



Automotive Industry Development Centre

A JOINT INITIATIVE BETWEEN THE:

**UNITED NATIONS INDUSTRIAL DEVELOPMENT
ORGANIZATION
AND THE
AUTOMOTIVE INDUSTRY DEVELOPMENT CENTRE**

PROGRAMME REPORT

Title: **UNIDO Business Partnership Programme:**
Facilitating International Market Access for Small and Medium-sized Manufacturers in the Automotive Component Industry in South Africa

Project Site: Republic of South Africa

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1. INTRODUCTION

A successful automotive industry is often seen as an emblem of economic success, especially in developing countries, as a sign of mastery of modern technologies. In South Africa, one aspect that distinguishes the automotive industry from other sectors is the importance of government policies in steering its development. The strong growth in the automotive sector in South Africa has been the result of well-designed and well-managed government policies, particularly the MIDP¹. To a large extent the South African automotive industry through government intervention and industry collaboration has established international credibility for its ability to supply products at the required quality as well as price levels. The industry's total contribution to the country's GDP was in the order of 6.3%. It further represents the third largest sector in the South African economy, after mining and financial services. Suffice to say that the development of the local automotive industry over the past few years has strategically positioned South Africa as a player and contributor to the global automotive sector.

Within the construct of the South African automotive industry there are however key challenges:

- **Cost** – The ever increasing pressure from other developing countries (India, China) on cost competitiveness will require the local industry to focus on strategic initiatives to address this growing threat.
- **Logistics Infrastructure** – Being at the southern tip of Africa will have its unique challenges in both the delivery of imported - and exported components and vehicles.
- **Local Content** – The increase of local content will contribute to the creation of additional jobs and will ensure stability within the automotive sector in South Africa.
- **Socio-Economic** – Addressing the impact of HIV/AIDS and literacy and numeracy levels on the productivity and competitiveness of this sector.
- **Economic Empowerment** - Since the elections of April 1994, the issue of economic empowerment and growth have been placed high on the agenda

¹ Current Developments in the Automotive Industry, The DTI Report, 2003.

of Government in South Africa. With millions of South Africans unemployed and underemployed, the government has no option but to give its full attention to the fundamental task of job creation, and generating sustainable and equitable growth. Within the automotive sector; Small, and Medium Enterprises (SME's) represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa.

Directing the focus on the contribution of SME's currently in the automotive industry it is easy to highlight that these organisations have been neglected to a large extent. While the Motor Industry Development Plan has undoubtedly been of great benefit to the original-equipment manufacturers (OEMs), there has been some concern that automotive industry suppliers further down the value chain have not realised the same benefits. Additional to this concern within the Automotive Industry is the general level of competitiveness of these lower level suppliers (particularly SME and BEE (Black Economical Empowerment) organisations). In most cases, these organisations are excluded from direct initiatives launched by most OEM's and further do not benefit from international expertise in the form of international joint ventures and multi-national participation.

Taking cognisance of this situation and the requirements of an ever increasing competitive international automotive component market, UNIDO launched an innovative approach to address the competitiveness of SME's in the form of the UNIDO Business Partnership Programme. The Programme aims to build partnerships between private sector actors – industrial corporations and institutions, developing countries' governments and institutions, and UNIDO itself with an aim to contribute to global development objectives.

In South Africa, a first agreement in the automotive component industry under this initiative was launched in 2003, jointly with the Automotive Industry Development Centre (AIDC).

2. UNIDO BUSINESS PARTNERSHIP PROGRAMME FRAMEWORK

The format of the Programme is based on the *multi-sector UNIDO Business Partnership Programme* approach², integrating main stakeholders in a programme. This programme is aimed at specific industry, country or region to take advantage of their expertise in a collaborative approach by addressing concrete problems. In the case of the UNIDO Business Partnership Programme for the automotive component industry in South Africa, UNIDO's principle partner is the Automotive Industry Development Centre (AIDC), a leading organisation of the Organised Private Sector (OPS), supporting the South African component industry in their efforts to improve their overall competitiveness.

2.1. UNIDO APPROACH:

The mission of UNIDO is to assist developing countries and countries in transition in their pursuit of sustainable industrial development. By doing so, the integration of Small and Medium-Sized Enterprise (SME) into local and global supply chains of domestic and multinational companies is an integral part of UNIDO's mandate.

