the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

PROGRAMME GUIDELINES

Version 4 - April 2014

Manufacturing Competitiveness Enhancement Programme (MCEP):

- **Production Incentive Grants**
- **Industrial Financing Loan Facilities**

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Disclaimer:

These guidelines provide the criteria for assessing applications for the Manufacturing Competitiveness Enhancement Programme (MCEP) and the process of applying for the incentive. The guidelines are approved and issued by the Minister of Trade and Industry for purposes of ensuring clarity on the aims and requirements of the incentive programme. **the dti** reserves the right to amend these guidelines as it deems appropriate. Furthermore, **the dti** has a right, in its sole discretion, to provide rulings on the interpretation of these guidelines. In instances where the guidelines seem not to be specific, revised guidelines will be published on **the dti** website and will be of effective immediately.

Contents

List of Acronyms

AIS	Automotive Investment Scheme
APDP	Automotive Production Development Programme
B-BBEE	Broad-Based Black Economic Empowerment
CTCIP	Clothing and Textile Competitiveness Improvement Programme
CTCP	Clothing and Textile Competitiveness Programme
MCEP	Manufacturing Competitiveness Enhancement Programme
MIDP	Motor Industry Development Programme
MIP	Manufacturing Investment Programme
MVA	Manufacturing Value Added
NCPC	National Cleaner Production Centre
PFMA	Public Finance Management Act
PI	Production Incentive
SIC	Standard Industrial Classification (Official Stats SA, version 5)
the dti	The Department of Trade and Industry

1. Preamble

1.1 The purpose of this document is to provide the guidelines forthe Manufacturing Competitiveness Enhancement Programme(MCEP), an incentive programme that aims to support manufacturing enterprises with competitiveness improvement interventions.

1.2 The guidelines set out in this document are intendedto enable enterprises to present their applicationsto the Department of Trade and Industry(**the dti**), and provide a framework for **the dti** to evaluate such applications.

1.3 Granting of the incentive or approval of the application will only be for entities that meet the objectives of the MCEPas interpreted by these guidelines. To qualify for the incentive, participating entities have to apply and receive approval from **the dti**, and any such decision will be final, subject to the appeals conditions as set out in section 15.1.

1.4 These guidelinesmay be amended from timetotime,as deemed necessary by **the dti**. These amendments will be published on **the dti** website and will be of effect uponpublishing.

1.5 Where the guidelines lend themselves to varying interpretations or do not deal with a specific subject matter, the interpretation of **the dti** must be requestedand such interpretation will be decisive and final.

1.6 Approval of applications will be subject to the availability of funds and compliance with the incentive guidelines as well as relevant provisions of the Public Finance Management Act (PFMA).

2. Services Delivered by the dti

2.1 No fees or charges are leviedby **the dti**for the processing or evaluation of any MCEPapplications or claims.

2.2 Applicants are welcome to contact **the dti** directly and **thedti** officials will provide guidance on how to complete application or claim forms.

2.3 **the dti** will not be accountable for any service delivered or failure thereto by any other person or consultant who facilitates the application or claim forms on behalf of the enterprise.

3. Framework of the Manufacturing Competitiveness Enhancement Programme

3.1 Programme Description

3.1.1 The objective of the incentive is to promote enterprise competitiveness and job retention. These will be achieved through the seven key components of the programme.

3.1.2 The MCEP consists of the following components:

3.1.2.1 Production Incentive

- Capital Investment;

- Green Technology and Resource Efficiency Improvement;
- Enterprise-Level Competitiveness Improvement;
- Feasibility Studies;
- Cluster Competitiveness Improvement;

3.1.2.2 Industrial Financing Loan Facilities

- Pre/Post-Dispatch Working Capital Facility;
- Industrial Policy Niche Projects Fund;
- The Working Capital and the Distress Funding Facilities are loan products that will be managed bythe IDC.

3.1.3 Applicants will be able to apply for one or a combination of the above-mentioned components at company and/or clusterlevel, based on their needs. Applicants can achieve thisby investing in capital equipment for upgrading and expansions;green technology upgrades for cleaner production and resource efficiency activities; enterprise-level competitiveness improvement activities for new or increased market access, product and process improvementand related skills development; as well as conducting feasibility studies.

