

# 6 Proposals for SME Competitiveness

## 6.1 Introduction

This chapter draws on the findings of previous chapters and presents a menu of recommendations to enhance the competitiveness of small firms in Mauritius. It is hoped that our suggestions will achieve three basic objectives:

- (a) Remove policy and institutional impediments to direct SME exporting;
- (b) Reduce policy and institutional obstacles to indirect exporting from SMEs i.e., sub-contracting/supplier relations between SMEs and large export firms.
- (c) Provide ideas on new products and activities that can be undertaken by SMEs in both the domestic and export market.

Although our fieldwork was restricted to three activities (textiles, printing and publishing, and information technology), the suggestions are applicable to most small firms in the Mauritian manufacturing and service sectors. The suggestions are grouped under several headings: macroeconomic policies, trade policies, bureaucratic procedures, finance, technological support, clusters and linkages, human capital, private sector initiatives, data collection and monitoring of SME performance, new areas for SMEs. The chapter should be read in conjunction with the policy table given in the executive summary. The policy table shows a possible sequencing of the recommendations, highlighting those that are most appropriate in the short-term (defined as one year) and the medium-term (four years). It also gives guidance on possible implementing agencies for each idea. Further work needs to be done in Mauritius to refine and put these proposals into operation.

## 6.2 Macroeconomic Policies

The objective is to ensure a stable macroeconomic climate with low inflation and reasonable economic growth to foster SME and overall private sector investment. The main recommendations to achieve this are as follows:

- Develop a plan to reduce the budget deficit by 25% through civil service and public enterprise reform within three years. Less crowding out by the public sector, along with more private investment and growth, will create further opportunities for small firms.

- Persist with a stable, slightly depreciated real exchange rate to encourage exports from SMEs. Budget deficit reduction – which will reduce inflationary pressures – will assist in real exchange rate management. Continue with monitoring cross-country behaviour in real exchange rate management so that local firms are not disadvantaged in export markets *vis-à-vis* international competitors.
- The restoration of low, stable interest rates for large and small firms is also dependent on deficit reduction, backed by prudent monetary policy.

## 6.3 Trade Policies

### 6.3.1 IMPORT LIBERALISATION

The objective is to achieve a low and uniform level of effective protection for manufacturing of about 15% within 4 years. Increased competition from imports will provide incentives for SMEs to restructure, upgrade and move into exports. The main recommendations to achieve this are as follows:

- Reactivate the programme of import liberalisation. Set specific advance targets for phased reductions in import tariffs. This will give small and large firms strong signals to restructure.
- Phase out protection for highly protected activities that lack clear economic rationale such as clothing, food, footwear and furniture. These four sectors have large SME populations and would benefit from the spur of international competition. These activities can become future exports within a relatively short period with focussed technological and human capital assistance to promote productivity and quality improvement.
- Entrust the task of import liberalisation to a small, powerful tariff reform committee (e.g. 3-4 persons), which should draw up a simple, clear programme for tariff reform and monitor implementation. This committee should be supported by an international economics consultancy firm with a track record in trade policy reform. The tariff reform committee should have a limited life (e.g. 4 years) and be disbanded after completion of the achievement of the 15% effective rate of protection.

### 6.3.2 EXPORT PROMOTION

The objective is to strengthen the export promotion system and to offset the anti-export bias of the trade regime facing some direct and indirect SME exporters. The main recommendations to achieve this are as follows:

- Ensure quick and easy access to duty-free imported inputs for direct and indirect SME exporters. The systems for granting EPZ certificates and duty-drawback rebates, for instance, should be further streamlined and accelerated by using paperless email communication between the relevant authorities and firms as well as introducing strict processing times of a maximum of three days. Possible abuses of these systems could be regulated by random checks and heavy fines rather than screening every application.
- Develop realistic raw material wastage provision/ratios for all potential export sectors to permit sub-contracting between large firms and SMEs.
- Consolidate export promotion activities, currently based in Mauritius, into a major promotion event, Mauritius Week. An outline of this is shown in Appendix 4 Box 1.
- Establish a network of shops throughout Mauritius for tourists as joint ventures between the government and business associations. This idea is shown in Appendix 4, Box 2. These should function along commercial lines with an agenda for full privatisation. Internationally competitive SMEs and indirect SME exporters should be encouraged to sell through these shops. Where their output does not meet international quality standards, the requisite technical support should be given to them by the Business Link (see Appendix 4, Box 4).
- Strengthen MEDIA's overseas presence by establishing trade promotion offices in key markets (see Appendix 4, Box 3). These should function independently of overseas embassies, should be adequately funded and staffed by marketing professionals. These offices should give equal weight to promoting exports from large firms and SMEs. They could be established as joint ventures between the government and business associations (with a time-bound agenda for full privatisation). To start with, one office might be in the UK for Europe, one in the US for North America and Canada and one in a suitable location for Africa.
- MEDIA to establish a dedicated web site for SME exporters on a user cost basis. Eventually the running of this could be transferred to the proposed Federation of SME associations (see Section 6.9 below).

