

THE SUCCESS RATE OF GOVERNMENT PROGRAMMES TO SUPPORT SMMEs

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DECLARATION

I declare that this research report is my own submitted in partial completion of the requirements for the Master of Business Administration Degree at the Potchefstroom campus of the North-West University. It has never been submitted before for any degree or examination in this or any university.

TJ Mbekeni

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ABSTRACT

Government is responsible for formulating policies and legislation to address the needs of the small business sector in order to promote small business sector development. In execution of the above mentioned mandate, the DTI has among other things developed a policy known as the National Industrial Participation Program (NIPP) to utilise the government procurement leaver to develop small businesses. The primary objective of this study is to determine the success rate of NIPP to support SMME. The NIPP was closely analyzed as a case study. The study attempts to determine whether processes and systems at an implementation phase of the NIPP are effective and efficient it ensuring that the program the maximum benefit to SMMEs.

Various program developed and implemented by government to develop SMMEs are briefly presented in this study with emphasis placed heavily on the NIPP. The NIPP is explicitly directed at achieving small business development through facilitation of export of value-added goods, skills and technology transfer, research and development collaboration, and direct foreign investment. Statistical figures demonstrating the performance of the NIPP are presented and an empirical study conducted to in line with the objective.

The results of the study indicate that the business plans submitted to the DTI are approved as NIPP projects but remain in the DTI data base of approved projects with out getting any form of assistance from the NIPP obligors.

A conclusion is reached from the study that small business owners submit their business plans to NIPP to be assisted with finance in the following categories: Business expansion; and Bridging finance. The respondents to the study also listed the following reasons put forward by obligors for not assisting them although their business plans are approved as NIPP projects:

TABLE OF CONTENTS

	Page
Declaration	ii
Acknowledgements	iii
Abstract	iv
List of tables	viii
List of figures	ix
List of appendices	x
CHAPTER 1: INTRODUCTION AND SCOPE OF STUDY	1
1.1 INTRODUCTION	1
1.2 PROBLEM STATEMENT	2
1.3 RESEARCH OBJECTIVES	3
1.4 SCOPE OF THE STUDY	4
1.5 LIMITATIONS	4
1.6 SIGNIFICANCE OF THE STUDY	5
1.7 ASSUMPTIONS	5
1.8 LAYOUT OF THE STUDY	5
CHAPTER 2: THE ROLE OF THE SMME IN THE ECONOMY	7
2.1 INTRODUCTION	7
2.2 THE DEFINITION OF THE SMME IN THE ECONOMY	7
2.3 SOUTH AFRICAN DEFINITION OF SMALL BUSINESS	8
2.4 CATEGORISATION OF SMALL BUSINESSES IN SOUTH AFRICA	9
2.4.1 Micro-enterprises	9
2.4.2 Small enterprises	10
2.4.3 Medium-size enterprises	10
2.5 GOVERNMENT MECHANISMS TO SUPPORT SMALL BUSINESSES	11
2.5.1 Introduction	11
2.5.2 The National Small Business Council (NSBC)	11
2.5.3 The National Small Business Advisory Council	11
2.5.4 Khula Enterprise Finance Ltd.	12

2.5.5	Nstika Enterprise Development Agency	12
2.5.6	Small Enterprise Development Agency (SEDA)	13
2.5.7	National Empowerment Fund (NEF)	14
2.5.8	Business Partners and Umsobomvu Youth Fund	14
2.6	GOVERNMENT INCENTIVE SCHEMES	15
2.6.1	Introduction	15
2.6.2	The Emerging Enterprises Scheme	15
2.6.3	Small and Medium Enterprise Development Programme (SMEDP)	15
2.6.4	The Standard Credit Guarantee Scheme	16
2.7	NATIONAL INDUSTRIAL PARTICIPATION PROGRAMME (NIPP)	17
2.7.1	Description of the NIPP	17
2.7.2	The NIPP process flow	17
2.7.3	NIPP role-players	19
2.7.4	NIPP performance review from 1998 to 2008	20
2.8	CONCLUSION	22
CHAPTER 3: EMPIRICAL SURVEY		23
3.1	INTRODUCTION	23
3.2	QUALITATIVE RESEARCH	23
3.3	DESCRIPTIVE SURVEY	23
3.4	POPULATION AND SAMPLE	24
3.5	DATA COLLECTION	24
3.5.1	The measuring instruments	25
3.5.2	Questionnaire construction	25
3.5.3	Questionnaire administration	25
3.6	RELIABILITY AND VALIDITY	26
3.6.1	External validity of the study	26
3.6.2	Internal validity of the study	26
3.6.3	Reliability	26
3.7	THE PILOT TEST	27
3.8	DATA ANALYSIS	27
3.8.1	Section A and B of the questionnaire	27
3.8.2	Section C of the questionnaire	27

3.9	RESEARCH FINDINGS	27
3.9.1	Section A: Demographic profile	28
3.9.2	Section B: Business profile	29
3.9.3	Section C: Information on NIPP assistance	32
3.10	SUMMARY	38
CHAPTER 4: CONCLUSION AND RECOMMENDATIONS		39
4.1	INTRODUCTION	39
4.2	CONCLUSION AND MAIN RESEARCH FINDINGS	39
4.3	RECOMMENDATIONS	42
4.4	AREAS FOR FURTHER RESEARCH	43
REFERENCE		44

LIST OF TABLES

TABLE NO.		Page
2.1	Obligation status	22
3.1	Purpose of finance	33
3.2	Business plans format availability	33
3.3	Information about NIPP priority sectors	33
3.4	Frequency of contact by NIPP obligors	34
3.5	Other uses of a business plan	34
3.6	Assistance with compiling the business plan	34
3.7	Success versus failure	35
3.8	Reasons for declining finance application	35
3.9	Services needed by small businesses	36
3.10	Government incentive schemes	38

LIST OF FIGURES

FIGURE NO.		Page
2.1	NIPP projects across provinces	20
2.2	Industrial sector spread of NIPP projects	21
3.1	Gender of small business owners	28
3.2	Age of small business owners	28
3.3	Population group of small business owners	29
3.4	Age of business	29
3.5	Number of employees	30
3.6	Form of ownership of small business	30
3.7	Nature of employment	31
3.8	Industry classification	31
3.9	Annual turnover	32

LIST OF APPENDICES

Appendix A: Questionnaire	54
Appendix B: NIPP guidelines	60

CHAPTER 1

INTRODUCTION AND SCOPE OF STUDY

1.1 INTRODUCTION

Both large and small businesses do contribute to economic growth and therefore to job creation. There has been a misconception that only large businesses do contribute to the creation of jobs in various countries and this misconception has been proven not accurate. Timmons and Spinelli (2009: 5) state that according to the U.S. Small Business Administration's Office of Advocacy, "small businesses (those with fewer than 500 employees) represent more than 99% of all employers and provide about 75% of all new net jobs".

According to the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (SA, 1995), the small business sector plays a very important role in the economic and social development of a country. This important role can be summarized as follows: Firstly, the labour absorption capacity of the small business sector has proven to be significantly high. It is significant in employment generation and equitable income distribution, activating competition, and enhancing productivity and technical change. Through all of this, it stimulates economic development.

Secondly and lastly, the significant role small business sector plays becomes evident in supporting people's efforts to meet basic needs. It also sustains marginalised groups during the fundamental phase of structural changes where the formal economy is unable to absorb the increasing labour supply, and social support systems are inadequate. For the purpose of this study the phrases SMME and small business will be used interchangeably.

According to the Industrial Policy Framework (SA, 2005), SMME support will focus on a combination of improving 'supply side' factors such as finance and technical support, together with finding ways to strengthen market opportunities for SMMEs.

Large scale plans are being implemented to both upgrade and install new infrastructure as well as for broader expenditure plans on areas such as housing. Government also acknowledges that a

major opportunity exists to leverage public expenditure by ensuring that domestic firms are sufficiently competitive to capture significant portions of it. The National Industrial Participation Programme (NIPP) is therefore a government programme designed to ensure that the local content in government spend is high. The NIPP in its attempt to achieve this, it also ensures that those sellers of goods or services with high imported content undertake economic activities to the value of 30% of the imported content to develop the local industry capabilities.

It is important therefore that countries do ensure that small business is promoted and supported by any means.

1.2 PROBLEM STATEMENT

Prior to 1994, South Africa was economically isolated from the global market forcing larger multinationals to relocate from the country. This implied that South Africa lost its manufacturing capabilities and became the largest importer of goods and services. Government as the largest procurer of goods and services in the country was also not spared from this crisis and this had a severe impact on the country's balance of payment.

Post 1994 the world markets opened their doors to South Africa, however, the South African industry which was not yet ready to compete in the global arena was also faced by a serious challenge of Global Trade Liberalisation which meant that SA industry was required to develop rapidly in order to compete with large and well developed multinational companies both locally and internationally. To remedy the situation, government took a conscious decision to utilize public spending as a lever to develop the local industry; hence the NIPP was developed and adopted.

A problem has been identified that the NIPP does not benefit SMME widely and has also been identified that investment from the NIPP is channelled through to selected industries.

1.3 RESEARCH OBJECTIVES

The goal of this dissertation can be summarised in a primary objective and secondary objective as set out below:

1.3.1 Primary objective

The primary objective is to determine the success rate of NIPP to support SMME. The NIPP was closely analyzed as a case study. The study attempts to determine whether processes and systems at an implementation phase of the NIPP are effective and efficient it ensuring that the program the maximum benefit to SMMEs.

1.3.2 Secondary objectives

Secondary objectives closely linked to the primary objective were identified as follows:

- To determine an overall understanding of the National Industrial Participation Programme.
- This refers to determining the kind and magnitude of assistance that SMMEs require from NIPP.
- This refers to determining the main reasons why most SMMEs are not being assisted by the NIPP after they have been approved as qualifying NIPP projects.

1.4 SCOPE OF THE STUDY

This study is both qualitative and quantitative in nature and it attempts to find out whether the NIPP is successful or unsuccessful in supporting SMMEs. The research design was exploratory and an attempt was made to understand people's perceptions, perspectives and understanding of a particular situation. The characteristics of such a study include questionnaire construction, in-depth interviews as well as data analysis identifying common themes in people's description of their experiences (Leedy & Ormrod, 2001:153).

The method of data collection was a descriptive survey using a questionnaire and structured interviews. Sixty (60) questionnaires were issued and forty four (44) complete questionnaires were received back and all were analysed. All the stakeholders such as government and state owned entities were represented by four representatives.

1.5 LIMITATIONS

The study was limited to small business in the DTI data base of projects approved as NIPP projects. All other small businesses not captured or approved as NIPP projects were not considered for the purpose of this study.

The study was limited to small business as defined by the National Small Business Act of 1996 (SA, 1996). The small businesses are those who employ between one and two hundred people and report an annual turnover of less than R5 million. The small businesses selected were registered or engaged in the formal sector. The National Business Act of 1996 defines four categories of small business prevalent in South Africa. These categories are: survivalist, micro, small and medium. Survivalist and micro businesses are excluded from this study.

The study attempts to determine whether processes and systems at an implementation phase of the NIPP are effective and efficient in ensuring that the program provides the maximum support to SMMEs. Therefore only the point of view of stakeholders such as small business owners, people entrusted with the implementation of the NIPP at government and state owned entities was considered in this study.

Officials at the DTI were reluctant to take part, citing confidentiality agreements concluded with the NIPP obligated companies even when the researcher gave an assurance that information given will be treated confidentially.

Despite all the limitations, the researcher obtained a response rate of 73%. This is based on the 44 respondents from a target population of small business owners of 60. With regards to stakeholders such as government and state owned entities four representatives were considered for interview.

1.6 SIGNIFICANCE OF THE STUDY

The study is of significant importance to both **the dti** as an institution entrusted with the implementation of the program and also governments department and state owned entities required to comply with the program. The study will afford **the dti** an opportunity to revisit its processes in relation to the implementation of the program and adapt them to ensure that maximum benefit is achieved.

1.7 ASSUMPTIONS

The assumption made in this study was that all government departments and state owned entities were at some stage informed of the requirement to comply with the requirements of the NIPP program when conducting procurement.

1.8 LAYOUT OF THE STUDY

Chapter 1 gives a brief background on the SMME sector, introduces the problem statement and describes the primary and secondary objectives.

Chapter 2 discusses SMME development and its impact to economic growth and also discussion of the National Industrial Participation Programme, its role players and the model of its implementation.

Chapter 3 describes the research methodology, research results and findings are also presented, analysed and interpreted in this chapter.

