop Shop Type SME Support Center

The objective is to make diverse SME support programs readily accessible to recipients and facilitate their use. Hence, the project will establish a center that combines related organizations for one-stop shopping service, to thereby promote active use of SME

promotion programs.

The plan contains the following activities:

- 1) To establish an information and consultation desk for SMEs (SME Support Center), preferably within the DEDT because it plays a central role in SME promotion at the state level.
- 2) To appoint SME advisors in each department and organization responsible for SME promotion. The advisors should be senior personnel who have sufficient knowledge and experience in programs implemented by the department or organization they belong to and who can provide appropriate advice on use of such programs by SMEs.
- 3) To meet needs in rural regions by holding limited-period consultation service sessions in regional cities and other areas where a large number of SMEs are operating.
- 4) To record and analyze questions and inquiries made by SMEs, their responses and advice given, and results, in order to ensure that they can be used as the basis of developing and updating promotion programs.

3-2 Development of the Information-related SME Support Function

The objective is to establish an information center to collect and publish information related to SME promotion, focusing on improvement of competitiveness, and development of new businesses and markets. An information system will be developed and operated to serve as the nucleus of the regional SME information center to collect, compile, update and publish information useful for SME promotion purposes, including the following:

- 1) Technical information including processing, production management, process technology, new materials, and environmental preservation;
- 2) Results of relevant research and study, and case histories on technical guidance and consultation;
- 3) Information on the business needs and seeds (including technologies and products in various industries); and
- 4) Software information (business application programs).

JICA