

## 2 Master Plan for SME Promotion in KwaZulu-Natal Province

### 2.1 Direction and Strategic Goal of SME Promotion

#### Direction of SME promotion

On the basis of analysis of the current status of SMEs, the role of SMEs in socio-economic and industrial development, which are discussed in the preceding chapter, 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

South Africa is currently promoting liberalization of trade and investment in an attempt to move away from the protectionism past and develop industries having international competitiveness. This is considered to be the key to sustainable growth of the national economy. 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.

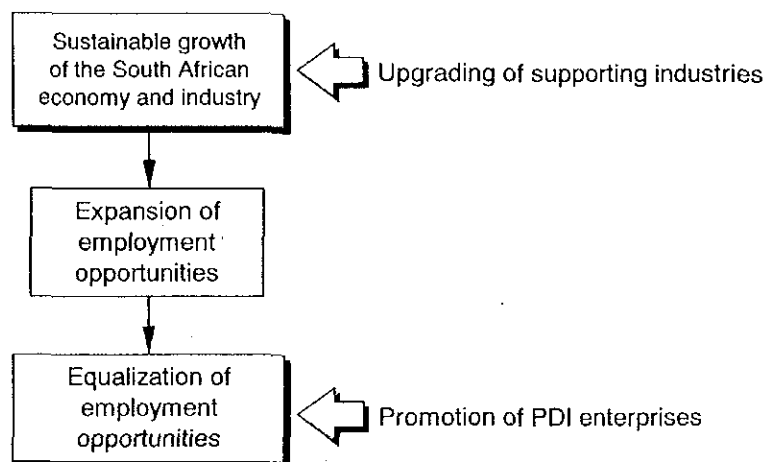
- (3) To promote business startups by PDI

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.

1) Promotion of upgrading of automotive parts manufacturers

This strategic goal is designed to contribute to sustainable growth of the South African economy.

The automotive industry is a major industry in KwaZulu-Natal Province and has a sizable share in GDP and exports. It has also broad industrial linkages and its growth has significant impacts on many other industries. Also, given the ongoing programs such as MIDP and IEC, improvement of competitiveness is a great incentive for automotive parts suppliers who want to expand their markets.

It is therefore recommended to plan and implement promotion programs to encourage the overall improvement of competitiveness of the automotive industry by focusing on its supporting industries, especially parts suppliers.

2) Promotion of PDI enterprises

This strategic goal is recommended with the clear intention of promoting equalization of economic benefits among different population groups.

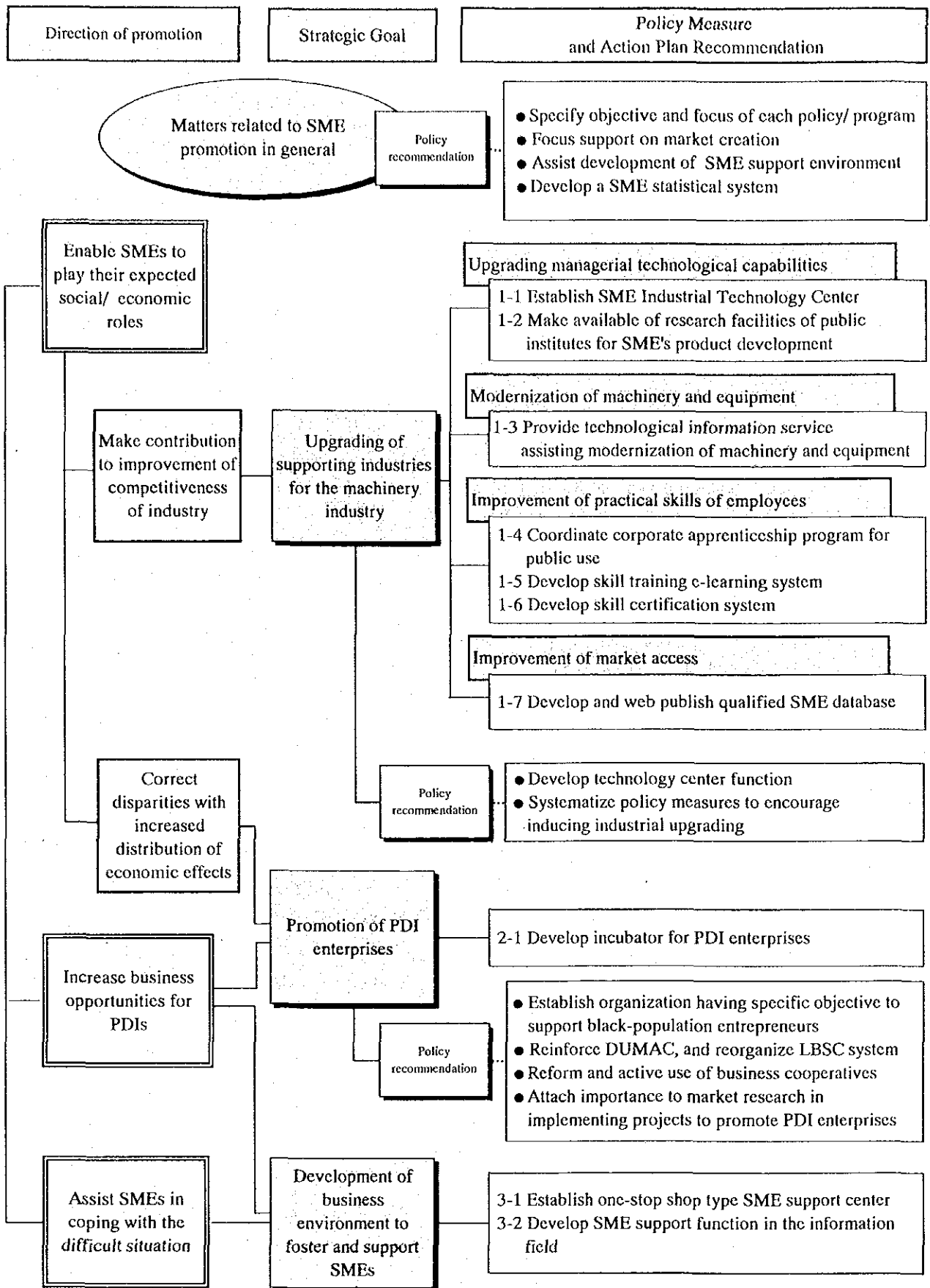
Economic development is manifested as growth of various sectors, including the automobile and automotive parts industries, from which business opportunities are derived. The primary objective of promotion of PDI enterprises is to help them to exploit these opportunities. As pointed out earlier, growth of the automobile and automotive parts industries creates business opportunities for local suppliers who provide a wide variety of goods and services other than automotive parts. Thus, promotion of the automotive parts industry can be used as a source for creation and expansion of SMEs in broad fields, including PDI enterprises.