Chapter 4 presents the conclusions and recommendations of this research study. Further areas of research related to this study are suggested in this chapter.

CHAPTER 2

SMME DEVELOPMENT AND ITS IMPACT TO ECONOMIC GROWTH

2.1 INTRODUCTION

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa states that small business need a supportive legal and regulatory environment, access to markets, finance, appropriate resources and management, and tax and other incentives (Nieman, 2006:258).

In 2003 the GEM Report reported that entrepreneurs ranked the need for financial support as their highest need (Brooksbank, 2004:54). Government is responsible for formulating policies and legislation to address the needs of the small business sector in order to promote small business sector development. The DTI was tasked by the government to establish and coordinate an overall institutional framework for SMME development. Institutions such as SEDA, Khula, IDC, Umsobomvu Youth Fund and others were subsequently established to create an enabling environment for small businesses.

In execution of the above mentioned mandate, the DTI has among other things developed a policy known as the National Industrial Participation Program (NIPP) to utilise the government procurement leaver to develop small businesses. The NIPP seeks to ensure that in cases where government procures goods and services with high imported content, a certain percentage of such contracts is invested in developing local capabilities in order to increase competitiveness of South African businesses.

2.2 THE DEFINITION OF SMALL BUSINESS IN A GLOBAL CONTEXT

There is no single definition of "small business" that is used and accepted as a global definition, the definition of a "small business" differs from one country to the next. As far back as 1990, Negota (1990:1) defined small businesses in America according to their size and turnover, including the number of the people they employ. In other parts of the world, domestic considerations shape what is actually meant by "small business". Therefore, as a result of the above, what may be defined as

a small business in the United States may be defined as a big business in the economies of other countries and vice versa.

According to Ganguly (1985:3) the report of the Committee of Inquiry on Small Business (Bolton Committee) in the United Kingdom investigated various ways of defining a small business. The committee realised that a small business could not be satisfactorily defined in terms of employment, turnover, output or any other arbitrary single quantity. The committee agreed to settle on an economic definition of a small business, highlighting characteristics, which significantly differentiate the performance and problems of the small business from those of a large business.

The European Commission (Ganguly, 1985:11) have found this definition appropriate only on the criterion of measuring the number of employees. Rather than categorising businesses as either small or large, the European Commission disaggregates businesses into three differing categories:

- Micro enterprises – those with fewer than ten employees;
- Small enterprises – those with between ten and ninety nine employees;
- Medium sized enterprises – those with at least one hundred employees but less than five hundred employees.

The above definition is considered to have advantages over the Bolton definition in that it:

- Overcomes the complexity of having to update a range of differing criteria;
- Allows for a further subdivision of categories rather than using the single generalised term “small business”; and
- Uses only the measure of employment as criterion, as it applies to all countries and allows for international comparisons (Boer, 1997:1).

According to Boer (1997:2), it is principally for the last two reasons that many analysts and researchers have adopted the European Commission’s definition. Ganguly (1985:12) contends that each country has its own official definition of small business.

2.3 SOUTH AFRICAN DEFINITION OF SMALL BUSINESS

In South Africa, as it is the case in other parts of the world, there is very little agreement about what constitutes a small business. According to the study conducted in 1992 by the Bureau of Market

Research at the University of South Africa into the definition of small business enterprise in South Africa, a business is defined small if it meets at least one qualitative criterion and two quantitative criteria (Lucas, 1992:6), such as:

- i. The qualitative criterion is that the business must be privately and independently owned, managed and controlled, and may have more than one branch or unit.
- ii. The two (of three obligatory) quantitative criteria are as follows:
 - The business has a total annual turnover of less than R2, 5 million.
 - The business comprises a total asset value of less R2 million (property and buildings excluded).
 - The business consists of fewer than 50 full time employees.

A more comprehensive definition of small and medium enterprises in South Africa is any business with one or more of the following features (Cronje, Du Toit, Motlatla, & Marais. 2004:495):

- Fewer than 200 employees;
- An annual turnover of less than R5 million;
- Capital assets of less than R2 million; and
- Direct involvement of owners in management.

The definition provided by Lucas above will be used for the purpose of this study.

2.4 CATEGORISATION OF SMALL BUSINESSES IN SOUTH AFRICA

According to the Integrated Small Business Development Strategy small businesses are divided into class-size namely, "small", "medium" and "micro" enterprises (SMMEs).

2.4.1 Micro-enterprises

Micro enterprises are the smallest enterprises in the small business sector and exist in both formal and informal economies. They do not usually qualify for Value Added Tax registration. Micro-enterprises make use of informal accounting and operation procedures and their compliance with labour legislation is weak. Most metal-workers, furniture makers, spaza-shops, home-based enterprises and mini-taxis belong to the micro-enterprise category. In addition, there may also be artisans and professionals who operate micro enterprises, but they form a relatively small proportion in this class size (SA, 2003a:44). Economic activity of these enterprises is directed at providing minimal means to keep the unemployed and their families alive. The National Small

Business Act (SA, 1996) uses the term “very small enterprise” to refer to enterprises with less than 10 paid employees. This excludes the mining, electricity, manufacturing and construction sectors, where the limit is 20 employees.

2.4.2 Small enterprises

Small enterprises have significant job creation potential. The majority of business people in this category start or operate their businesses by relying primarily on their own skills, efforts, capital and other resources. This type of enterprise has mostly outgrown direct supervision by the owner and developed a secondary co-ordinating mechanism, which distinguishes it from a micro enterprise. Growth into a medium-scale enterprise requires an accumulation of resources as well as the appropriate incentives for enterprise expansion (SA, 2003a:46).

Fewer black people own and manage small enterprises compared to those in micro enterprises. This is because of lack of skills and access to finance. BBBEE policies are a critical part of programmes in this category. In employment terms, a small enterprise employs from 11 to 50 paid workers. Falkena, Aedian, Coovadia, Davel, Madungandaba, Masilela and Rees, (2001:7) estimates GDP contribution of small enterprises to be 17,24% while Ntsika(2001:14) puts it at 13,9%.

2.4.3 Medium-sized enterprises

The maximum number of employees in the medium-sized enterprise is 200, except for the mining, electricity, manufacturing and construction sectors, where the maximum number of employees is 200 (SA, 2003c:49). Medium-sized enterprises are still owner-manager controlled, but the ownership and management structure is more complex. The characteristics that help distinguish between small and medium-sized enterprises include decentralisation of power to an additional management layer, division of labour and functional differentiation. Black ownership in this class size is considerably less than in others. Falkena *et al.* (2001:7) estimate the contribution of this category to GDP to be 15,11% and Ntsika (2001:14) puts it at 15,1%.

2.5 GOVERNMENT MECHANISMS TO SUPPORT SMALL BUSINESSES

2.5.1 Introduction

A range of institutions in South Africa focuses on the promotion of small businesses. The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (SA, 1995), followed by the National Small Business Act (SA, 1996), created a formal structure to address the concerns and needs of the small business sector through the creation of institutions supervised by the Department of Trade and Industry (the DTI).

2.5.2 National Small Business Council (NSBC)

The National Small Business Council (SA, 1995) was established in 1995 with the main objective of representing and promoting the interest of the small business. The NSBC was also set up to advise the national, provincial and local spheres of government on social and economic policy to promote small business. The NSBC intended to play a strong advocacy role on behalf of small businesses from all sectors, but it has since become defunct. The NSBC was replaced by the National Small Business Advisory Council (NSBAC).

2.5.3 The National Small Business Advisory Council

The National Small Business Advisory Council (NSBAC) is a statutory agency that advises the Minister of Trade and Industry on the following:

- Strategies to address identified market failures affecting the small business sector;
- The impact of current and new legislation on small business;
- National standards pertaining to small business infrastructure;
- Skills development in the small business sector;
- Steps taken to create access for small business into value chains;
- Constraints affecting the viability of small business sector;
- Methods to liaise with the small business sector and to identify their needs; and
- Methods to monitor and influence the provision of support services to the small business sector.

The National Small Business Advisory Council advocates matters of importance to the small business sector and advises government on relevant issues. The NSBAC considers the impact of the small business development in relation to the national economy, and comments on the effectiveness of small business development programmes (SA, 2003b:46).

2.5.4 Khula Enterprises Finance Ltd.

Khula Enterprise Finance Limited was established under the 1995 White Paper. Khula acts as a wholesaler and supplies finance to banks and retail finance intermediaries (RFIs) for on-lending to small businesses. Khula also avails funds to micro lenders, non-governmental and community-based organisations. In addition, Khula provides credit guarantees to private banks whereby Khula assumes a portion of the risk associated with lending in the small business sector.

According to the Department of Trade and Industry (SA, 2003a:48), the objectives of Khula are to:

- Ensure improved availability and sustainability of loan and equity capital to small businesses;
- Focus strongly on the improved availability of loan and equity capital to SMMEs by offering loan guarantees and seed funds to retail financial intermediaries;
- Increase the level of bank lending at reasonable rates to historically disadvantaged individuals; and
- Stimulate the provision of start-up capital and small-scale equity products.

2.5.5 Ntsika Enterprise Development Agency

Ntsika Enterprise Development Agency was established under the 1995 White Paper to provide business development services to the small business sector. Ntsika provides non-financial support to the small business sector through a national network of local business support centres. The objectives of Ntsika are to:

- Expand, co-ordinate and monitor the provision of training advice and counselling to small business;
- Support service providers that provide business development services;
- Strengthen the capacity of small business service providers and small businesses to compete successfully in the economy;
- Undertake national research on the small business sector; and

- Consult with any organ of government or service provider to facilitate access by small business-to-business advice and counselling services, inputs such as raw materials and products, and outputs such as international and national markets.

Ntsika Enterprises Development Agency has failed to fulfil some of these functions and this had led to its reinvention as part of the DTI rather than a separate agency (Reinecke, 2004:87).

2.5.6 Small Enterprise Development Agency (SEDA)

Small Enterprise Development Agency was established in December 2004 in terms of the National Small Business Act (Act no. 102 of 1996). This law merged the previous small enterprise development agencies Ntsika Enterprise Promotion Agency, Namac Trust and the Community Public Private Partnerships (CPPP) into a single, small enterprise support agency. The DTI aims to ensure a coordinated approach to the design and implementation of development support programmes and the creation of a service delivery network for the SMME sector in South Africa through SEDA (SEDA, 2009).

The mandate of SEDA is to design and implement a standard national delivery network that uniformly applies throughout the country. Its role includes the support and promotion of co-operative enterprise, particularly those located in rural areas.

The work of SEDA is carried out in line with the Department of Trade and Industry's Integrated Small Enterprise Development Strategy, which aims to:

- Strengthen support for SMMEs' access to finance;
- Create an enabling regulatory environment;
- Expand market opportunities for specific categories of small enterprises;
- Localise small business support through a grid of SEDA-coordinated information and advice access points;
- Initiate a national entrepreneurship drive and expand education and training for small business; and
- Co-fund minimum business infrastructure facilities in local authority areas across the country.

SEDA offers support services to small business owners such as business plan development, mentoring, specialised advice and facilitating access to finance and government incentives. The

activities of SEDA do not replace the work done by other small business support initiatives. SEDA helps to coordinate and align existing support programmes. In order to do this, SEDA has established close working links with other stakeholders involved in small business development, particularly in government, the private sector, media and academic institutions (SEDA, 2009).

2.5.7 National Empowerment Fund (NEF)

The National Empowerment Fund was established to provide financial services to the small business sector (NEF, 2009). The tasks of the NEF include:

- ✓ Putting forward a redress to previously disadvantaged individuals by offering them loans for starting up a small business;
- ✓ Expanding and developing existing businesses;
- ✓ Transforming existing businesses at ownership and decision-making levels;
- ✓ Rural and community developments;
- ✓ Providing access to capital markets; and
- ✓ Maintaining the liquidity and warehousing of shares for projects of strategic, national importance.

2.5.8 Business Partners and Umsobomvu Youth Fund

Business Partners Limited is a specialist company that provides customised and integrated investment, mentorship and property management services for small and medium enterprises in South Africa. Business Partners was previously known as the Small Business Development Corporation (SBDC). The objective of Business Partners is to be a world class, value-added investor in small and medium enterprises, and facilitate wealth generation, job creation and economic development in South Africa. Business Partners invests capital, skill and knowledge into viable entrepreneurial enterprises. The focus of Business Partners is on independent enterprises in the commercial, manufacturing and services sectors of the economy, with the exception of on-lending activities, farming operations and non-profit organisations (NYF, 2009).