3.1.4 A summary pertaining to cluster-level competitiveness improvement is in section 9 of this documentwhile the details and conditions applicable to clusters are in a separate cluster competitiveness improvement guidelines document.

3.1.5 The MCEP is available to South African registered entities engaged in manufacturing Standard Industrial Classification (SIC 3), engineering services that support manufacturing and conformity assessment bodies(SIC 88220) servicing the manufacturing sector.

3.1.5.1 Applicants falling under the following (SIC) codes: 3231 (manufacture of pulp, paper and paperboard), 332 (petroleum refineries/synthesisers), 3330 (processing of nuclear fuel), 334 (manufacture of basic chemicals), 351(manufacture of basic iron and steel) and 352 (manufacture of basic precious and non-ferrous metals) will only beconsidered provided the investment in the intended project will result in direct quantifiable jobs in downstream industries; and/or providebenefits for other applicantsin the value chain such as access to new markets and/or introduction of new products and processes currently not available or performed in South Africa and/or that the sector is experiencing cyclical distress.

3.1.5.2 Applications from the private sector defence industry[1] falling under SIC 357 (manufacture of special purpose machinery), 362 (manufacture of electronic components and boards), 374 (Manufacture of measuring, testing, navigating and control equipment) and 386 (manufacture of air and spacecraft related machinery) are included for MCEP support.

Applicants falling under SIC 3577 (manufacture of weapons and ammunition) must be registered with the National Convention Arms Control Committee (NCACC) and be in possession of the relevant permit for the manufacture of these products.

[1] This support is directed at the private sector defence industry and excludes majority state owned enterprises. Whether owned by the South African or Foreign government(s).

3.1.5.3 Applicants falling under the automotive[2] and clothing, textiles, leather and footwear sectors that qualify for support under the AIS, APDP and MIDP, CTCP and CTCIP, and projects that are receiving benefits from the NIPP do not qualify for support under the MCEP.

3.1.5.4 A Conformity Assessment Body(CAB) falling under SIC 88220 is an institution that is certified to perform conformity assessment services including certification, calibration, inspection, verification and laboratory services where the CAB determine, directly or indirectly, that the specified requirements in technical regulations, standards or any other relevant and validated documentation relating to a product, system, person or body has been fulfilled.

3.1.5.5 Engineering services that support manufacturing refers to an entity that is primarily engaged in offering the following engineering related services to the manufacturing sector:

- Materials analysis (determining integrity, composition or state of materials);
- Operational reliability support (providing repairs and/or part replacement of machine, equipment and tooling equipment);
- Efficiency optimisation services (energy/resource usage, waste management, cleaner production);
- Design (product, tooling and/or process);
- Prototyping;
- Simulation (product, tooling process, i.e. Mould Flow Simulation, Finite Element Analysis);
- Tooling supply and maintenance support (tools, dies, moulds, jigs, fixtures, gauges, purpose built machinery);
- Testing, debugging and optimisation (machinery, equipment, tooling);
- Metrology services (measurement, non-destructive testing, destructive testing, certification, calibration); and
- Surface treatment services (hardening, polishing, etching, texturing).

3.1.6 Applicants must achieve at least level four B-BBEE contributor status in terms of the B-BBEE Codes of Good Practice or must submit a plan[3] to demonstrate how they will progress towards achieving level four B-BBEE contributor status within a period of two years.

3.1.6.1 Only applicants that achieve at least a level four B-BBEE contributor status will be considered for MCEP as from 1 June 2015 and no plans will be accepted from this date.

3.1.7 The maximum grant payable in MCEP Production Incentiveis calculated as a percentage of the applicant's average manufacturing value-added (MVA) over two years,based on audited/independently reviewed financial statements not older than 18 months for applicantsthat have been operating for more than two years.

3.1.7.1 For applicants with total assets with a historical cost below R5 million, the MVA calculation will not be applicable. The grant will be offered on a cost sharing basis based on the investment made.