3) Development of the business environment to foster and support SMEs

It is important 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.

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



## **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.

Promotion of SMEs in the country should achieve the following objectives. First of all, it should primarily aim to promote the upgrading of SMEs in the automotive parts industry. The strategic goal is to promote overall economic growth on a sustainable basis. It is therefore characterized as industrial policy and should be approached from the viewpoint of promoting a selected sector. Secondly, support for PDI enterprises in their startup and early growth phases should be provided to ensure equitable distribution of economic benefits accruing from development of the automotive industry (triggered by the upgrading of SMEs in the automotive parts industry). Although this is an issue related to SME promotion it is better viewed as a social issue. In consideration of the unfavorable conditions under which the PDI group has long suffered, comprehensive and intensive support programs should be implemented for a limited period. Finally, the third objective is to enable other SMEs to play the important role of promoting industrial diversification and job creation by developing the environment to encourage startup and expansion of SMEs in general.

### **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.*

However, promotion of SMEs through protective treatment has the danger that it can result in companies that can stay in existence only with such protective measures. In fact, this is often the case in many projects of similar nature in various countries. To encourage SMEs to become independent after a limited period of favorable treatment, the strategic focus of SME promotion should be placed on the fostering of strong SMEs that can compete in the increasingly liberalized market, rather than on protection. It is therefore recommended to place the focal point of support in market creation (creation of business opportunity) that is usually most difficult for SMEs to accomplish by themselves.

It is important to realize that the provision of a protective environment for SMEs for an extensive period of time will likely bring them back to a difficult situation similar to what they had experienced earlier, once the protection is terminated. More importantly, the protective environment artificially keeps alive SMEs that cannot otherwise survive in a market opened for free competition. On the other hand, support for market creation provides SMEs with business opportunities that they can use to grow in the competitive environment.

In planning and implementing a "market creation" type project, it is important to take into account the desirable roles of large enterprises and SMEs according to their respective advantages. For instance, a project that involves the international market needs to be implemented by a large corporation by mobilizing its capital, organization, technology and human resources. *SMEs cannot implement this type of project (core project) even if public support is provided. Instead, they should be responsible for projects that support the core project (satellite projects), thereby enabling them to play a supplemental role and use trickle-down effects from the core project to form a mutually beneficial and interdependent relationship with large companies.*

**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.

Statistical data on SMEs shown in II-4 are based on data obtained from the census of industries and are not adequate for policymaking purposes because they cannot be used to estimate the effects of a program that is being planned. 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**

### **2.3.1 General**

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.

The automotive industry is one of the major industries in South Africa as well as KwaZulu-Natal Province. In proceeding with market opening and liberalization of trade and investment, the government recognizes the significance of the automotive industry and is implementing industrial policy to transform it from being an industry protected under import substitution policy to a truly strong industry with international competitiveness, by initiating MIDP and related programs.

Competitiveness of the automotive industry cannot be maintained by assembly manufacturers alone. Rather, it has to be supported by competitiveness in the broad supplier base, including parts suppliers, engineering service companies, and raw materials suppliers. Competitiveness in each tier of the industry leads to a competitive automotive industry. Today, the largest challenge for the automotive parts industry is to develop and maintain an efficient production chain with other participants in the automotive industry. Production and engineering processes for automotive parts must be integrated and operated as if they were in-house shops of an assembly plant. To form this highly efficient production chain, suppliers must meet the following requirements: 1) possession of high levels of managerial and technological capability, particularly including the quality of

managers and engineers; 2) possession of machinery and equipment meeting high levels of precision and other quality requirements; and 3) possessing skilled workers having willingness to learn new production techniques as part of company-wide efforts<sup>1</sup>.

In addition, in consideration of the fact that the automotive parts markets in the country and KwaZulu-Natal Province are relatively limited, efforts to explore new markets (automotive manufacturers in and out of the country and aftermarkets) will be essential for improved and efficient operation.

### 2.3.2 Proposed policy measures and action plans

Companies that are engaged in production of automotive parts in KwaZulu-Natal Province are classified as follows, according to type of operation. They generally supply parts to automobile assemblers in and outside the province (See 11-3 for details).

- |  |           |
|--|-----------|
| 1. First-tier suppliers primarily engaged in production of automotive parts  | 28        |
| 2. Second-tier suppliers primarily engaged in production of automotive parts   | 12        |
| 3. Companies, as part of their business, engaged in production of automotive parts (small or medium size)  | Over 30   |
| 4. Companies, as part of their business, engaged in preliminary processing of blanks, tubes, wires, flanges and other materials for automotive parts production                | Around 20 |
| 5. Companies, as part of their business, providing metalworking services for production of automotive parts on a contract basis, such as coating, electroplating and machining | Over 7    |
| 6. Companies that have the potential to become companies categorized in 4 or 5 above as part of supporting industries for the automotive parts industries                      | Around 50 |

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. In this case, efforts should be

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<sup>1</sup> SMEs in automotive parts related industry in KwaZulu-Natal Province have been established mainly in the metalworking industry and are comparatively simple, centering on metal pressing. Therefore, production management technology, which is discussed here, is regarded as more essential than production technologies in this industry.

focused on companies in group 3 above as well as first- and second-tier suppliers in groups 1 and 2. The upgrading of lower-tier companies in groups 4 and 5, however, will be considered necessary in the future for the automotive industry to form a truly strong supplier base.

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.

Of 28 first-tier suppliers, 17 are large enterprises and three are medium-sized ones that are foreign companies. These suppliers have been successfully improving quality control. For instance, the percentage defective (in terms of ppm; parts per million) has significantly been reduced from 4,000 a few years ago, and most companies have achieved a 200 ppm level, the initial target level set by automobile assemblers. However, other first-tier suppliers (mainly local SMEs) and 12 second-tier suppliers have not reached the target level.