In South Africa and throughout the world, possession of skills and a job is very important for young people. South Africa has a high unemployment rate because of a critical skills shortage. There are insufficient resources to develop the skills required by young people (Kekana, 2006).The South

African government created the Umsobomvu Youth Fund (UYF) in January 2001 in an attempt to overcome these obstacles.

The government assigned the UYF with the task of promoting entrepreneurship, developing job creation skills and transferring skills among South Africans between the ages of 18 and 35. The UYF is dedicated to invest in things that create opportunities for young people to acquire strong skills, find job opportunities and start their own successful businesses.

2.6 GOVERNMENT INCENTIVE SCHEMES

2.6.1 Introduction

Mahlasela (2004:61-64) researched the DTI incentive schemes aimed at promoting the development of the SMME sector. This study focuses on the four most common incentive schemes. The incentive schemes are as follows:

2.6.2 The Emerging Enterprises Scheme

The objective of the Emerging Enterprise Scheme is to increase access to finance for SMMEs through financial institutions. The institution of this scheme is Khula Enterprise Finance Limited. The access criteria of this scheme are accessibility to independently owned SMMEs, with assets of less than R2m before financing, and the requirement that SMMEs must meet the bank's normal lending criteria.

The focus of the Emerging Enterprise Scheme can be described as follows: To enable an entrepreneur to access funding from his/her bankers for the establishment, expansion or acquisition of a new or existing business. The maximum facility is R75 000 per project /per year.

2.6.3 Small and Medium Enterprise Development Programme (SMEDP)

The objective of the Small and Medium Enterprise Development Programme is to generate employment, develop entrepreneurship, promote empowerment, utilise local raw materials, and ensure the sustainability of projects receiving incentives in the small and medium investors. The

institution of this scheme is the Department of Trade and Industry. The access criterion of this scheme is as follows: Countrywide availability to local and foreign firms investing not more than R100m in land, buildings, plant and equipment in new projects or expansion of existing projects. Legal entities, as well as sole proprietors and partnerships (excluding Trusts) who are engaged in qualifying manufacturing, high value agricultural projects and others may apply.

The focus of the Small and Medium Enterprise Development Programme can be described as an investment grant for two years on approved qualifying assets, calculated as follows:

- First R5m investment at 10% p.a.
- First R10m investment at 6% p.a.
- First R15m investment at 4% p.a.
- First R20m investment at 3% p.a.
- First R25m investment at 2% p.a.
- First R25m investment at 1% p.a.

An additional investment, payable in the third year and based on Human Remuneration expressed in terms of manufacturing cost, must be a minimum of 30%.

2.6.4 The Standard Credit Guarantee Scheme

The objective of the Standard Credit Guarantee Scheme is to increase access to finance for SMMEs through deposit-taking financial institutions. The institution of this scheme is Khula Enterprise Finance Limited. The access criteria of this scheme are accessibility to independently owned SMMEs with assets of less than R2m before financing and the requirement that SMMEs must meet the bank's normal lending criteria.

The focus of the Standard Credit Guarantee Scheme can be described as follows:

- To enable an entrepreneur to access funding from his/her bankers for establishment; and
- Expansion or acquisition of a new or existing business.

The maximum indemnity is 60-70% and the maximum facility is R600 000.

A comprehensive business plan is a compulsory requirement for a small business to be considered for these incentives schemes. In addition, the business must be economically viable and have a profit motive.

2.7 THE NATIONAL INDUSTRIAL PARTICIPATION PROGRAMME (NIPP)

2.7.1 Description of the NIPP

According to the NIPP guidelines (2008:3), Industrial Participation (IP) became obligatory on 1 September 1996. Cabinet fully endorsed the IP Policy and its operating guidelines on 30 April 1997. It means that all government and State Owned Enterprise (SOE) purchases or lease contracts for goods, equipment or services with an **imported content equal to or exceeding US\$10 million (or the equivalent thereof)** become subject to an Industrial Participation Obligation. The seller of such goods would therefore incur an Industrial Participation Obligation to the value of 30% of the total imported content of the contract.

Seller/supplier who incurs an Industrial Participation Obligation will be required to participate in the South African economy and generate IP credits equaling its Industrial Participation Obligation by providing assistance to SMMEs to enhance their competitiveness both locally and in global markets. This assistance can be in either of the following forms:

- Access to new markets and the establishment of new trading partners
- Exports of South African "value added" goods and services
- R&D collaboration in South Africa
- Human resource development
- Technology transfer.

The NIPP is explicitly directed at achieving small business development through facilitation of export of value-added goods, skills and technology transfer, research and development collaboration, and direct foreign investment.

2.7.2 The NIPP process flow

The programme is administered by the DTI Industrial Participation Secretariat and the implementation of the programme strongly involves the activities of the following industrial participation committees:

- ✓ Internal Controls Committee (ICC):-The ICC is constituted by officials from the Industrial Participation Secretariat. Its core function is to consider all items submitted to the Industrial

Participation Secretariat, coordinate comments from dti sector specialists, and make recommendations to the Industrial Participation Control Committee.

- ✓ Industrial Participation Control Committee (IPCC):- The IPCC's quorum consists of the IPS and any two representatives of the the Departments of Foreign Affairs, Public Enterprises, Defence and The National Treasury. Its main functions are as follows:
 - Provide strategic guidance and approve guidelines for the National Industrial Participation Programme;
 - Review, comment and decide on recommendations made by the IPS regarding IP Proposals of prospective Sellers;
 - Evaluate the performance reports, as supplied by the IP Secretariat and award credits or invoke penalties where justified; and
 - Ensure that all relevant IP Agreements are monitored and audited by the IP Secretariat on a regular basis

The NIPP process flow can be summarized as follows:

- Liaison takes place between the Industrial Participation Secretariat (IPS) and the Purchaser regarding IP and the Request for Proposals (RFP);
- Tender invitation includes NIP guidelines;
- Conclusion of Memorandum of Understanding (MOU)/Confidentiality Agreement between the IPS and the Seller;
- Seller submits Business Concepts to IPS;
- Discussions take place between the Seller and the IPS regarding these Business Concepts;
- These Business Concepts are then assessed by the dti's Internal Control Committee (ICC) which, if satisfied that the proposals meet NIP criteria, will give "in principle" approval;
- Further discussions will take place between the IPS and Seller should the ICC not approve the Business Proposals;
- The IPS will then give notification to the Purchaser that the prospective Seller has complied with the initial NIP requirements. The Purchaser would now be in a position to award the contract;
- Tender awarded to the Obligor by the Purchaser;
- The NIP Obligation becomes effective when the purchase contract is concluded;

- The next stage is for the IP Contract, including the fulfillment period and milestones, to be negotiated and concluded;
- The supplier is then required to provide the 5% performance guarantee;
- The supplier is then required to submit Business Plans to the IPS and this should take place within three months of the signing of the purchase contract;
- Following further discussions with IPS regarding the Business Plans these are then submitted to the Industrial Participation Control Committee (IPCC) for evaluation and approval;
- During the obligation discharge period bi-annual progress reports are required from the seller and these are interrogated during the obligatory six-monthly review meetings;
- IP Credits are allocated against performance supported by audited evidence that the claimed activity has taken place;
- The decision regarding IP Credits will be communicated to the Seller together with a report on the status of the Seller's IP Obligation;
- Independent Audit Reports are required from the Seller on an annual basis and, in addition, the dti will initiate ad hoc audits as and when required; and
- Upon fulfilment of the IP Obligation, the Seller will be notified in writing and, in so doing, be discharged from the Obligation.

The DTI also accept business plans submitted directly by SMMEs. These business plans are considered and if approved, the SMME is then authorized to find a supplier with NIP obligation to implement the business plan to offset its obligation. Currently the dti maintains a data base of more than 300 approved business plans dating back to 2002 which have not yet found an obligated supplier.

2.7.3 NIPP role-players

✓ The DTI

The dti is a government department entrusted with the implementation of the program and therefore its role include ensuring that State Owned Entities and government departments comply with the program. It is also required to ensure that the suppliers who incur a NIP obligation discharge such an obligation in a manner that best benefit the economy. The dti is also required to provide strategic direction with regard to sectors where NIPP endeavours need to be channelled.

✓ State Owned Entities (SOEs) and Government Departments

Industrial Participation obligations emanate from procurement deals undertaken at this level of role players. It is important these role players to comply with the NIPP policy to ensure that no investment opportunity is lost to the economy.

✓ Suppliers with NIPP obligation

Suppliers who incur a NIPP obligation are required to implement the programme thereby developing the SA SMME industry and ensure that maximum benefits of the programme are conferred to the SMMEs.

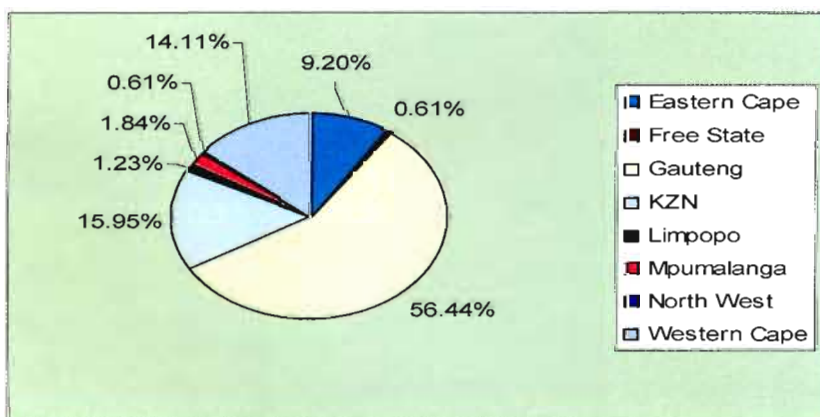
✓ Local SMME sector

All benefits of the programme need to be enjoyed at this level and this sector needs to be aware of the existence of the programme and its benefits.

2.7.4 NIPP performance review from 1998 to 2008

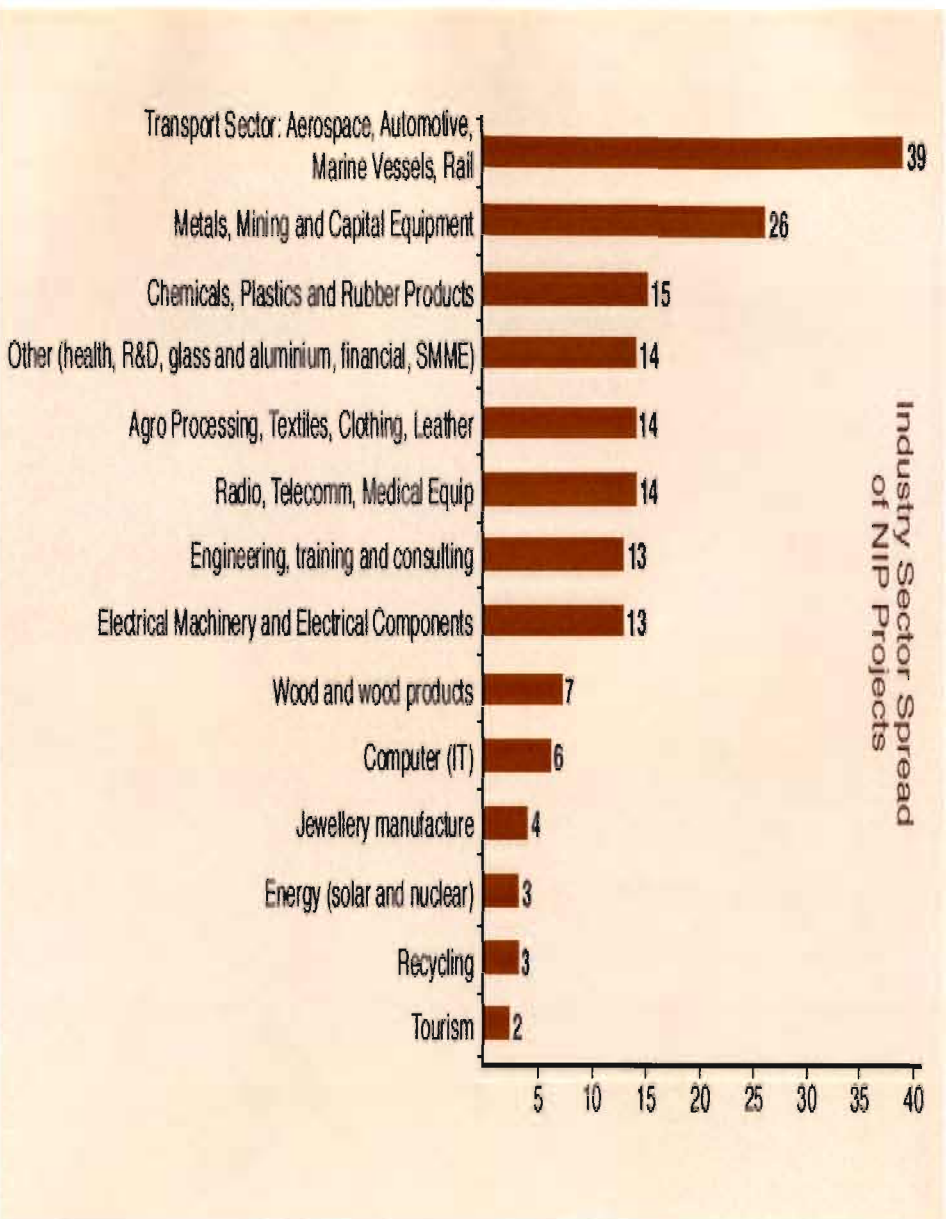
According to the NIPP annual report (2007: 7), 173 projects aimed at developing small businesses were implemented in the period starting from 1998 to 2007. These projects are spread across the nine provinces as indicated in the following figure 2.1:

Figure 2. 1. NIPP projects across provinces



These 173 projects implemented across the various provinces of the country can also be presented to indicate their distribution across the targeted value-added industry sectors as per the following figure 2.2:

Figure 2.2. Industrial sector spread of NIPP projects



Source: NIPP Annual report (2007)

As the programme is based on the value of the obligation amount that suppliers to government and parastatal incur for supplying goods and services with high imported content, 56% of the obligation value translated to programs that assisted small businesses and this is depicted in table 2.1 below:

Table 2.1 Obligation status

Contract	Obligation Value (US\$)	NIP Credits Awarded (US\$)	Outstanding Obligation (US\$)
Defence	13,765,167,611	7,721,945,577	6,043,222,034
Non Defence	2,267,148,037	1,271,723,191	1,249,947,819
Total NIP Obligations	16,032,315,648	8,993,668,768*	7,364,686,322
Percentage	100%	56%	46%

Source: NIPP Annual Report (2007)

2.8 CONCLUSION

Although there are different definitions of SMMEs across the world, all South African programmes designed to develop the SMME sector seem to be subscribing to a uniform definition. The department of Trade and Industry (the DTI) is the department mandated to initiate and lead all government initiatives in this regard.

Among other programs initiated by the DTI, the NIPP seeks to develop SMMEs by using government procurement investment. Since its inception the NIPP managed a large value of obligation that was incurred by suppliers of goods and services to government and state owned entities. The information from the NIPP annual report paints a picture that the obligations are not fully discharged and other obligors are not active in discharging their obligation. It is also evident from the section above that the benefit of the NIPP is not enjoyed by the wide array of SMMEs. The role of the DTI in channelling NIPP funds is also not clear as it appears that obligor are responsible to identify SMMEs to benefit from NIPP.

CHAPTER 3

EMPIRICAL SURVEY

3.1 INTRODUCTION

The objective of Chapter 4 is to identify the methodology used in this study, to provide a better and adequate insight of the basic methodological techniques, its application and what purpose it served towards acquiring the relevant data. Chapter 4 has nine sections and begins with an introduction, followed by section 4.2 which discusses the research methodology research. Section 4.3 deal with descriptive survey and section 4.4 describes population and sample. In section 4.5, data collection and administration is discussed. Section 4.6 addresses reliability and validity, and section 4.7 addresses the pilot testing undertaken. Section 4.8 deals with data analysis. Research findings are presented and analysed in section 4.9. Section 4.10 provides a conclusion to this chapter.

3.2 QUALITATIVE RESEARCH

The purpose of the empirical research is to establish the success rate of government's National Industrial Participation Programme (NIPP) to support SMMEs. This study is both qualitative and quantitative in nature and it attempts to find out whether the NIPP is successful or unsuccessful in supporting SMMEs. The research design was exploratory and an attempt was made to understand people's perceptions, perspectives and understanding of a particular situation. The characteristics of such a study include questionnaire construction, in-depth interviews as well as data analysis identifying common themes in people's description of their experiences (Leedy & Ormrod, 2001:153).

3.3 DESCRIPTIVE SURVEY

The method of data collection was a descriptive survey using a questionnaire and structured interviews. A descriptive survey is a common method used in business, sociology and government. The survey method is used to describe the incidence, frequency and characteristics of a population (Leedy & Ormrod, 2001:154). Survey research, as highlighted by Leedy and Ormrod (2001:155), usually applies one of the following methods: face-to-face interviews, a telephone interview or a

written questionnaire. A written questionnaire and a face-to-face interview were used for collecting data.

3.4 POPULATION AND SAMPLE

According to Leedy and Ormrod (2001:157), a purposive sampling technique is one where participants are chosen for a particular purpose. Patton (1990:47) points out that the sampling method in qualitative research is purposeful rather than random. The researcher purposefully selected small business owners in the Pretoria area as respondents. These are businesses that have submitted their business plan to the dti NIPP for assistance and were approved as NIPP projects and therefore businesses not approved as NIPP project were purposefully excluded. The research was also purposeful in a sense that only four representatives from stakeholders such as government departments and SOE were selected.

Convenience sampling was also used to select the sample of small businesses. Leedy and Ormrod (2001:218) describe a convenience sample as one that uses readily available participants and makes no pretence of identifying a representative subset. The respondents operated in different sectors of the economy and the NIPP sector classification was followed for this research. The individuals representing the small businesses were the founders or owners of the business. The important point in choosing the sample was to have participants who had experienced the phenomenon. As indicated in the limitations of the study in Chapter 1, DTI officials were reluctant to help with the study, citing confidentiality agreements concluded with obligated companies.

Sixty (60) questionnaires were issued and forty four (44) complete questionnaires were received back and all were analysed. All the stakeholders such as government and state owned entities were represented by four representatives.

3.5 DATA COLLECTION

The purpose of this section is to provide details of the instrument used to collect data and to explain how it was administered.

3.5.1 The measuring instrument

The questionnaire developed to assess issues identified in problem statement was used to collect data. The same questionnaire was used for all business owners.

3.5.2 Questionnaire construction

The questionnaire consisted of three sections and it was designed specifically to test the issues relevant to the research. These included:

- Section A: Demographics;
- Section B: Business profile; and
- Section C: Information on NIPP assistance.

Section A was used to acquire demographic information to describe the sample. Section B was used to ensure that the correct respondents were being chosen for the research, i.e. respondents from small businesses. Section C was designed to determine the experience of small business owners regarding the NIPP. The questionnaire had 21 questions (see Appendix A).

3.5.3 Questionnaire administration

The initial contact with the respondents was made via telephone, and provided a short explanation of the purpose of the research, topics to be covered and the expected duration of the interview. Upon respondents' acceptance to participate in the study, an electronic message was sent to confirm the date and time of the interview. The respondents were also provided with a sample of the questionnaire and thanked for their willingness to participate. The researcher administered the questionnaire personally. Respondents were advised that the information would be treated confidentially. A measure of uniformity was obtained in that the researcher conducted each of the interviews.

The process that was followed during the interviews was as follows:

- A suitable location (at the respondent's convenience) was chosen where they were unlikely to be distracted.
- Rapport was established to break the ice.
- Some of the key concepts were defined to check the understanding of the respondents.

- The respondents were asked to express themselves in their own way.
- The researcher took detailed interview notes.
- The researcher remained objective by not displaying any reactions during interviews.

3.6 RELIABILITY AND VALIDITY

The questionnaire was designed and developed on the basis of concepts and factors that the researcher identified from problem statement. The questionnaire was not based on any existing instrument.

3.6.1 External validity of the study

Convenient sampling could have resulted in some bias, but the randomness with which the sample was extracted, addressed this potential problem to a certain extent. External validity was enhanced by using a real-life setting (Leedy & Ormrod, 2001:265).

3.6.2 Internal validity of the study

To enhance the internal validity of the empirical study, a pilot test was used to evaluate respondents' understanding of the statements.

3.6.3 Reliability

Reliability relates to whether a particular technique applied repeatedly to the same object would yield the same results (Barbie & Mouton, 2001:44). To enhance reliability of the study, the researcher used standardized and structured interviews. In addition, the researcher operated in a systematic manner during the interviews.

3.7 THE PILOT TEST

A pilot test was conducted on two small business owners who have participated in the NIPP. This was done to test their understanding of the statements and questions being asked. The questionnaire was modified to facilitate their understanding, based on their feedback.

3.8 DATA ANALYSIS

The data from the completed questionnaires were captured into Microsoft Excel and then imported into STATISTICA (Statsoft, 2007) for analysis.

3.8.1 Section A and B of the questionnaire

Section A and B of the questionnaire were analysed by means of descriptive statistics. The nominal data were analysed through a general observation of the demographic variables that provided an understanding and description of the sample.

3.8.2 Section C of the questionnaire

Section C consisted of 12 questions and determines the level of assistance experienced by small business owners participating in the NIPP.

The responses were assessed and any similar themes that the data reflected were grouped together. These groups were then interpreted and reported as complete and unbiased as possible. Since content analysis is both qualitative and quantitative, the data was grouped by generic themes and summarised in a tabular format by means of charts and frequency tables.

3.9 RESEARCH FINDINGS

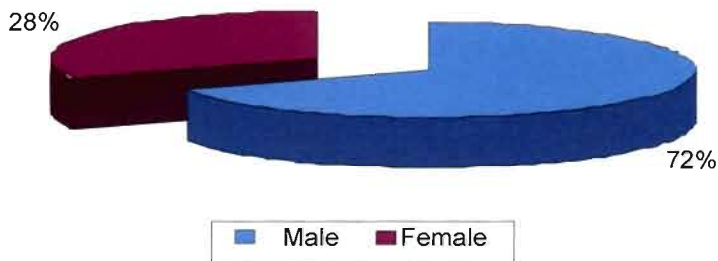
This section represents the results of the empirical research. All the findings are related by graphical illustrations and in tabular form in order to enable a proper understanding of the findings.

3.9.1 Section A: Demographic profile

Question 1: What is your gender?

Figure 3.1 below indicates that most of SMMEs in this research are owned by males. A total of 72% of business owners are male and females comprise 28%.

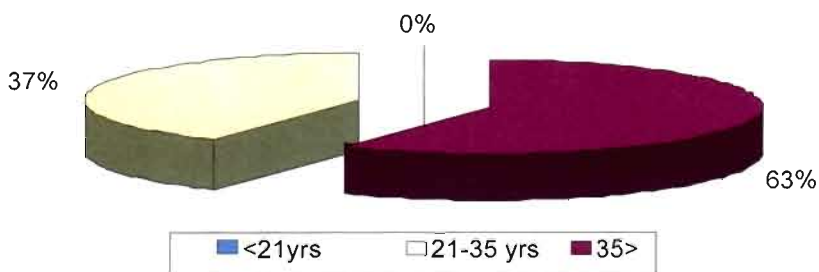
Figure 3.1: Gender of small business owners



Question 2: What is your age?

As indicated in figure 3.2 below, 63%, of small business owners are over 35 years and 37% are in the 21-35 age group. There were no small business owners under the age of 21.

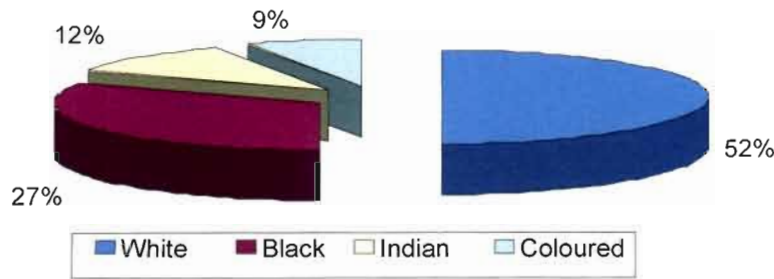
Figure: 3.2: Age of small business owners



Question 3: What is your population group?

Figure 3.3 below shows that 52% of businesses approved by NIPP were owned by Whites, 27% owned by Blacks while Indians and Coloured owned 12% and 9% respectively.