[2] An automotive manufacturer with less than 25% of its base-year turnover earned as part of motor manufacturers' vehicle (light, medium or heavy) supply chain locally and/or internationally may be considered for eligibility under MCEP.

[3] The B-BBEE plan must be aligned to **the dti** B-BBEE codes and must indicate activities, time frames, and costs associated with the plan to achieve level 4 contributor status.

3.1.7.2 For applicants that have been in operation forless than two years, the MVA calculation will be based on the first years audited/independently reviewed financial statements covering an operating period of at least 12 months.

3.1.7.3 For applicants that have 100% Black ownership or applicants that can prove that a contract is in place and/or a contract has been awarded and/or a letter of intent to manufacture for state owned enterprises, the MVA calculation will be based onone years audited/independently reviewed financial statements **plus one year** projected income statement and balance sheet.

3.1.7.4 Employees or jobs refer to persons who work a minimum of forty (40) hours a week for the same employer and are on the employer's payroll i.e. direct jobs.

Full-time equivalent employment refers to contract/seasonal/temporary employees of an enterprise. A combined 1,920 hours worked per year will be an equivalent of full-time employment.

3.2 Grant Calculation

3.2.1 Thegrant will be capped according to the applicant's enterprise size as follows:

Applicants with total assets with a historical cost below R5 million, may qualify for a direct cost sharing grant per applicable component, and MVA calculation will not be applicable in this case.

3.2.2 Grant application for applicants with total assets with a historical cost of R5 million and above will be based on the qualifying MVA calculation as follows:

- Applicants with 100% Black shareholding may qualify for 25% of MVA;
- Applicants with total assets with a historical costof at least R5 millionbut less than R30 millionmay qualify for 25% of MVA;
- Applicants with total assets with a historical costof at least R30millionbut less than R200 millionmay qualify for 20% MVA; and
- Applicants with total assets with a historical costof R200millionand above may qualify for 10% of MVA.

3.2.3 The MVA for manufacturing enterprises will be calculated as follows:

Sales/Turnover
Less:
Sales value of imported goods
Less:
Sales value of other bought in finished goods
Less:
Material input costs (used in manufacturing process)
=
MVA

3.2.3.1 The MVA for engineering services enterprises and conformity assessment agencies will be calculated as follows:

Sales/Turnover
Less:
Sales value of imported goods
Less:
Sales value of other bought in finished goods
Less:
Salaries/Wages
=
MVA

3.2.4 The approved maximum grant amount may be used for a combination of interventions available from the different Production Incentive (PI) components as per paragraph 3.1.2

3.2.5 Applications for the MCEP incentive may be submitted until 31March 2018, subject to the provisions of paragraph 1.6.

3.2.6 These guidelines are effective from the date of publication on **the dti** website.

3.3. Eligibility Criteria

The applicant must:

3.3.1 Be a registered legal entity in South Africa in terms of any of the following legislation: the Companies Act, No. 71 of 2008; Companies Act, No. 62 of 1973 (as amended);or the Close Corporations Act, 1984 (as amended)and the Co-operatives Act, No. 14 of 2005 (as amended).

3.3.1.1 In the case where an applicant has just converted from any other business type not included under paragraph 3.3.1 to a registered legal entity as stipulated in 3.3.1, the said registration must have occurred before the application is submitted. The entity must produce two year independently reviewed financial statements for the previous business type.

3.3.2 Be an existing entity that undertakes an investment project for either upgrading or expanding its operations to produce generically the same products, or investing in competitiveness enhancing activities of existing operations.

3.3.3 The approved entity may notreduceits employment levels from the averageemployment levels for a twelve month period prior tothe date of application, and these employment levels should be maintained for the duration of the incentive agreement.

3.3.3.1 That is, the total number of employeesin the entity(inclusive of full-timeand full-time equivalent)in each year of the incentiveperiod may not be less than the averageemployees for a twelve (12) month period prior to the date of submission of the application.