As national and international Original Equipment Manufacturers (OEM) and 1st Tier automotive component manufacturers are demanding increasingly high standards with regard to cost, quality, delivery, and to a certain extent, engineering know-how, UNIDO seeks to support SME's in their endeavor to follow this demand. Moreover, the AIDC, through the UNIDO programme is able to provide cutting edge services and tools within the framework of a process-oriented business partnership, thus, combining business interest with the important developmental perspective of SME's enhancement in developing countries. UNIDO is currently implementing a similar programme in India, thereby generating synergies for South African SME's by using well-tested approaches and services for continuous improvement processes in the automotive industry.

² UNIDO (2002), "UNIDO Business Partnerships for Industrial Development", Vienna

2.2. AIDC APPROACH:

Vision Statement -

“To contribute to the establishment of a viable South African automotive industry which is competitive locally and internationally, and is capable of achieving both continuous growth and sustainable job creation”

AIDC Facts and History –

- The AIDC was established in October 2000 (Gauteng) and in November 2003 (Eastern Cape).
- The AIDC has a staff complement of 60+ people with significant experience in OEM’s, component supplier base and Government projects.
- It is a resources centre developing and providing specific services to the automotive industry and Government.
- It is a project driven organisation aimed at harnessing the collective expertise of local organisations and institutions with world class competency; and
- It is a network industry, Government and technical service provider aimed at addressing the needs of the automotive industry in South Africa.

Additional to the above the Business Partnership Programme will comprise the Government of South Africa through the Department of Trade and Industry (DTI), the National Association of Automotive Component and Allied Manufacturers (NAACAM), and the National Association of Automobile Manufacturers of South Africa (NAAMSA). It is foreseen to integrate over time other private sector partners, in particular multinational vehicle manufacturers.

3. OBJECTIVE OF THE PROGRAMME

The objective of the Business Partnership Programme for the automotive component industry in South Africa is to strengthen Small and Medium-Sized Enterprise (SME) suppliers to meet the requirements of Original Equipment Manufacturers (OEM) and 1st Tier automotive component manufacturers.

The construct of this programme will not only enable SME's to access these markets but also ensure their sustainability in global supply chains and international markets. The aim of UNIDO in this programme is to share the responsibility for design, development, implementation and funding of the tools and services required for the successful implementation of the objectives. Within this context, the programme envisages to support and strengthen the institutional framework for providing practical services to SME's in the automotive manufacturing industry, achieving three inter-related objectives that are outlined below:

- *Enhancing the performance of South African SME's in the automotive component industry* to ensure their international competitiveness through the implementation of direct shop floor interventions.
- *Facilitating access of South African SME's in the automotive component sector to international markets* through a supportive service ensuring their integration into global supply chains.
- *Widening the outreach of the services, developed, and ensuring sustainability of the Programme* through the strengthening of the institutional setup (AIDC) and building up a pool of well-trained national engineers and market experts in the automotive component industry.

As further support, the developmental objective of the Business Partnership Programme for the South African automotive component industry is twofold:

- Firstly, it seeks to enable small and medium manufacturing enterprises in the automotive sector in South Africa to improve their overall competitiveness and, therefore, to integrate successfully into national and international supply chains, accessing eventually international markets. Specific effort will be made to integrate "BEE"-companies into the Programme.
- Secondly, it is intended to enhance existing institutional capacity for serving a significant number of SME's in the industry concerned. While individual SME's will benefit from practical programme services, the approach will also emphasise training of at least five local engineers and

experts to enable a wide outreach to an increasing number of small and medium-sized manufacturers, reducing thereby, continuously the average cost per company served.

4. BUSINESS PARTNERSHIP PROGRAMME LAYOUT

4.1. PHASE 1 – PROGRAMME SEED PHASE (PREPARATORY ASSISTANCE)

It should be noted that the activities of Phase 1 and some activities of Phase 2 (reference the Country Service Framework document) will be presented and discussed in this report.