Figure: 3.3: Population group of small business owners



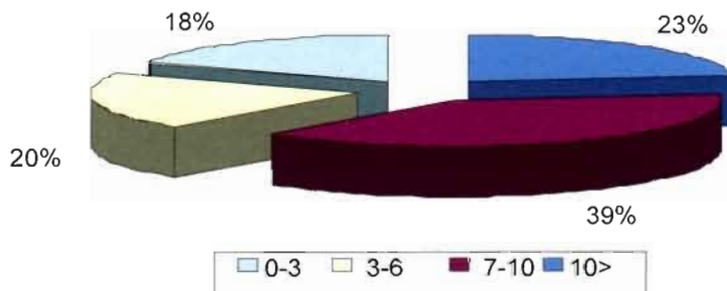
3.9.2 Section B: Business profile

This section of the questionnaire looks at the business profile of businesses in this study and industries of businesses in this research.

Question 1: How many years has your business been in existence?

Figure 3.4 provides a breakdown of the appropriate number of years small businesses in this research have been in existence.

Figure: 3.4: Age of business

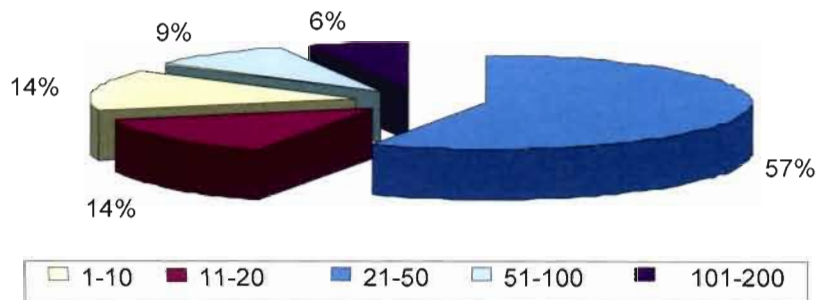


The majority of small businesses (39%) have been operating for between 7 and 10 years. Only 18% of businesses have been in operation for less than 3 years.

Question 2: How many people do you employ?

Figure 3.5 indicates the number of employees employed by the small businesses sampled.

Figure: 3.5: Number of employees



The majority of small businesses (57%) in this study employed between 21 and 50 employees. All businesses employed less than 200 employees. This is consistent with the definition of a small business as defined by the National Small Business Act no. 102 of 1996.

Question 3: What form of ownership is your business?

Figure: 3.6: Form of ownership of small business

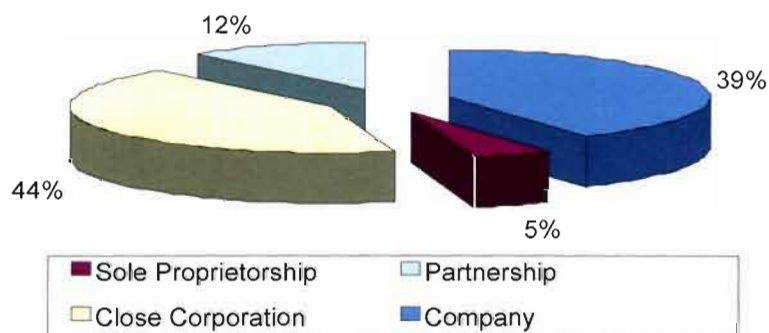
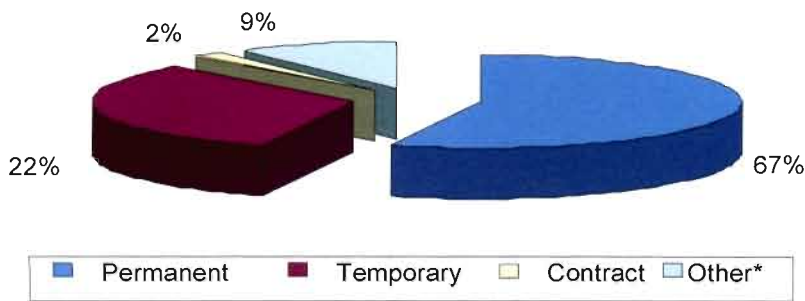


Figure 3.6 indicates that 44% of small business respondents operate as close corporation, 39% as Company and 12% as partnerships.

Question 4: What is the nature of employment of the employees?

Figure 3.7 below indicates that 67% of employees were employed permanently by and this demonstrates that the SMME sector is able to offer stable employment.

Figure: 3.7: Nature of employment



*Other is specified as casual employees

Question 5: In which industry does your business fall?

Figure: 3.8: Industry classification

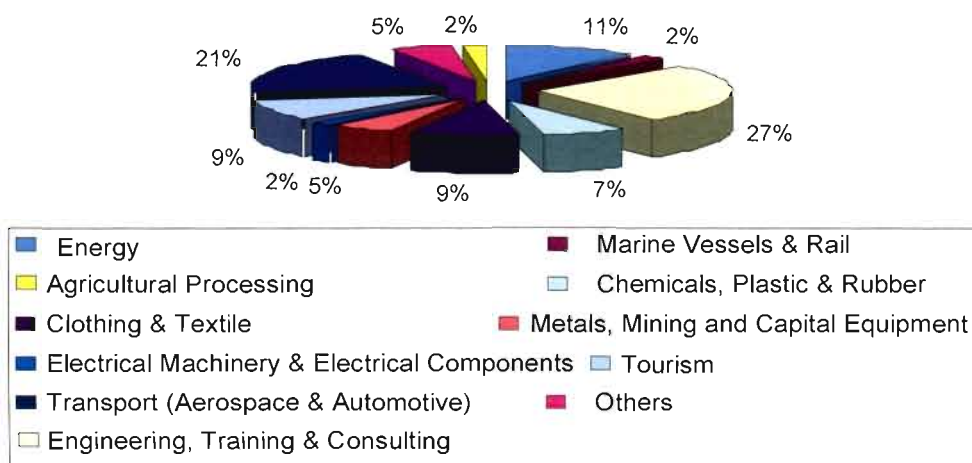
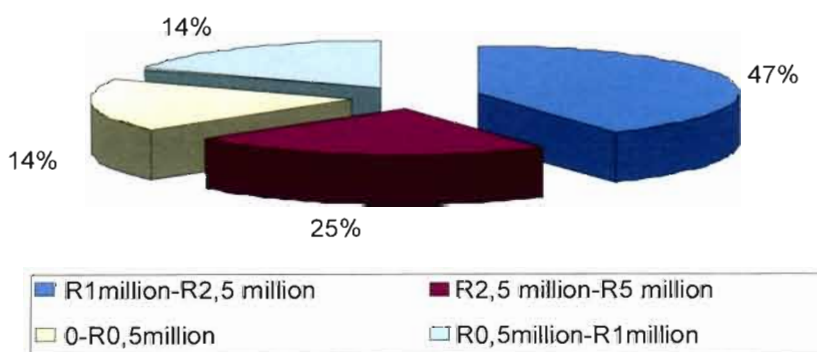


Figure 3.8 above shows that the industries dominating the SMME sector in participating in NIPP are: Engineering, Training & Consulting (27%), Transport (Aerospace & Automotive), (21%) and Energy (11%). These classifications are in accordance with the NIPP framework.

Question 6: What is your annual turnover?

Figure 3.9 shows that most small businesses in this research (47%) have an annual turnover that is between R1million-R2,5 million. A total of 25% of small businesses have an annual turnover that is between R2,5 million and R5 million, 14% of small businesses have annual turnover of less than R500 000 and another 14% of small businesses have an annual turnover of between R0,5million-R1million.

Figure: 3.9: Annual turnover



3.9.3 Section C: Information on NIPP Assistance

This section deals with the extent of assistance that small businesses received from the NIPP. The questions asked are used to probe the small business owners' interaction and participation in the NIPP.

Question 1: Have you requested finance from NIPP in the last five years?

All 44 (100%) respondents have requested financial assistance from the NIPP in the last five years.

Question 2: What was the purpose for finance?

Table 3.1 indicates that 36% of small business respondents needed business finance for expand an existing business, 30% required start-up capital, 25% to take over an existing business and 9% for bridging finance.

Table: 3.1: Purpose of finance

Category	Count	Cumulative count	Percent	Cumulative %
Start-up capital	13	13	30%	30%
Take-overs	11	24	25%	55%
Expansion	16	40	36%	91%
Bridging finance	4	44	9%	100%

Question 3: Did NIPP provide you with their business plan format?**Table: 3.2: Business plan format availability**

Category	Count	Cumulative count	Percent	Cumulative %
Yes	19	19	43%	43%
No	25	44	57%	100%

Table 3.2 shows that 43% of respondents were provided with the NIPP business plans to assist them in putting the application together. The rest (57%) did not the business plan format before submitting an application.

Question 4: Did you have information about NIPP Priority sectors?

Table 3.3 below indicates that 75% of the respondents did not have information about the NIPP priorities and 25% did.

Table: 3.3: Information about NIPP priority sectors

Category	Count	Cumulative count	Percent	Cumulative %
Yes	11	11	25%	25%
No	33	44	75%	100%

Question 5: How often did you get contacted by NIPP obligors?

Table 3.4: Frequency of contact by NIPP obligors

Category	Count	Cumulative count	Percent	Cumulative %
Monthly	0	0	0%	0%
Quarterly	2	2	5%	5%
Bi-Annually	6	8	14%	18%
Annual	13	21	30%	48%
Never	23	44	52%	100%

According to Table 3.4, 52% of respondents never receive any correspondence from obligors, 30% annually, 14% received correspondence bi-annually and 5% quarterly.

Question 6: Do you use your business plan for other purposes other than business finance?

Table 3.5: Other uses of a business plan

Category	Count	Cumulative count	Percent	Cumulative percent
Yes	10	10	23%	23%
No	34	44	77%	100%

From the research, 77% of respondents said they used a business plan only to obtain business finance. Only 23% used a business plan for other purposes other than to attract business finance from NIPP.

Question 7: Who helped you in putting your business plan together?

Table 3.6: Assistance with compiling the business plan

Category	Count	Cumulative count	Percent	Cumulative %
Did it yourself	13	13	30%	30%
Relationship / bank manager	2	15	5%	34%

Small business advice unit	8	23	18%	52%
Business consultants	21	44	48%	100%

Table 3.6 shows that 48% of the small business respondents used the services of business consultants to compile their business plans. Bank managers compiled 5% of business plans while 30% were compiled by the small business owners themselves. Only 18 of the business plans were compiled through the services of small business advice units.

Question 8: Was your application for finance successful?

Table: 3.7: Success versus failure

Category	Count	Cumulative count	Percent	Cumulative %
Yes	5	5	11%	11%
No	39	44	89%	100%

Table 3.7 indicates that 89% of the business plans submitted by the small business respondents for finance were unsuccessful while only 11% were successful.

Question 9: If not, which of the following reasons can be specified as a reason for its failure?

Table 3.8 represents the reasons for declining finance application.

Table: 3.8: Reasons for declining finance application

Reasons for declining	Count	Cumulative count	Percent	Cumulative %
Lack of interest from obligors	14	14	36%	36%
Not within the NIPP priority sectors	4	18	10%	46%
High risk	1	19	3%	49%
Small amount required and high admin cost	10	29	26%	74%

Poor quality of business proposition	5	34	13%	87%
Information gaps	2	36	5%	92%
Do not keep adequate financial records	3	39	8%	100%

Table 3.8 above shows that 36% of small businesses approved as NIPP projects could not access the funding they required and the reason was that obligors were not interested in their field of operation.

The research also revealed that 26% small businesses are not assisted by obligors due to the fact that the amount of funding they require is significantly small in contrast to the value of the obligation amount that obligors incurred for supply of goods and services to the government. Obligor prefer to participate in NIPP projects that are large enough to discharge their obligation without having to participate in many NIPP projects.

Question 10: Which one of the following was included in the business plan?

All 44 respondents interviewed indicated that they had provided the financial institutions with all documentation required for a financial application for business finance to be processed. These include CV's, statement of assets and liabilities of owners, statement of income and expenditure of owners, and more.

Question 11: Which of the following services do you think NIPP officials can assist you with to develop your business skills?

Table 3.9 represents the services that respondents deem as important to develop their business skills.

Table: 3.9: Services needed by small businesses

Need	Count	Cumulative count	Percent	Cumulative percent
Tool for creating a	10	10	23%	23%

business plan				
Mentorship and training services	5	15	11%	34%
Enterprise toolkit	0	15	0%	34%
Cash flow model	4	19	9%	43%
All of the above	25	44	57%	100%

Table 3.9 shows that 9% of the respondents need the NIPP to assist them with a cash flow model. Small business owners often lack basic business skills, such as understanding cash flow and financial statements to manage the business. It is very essential that small business owners understand the importance of cash flow in sustaining a business. Their inexperience in this area could result in business failure even though financing is provided. A large number of small businesses (57%) required all of the services listed with the exception of enterprise toolkit as there was no small business that selected this service.