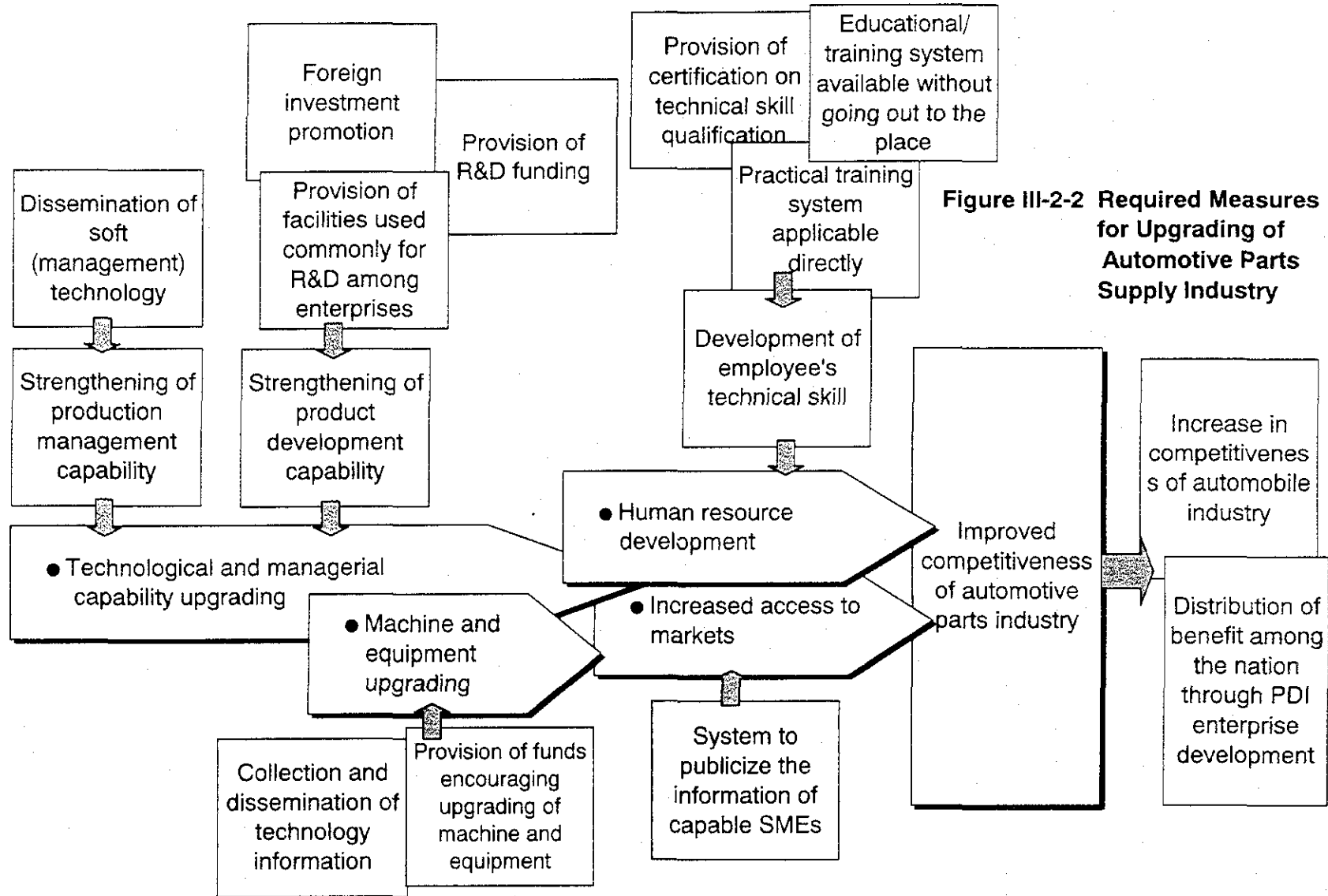


Figure III-2-2 Required Measures for Upgrading of Automotive Parts Supply Industry

**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	<b>R-1:</b> Development of technology center function  (as the core for technological information in the province)	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.
		<b>A 1-1:</b> Establishment of SME Industrial Technology Center for dissemination of production management technology mainly through field guidance	
	Product development capability		
	Advanced technology		Encouragement of foreign direct investment Policy to liberalize investment
	Facility and equipment for R&D	<b>A 1-2:</b> Open-use of testing and research facility of public institutes to encourage and assist R&D activity of SME	Contract research program (CSIR)
Investment on R&D	<b>R-2:</b> Systemized policy measures to encourage and help induce industrial modernization	SMEDP Program (by DTI): Grant on general investment. Applicable only to newly started projects. Khula: General-purpose loan programs	
Machine and equipment upgrading	Technological information	<b>A 1-3:</b> Provision of technical information to assist upgrading machine and equipment	
		<b>R-1:</b> Development of technology center function  (as the core for technological information in the province)	
	Funds for procurement of machine and equipment	<b>R-2:</b> Systemized policy measures to encourage and help induce industrial modernization	SMEDP Program (by DTI): Grant on general investment. Applicable only to newly started projects. Khula: General-purpose loan programs

Requirements		Recommended policy measures and action plans	Current status/relevant policy measures
Development of employee's technical skill	Practical training system applicable directly	<b>A 1-4:</b> 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)
		<b>A 1-5:</b> Development of e-learning system using computer network, for comprehensive skill training of employees	
	Public certified system of education and training	<b>A 1-6:</b> 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	<b>A 1-7:</b> 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

Also, most suppliers including the leading group of first-tier suppliers do not have sufficient problem-solving capability in the case of noncompliance with specifications. Reportedly around 110 days on the average are required until a problem is solved<sup>2</sup>.

Then lower-tier suppliers in groups 3 through 5 above (those that are not primarily engaged in production of automotive parts and those providing metalworking service, such as coating and electroplating, totaling 50 – 60 companies) are lagging far behind the first- and second-tier suppliers in the areas of quality control and production management. Finally, there are around 50 manufacturers engaged in supply of hardware or metalworking service not related to automotive parts (potential suppliers) who have little understanding of production management (in a broad sense).

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

The first step and the most essential requirement for attaining product development capability is acquisition of new technology from foreign companies. In many developing countries, direct investment by foreign companies having advanced technology and technical licensing or another form of technical assistance have created opportunities for local companies to acquire product development capability. In this regard, many companies in South Africa have experience in introducing foreign technology through licensing, and a large number of foreign companies with advanced technology operate their own production facilities.

Another important factor is committed efforts by local companies to product development. Generally, they start with minor modification in terms of material, functionality or appearance and work their way up to the advanced product

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<sup>2</sup> According to information from Toyota SA.

development capability. In doing so, however, the company requires a wide range of equipment for development purposes, equipment other than for production. Purchases of such equipment creates heavy financial burdens for SMEs that do not have much development opportunities. To support them in initiating product development efforts, an action plan is proposed to make necessary equipment owned by public organizations available to SMEs. (see section 1-2 Provision of an Open-type Testing and Research Center for Supporting Improvement of Automotive Parts Development Capabilities)

As product development activities are initiated, investment amounts become larger and risks mount. However, there is no program to support and encourage R&D projects in the country. The need of support and incentive measures to help unleash creativity of SMEs should be provided in the near future when the development needs increasingly arise (see Recommendation 2).