Phase 1 – Scope

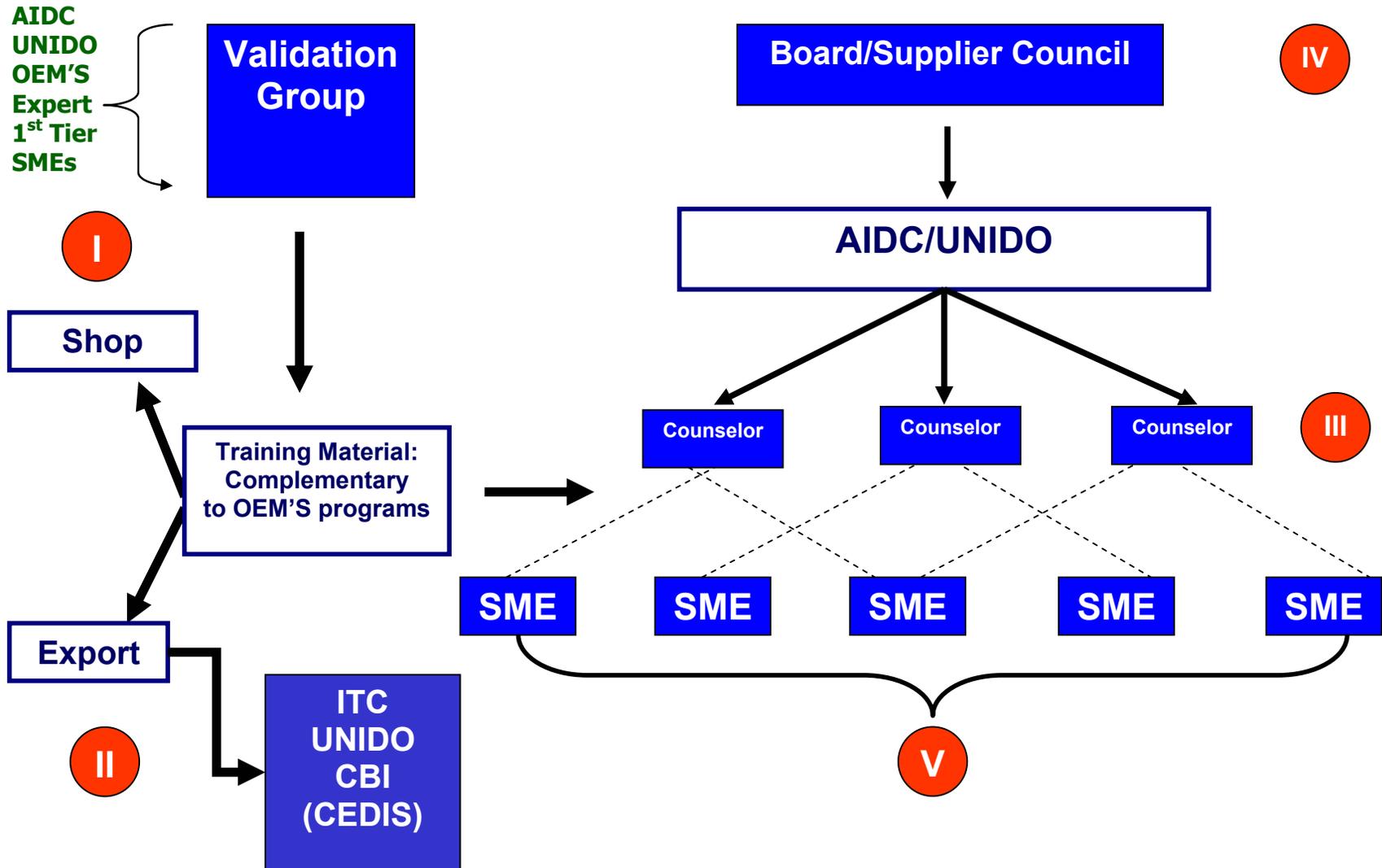
The preparatory assistance focused on two activities:

- Selection of representative SME companies from the sector as a pilot for the assessment of the current situation and development, adaptation and customisation of the Basic Training Programme and the Market Access Coaching Programme including a pilot test of the selected approached in these companies.
- Organisation of a stakeholder meeting, defining the future structure, scope and strategy of a multi-sector partnership for the enhancement of the South African automotive component industry.

Phase 1 – Partnership Profile and Programme Time Line

The partnership profile and Phase 1 time line can be viewed on the following pages. Also find a detail programme layout, highlighting the specific defined tasks and outputs as required from the Business Partnership Programme (The content of the next slides are direct extracts from the original Country Service Framework as developed between DTI and UNIDO).