Question 12: Which of the following government incentive schemes have you tried for business finance?

Table 3.10 shows that 36% of respondents applied for finance from Khula. A total of 18% of the respondents applied for finance at Umsobomvu Youth Fund, 5% applied at the IDC and Bridging Finance Scheme respectively. Another 36% of respondents did not apply for finance to any of the listed institutions.

The Department of Trade and Industry still needs to do more groundwork to make the abovementioned institutions popular. Some of the respondents indicated that they have never heard of these institutions. From this, one can deduce that these institutions have a minimal effect on the development of the small business sector.

Table: 3.10: Government incentive schemes

Category	Count	Cumulative count	Percent	Cumulative percent
Khula Enterprise Finance	16	16	36%	36%
Industrial Development Corporation(IDC)	2	18	5%	41%
The Bridging Finance Scheme	2	20	5%	46%
Umsobomvu Youth Fund	8	28	18%	64%
None of the above	16	44	36%	100%

3.10 SUMMARY

This chapter outlined the research procedures used to obtain the necessary information for the research. All data necessary for the research were collected by means of questionnaires to respondents and these were followed by in-depth interviews. The descriptive analysis consisted of frequency distributions of the responses to all sections of the questionnaire. The frequency distributions of the variables were generated and presented as pie charts and tables for easy reading and understanding.

The results of the empirical study have been discussed in this chapter. Based on the interpretation of the results, the research found that the NIPP implementation is left entirely on the hands of the obligors. The DTI as a custodian of the NIPP has no influence on who should be assisted by the NIPP program. Although the DTI maintains a data base of the approved NIPP projects, the agreements they conclude with the obligors do not contain a clause compelling obligors to select projects from the data base of approved NIPP projects.

The next chapter will discuss the achievement of the primary and secondary objectives of this research; recommendations will be given and will suggest possible related future research studies.

CHAPTER 4

CONCLUSION AND RECOMMENDATIONS

4.1 INTRODUCTION

This chapter summarises the main research results and makes recommendations in terms of the analysis of the success rate of government's National Industrial Participation Programme in supporting SMMEs. Suggestions for further research are also made.

4.2 CONCLUSION AND MAIN RESEARCH FINDINGS

The purpose of this study was primarily to research the problem regarding the success rate of government's National Industrial Participation Programme in supporting SMMEs. The problem was approached by investigating how the DTI, as the department entrusted with the implementation of the program approves business plans and further ascertain adequate funding is secured from NIPP obligor to finance the approved small businesses. The study attempted to determine whether obligors and DTI officials involved in the program are implementing the program in a manner that supports SMMEs.

Based on the research findings of this study, it can be concluded that the implementation of the programme is not supporting SMMEs. The results indicate that the business plans submitted to the DTI are approved as NIPP projects but remain in the DTI data base of approved projects without getting any form of assistance from the NIPP obligors.

The first of the secondary objectives (see section 1.3 in Chapter 1) was to determine the kind and magnitude of assistance that SMMEs require from NIPP.

A conclusion is reached from the study that small business owners submit their business plans to NIPP to be assisted with finance in the following categories (in order of importance):

- Business expansion (36%);

- Start-up capital (30%);
- Take-overs (25%);
- Bridging finance (9%).

The information gathered from the DTI officials indicated that obligors are entirely responsible for submission of their NIPP projects and are also allowed but not compelled to select projects from the DTI data base of approved NIPP projects. In light of the above, obligors therefore submit to the DTI projects with as low financial implication as possible on their side and these may not necessarily be within the categories in which local small business require assistance. The following few paragraphs from the NIPP Annual Report (2008, 9-28) outline some projects that are implemented by obligors through the NIPP which are not in any of the categories prioritised by the small business owners who participated in the study:

“Nissan South Africa (NSA) is meeting its NIPP obligations through its “localization programme”, launched in May 2007, which sources automotive components from local manufacturers for export to Nissan worldwide. The benefit to local manufacturers of automotive components is that, with Nissan’s support, they are linked into international supply chains, bringing in new business and new sources of foreign exchange. The human impact is job creation, technology transfer and skills and management training”.

“Volvo is proactively participating in the NIPP and facilitating the purchase of specialist heavy-duty vehicle components manufactured in Cape Town, Pretoria and Johannesburg. Fleetguard South Africa is manufacturing after treatment systems for heavy diesel engines, using Volvo technology, for export to Volvo Power Train in Sweden. Similarly NGK in Cape Town and Johnson Matthey in Johannesburg are manufacturing components for Volvo”.

“AREVA, as part of its obligor commitments under the NIPP, has been engaged in initiatives for high-level skills transfer. One initiative is the formation of Arecsa Human Capital, in a joint venture between the Nuclear Energy Corporation of South Africa (Necsa) and AREVA. Arecsa funds, manages and delivers specialized high tech training to South African employees in the fields of high technology energy supply”.

"Siemens AG (Germany) is investing R20 million in practical technical training facilities at Lephalele Further Education and Training College in Limpopo Province. Lephalele was chosen because of its location on the doorstep of Eskom coal supplier and the mega power generation plant being built in that area. The College has received state-of-the-art equipment to train 356 students in 2008, rising to 573 students in 2009, in information technology, mechanical, electrical, fitting and turning, electronics and engineering skills, in eight workshops and one IT lab".

According to the examples above it is clear that obligors in the automotive industry submit projects that relate to the selection of a supplier of components related to their products and include such a supplier into their supplier chain processes. For every transaction that they conduct with the supplier they claim NIPP credits equivalent to the value of the transaction towards the discharge of their obligation. The problem that is identified with this kind of practise is that each car model has a limited life span, normally four years in production and few years after market. Therefore, supplier benefiting from this practise can only enjoy benefits for limited period of years. It is also not clear whether the obligors in this sector are including this suppliers in their supply chain processes as their normal business practice or they are doing so forced by the requirement to discharge their obligation, which means that there are some other competitive suppliers of the same products elsewhere in the world who are over looked to the benefit of the local supplier.

The second secondary objective (see section 1.3 in Chapter 1) was to determine why most SMMEs are not being assisted by the NIPP after they have been approved as qualifying NIPP projects. The programme allows small businesses to submit business plan for assistance by NIPP obligors. These business plans are then considered by the Internal Controls Committee (ICC), and those that are deemed to satisfy the requirement of the programme are then approved and put on the data base of NIPP projects. On approval, small business owners are then informed in writing that their business plans have been approved as NIPP projects and therefore granted authority to approach existing obligors for the required assistance.

The study indicates that 89% of the business plans submitted and approved as NIPP projects were unsuccessful in finding an obligor interested to providing the required success while the 11% were successful. The respondents to the study also listed the following reasons put forward by obligors for not assisting them although their business plans are approved as NIPP projects:

- Lack of interest from obligors (36%);
- Small amount required and high administration costs (26%);
- Poor quality of business proposition (13%);
- Not within the NIPP priority sectors (10%);
- Do not keep adequate financial records (8%);
- Information gaps (5%).

A conclusion can be reached that the fact that the DTI officials entrusted with the implementation of the NIPP do not influence the choice that obligors make with regard to project that are prepared to assist contribute to the current trend of NIPP investment (channelled to similar projects with some times on business benefiting from different obligors). It can also be concluded that obligors will always be reluctant to assist and develop small businesses that could use the developed capacity to compete with the same obligor that assisted them. Therefore, obligors will always submit or select NIPP projects that are not costly and pose as little threat as possible in their area of operation.

4.3 RECOMMENDATIONS

It is clear that the strategic direction of NIPP in as far as the channelling of investment from the programme needs to be determined by the DTI as the department entrusted with its implementation by Cabinet and also since it is the department responsible for development of SMMEs. The recommendations that arise as a result of the study include:

- Develop and improve working relations with provincial investment promotion agencies, to allow for such urgencies to submit to the DTI small businesses in their respective provinces to benefit from the programme in order to ensure proper distribution of NIPP support to SMMEs across all provinces. This could be done by establishing a NIPP investment task team that could meet quarterly for investment promotion agencies to submit and engage the DTI on the progress of the submitted projects.
- Establish a way of encouraging obligors to select projects from the DTI data base of projects approved as NIPP projects. This could be achieved by awarding higher number of NIPP credits to obligors that selected from the NIPP data base.

- Revise the current requirements inline with the kind of assistance required by small businesses. The process of revising the guidelines could also include processes at National Economic Development and Labour Council (NEDLAC) where organised labour and business is represented.
- Maintain constant communication with small business owners whose businesses are approved as NIPP projects. The DTI needs to appoint a dedicated person to maintain the data base and on monthly bases contact business owners in the data base and update on their engagements with obligors to enable the DTI to revise its strategy if needs be.
- Attempt to channel NIPP investments to business areas where commercial banks and other finance institutions could not finance due to the risk factor. Priority be given to business plans that were turned down by banks based on the risk factor.

The final section of this study concludes by suggesting further areas for research.

4.4 AREAS FOR FURTHER RESEARCH

The following particular areas of research are recommended for further study:

- A similar study could be conducted to evaluate the impact of the programme to the economy of the country;
- A study on the NIPP credit claim processes to recommend new effective and efficient procedures; and
- Studies on whether committees and other structures established to implement the NIPP are effective.

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Appendix A

QUESTIONNAIRE

THE ANSWERS TO THIS QUESTIONNAIRE ARE STRICTLY CONFIDENTIAL. PLEASE MARK THE APPROPRIATE BLOCK WITH AN 'X'. WHERE ASKED FOR COMMENTS, KEEP ANSWERS SHORT AND PRECISE.

PLEASE ANSWER ALL THE QUESTIONS.

SECTION 'A': DEMOGRAPHICS.

1. WHAT IS YOUR GENDER?

MALE	FEMALE
------	--------

2. WHAT IS YOUR AGE?

Under 21 years
Over 35 years

1	years
2	

3. WHAT IS YOUR POPULATION GROUP?

Black
Coloured
Indian
White

1
2
3
4

SECTION B: BUSINESS PROFILE.

1. HOW MANY YEARS HAS YOUR BUSINESS BEEN IN EXISTENCE?

LESS THAN 3 YEARS
3-6 YEARS
7-10 YEARS
MORE THAN 10 YEARS

2. HOW MANY PEOPLE DO YOU EMPLOY?

--

CHEMICALS, PLASTICS AND RUBBER PRODUCTS

METALS, MINING AND CAPITAL EQUIPMENT

ENERGY (SOLAR AND NUCLEAR)

WOOD AND WOOD PRODUCTS

JEWELLERY MANUFACTURING

OTHER (PLEASE SPECIFY)-----

6. WHAT IS YOUR ANNUAL TURNOVER?

LESS THAN R500 000

MORE THAN R500 000 BUT LESS THAN R1MILLION

MORE THAN R1 MILLION BUT LESS THAN R2,5 MILLION

MORE THAN R2,5 MILLION BUT LESS THAN R5 MILLION

SECTION C: INFORMATION ON NIPP ASSISTANCE

1. HAVE YOU ASKED FOR FINANCE FROM NIPP IN THE LAST 5 YEARS OR 3 YEARS?

3 5

<input type="checkbox"/>	<input type="checkbox"/>
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2. WHAT WAS THE PURPOSE FOR FINANCE?

- I START-UP CAPITAL
- ii TAKE-OVER OF EXISTING BUSINESS
- iii EXPANDING AN EXISTING BUSINESS
- IV BRIDGING FINANCE

3. DID THE NIPP PROVIDE YOU WITH THEIR BUSINESS PLAN FORMAT?

YES NO

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

4. DID YOU HAVE INFORMATION RELATING TO THE NIPP PRIORITY SECTORS?

YES NO

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

5. HOW OFTEN DO YOU GET CONTACTED BY NIPP OBLIGORS?

--

OTHER (PLEASE SPECIFY) _____

**10. WHICH ONE OF THE FOLLOWING WAS INCLUDED IN THE BUSINESS PLAN?
(YOU MAY TICK MORE THAN ONE.)**

OWNER'S /DIRECTOR'S SKILLS

OWNER'S/ DIRECTOR'S EXPERIENCE

OWNER'S/ DIRECTOR'S CV

OWNER'S/DIRECTOR'S FINANCIAL STAKEHOLDERS

MONTHLY CHASHFLOW STATEMENT OF OWNERS

STATEMENT OF ASSETS AND LIABILITIES OF OWNERS

**11. WHICH OF THE FOLLOWING FACTORS DO YOU THINK NIPP OFFICIAL CAN HELP YOU
WITH TO DEVELOP YOUR BUSINESS SKILLS?**

BUSINESS PLAN CREATOR TOOL

MENTORSHIP AND TRAINING SERVICES

ENTERPRISE TOOLKIT

CASH FLOW MODEL

ALL OF THE ABOVE

**12. WHICH OF THE FOLLOWING GOVERNMENT INCENTIVE SCHEMES HAVE YOU TRIED
FOR BUSINESS FINANCE?**

KHULA ENTERPRISE FINANCE

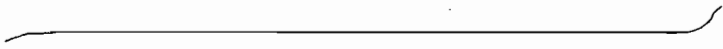
INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

THE BRIDGING FINANCE SCHEME

ALL OF THE ABOVE

NONE OF THE ABOVE

THANK YOU FOR YOUR PARTICIPATION.