(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.

In South Africa, industries have difficulty in securing skilled workers partly due to the historical background that neglected worker education and training for the bulk of population and partly due to a high rate of HIV infection. Under these circumstances, 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.

The results of the questionnaire survey of suppliers conducted under the present study support the above analysis and observation (see Annex 2 for details).



	Metal Stamping		Other Metalworking	
	Number of responses	% of total companies responding	Number of responses	% of total companies responding
High defect or rejection rate	0	0.0	1	8.3
Inefficiency	7	31.8	5	41.7
Difficulty in maintenance	4	18.2	3	25.0
Others	1	4.5	3	25.0
No problem	13	59.0	7	58.3

More than 30% of metal stamping shops recognize that their machinery is inefficient, and over 40% among other metalworking companies recognize this. They are reluctant to make new investment and do not realize the need for new machinery because of lack of information on latest technology.

At the same time, nearly 60% of companies in both sectors think that their machinery and equipment have no problem, suggesting the lack of concern about quality and precision. (Note that 60% is also the percentage of manufacturers not specialized in automotive parts among the survey population.)

Thus, while larger automotive parts suppliers use relatively new machinery and equipment, smaller companies still use old ones. Many continue to use second-hand equipment by repairing it from time to time. It is important to realize that modernization of production equipment in South Africa is required for two reasons. First of all, new equipment means improved precision levels to make more precision products. Secondly, new equipment can eliminate or reduce the need for difficult-to-find skilled workers, thereby improving workmanship by eliminating human error.

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)

In the next step of modernization of equipment, financial assistance is required to help SMEs to obtain funds for equipment purchase. There is the need to prepare a program to promote purchase of advanced equipment, by assisting access to funds. The program should be one that encourages purchase of advanced equipment rather than give financial assistance for purchase of ordinary equipment. However, since the definition of the

advanced equipment to be used in such a program has not been defined at this time, and therefore, the scale of demand for funds is difficult to estimate (making budgeting impossible), the recommendation for future consideration is that policy be examined from the viewpoint of supporting acquisition of advanced equipment rather than from facilitating acquisition of funds for procuring equipment (see Recommendation 2).

(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. Also, for public security reasons, it is difficult for employees to attend at an outside training program after work. Clearly, public support is required to provide education and training opportunities for employees of SMEs to learn practical skills.

Here, 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) SETA is building a new education and training system that integrates general education and skill training and is supported by official certification of skills. Here, an action plan is designed to introduce the system into the working place.

Assuming the e-learning system covers companies under the MERSETA system, potential users are estimated to be around 45,000. If 20% of them use the system, the user population will amount to 9,000. And once the system is established, the user base will likely expand beyond the MERSETA system. The formal, non-agricultural, private sector in the country is estimated to have approximately 4.7 million employees (Ntsika Annual Review 2000). If employment in the public and agricultural sectors (2.6 million) is added, the total number of employees in the formal sector reach 7.3 million. Assuming that 15% are potential users, of which 10% actually use the e-learning system, approximately 110,000 users are expected.

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)

Potential trainees covered by the MERSETA system are estimated to be around 45,000 in the entire country. Assuming that 20% receive vocational training and 40% of trainees take the certification test, the skills certification system will be used by around 3,600 persons per year. In KwaZulu-Natal Province, potential users are estimated to be 700, assuming 20% of all potential users.

(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.

However, it is a difficult task for SMEs to find and approach potential customers, both local and foreign. There are various methods to provide public support in this area, such as a trade show and an exhibition, but they are not cost effective unless elaborate market research is conducted beforehand.

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. As the automotive industry is required to give priority to improvement of international competitiveness, the upgrading of managerial and technical capabilities of suppliers is an urgent issue to be tackled by setting a specific time target. In this context, there is an urgent need to establish an organization which functions as a core of such technology dissemination.

Need for such function is not limited to this objective alone. 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. Guidelines are also needed for a special loan scheme for equipment modernization to establish an effective loan program to encourage investment.

While the upgrading of managerial and technical capabilities should be undertaken by an individual company according to its own policy and decision, the technology center function contemplated in this recommendation is important to help SMEs make proper decisions and take timely action by providing a common guideline for upgrading of the automotive parts industry as a whole. At the same time, the technology center function will serve as the basis of building related programs to support upgrading initiatives (Figure III-2-3).