▪ Partnership Profile and Programme Layout



▪ **AIDC and UNIDO Tasks / Outputs**

Task	Description	Resource	Time Forecast
I Development of training material for shop floor interventions	<ol style="list-style-type: none"> 1. Group of experts validating training material (validation group) Core members: AIDC, UNIDO, independent expertise Validation members: AIDC, UNIDO, 1st tiers, OEMs, SME's and international expertise <ul style="list-style-type: none"> • Draw up list and contact and enlist members • Arrange kick-off meeting and elicit commitment • Collect and review existing material • Arrange and facilitate workshop to decide on training material content 2. Develop and document shop floor training material <ul style="list-style-type: none"> • Identify and contract training material development personnel • Collate material based on workshop output • Arrange interim reviews • Document and review 1st draft • Prepare final draft • Print final draft 3. Integration of UNIDO expertise on environmentally sound production (NCPC in RSA) as input to training material development 	<p>Expert (UNIDO) Nick Wood (AIDC) Rose Atkinson (AIDC) Dube Mzimba (AIDC)</p>	<p>April – October 2003</p>
II Development of training material for market access coaching interventions	<ol style="list-style-type: none"> 1. Development of automotive specific Q&A Book for exporters (to include linkages/cross reference to shop floor competitiveness & environmental issues) b. Validation group core members market access; base UNIDO, ITC, CBI, international expertise, NTSIKA c. Usage of UNIDO networks (ITPOs, SPX) <ul style="list-style-type: none"> • Identify and contract training material development personnel • Collate material based on workshop output • Arrange interim reviews • Document and review 1st draft • Prepare final draft • Print final draft 	<p>Expert (UNIDO) Nick Wood (AIDC)</p>	<p>June – October 2003</p>

Task	Description	Resource	Time Forecast
III Counselors' Integration/ Training	<ol style="list-style-type: none"> 1. Selection of 2 counsellors <ul style="list-style-type: none"> • Develop criteria for counselors • Interview suitable candidates • Select 2 candidates for counselor training • Provide background information and programme philosophy 2. Preparation and training, technical and managerial, to trigger mind set change <ul style="list-style-type: none"> • Contract international expertise • Arrange suitable time and venue for counselor training • Carry out training 3. National / international expertise (HR development) <ul style="list-style-type: none"> • Contract international expertise • Arrange suitable time and venue for counselor training • Carry out training 	2 X Expert (UNIDO) Nick Wood (AIDC) 2 X Counsellors	April – October 2003
IV Composition of Steering Committee / OEM-1st Tier Integration	<ol style="list-style-type: none"> 1. OEMs, 1st Tiers integration <ul style="list-style-type: none"> • Provide programme information through workshops • Commit and engage OEM, 1st tier • Engage and commit Supplier Council 2. Guidance of training process <ul style="list-style-type: none"> • Prepare presentation • Arrange and facilitate information session 3. Overall technical input to material development/programme development 	Nick Wood (AIDC) Fanie Fourie (AIDC)	As from May 2003 (ongoing)
V Developing of SME's - interventions carried out	<ol style="list-style-type: none"> 1. Actual training carried out by counselors (2x4months) <ul style="list-style-type: none"> • Carry out pilot intervention at 5 SME's (BEE) • Develop case studies/success stories on pilot intervention 	Nick Wood (AIDC) 2 X Counsellors (AIDC)	As from September 2003

As part of Phase 1 of the Business Partnership Programme both the AIDC and UNIDO contributed in monetary and time value. The breakdown of activities for the implementation of Phase 1, for both the institutions is shown below:

UNIDO

- Back up operations and administration
- Integration towards process of modules, based on 'Tirisano' programme
- HR development for counselors
- Lead expert on market access coaching

AIDC

- Development of programme material for shop floor interventions
- Development of markets access coaching programme materials
- Development of automotive export guide, jointly with ITC
- Provision of 2 counselors for 12 months
- Integration of OEM's and 1st Tiers into Technical Advisory Group – determination of contribution scheme – promotion activities
- Carrying out pilot interventions in 5 companies jointly with UNIDO, mainly BEE & SME's
- Prepare case studies on pilot companies
- Integrate concepts of environmentally sound production processes into the training material, in cooperation with the UNIDO National Cleaner Production Center (NCPC) in SA
- Prepare background and promotional material for the programme, e.g. video, leaflet, road show, regular promotional events with SME, OEMs, and 1st Tiers.
- Organize promotional event in 4th quarter of 2003 towards OEMs/1st Tiers and SME's

Phase 1 – Deliverables

Deliverable Tracking: Refer Highlighted paragraphs and CSF for elements completed or in progress