NIPP GUIDELINES

Foreword

South Africa is a society and economy in transition. The amazing political transition that has been achieved has to be underpinned by an equally challenging economic transition process. Our objective in this latter process is to become a competitive manufacturing economy in order to provide sustainable employment and income generating activities for our people. We have emerged from a painful period of isolation and stagnation and now need to embark on a rapid restructuring to build on our strengths and overcome our weaknesses.

The role of South Africa's Industrial Participation Programme is to fast-track investment, exports and technology development by utilising the instrument of government procurement to leverage such initiatives. The Programme is a component of industrial strategy that seeks to work in partnership with the private sector.

In designing the Programme we have sought to ensure that there has been clarity of purpose and a workable and accessible administrative procedure. This brochure is a quick introduction to the Programme. The government has worked in a steady and determined manner to make South Africa an investment-friendly economy.

The Industrial Participation Programme is designed to create a win-win situation by encouraging foreign suppliers of major government contracts to seriously evaluate the South African market as a possible investment or business location.

Our IP Secretariat is there to help you and I hope that you find your interaction with them to be both challenging and profitable.

The Honourable Minister of Trade and Industry
Mandisi Mpahlwa MP

1. Introduction

Industrial Participation (IP) became obligatory on 1 September 1996. Cabinet fully endorsed the IP Policy and its operating guidelines on 30 April 1997.

In effect, this means that all government and State Owned Enterprise (SOE) purchases or lease contracts (goods, equipment or services) with an **imported content equal to or exceeding US\$10 million (or the equivalent thereof)** become subject to an Industrial Participation Obligation.

Any seller/supplier who incurs an Industrial Participation Obligation will be required to participate in the South African economy in the manner set out in these guidelines and conforming to the stated evaluation criteria. All Industrial Participation Projects/Business Proposals must be based on the principles of mutual benefit and business sense.

2. Mission and Objectives

Mission

The mission of the Programme is to leverage economic benefits and support the development of South African industry by effectively utilising the instrument of Government Procurement.

Objectives

- Sustainable economic growth
- Access to new markets and the establishment of new trading partners
- Foreign Direct Investment (FDI) into South Africa
- Exports of South African "value added" goods and services
- R&D collaboration in South Africa
- Job creation
- Human resource development
- Technology transfer
- Creation of economic advantages for previously disadvantaged communities.

3. Characteristics

Obligatory

Value Threshold

Any single contract with imported content exceeding US\$10 million
or

Multiple contracts for the same products or services each with imported content exceeding US\$3 million awarded to one seller over a 2 year period which in total exceeds US\$10 million
or

A contract with a renewable option clause, where should the option be exercised the total value of the imported content will exceed US\$10 million.
or

Multiple suppliers of the same products or services under the same contract, where the value of the imported content each allocation equals to or exceeds US\$ 3 million worth of supplies to the same government institution, which in total over a two (2) year period exceeds US\$10 million shall incur *pro rata* 30% of the total IP obligation.

30% Obligation

The sum total of all commercial/industrial activity (subject to **the dti's** crediting criteria) must equal or exceed 30% of the imported content.

Mainly Performance Based Evaluation

Fulfillment Period = 7 years from the effective date¹ of the IP Agreement

Banking of Credits

Excess credits can be banked for a period of 4 years after the obligation has been discharged.

Only 50% of any new obligation can be fulfilled using banked credits.

5% Acceptable Performance Guarantee

Black Economic Empowerment Requirement

A *minimum* of 20% of the total obligation should include BEE involvement.

Example:-

A State Owned Enterprise (SOE) purchases goods to the value of US\$100 million. The imported content of these goods amount to US\$80 million.

The seller of such goods would therefore incur an Industrial Participation Obligation to the value of US\$24 million (30%). The seller would be obliged to submit and implement business projects which would generate IP credits equaling or exceeding the Industrial Participation Obligation of US\$24 million.

An acceptable performance guarantee to the value of US\$1,2 million (5%) would be required prior to the contract being awarded.

The seller would have seven years to discharge the obligation from the effective date of the IP Agreement.

4. NIP Criteria/Principles

Any industrial participation proposal must meet the following criteria in order to qualify for industrial participation credits. The onus of proof rests with the seller.

¹ Effective date will be deemed to be 30 days after signing of the main purchase agreement

In cases where companies have signed separate industrial participation agreements with **the dti**, these criteria may differ somewhat from those agreements.

4.1 No increase in price

The Industrial Participation Obligation must not result in an increase in the price of the purchase.

4.2 Mutual benefit

Industrial Participation Proposals must be economically beneficial for the Seller as well as being in accordance with national economic objectives.

4.3 Additionality

All industrial participation proposals must reflect new or incremental business. Investment or joint venture type proposals will only qualify for credits if it is either a new facility or the expansion of an existing facility.

Investment in an existing facility must demonstrate beyond doubt the added benefit accruing from such investment.

Export promotion type proposals will qualify for credits only if they are either new products or existing products introduced into new markets (new country or new customers).

4.4 Sustainability

Industrial Participation Projects must be economically and operationally sustainable, even after the discharge period.

4.5 Causality

Causality means that the Industrial Participation Proposal must result directly from the purchase contract i.e. the Company would not have initiated or participated in the proposal had it not been for the National Industrial Participation Policy or a condition of the purchase contract. There must be a clearly identifiable link between the IP obligation, the Company and the Industrial Participation Proposal. Projects submitted under a Strategic Partnership Agreement do not need to meet these criteria (i.e. be initiated as a result of the purchase contract).

Furthermore, Causality means that each project must be shown to have been caused by the Seller as a result of the Seller's industrial participation obligation or the Seller's direct or indirect involvement therein; or that the involvement of the Seller had caused the project to eventuate within a shorter time period than would have been the case.

For investment type projects the Seller should have provided or facilitated at least 10% of the investment amount.

4.6 Responsibility

The fulfillment of any Industrial Participation Obligation lies solely with the Seller.

5. Definitions

The following definitions apply only to the interpretation of the National Industrial Participation Programme and do not necessarily carry the same meaning as in everyday use.

5.1 Credits

Points allocated to measure performance of the Industrial Participation Project and used either to reduce the obligation or to be banked for any future obligation

5.2 Exports

For the purposes of calculating IP credits, the use of multipliers applies only to sales outside of the SACU region. The following countries are part of the SACU: Lesotho, Swaziland, Namibia and Botswana. Sales to the SACU countries are regarded as local sales.

5.3 Imported Content

Imported content is the cost of goods and services, components, parts or materials which have been, or are still to be, imported (whether by the Seller or its suppliers or sub-contractors) based on a free-on-board (FOB) calculation, plus any other foreign direct importation cost and any cost relating to the payment of royalty or licensing fees.

5.4 Industrial Participation Control Committee

See IPCC responsibilities

5.5 Industry Sectors

All projects satisfying the principles as outlined in **the dti's** Industrial Policy will be considered for IP credits.

Primary sectors such as mining and agriculture as well as certain stand-alone infrastructure projects would not be considered for IP credits.

5.6 Investment

Investment is classified as the amount of money, whether in the form of equity or preferential loan, injected into the project or business, for the purposes of buying assets and other set-up costs.

5.7 Technology Transfer

Technology Transfer can be included under investments.

5.8 Job Creation

Refers to the number of new jobs that will be created or retained and that can be linked directly to an approved or proposed Industrial Participation Project. In the case of jobs retained, the onus is on the Obligor to prove that jobs would have been lost without its involvement. The amount paid for salaries and wages is used in calculating IP credits.

5.9 Local Content

In the case of products, local content refers to that portion of the value that is made, added or manufactured from SACU natural resources, in South Africa. In the case of services, this includes all services rendered by individuals or organisations registered in South Africa for the purpose of carrying on a business.

5.10 Local Sales

Sales within the Southern African Customs Union (SACU) region.

5.11 State Owned Enterprises

Refers to any entity where the Government (National, Provincial or Local), or any Government Institution, owns a majority or controlling interest that can be exercised to influence the policy direction of that institution.

5.12 Technology Transfer

Technology Transfer refers to the diffusion of technology from an owner of the technology to a seeker of that specific technology by means of some form of agreement - licensing, joint venture, strategic alliance, outright sale or by mutually acceptable means.

5.13 Value-added

Refers to when value is added to a product when its shape, form, use and monetary value have changed through some process e.g. software reconfiguration, assembly or manufacturing process. Value added through installation of computer packages, marketing or other similar type of services is not considered for IP credits.

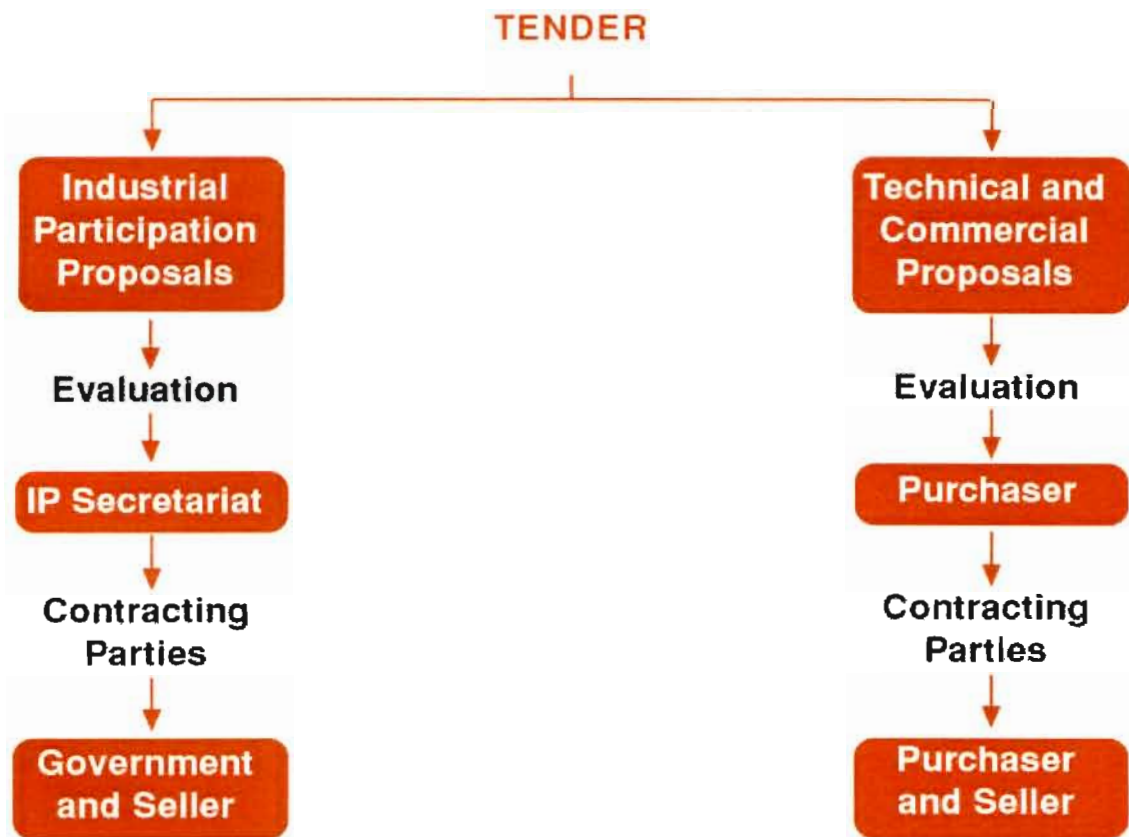
6. Industrial Participation and Arrangements