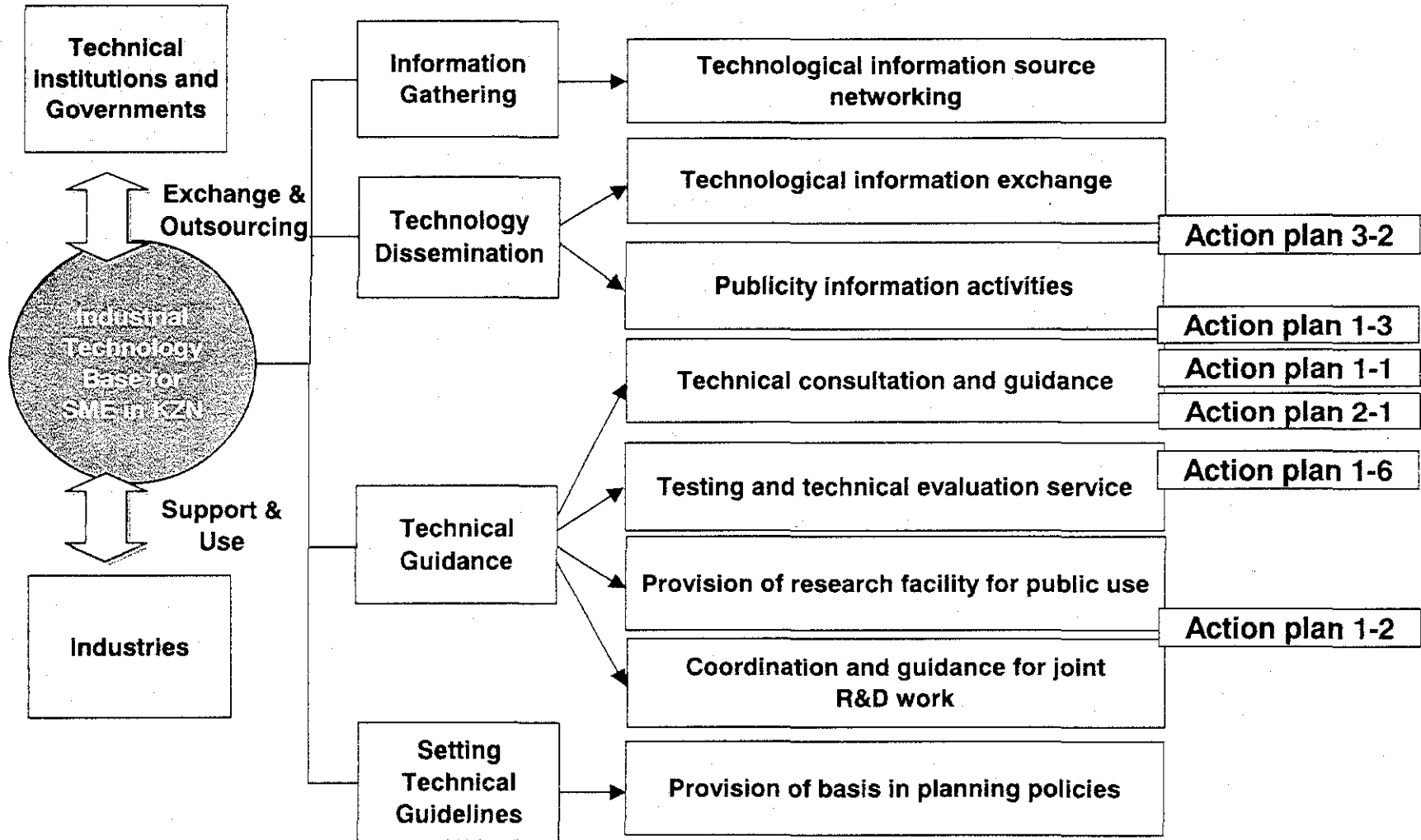
In fact, AIDC has been established under a similar concept, but it is still in the initial stage of operation and its overall function has yet to be defined. If AIDC possesses a function that is similar to the industrial technology center function contemplated here, it may be the appropriate organization to provide the function.

As the overall function of AIDC is not clear, however, it is proposed to build up the technology center function through the process of implementation of the above action plan, including the possibility of AIDC to take this function.

**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.

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



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

Possible methods for support and assistance include:

- Subsidies
- Financial assistance through credit and loan supply or investment
- Tax incentive for investment

From the viewpoint of promoting the upgrading of SMEs, these methods should be applied to projects that comply with an appropriate technical guideline for "upgrading", which will be established by the technology center in consultation with the related industries.

Thus there is a need to establish policy measures, which follow a technological guideline, and work systematically each other. The policy measures must be designed in such a way may help individual companies to make their decisions on equipment modernization and R&D investment although it will be made by individual companies according to their policy.

### **2.3.3 Key considerations in program development and implementation**

Key considerations required for program development and implementation to achieve the strategic goal are summarized as follows.

- 1) For the automotive industry in KwaZulu-Natal Province to survive the intensive competition in the international market, it is imperative to work with this strategic goal urgently and accomplish it within a short period time. In particular, the mastering of production management capabilities (broadly defined) – especially quality control capabilities – should be accomplished at least in the next three years.
- 2) If the strategic goal is successfully achieved, the automotive industry including supporting industries will improve in international competitiveness and will provide significant, favorable impacts on KwaZulu-Natal Province and the country as a whole. If not, the industry may lose competitiveness and decline, creating a devastating effect on the state's economy. Given the high stakes in pursuing the

goal, it is strongly recommended that the government provide financial assistance for a limited period of time.

- 3) Despite the fact that the automotive industry and its supporting industries form an important economic base for KwaZulu-Natal Province, the provincial government has not provided support and does not have resources to do so. Naturally, the policy on the issues for the industry should not be limited to the provincial level and should therefore be planned and implemented by the central government (DTI) as part of industrial policy. Regarding the SME promotion, however, the initiative should be taken by the provincial government, which should establish an organization responsible for program implementation as separated from an organization responsible for promotion of PDI enterprises as is discussed in the next section.

## **2.4 Policies and Measures for Promotion of PDI Enterprises**

### **2.4.1 General**

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.

Thus, difficulties facing PDI enterprises are diverse in nature and extent. Meanwhile, 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.

While programs for promotion of PDI enterprises should cover a more broad range, the major concern here is that a number of programs have been implemented without producing measurable results as expected. Also, evaluations of previous programs have

not been compiled and provided as feedback to the subsequent programs. The present study has not collected sufficient data and information to make a general proposal for promotion of PDI enterprises, which is out of the scope of the study. Instead it is proposed here, 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.

#### **2.4.2 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.

Many PDI enterprises (including business cooperatives) do not care about their potential markets and customers. They see their role as limited to making products, and are rarely concerned about why customers want to purchase their products (needs) and what kinds of products they are competing with. They have no idea of how to design and sell their products in order to attract attention of potential customers (product differentiation). If they have some idea, they are often unable to develop sales channels that are directed to customers who want their products.

As a result, most PDI enterprises manage to survive by supplying products to distributors or retailers whom they came to know before or at the time of business startup, and they tend to wait until customers find them.

Access to finance is the second greatest problem for PDI enterprises after the above. Most of them start businesses using their own savings or loans from relatives or friends, by which means they manage to meet minimum requirements. Few PDI enterprises use public funds.