## 6.4 Bureaucratic Procedures

The objective is to reduce significantly the transactions cost to business caused by the administrative procedures of the public sector. The main recommendations to achieve this are as follows:

- Radically streamline the administrative procedures on business start-up which currently impede SME development. Two areas are particularly important:

- ✓ *Local government permits:* (a) Merge Development/Building/Local Authority permits into one permit issued by one organisation. Set a maximum time limit for administrating this permit (e.g. two weeks). (b) Eliminate the need for start-up clearances from the police, fire services, Ministry of the Environment, Factory inspectorate and Ministry of Health. (c) Provide clear guidelines on all health, safety, security issues to new businesses and a helpline for advice on compliance. Carry out inspections on a random basis or on the basis of specific complaints.
- ✓ *Work/residence permits:* (a) Centralise all work/residence permit approvals in the Passport and Immigration Office and considerably speed up processing times. (b) Dispense with approval from the Prime Ministers Office and the Ministry of Education and Human Resource Development for work/residence permits. (c) Grant automatic 3 year work permits for expatriate managers and high-level technical staff upon FDI approval. (d) Allow firms to extend work permits for expatriate managers and high-level technical staff automatically for 3 years upon payment of an appropriate fee.
- Implement the proposal for the Board of Investment to streamline radically the approval procedures for FDI and joint ventures between foreign firms and local SMEs. The new FDI will generate sub-contracting and supplier relations for SMEs with the requisite manufacturing capabilities.
- Commission a comprehensive red tape analysis of the impact of administrative procedures on SME start-up and operations (e.g. tax processes, obtaining title to land and premises, Ministry of Labour approvals, customs registration, other approvals etc). The results of the analysis should be implemented within one year. Target administrative steps that can be removed with low political costs, or without changes to existing laws. Then reform existing laws to reduce procedures.
- Set clear and uniform guidelines for all administrative procedures affecting the private sector. Monitor administrative processing standards (particularly for those regulations affecting SMEs) and publicise the results.

## 6.5 Finance

The twin objectives are to improve access to finance for SMEs and to reduce real interest rates for SME lending. The main recommendations are as follows:

- Implement the proposals for a Mutual Guarantee Fund and a Venture Capital Fund.
- Privatised the management of the Development Bank of Mauritius. Wholesale

privatisation is sometimes considered an option for development banks. The difficulty with this is that a privatised DBM might lack sufficient commitment to social goals: such as, SMEs preferring to focus on more profitable types of lending and financial operations. This may not be feasible politically. Significant efficiency gains can be realised by bringing in aggressive private managers and allowing the DBM to operate as if a private firm even if ownership of assets is not transferred. A management contract, whereby the government pays a private firm a fee for managing the DBM, might be an acceptable option. It avoids the risk of asset concentration in the banking sector, can improve productivity and can radically streamline bureaucracy. The best form of contract is a fee-for-service arrangement coupled with the incentive to improve efficiency and profitability. Its performance should be carefully monitored by the Bank of Mauritius.

- Establish an Export Development Fund by hiving off the industrial estates of MEDIA and DBM to the private sector to create an export development fund for SMEs marketing efforts. Amongst other things, this fund could subsidise costs of participating in foreign trade fairs, contact promotion programmes, marketing studies and web sites for individual SMEs. Large business houses in Mauritius already run industrial estates and the private sector could profitably expand in this direction. The Export Development Fund can be topped up by some of the proceeds from future privatisation of state-owned enterprises.
- Foster the creation of credit unions in SME associations. At its basic level, this is an arrangement where members pay in a set amount on a regular basis. They can draw out up to the amount they have put in. It is akin to a forced savings scheme. If each of the 5731 manufacturing SMEs contributes \$1000, this will generate over \$5.7 million worth of new capital. In the next stage of development the credit union invests the money and allows SMEs to borrow more than they put in.