- Investments
- Joint Ventures

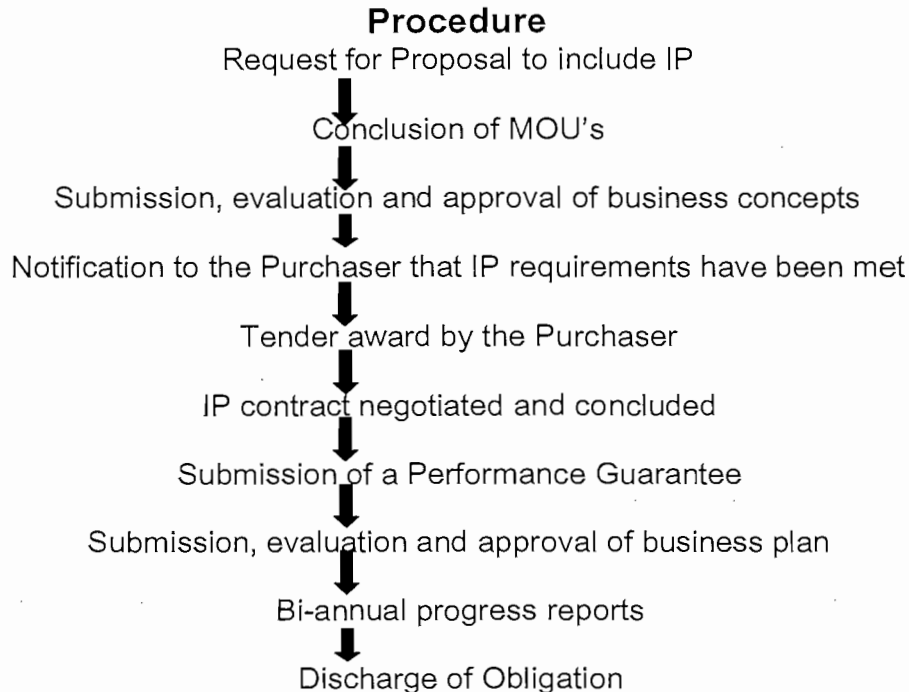
- Sub-Contracting Works
- Licensee Production
- R&D Collaboration
- Export Promotion
- Supply Partnerships with South African Industry.

7. Role definition of Purchaser and IP Secretariat

The National Industrial Participation Programme does not form part of the evaluation criteria of any Tender process, unless otherwise stated in the tender document. The minimum of 30% obligation will apply to all contracts awarded where the value of the imported content is greater or equal to US\$10 million. The process of Tender Evaluation and awarding by the Purchaser is a parallel process to that of the Industrial Participation Secretariat.



- * IP is a precondition but not a factor in the adjudication, unless all bids are relatively close



The procedure can be summarised as follows:

- Liaison takes place between the Industrial Participation Secretariat (IPS) and the Purchaser regarding IP and the Request for Proposals (RFP)
- Tender invitation includes NIP guidelines
- Conclusion of Memorandum of Understanding (MOU)/Confidentiality Agreement between the IPS and the Seller
- Seller submits Business Concepts to IPS
- Discussions take place between the Seller and the IPS regarding these Business Concepts
- These Business Concepts are then assessed by **the dti's** Internal Control Committee (ICC) which, if satisfied that the proposals meet NIP criteria, will give "in principle" approval
- Further discussions will take place between the IPS and Seller should the ICC not approve the Business Proposals
- The IPS will then give notification to the Purchaser that the prospective Seller has complied with the initial NIP requirements. The Purchaser would now be in a position to award the contract
- Tender awarded to the Obligor by the Purchaser
- The NIP Obligation becomes effective when the purchase contract is concluded
- The next stage is for the IP Contract, including the fulfillment period and milestones, to be negotiated and concluded
- The Obligor is then required to provide the 5% performance guarantee
- The Obligor is then required to submit Business Plans to the IPS and this should take place within three months of the signing of the purchase contract
- Following further discussions with IPS regarding the Business Plans these are then submitted to the Industrial Participation Control Committee (IPCC) for evaluation and approval
- During the obligation discharge period bi-annual progress reports are required from the seller and these are interrogated during the obligatory six-monthly review meetings

- IP Credits are allocated against performance supported by audited evidence that the claimed activity has taken place
- The decision regarding IP Credits will be communicated to the Seller together with a report on the status of the Seller's IP Obligation
- Independent Audit Reports are required from the Seller on an annual basis and, in addition, **the dti** will initiate ad hoc audits as and when required
- Upon fulfillment of the IP Obligation, the Seller will be notified in writing and, in so doing, be discharged from the Obligation.

8. The Role and Responsibilities of the Industrial Participation Secretariat (IPS) and the Industrial Participation Control Committee (IPCC)

The responsibilities of the IPS are as follows:

- Keeping track of all relevant procurement transactions in South Africa that could attract an IP obligation
- Assist, guide and advise Sellers in the fulfillment of their IP obligation
- Conclude IP Contracts
- Evaluate IP Business Concepts prior to submission to the Internal Control Committee (ICC) for approval
- Submit recommendations regarding IP Business Plans to the Industrial Participation Control Committee (IPCC) for its approval
- Administer and audit the performance of all IP Projects
- Prepare status/performance reports for the IPCC for the allocation of credits
- Submit an annual report to the Portfolio Committee on Trade and Industry and the IPCC
- Assist the IPCC with its functions and where possible disseminate all decisions of the latter to all relevant parties.

The responsibilities of the IP Control Committee are the following:

- Provide strategic guidance and approve guidelines for the National Industrial Participation Programme
- Ensure, with the assistance of the Industrial Participation Secretariat, that all relevant Government offices and State owned Enterprises are aware and enforce their obligations related to the National Industrial Participation Programme
- Review, comment and decide on recommendations made by the IPS regarding IP Proposals of prospective Sellers
- Evaluate the performance reports, as supplied by the IP Secretariat and award credits or invoke penalties where justified
- Ensure that all relevant IP Agreements are monitored and audited by the IP Secretariat on a regular basis
- The IPCC meets as often as circumstances require, but at least once a month.

IP Control Committee Participants

The IP Control Committee has as its quorum the dti and any two of the following departments, i.e. the Departments of Foreign Affairs, Public Enterprises, Defence and The National Treasury.

9. IP Contractual Agreements

Initiation Documents

9.1 MOU/Confidentiality Agreement

Commitment to participating within the parameters of the IP Programme and to respect the confidentiality of the discussions and negotiations between parties.

9.2 Strategic Partnership Agreements (SPA)

- Long-term pro-active agreement between Government and prospective Suppliers
- Not linked to a single tender – can accommodate multiple tenders.
- IP Obligation can be offset through the SPA provided the SPA's proposed projects equal or exceed the IP Obligation. Should this not be the case, the SPA must be supplemented by further projects
- SPA projects have a lifespan of 10 years and banked credits must be used within 5 years of being awarded.
- SPA must be export biased
- In the event a company incurs an IP obligation it will be required to sign an Obligation Agreement to which the SPA form an Annexure.

9.3 Obligation Agreement

- Conditional upon winning the tender
- Linked to a single tender
- Surplus credits generated/accumulated during the seven year period can be banked for use in discharging a future obligation subject to the following conditions:
 - Banked credits will remain valid for four years after fulfillment period
 - Only 50% of the new obligation can be satisfied using banked credits
- Performance Guarantee (5%).
- Milestones – 30% by year 3; 70% by year 5 and 100% by year 7

10. Evaluation/Crediting methodology

Business plans/proposals will be evaluated and possible credits will be indicated. Credits will only be awarded upon successful performance. The following are the methods used to award credits:

10.1 Investment, JV, Sub-Contracting Works, Licensee Production

	OBJECTIVE	METHODOLOGY	FACTOR
1	Sustainable Economic Growth	Revenues accumulated over the fulfilment period	\$1 = 1 Credit LC at least 40% to qualify
2	Export Promotion	Export Revenues = Additional Credits	\$1 = 1+LC* LC at least 40% to qualify
3	Job Creation	Salaries & Wages costs accumulated over the fulfilment period	\$1 = 1 Credit
4	Training and Development	Training & Development costs accumulated over the fulfilment period	\$1 = 1 Credit
5	SMME** Promotion	Outsourcing to SMME=s	\$1 = 1 Credit
6	Black Economic Empowerment (BEE)	Outsourcing to BEE-SMMEs (Minimum of 20% of total obligation should reflect BEE involvement)	\$1 = 2 Credit
		BEE Ownership % x revenue	\$ x % =Credits
7	Investment & Technology Transfer	Capital outlay or capital injections	\$1 = 2 Credit
8	R & D Expenses	All costs	\$1 = 2 Credit

*LC = Local Content

**SMME = Small, Medium and Micro Enterprises

Example: Projected Credit Schedule

	Year 1	Year 2	Year 3	Year 4	Year 5	Credits
INCOME						
Total Sales:		5 100	9 400	10 800	10 800	
Domestic (x1)		2 000	3 400	4 200	4 200	13 800
Exports* (1+LC) - 75% LC		3 100	6 000	6 600	6 600	39 025
BEE Ownership (%x Rev)- 30%						

		1 530	2 820	3 240	3 240	10 830
EXPENDITURE						
Land & Building (x2)	5 000					10 000
Plant & Equipment (x2)	6 000	1 000				14 000
Tooling (x2)	3 000	500				7 000
Other Set-Up Costs (x2)	500					1 000
Material Costs	190	1 200	1 690	2 040	2 040	
Salaries & Wages (x1)	760	2 520	2 570	2 630	2 630	11 110
Engineering & Development (x1)	50	200	300	300	300	1 150
Services:						
Transportation/Shipping (x1)		70	150	160	160	540
Security (x2)	10	80	120	150	150	1 020
Auditing (x2)	10	50	80	100	100	680
Technical Services (x1) etc....	10	300	480	550	550	1 890
Consulting Fees (x2)	70	450	400	370	370	3 320
R & D Expenses (x2)	60	150	200	220	220	1 700
Sundries	10	60	60	60	60	
TOTAL CREDITS ACCUMULATED						117065

10.2 Export Promotion for Goods and Services

	Year 1	Year 2	Year 3	Year 4
Purchases (Local content 100%)	1000	2000	4000	5000
Credits per Annum	1000 x 2 = 2000	2000 x 2 = 4000	4000 x 2 = 8000	5000 x 2 = 10000
Accumulation	2000	6000	14000	24000

	Year 1	Year 2	Year 3	Year 4	Year 5	Credits
Annual Exports	60	100	200	250	260	
0% Local Content	(60x100%x2)	(100x100%x2)	(200x100%x2)	(250x100%x2)	(260x100%x2)	
Credits Per Annum	120	200	400	500	520	
Credits Accumulation	120	320	720	1220	1740	1740
60% Local Content	(60x60%x2)	(100x60%x2)	(200x60%x2)	(250x60%x2)	(260x60%x2)	
Credits per Annum	72	120	240	300	312	
Credits Accumulation	72	192	432	732	1044	1044

10.4 R&D Collaboration with South African Partners

A. All direct costs incurred, x 2

OR

B. All revenues generated after commercialisation, x 2

10.5. Skills Development

Stand alone projects for skills development in engineering and technical sectors will be considered on a case-by-case basis. For approved projects, a multiplier of 10 will be allocated to the amount spent on skills development.

11. Format of Business Concepts and Business Plans

Business Concepts

Business Concepts submitted to the ICC for in principle approval should be submitted in Executive Summary format and should contain the following information

- Contact Details
- Partners
- Brief description of products or services
- Broad marketing strategy
- Broad financial projections
- Brief description of the technology/process
- Geographic location
- Indication of jobs likely to be created / retained
- Demonstrate causality and additionality
- Concept notes submitted by Obligor should also include IP credit schedules with projections related to the specific type of arrangement, including the projected milestones

Business Plans

The detailed Business Plans that are to be submitted to the IPCC for final approval should contain the following information:

- Executive Summary
- Description of Business Proposals
 - Legal structure
 - Ownership structure
 - Mission and Objectives
 - Description of products and services to be produced
 - Description of industrial sector, markets and customers
 - Processes, systems, technologies and equipment
 - Detailed employment projections; local and foreign
 - Technology transfer
 - Training
 - Exit mechanisms
- Marketing
 - Marketing research and analysis
 - Marketing strategy
 - Marketing plan
- Financial
 - Pro-forma balance sheet, income statement, cash flow statement
 - IRR, NPV and Payback Period
 - Financial details of project
 - Detailed credit schedule with projections and milestones
- References of Recent Successes