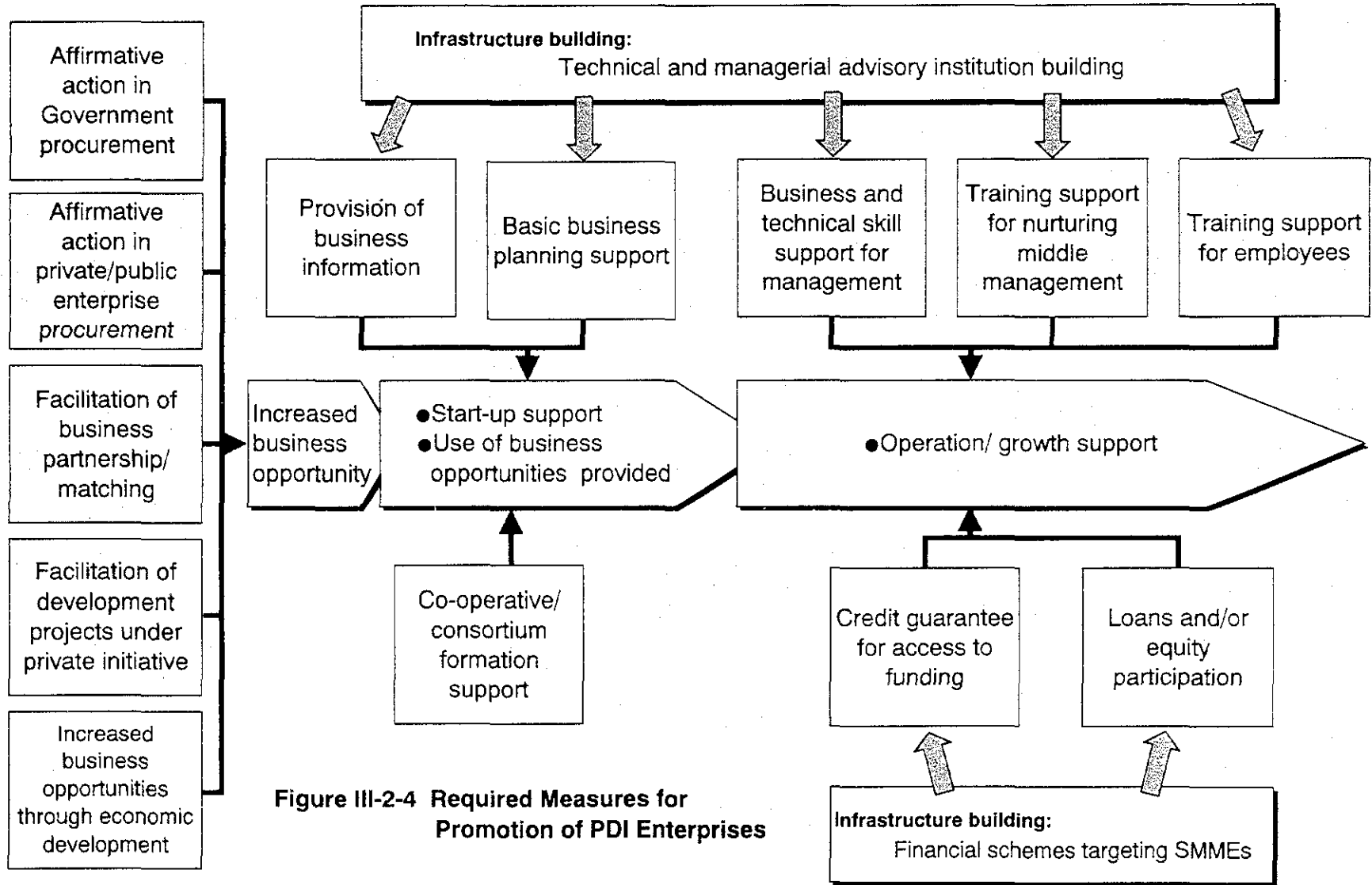


Figure III-2-4 Required Measures for Promotion of PDI Enterprises

**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><b>R-4:</b> 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><b>A 2-1:</b> (To provide integrated assistance to PDI enterprises)</p>	<p>Following assistance programs in respective field</p> <ul style="list-style-type: none"> <li>- Training program by LBSC</li> <li>- Tender Advice Center program</li> <li>- Loan and credit guarantee scheme by Khula</li> <li>- The Thuso Mentorship program</li> </ul>
	<p><b>R-1:</b> Establishment of an organization having a specific objective of supporting black-population entrepreneurs</p>	<p>DEDT, LBSC, etc.</p>
	<p><b>R-2:</b> Reinforcement of DUMAC and reorganization of LBSC</p>	
	<p><b>R-3:</b> Reform and active use of business cooperatives</p>	

Notes: A: Action plan, R: Policy recommendation

Thus, 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. In particular, Ntsika has been providing business information related to government procurement through LBSCs as well as support for preparation of business plans. Also, it has been offering basic training opportunities for entrepreneurs.

On the other hand, Khula provides loan guarantee service and operates a mentorship program to provide guidance for business startup and management.

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 fact, the ongoing PDI enterprise support programs contain various mentorship programs. The typical one is operated by Khula: the Thuso Mentorship Program, which provides SMEs that apply for commercial loans with pre-loan support (preparation of a business plan and advice service) and post-loan support (follow-up). While these programs are highly valued for their effectiveness and comprehensive support, they are relatively expensive to operate because customized support is provided for individual companies.

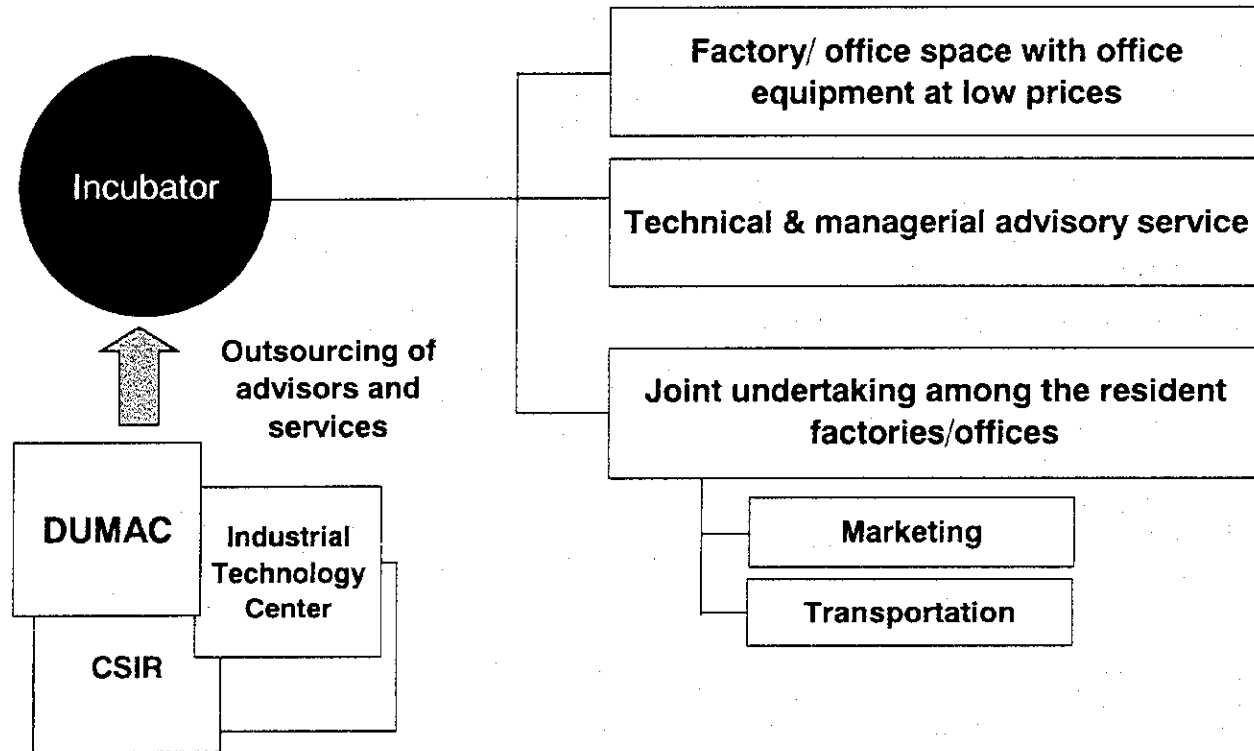
The incubator is designed to build upon the advantages of the mentorship program, while maintaining cost effectiveness by collecting recipient enterprises in one location.