## **6.6 Technological Support**

### **6.6.1. ESTABLISH A BUSINESS LINK**

The objective is to provide a targeted, tailored and directive infrastructure for delivering assistance to SMEs from start-up to the level of growth that takes the enterprise out of the SME definition.

The Business Link is a co-ordinating mechanism to harness and allocate the full range of required support inputs to SMEs from both the public and private sectors. It would replace all existing governmental or parastatal organisations supporting SMEs at

the enterprise level. Details of the Business Link concept, adapted from the model established and operating effectively in the UK, are described in Appendix 4, Box 4.

We would propose that, if the concept of a Business Link is accepted in principle, then the Chief Executive of a Business Link in the UK should act as a consultant for its development and implementation in Mauritius.

### **6.6.2 DESIGN HOUSE**

The objective is to enhance design skills in SMEs and to strengthen a design culture in Mauritius.

It is widely acknowledged that Mauritius needs design skills to add value in the textile industry, as well as in other manufacturing and service activities. Although there has been an increase in the range of design education courses, this is a slow way to build commercially viable design capability. The Design House offers a speedier and more effective alternative. A detailed explanation is provided in Appendix 4, Box 5.

### **6.6.3 TEXTILE COUNCIL**

The objective is to create a dedicated support institution for the textile sector. The main recommendation to achieve this is to reformulate EPZDA as a Textile Council. It would act primarily as an advisory, knowledge-building and policy-making body on all issues related to the textile and garment production industry. It would pass direct involvement with SME and enterprise development to the Business Link, which would work together with a newly-formed Textile Industry Association.

In accordance with this positioning, we envisage that the Textile Council would retain service offers such as the Trend Forum, the Industry Focus publication, its information services and the Clothing Technology Centre. It would relinquish its consultancy and training services. Activities of the User Group, such as seminars on textile issues, would become open fora. New initiatives are likely to flow from this. Two simple ideas for the further development of the Clothing Technology Centre as a resource are shown in Appendix 4, Box 6.

## **6.7 Clusters and Linkages**

The objective is to foster the creation of industrial clusters and intra-firm networks. The underpinning concepts supporting this initiative are outlined in Appendix 4, Box 7. The main recommendations to achieve this are as follows:

- Merge SUBEX-M within SMIDO. This would involve little restructuring and transaction cost as SUBEX-M is already housed in the SMIDO building in Mauritius. However, the change would properly institutionalise, fund and sustain the country's only intra-firm linkage programme, focussed on engineering.

- Develop a new programme to upgrade suppliers in textiles, clothing and food products. The more focussed linkage programme for these three light industries should be built on existing marketing chains with foreign buyers. Small firms in an existing marketing relationship would have benefited from cumulative learning and indirect exporting to foreign markets. The programme should also have a strong private sector orientation and draw on inputs from public technology institutions (such as the Mauritius Bureau of Standards) and soft loan windows of the commercialised DBM. The public sector aspect of the new programme could be jointly co-ordinated by SMIDO and MEDIA. The latter has direct contact with international buyers and knowledge of the price, quality and delivery requirements of international markets while the former is familiar with the capabilities of the SME population.

## 6.8 Human Capital

The objective is to enhance human resources at the individual and the organisational level. The following recommendations are made:

- Cost effective reduction of absenteeism through national campaigns. An example might be called “Don’t Miss Monday” and could involve the use of roadside posters, leaflets distributed at the workplace, a national competition and television coverage.
- Upgrade vocational capabilities by increasing certification and tailoring training more closely to the needs of industry. It is proposed that IVTB take the following action:
  - ✓ *Refocus on core business*: Concentrate on designing and delivering academically validated vocational education and training courses in close collaboration with industry and industry associations.
  - ✓ *Short courses*: Drop non-validated short courses and pass these to the private sector. IVTB should be responsible for monitoring the quality of private sector training and institute an “IVTB Seal of Approval” scheme for approved private sector courses.
- Identify and reduce skill and educational gaps in potential areas of comparative advantage. This can be done in a number of ways:
  - ✓ *Sandwich courses*: Expand the range of university degree courses that incorporate a work placement in order to give students greater exposure and hands-on experience of industry. Encourage students to find work placements overseas.
  - ✓ *Scholarships*: Provide more scholarships for students to study abroad.

Allocation of this investment should be based on the identification of strategically important skill gaps (e.g. information technology, business studies and engineering activities).

- ✓ *Mauritian returnees*: Create incentives to encourage Mauritian professionals to return from overseas. Support should focus on attracting skills in key areas, such as information technology, business studies and engineering activities.