Output 2 Development of the Basic Training Programme for Continuous Improvement in the automotive component industry in SA					
Success Indicators Basics Training Programme Finalised: Improved competitiveness with regard to cost, quality and delivery of pilot SME's in the automotive components industry of SA					
Activities	Resp.	Support Parties	Start date	Finish date	Milestones
1. Review existing generic basic training elements at company level e.g. shopfloor organisation (5S) standard operation systems, single minute exchange of dies etc.	UNIDO; Int. Experts; National Experts; Counterp. Orgs		Mar 2003	May 2003	Existing training elements reviewed and suitability assessed in: <ul style="list-style-type: none"> ▪ OEM production systems (FORD, TOYOTA) ▪ Tier 1 basic training at company level ▪ UK, Japanese and India auto industry basic training at company level ▪ Competition companies in SA auto industry delivering basic training programmes ▪ Review of AIDC's existing programmes at company level
2. Adaptation and customisation of selected generic basic training elements for use in the SA automotive components industry as the Basic Training Programme	UNIDO; Int. Experts; National Experts; Counterp. Orgs	CII FORD Motor Company SA Rubicon Learning systems (HR elements)	May 2003	Sept 2003	Customised Process Outlined: <ul style="list-style-type: none"> ▪ Standardised structure developed ▪ Complimentary to standardised structure, company –specific structure developed ▪ Project plan for pilot implementation developed ▪ Cluster programme outline integrated
3. Preparation of final version of Basic Training Programme including documentation and trainer's guide	UNIDO; Int. Experts; National Experts; Counterp. Orgs	CII FORD Motor Company SA	Dec 03	Jun 04	Basic Training Programme Finalised: <ul style="list-style-type: none"> ▪ In line with lessons learned from pilot company implementation (5 companies)
4. Introduction and training on the customised Basic Training Programme to main counterpart institutions (AIDC) for continuous use	UNIDO; Int. Experts; National Experts; Counterp. Orgs	CII	Dec 03	Jul 04	Training of main counterpart organisation completed: <ul style="list-style-type: none"> ▪ AIDC personnel trained on theory behind basic training programme and cluster concept (locally and in Indian automotive industry through CII) ▪ AIDC personnel received hands-on training at pilot companies for implementation skills ▪ Additional AIDC personnel scheduled into follow-on projects

Output 4		Development of the Market Access Coaching Programme for facilitating access to foreign markets of SME's in the automotive component industry in SA			
Success Indicators		Market Access Coaching Programme finalised : improved information and know-how on international market access at SME's (2 nd and 3 rd Tier level achieved)			
Activities		Resp.	Duration (months)		Milestones
1. Outline the structure of the programme and determine the programme elements		UNIDO; Int. Experts; National Experts; Counterp. Orgs	2	5	Programme structure finalised <ul style="list-style-type: none"> Programme structure provided to AIDC by Mr. Hans Verhulst (CBI)
2. Assess foreign market access conditions for SA SME's in the automotive components industry with regards to terms of trade in the relevant WTO agreements		UNIDO; Int. Experts; National Experts; Counterp. Orgs	3	6	Tariff structure and market access conditions assessed <ul style="list-style-type: none"> International expert
3. Assess export marketing needs for the industry sector; determine components of export marketing strategies in the component sector in SA		UNIDO; Int. Experts; National Experts; Counterp. Orgs	3	6	Model export marketing strategies developed
4. Outline and develop a guide on foreign market access		UNIDO; Int. Experts; National Experts; Counterp. Orgs	5	8	Main programme manual <ul style="list-style-type: none"> Training manual for SME's on market access coaching to be provided by international expert
5. Select 10 pilot companies for trial run of the market access coaching programme		UNIDO; Int. Experts; National Experts; Counterp. Orgs	5	5	Market access for pilot companies facilitated
6. Finalise the training programme and train the main counterpart institutions on market access coaching for SME's in the automotive components industry in SA		UNIDO; Int. Experts; National Experts; Counterp. Orgs	7	10	Main counterpart organisation trained for wide implementation <ul style="list-style-type: none"> Counsellor training manual to be provided by international expert 3 Pilot companies currently taking part in test project. Mr. Hans Verhulst providing hands-on training to 2 AIDC personnel on market access and market entry elements ½ day training on non-tariff barriers provided by Mr. Hans Verhulst (CBI) to 8 AIDC personnel

Output 5		Development of a Partnership Club for SME automotive component suppliers in SA			
Success Indicators	SME component suppliers integrated into the Partnership Club for information and know-how exchange				
Activities	Resp.	Duration (months)		Milestones	
1. Structure and set-up of the partnership club discussed and agreed among relevant stakeholders	UNIDO; Int. Experts; National Experts; Counterp. Orgs	4	6	Structure agreed	
2. Advisory Committee to the partnership club set-up integrating TNC's and other relevant stakeholders	UNIDO; Int. Experts; National Experts; Counterp. Orgs	6	6	Committee Set-up	
3. Partnership club open to access by members companies	UNIDO; Int. Experts; National Experts; Counterp. Orgs	7	Ongoing	Companies to access the club	