However, it is very difficult to estimate the number of PDI enterprises that can be eligible for the incubator program because there is no statistical data on PDI enterprises, *not to mention data on the number of PDI SMEs.*

As estimated from the number of enterprises that apply for Khula loan guarantee scheme in KwaZulu-Natal Province, the number of enterprises to participate in the incubator program is assumed to be 7 per year at the initial years of operation, but it is expected to increase significantly in the future with the advent of successful examples.

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

Figure III-2-5 Concept of Incubator



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

Support for black-population entrepreneurs is in high demand because of the urgency of social and economic needs in the country and importance of policy measures focusing on the objective related to those needs. For this purpose, therefore, an ad-hoc organization responsible for black-population entrepreneur support seems to be required at least for the time being.

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.

At present, DUMAC provides technical guidance for SMEs with support of DTI and other organizations. It is highly appreciated by small enterprises that do not have an opportunity to acquire managerial know-how and there is strong demand for DUMAC's service. In fact, DUMAC is expected to provide better support for PDI enterprises than that provided by LBSC and other organizations.

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 startups, 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 is well recognized that the lack of business knowledge, professional skills and experience is a major obstacle to promotion of black-owned business. Generally, many entrepreneurs acquire these assets as they work for companies, and it is inevitable that most of the black-population, who did not have employment opportunities, do not have such knowledge, skills or experience. It is therefore simply unfair to expect that black-population will acquire them in the present environment. Rather it is justifiable for the government to artificially create opportunities for black-population entrepreneurs to acquire the required knowledge and skills as well as hands-on experience in business they undertake. And the business cooperative is considered to serve as an excellent school for them.

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, having the objective of fostering financially viable businesses 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 those enterprises which have difficulty in finding successors of the current owners, for continued operation by PDI enterprises or business cooperatives. The intent here is to provide the PDI entrepreneurs with a business base, inheriting the employees and customers of going concerns. Further study is necessary regarding such cases.

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

Many projects designed to support business startups are conceived 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 regard to 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.

Nevertheless, it is also true that it is very difficult for many projects to find an appropriate market. A workable approach is therefore to conceive a project that serves as a core project to induce other projects or economic activities under joint planning (and possible investment)<sup>3</sup> 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.

**2.4.3 Key considerations in program development and implementation**

Need for promoting PDI enterprises, as recognized by the central and provincial governments, is critical for the social and economic development process and should be achieved as early as possible by implementing effective programs. To accomplish the strategic goal, nevertheless, a number of hurdles must be cleared. This requires time, money and qualified personnel. Thus, immediate targets should be defined clearly and programs should be designed to concentrate scarce resources to meet the targets. More precisely:

- 1) The immediate target should be set for promotion of PDI enterprises, not SME promotion in general. Programs designed to achieve the target should be clearly separated from those intended for SME promotion, at least until specific results have been obtained. To support this, the provincial government should establish or

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<sup>3</sup> A typical example is a tourism development project in a specific area.

- appoint an organization responsible for implementation of PDI promotion programs.
- 2) While long-term programs that aim for the betterment of PDI in general (e.g., a community upgrading program) and support programs that focus on welfare are important, the strategic goal should aim to support PDIs who are intending to start businesses.
  - 3) For potential PDI entrepreneurs, a wide range of assistance and support measures are required, requiring considerable time and resources. As the initial stage, comprehensive measures should be directed to selected projects so as to produce visible results within a short period of time.

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

### **2.5.1 General**

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.

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

### **2.5.2 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.

Among them, for the management and technical support function, the program to create a supportive environment is proposed in 1-1 "SME Industrial Technology Center," above. For the financial support function, recommendations are made to strengthen



Khula's financial function so as to make it adequate to provide the desirable environment.

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 that publicize among the SMEs the diverse SME support programs available to them and facilitate their use through consulting service. It is expected to encourage the active use of SME promotion programs.

Under the current SME policy, a similar function is supposedly provided by the SMME Desk (Directorate of SMME Development) that is established in each province. In reality, however, it serves as a policymaking and coordination organization. On the other hand, LBSCs provide information and consulting service for PDI enterprises, but do not have a general picture of support programs, as pointed out earlier.

Also, most programs give priority to PDI enterprises. The action plan is designed to address the issues facing SMEs as a whole, while giving special consideration to black-population enterprises and entrepreneurs by establishing or appointing an organization responsible for business startup and operation.

The second plan proposes the establishment of an information center function that helps SMEs to develop new businesses and secure new customers.