3.3.3.2 Any reduction in total number of employees, as compared to average employment levels for a twelve (12) month period prior to the date of application, will disqualify the applicant.Any claims not yet evaluated or paid will immediately lapse and no obligation will accrue to **the dti** on such claims.
After, the two-year incentive agreement period and submission of the final claim, applicants may apply for further interventions under MCEP. Applicants wishing to participate further in the programme will be

required to maintain average employment levels as determined in paragraph 3.3.2 above for the duration of the programme and must have a level four B-BBEE certificate.

3.3.4 Submit the enterprise's latest financial statements, as per paragraph 3.1.7 above.

3.3.5 Applicants must submit proof of funding where third party funding is sourced. The proof of funding should be submitted within three months of receiving approval from **the dti,** failing which the project will be considered non-viable and approval will be withdrawn.

3.3.6 Applicant/s must submit a **complete** application at least 60 calendar days prior to commencement of commercial use of the assets or undertaking activities being applied for. Any assets taken into commercial use or activities commencing before approval by **the dti** will be considered as non-qualifying.

3.3.7 If there is no response from **the dti** within 60 calendardays after submission of a **complete** application, such applicant may take into commercial production its qualifying investment assets for commercial use or undertake implementation of business development activities, and such investment assets or business development activities will not be disqualified on the basis of having been in commercial use or being undertaken before approval. However, the applicant should notify **the dti** in writing of its intention to commission the qualifying assets for commercial use or undertake implementation of business development activities before approval.

3.3.8 Any pending litigation against the applicant, the outcome of which may have material effect on the applicants' financial position,should be brought to the attention of **the dti** at the time of application.

3.4. Evaluation Criteria

3.4.1 Theapplying entity must haveexisting manufacturing operations, engineering services company or be a conformity assessment body in the Republic of South Africa.

3.4.2 The applicant must submit together with the application form the following documents:

3.4.2.1 Entity diagnostic report in the provided template demonstrating the need for the project and expected benefits;

3.4.2.2 Cleaner Production / Green Technology Assessment Report (only where applicable);

3.4.2.3 Registration certificate of legal entity in the Republic of South Africa;

3.4.2.4 B-BBEE certificate (where applicable);

3.4.2.5 Valid tax clearance certificate; and

3.4.2.6 Audited/ independently reviewed financial statements.

3.4.3 Anapplicantis allowed onlyone applicationin respect of each legal entity within a two-year period.Group financial statements will not be accepted and each legal entity within the group structure must submit its own application.

4. Grant Disbursement

4.1 For capital investments, grant disbursement will be made as follows:

4.1.1 The earliest that a first claim can be submitted is on the start of commercial production date of the acquired capital equipment. If a first claim is not submitted withinsix (6) months after the start of commercial production, the grant approval will be cancelled.

4.1.2 The second claim should be submitted at the completion of the project as approved by **the dti**and the investment has been brought into commercial production. If a second claim is not submitted within six (6) months after the completion of the investment project and/or the claim does not comply with conditions of paragraph 5.1.1.1 below, the grant approval will be cancelled.

4.2 For business development services and other activities, grant disbursement will be made upon completion of activities under each focus area[4]. Where the duration of activities under a focus area(s) exceeds 12 months, two claims may be submitted, i.e. the first claim at the end of 12 months and the second claim at the completion of the activities under the said focus area(s). If a claim is not submitted within six (6) months after the completion of the activities for the focus area(s), the grant approval will be cancelled.

4.3 Each claim must be accompanied by a valid tax clearance certificate or cession from the South African Revenue Services (SARS).

4.4 Valid B-BBEE certificate and progress on implementation of B-BBEE plan (where applicable).

4.5 Jobs should be retained as per paragraph 3.3.2.

4.6 Comply with all approval conditions and MCEP guidelines.

MCEP COMPONENTS

5. Capital Investment

5.1 Programme Description

5.1.1 The objective of the incentive is to support capital investment in equipment upgrading and expansions that will lead to creation of new jobs and retention of existing jobs.

5.1.1.1 Applicants should make minimum investments according to entity size as follows:

- Applicants with total assets with a historical cost below R5million should have a minimum investment in machinery and equipment of R500, 000;
- Applicants, with total assets with a historical cost above R5million but less than R30 million, should have a minimum investment in machinery and equipment of at least R1 million; and
- Applicants with total assets with a historical cost above R30 million, should have a minimum investment in machinery and equipment of at least R 2 million.