## 6.9 Private Sector Initiatives

The objectives under this heading are to strengthen significantly SME associations as well as the relationship between SMEs, the Business Link and the commercial banks. The main recommendations to achieve these objectives are as follows:

- The SMEs themselves should establish individual industrial associations for key sectors. The Small Scale Entrepreneur Association of Mauritius (SSEAM) should be re-positioned as a federation of individual SME associations. The new Federation should be the principal advocate for SMEs in Mauritius, liaise with government bodies, and deliver centralised generic services to its members (e.g. an information/resource centre for SMEs). It should also become a full member of the Joint Economic Council and continue to participate in policy consultations such as the pre-budget consultations. The sector-specific industrial associations should represent their members' interests and provide selected common services (e.g. run a credit union for members and bulk-buy raw materials and equipment). These associations should be properly funded and run professionally by their members.
- The private sector (including SMEs) should actively support service delivery by the Business Link. Actions might include: providing consultants, advice on future services, and providing feedback on services.
- To assist SMEs in the strategic and practical aspects of exporting, the development of a new industry sub-sector of export houses and export consultancies should be encouraged. These organisations would support the Business Link as well as acting as an additional independent resource for SMEs. A detailed explanation of this concept is given in Appendix 4, Box 8.
- Commercial banks should strengthen their relations with SMEs. Actions might include: appointing specialist small business advisors, training staff to better understand SME financial needs and researching SME issues and disseminating this to clients.
- Business associations and large firms could assist considerably with skill development for small firms by providing more short in-plant placements



for university students and launching training centres/schemes for middle management, production management and designers.

## 6.10 Data Collection & Monitoring of SME Performance

The objectives are to develop a consistent definition of SMEs and to monitor SME performance. The main recommendations to achieve this are:

- Formulate a more inclusive definition of the SME sector: for example one that includes the service sector; acknowledges that the value of capital investment no longer necessarily represents a source of competitive advantage and that advantage is shifting towards the value of human capital; and recognises that the smallest possible enterprise, i.e. the microenterprise, has the potential to evolve into a much larger organisation. For simplicity, an SME could be a manufacturing firm with less than 50 employees, or a services firm with less than 20 employees. In both cases, they should be firms that are independent and not subsidiaries of a larger organisation (see Chapter 1).
- Create a database on SME performance. This will involve developing key SME performance indicators and an annual survey of SME perceptions of the policy environment and the quality of institutional support. The results of these surveys should inform future policy-making on SMEs. Enterprise viewpoints on new policy suggestions could be tested using the annual survey of policies and institutions. The survey could be supplemented by regular focal group discussions between senior public officials and representative SMEs.

## 6.11 New Areas for SMEs

Throughout this report, we have emphasised repeatedly that the smaller company cannot hope to compete against its larger competitors in terms of scale. Nonetheless a strategic advantage can be created and sustained by combining: a careful market selection strategy; the design and delivery of high value-added, differentiated products and services; and (where appropriate) collaboration with market leaders in the form of long-term trading contracts, strategic alliances or joint ventures.

Quite simply the challenge for SMEs in Mauritius is to determine the products or services that should be offered to specific markets. Successful strategies will be specialised, will exploit national or firm-specific advantages and probably will involve a high degree of interpersonal involvement and relationship-building.

In addition, significant opportunities exist for Mauritius to leverage its success in achieving levels of economic growth substantially higher than its African neighbours by offering consultancy services to other African countries. Proposals contained in this chapter for the development of private sector export houses and marketing consultancies

are not only designed to enhance the export competitiveness of Mauritian firms, but also to represent an export opportunity.

Whilst, undoubtedly, Mauritius needs a general diversification of its commercial base, this study is concerned with only three specific industry sectors. Possible future directions for SMEs in the sectors examined in this report are:

**Table 6.1** New Areas for SMES in Textiles, Printing and IT

Industry sector	Products/services	Markets
Textiles	Swimwear	OECD
	Lingerie	OECD
	Specialist sportswear, e.g. for scuba diving sailing, climbing	OECD
	Design and technical services	Africa and other developing countries
Printing and publishing	Copy shops (see Kall Kwik)	Domestic
	Pre-press	OECD
	Design	Africa and other developing countries
	Electronic media, e.g. CD-Rom, internet, intranet	Africa and other developing countries
IT	Internet cafés	Domestic
	System integration services, e.g. computerised banking systems	OECD investment in Africa
	IT support, e.g. helpdesks	Africa and other developing countries
	Call centres	OECD