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

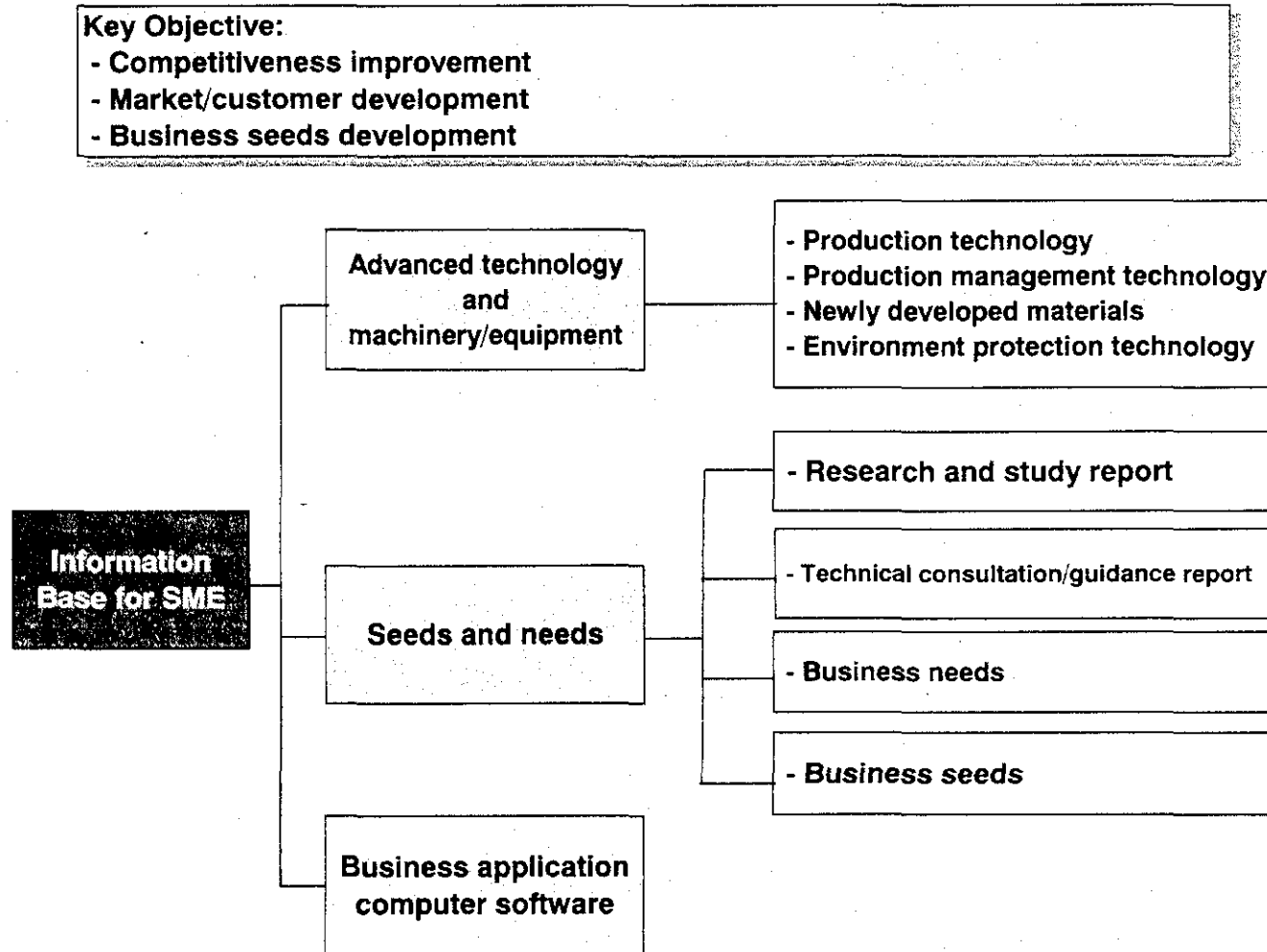
Again, the SME element of the BRAIN program focuses on promotion of PDI enterprises and fails to pay much attention to the industrial development perspectives - improvement of competitiveness of SMEs and market development - which are the main focus of the plan. Thus, the action plan is intended to substitute for or supplement BRAIN and its function (Figure III-2-6).

**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



### **2.5.3 Key considerations in program development and implementation**

For each element of the supporting environment, priority should be established for the scope and items to be implemented in the initial stage, rather than an attempt to establish a permanent organization, a program or system to address the overall needs. Then, as an initial goal is achieved, the second program in the priority list should be started. This flexibility is critical in developing the most effective environment to serve the purpose of supporting SMEs.

## **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.

### **Steps toward the finalization of the implementation plan**

The implementation plan must be adopted and finalized by its implementation body. The master plan for SME promotion, as discussed earlier, should be digested and operationalized. At present, DTI is expected to lead the process. While provincial governments are expected to play an important role in program implementation, they do not have communication networks to coordinate various actions, financial resources or staffing. Therefore, the steps toward the finalization of the implementation plan are proposed as follows:

- 1) Selection of priority programs to be planned or implemented in each phase and for each strategic goal, finalization of their basic design, and conception of the implementation system (DTI)
- 2) Presentation of the basic design of each program or policy recommendation to the implementing body and related parties, and development of the implementation organization and scheme (DTI, the implementation organization and related parties)
- 3) Detailed planning of each program and policy recommendation, and estimation of its implementation period and costs (the implementation organization and related parties)
- 4) Implementation plan proposal for each program and policy recommendation, and proposal for required support measures by DTI
- 5) Finalization and budgeting of the overall plan in each phase by DTI, and legislation as required

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

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

6) Implementation of each program and policy recommendation according to the plan

**Proposal for implementation organizations**

As for action plans, III-3 proposes an institutional setup for program implementation. Also, Table III-2-5 lists possible implementation organizations and related parties for each strategic goal and policy recommendation group.

Table III-2-5 Organizations Assumed in Implementation of the Action Programs

Strategic Goal/ Action Plans	Organizations assumed														
	Existing organizations											Proposed organizations			
	DTI	Nisika	Khula	CSIR/ AIDC	Other Research /Technical Institutes	DEDT, KZN	DUMAC	NAAMSA	NAACAM	Durban Auto Cluster Initiative	IDC/ Ihala	SME Production Technology Center	E-learning Center for Vocational Training and Education	SME Incubator	SME Support Center
1 Upgrading of supporting industries for the machinery industry															
1-1 Establishment of SME Industrial Technology Center	△			(▲)	x	x	x	x	x	x		▲			
1-2 Provision of an open-type testing and research center for supporting improvement of automotive parts development capabilities	△			x	x	x	x	x	x	x		▲			
1-3 Dissemination of information for equipment modernization and upgrading for SMEs	△			x	x	x		x	x	x		▲			x
1-4 Use of the unused portion of corporate apprenticeship program for public training purpose	△					▲		x	x	x					
1-5 Development of the "e-learning system" for vocational training using computer networks	△							x	x	x		x	▲		
1-6 Development of the skill certification system	△							x	x	x		▲			
1-7 Development and web publication of the database on qualified SMEs	△					x		x	x	(▲)					▲
2 Promotion of PDI enterprises															
2-1 Incubator for PDI enterprises (or PDI business cooperatives)		x	x			△	x					x		▲	x
3 Improvement of the supporting environment for SMEs															
3-1 Establishment of the one-stop shop type SME support center		x	x			△	x					x			▲
3-2 Development of the information-related SME support function		x	x	x	x	△	x	x	x	x		x			▲

Notes: △ Responsible for promotion of implementation, ▲ Responsible for implementation, x Organization assumed to extend cooperation for implementation.