A review undertaken in February/March 2004 confirmed not only the results achieved as indicate but revealed a clear change in the mindset of entrepreneurs and managers in most of the participating . All the participating companies have commenced Phase 1 successfully. Most notably, four changes have been recorded (See *Appendix A* for a detail layout of all five companies and achieved results in the Programme implementation):

- Entrepreneurs and relevant shop floor personnel have carried forward the shop floor activities, which were implemented with the support of the AIDC engineers during their interventions in 2003. As these changes have proven to enhance daily operations and – at the same time – improve economic results, they have been adopted and integrated into their ‘normal’ operations on a continuous basis.

- As the interventions at the shop floor level have been regarded as effective, some entrepreneurs have adapted and implemented them in other areas of the company. Mainly in the area of administration, logistics, maintenance and engineering. On the one hand, this shows the effectiveness of the methods applied by the AIDC engineers, and demonstrates furthermore the capability and capacity of SME's to learn and change over time, if they are appropriately guided.

- “Beside the improvements in terms of productivity – I now see my organisation differently”. This is a typical statement of one of the entrepreneurs after having undergone UNIDO's training and intervention. It proves that the training and improvement activities have accelerated a change in mind set, which was one main achievement of Phase 1. As these changes are most difficult to achieve, it was confirmed that the programme has taken the right direction.

- The Market Access Coaching Programme will and is creating opportunities for SME based companies to actively participate in the development of internal skills and competencies. The programme is geared to assist SME's in decision making when wanting to access new markets. They often lack the capacity and/or the capability to understand the market requirements and how to match their value adding activities to best take advantage of opportunities or mitigate threats. Coupling the technical services to improve the competitiveness of SME's, accessing new markets locally and internationally will contribute to economic development and sustain and improve the substantial contribution already made to GDP. Further to these steps the coaching programme aims at creating the awareness within these companies on what the minimum requirements are for local as well as global market access.

- Detailed results can be viewed below: **5 Participating companies**
 - Gauteng-based automotive component suppliers
 - Size ranging from 27 to 126 employees
 - 1 Black Economic Empowerment company (100%)
 - 1 Previously Disadvantaged Individual (50%) company

- 628 Red tags found of which 509 have been eliminated (Red tags identify safety problems, quality problems, maintenance issues and housekeeping issues)
- 593 Wastes identified of which 389 have been eliminated (Wastes include overproduction, inventory, transportation, idle time, operator motion, bad quality)
- The 5 companies constitutes 371 employees of which 188 have undergone training in 5C (workplace organisation) and Wastes
- Technical Results:
 - 1 company : 75% time reduction in bottleneck operation changeovers
 - 2 companies : 60% improvement in output on 1 line
 - 1 company : 35% reduction in finished goods stock holding
 - 1 company : 67% improved in over all people productivity
 - 5 companies : 50 % improvement in Production Output on 1 line
 1. improved awareness for continuous improvement (quality, cost, delivery, safety, morale)
 2. improved shopfloor communication, and communication between shopfloor and management

Market Access Coaching Programme:

- 3 pilot companies currently undergoing pilot programme: approximately 80% progress in programme
- 2 AIDC staff have completed basic training in Market Access
- 8 AIDC staff have completed basic training in non-tariff barriers for EU

Phase 1 demonstrated that the approach taken by the Programme was able to yield results at the enterprise level, by achieving significant and measurable improvements at the shop floor. In little more than six months, the Programme achieved impressive results in terms of productivity improvements, safer production methods, better use of existing technology and equipment and an increased awareness for continuous improvement. See Appendix A for detail Case Studies of all 5 participating companies.

5. CONCLUSION

It is the AIDC's believe that Phase 1 of the UNIDO Business Partnership Programme has been very successful to date. The programme has developed key stakeholder relationships specifically highlighted in the participation of the private sector to date. The benefit and outcome of Phase 1 can be attributed to the commitment and dedication of a competent AIDC team and the active leadership and guidance from UNIDO and the other stakeholders.

The AIDC would like to thank UNIDO for their contribution to the successful implementation of Phase 1 of the Business Partnership Programme and supporting the economic development of SME's within South Africa.

APPENDIX A

UNIDO BUSINESS PARTNERSHIP PROGRAMME

CASE STUDIES