[4] Applicants with multiple focus areas are advised to consolidate their claims to minimise administrative and audit costs associated with claims procedures.

5.1.1.2 Conformity assessment agencies and engineering services firms with assets below R5million should have a minimum investment in machinery and equipment of R50 000. Applicants of this category with total assets of R5 million and above should have a minimum investment of at least R 1 million of the historical cost price of machinery and equipment.

5.1.2 The grant offers acost-sharing grant of 30%, 40% and 50% of the investment, up to a **maximum grant of R 30 million**. The cost-sharing grant percentage will be differentiated by enterprisesize as follows:

- Applicantswith total assets with a historical costbelow R5 million may qualify for a grant of 50% of investment cost, but the grant may not exceed R5million;
- Applicantswith total assets with a historical costof at least R5millionbut less than R30 million may qualify for a grant of 40% of investmentcost; and
- Applicantswith total assets with a historical costof R30millionand above may qualify for a grant of up to 30%of investment cost,

5.1.3 An additional 10% bonus grant(on the cost sharing), not exceeding R5 millionwill be awarded to applicantswith total assets with a historical costabove R5millionthat:

- Create additional new full time jobs as follows:

Enterprise size	Number of new additional jobs
≥R5 million –<R30 million	≥10 jobs
≥R30 million – <R200 million	≥20 jobs
≥R200 million	≥25 jobs

OR

- Procure at least 50% ‘in rand value’ of the total project budget in machinery,equipment and tooling **manufactured** in South Africa (SA).

  Machinery and equipment and tooling sourced in SA, but not manufactured in SA will be excluded when determining the 50% mentioned above.

5.1.3.1 The bonus grant will bepayable only at the time when the new jobs have been created and sustained for at least twelve months within the two year MCEP period, no bonus payment for new jobs will be made if the jobs have not been sustained within this period.

5.1.3.2 In the case of the local manufactured machinery and equipment bonus,it is payableonce all the project assets have been taken into production.

5.1.3.3 The bonus grant will be limited to the entity’smaximum grant as determined by the MVA calculation in paragraph 3.2.2

5.1.4 The grant is provided directly to approved applicants based on actual qualifying costs incurred and subject to employment levels being retained.

5.2 Qualifying Assets and Investment Costs

5.2.1 Machinery and Equipment (owned or capitalised financial lease) at cost, as well as setting up, installing and upgrading laboratory equipment. This will exclude any office furniture and equipment;

5.2.2 Building improvements and/or extensions, leasehold improvements and extensions capitalised in the balance sheet of the applying entity. The cost of qualifying investment in building improvements is limited to the cost of the qualifying investment in machinery and equipment. In the case of leased buildings, improvements to the building must be done by the lessee (manufacturing entity/ conformity assessment body) and capitalised in the books of the lessee.

5.2.3 Forklifts; and

5.2.4 Tools, jigs and dies.

5.3. Non-Qualifying Costs

5.3.1 Office equipment;
5.3.2 Acquisition of new landand buildings at cost;
5.3.3 Vehicles; and
5.3.4 Second-hand machinery and equipment.

6. Green Technology and Resource Efficiency Improvement

6.1 Programme Description

6.1.1 The objective of the incentive is to support projects with green technology upgrades and business development activities that will lead to cleaner production and resource efficiency as well as engineering and conformity assessment services that support the green economy through the manufacturing sector.

6.1.2 It offers a cost-sharing grant of 30%, 40% and 50% of the investment to be payable at production up to a **maximum grant of R 20million**. The cost-sharing grant percentage will be differentiated by enterprise size as follows:

- Applicantswith total assets with a historical cost below R5 million may qualify for a grant of 50% of investment cost, but the grant may not exceed R5 million;
- Applicants with total assets with a historical cost of at least R5 million but less than R30 million may qualify for a grant of 40% of investment cost; and
- Applicants with total assets with a historical cost of R30 million and above may qualify for a grant of up to 30% of investment cost

6.1.3 An additional 10% bonus grant (on the cost sharing) not exceeding R5 million will be awarded to applicants with total assets with a historical cost above R5million that:

- Create additional new jobsas follows:

Enterprise size	No. Of new additional jobs
≥R5 million – <R30 million	≥10 jobs
≥R30 million – <R200 million	≥20 jobs
≥R200 million	≥25 jobs

OR

- Procure at least 50% 'in rand value' of the total project budget in capital equipment and tooling **manufactured** in South Africa (SA).

  Equipment and tooling sourced in SA, but not manufactured in SA will be excluded when determining the 50% mentioned above.

6.1.3.1 The bonus grant will be payable only at the time when the new jobs have been created and sustained for at least twelve months within the two year MCEP period, no bonus payment for new jobs will be made if the jobs have not been sustained within this period.

6.1.3.2 The bonus grant will be limited to the entity's maximum grant as determined by the MVA calculation in paragraph 3.2.1.

6.1.3.3 In the case of the bonus for locally manufacturedmachinery and equipment, it is payable once all the project assets have been taken into production

6.1.4 The applicant(s) must submit together with the application a cleaner productionand/or resource-efficiency audit or green technology assessment report for the project. This report may replace the requirement under paragraph 3.4.2.1 if the PI application is only for Green Technology and Resource Efficiency Improvements.

6.1.5. The cleaner production and/or resource-efficiency audit and/or green technology assessment recommendations report should not be older than 24 months at the time of submitting an application. Applicants are encouraged to use the National Cleaner Production Centre (NCPC[5]) for this purpose.

6.1.6 The grant is provided directly to approved applicants based on actual qualifying costs incurred and subject to jobs being retained.

6.2 Qualifying Assets and Investment Costs

Focus areas	Categories	Qualifying cost of recommended improvements
Cleaner production	Cleaner production improvement	○ Cleaner production technology as per recommendations of the report in 6.1.4 above, e.g. air compressing, pumping and steam systems, etc. ○ Building improvements capitalised in balance sheet e.g. lighting efficiency,etc.
	Energy efficiency and	○ Audit and accreditation costs

[5]See NCPC website:www.ncpc.co.za

	cleaner production audits, e.g. ISO 50001, ISO 50010	o Certification, measurement and verification costs
Waste Management	Waste management Improvement	Waste management technology e.g. technology for recycling, re-use of waste and recovery of energy from waste or other beneficial use of waste.
Energy efficiency	Energy efficiency improvement	o Introducing new improved processes that lead to energy savings. o Improved energy efficiency technology, e.g. solar panels, pumps, motors etc. o Building improvements capitalised in balance sheet.
Renewable energy	Manufacturing and localisation of renewable energy (RE) products and services development	o Establishment of RE infrastructure and services at plant level. o Support of localisation of RE equipment and technology acquisition. o Introduction or expansion of hybridisation of RE for industrial process optimisation.
Water use efficiency	Water usage improvement	o Water usage improvement technology, e.g. reverse osmosis. o Industrial water and waste water treatment facilities.
Conformity assessments	Quality and environmental standards e.g. ISO 14001; process quality standards, product quality standards Private conformity assessment entities e.g. laboratories, inspection bodies, certification bodies, process capability measurement specialists, product conformity measurement specialists	o Certification against quality, environmental, process and product quality standards o Setting up, installing and upgrading laboratory equipment. o Building improvements capitalised in balance sheet. o Preparations for certification including development of quality management system. o Pre- and initial certification assessments

6.3. Non-Qualifying Costs

6.3.1 Staff wages and salaries, and staff related costs incurred in implementing any of the above projects;

6.3.2 Office equipment;

6.3.3 Land cost;

6.3.4 Vehicles; and

6.3.5 Second-hand assets.

7. Enterprise-level Competitiveness Improvement

7.1 Programme Description

7.1.1 The objective of the incentive is to enhance the competitiveness of enterprises through the enhancement of conformity assessments and improving processes, products and related skills development through the use of business development services.

7.1.2 It offers a cost-sharing grant of 50%, 60% and 70% of the investment limited to the applicant available MVA. The cost-sharing grant percentage will be differentiated by enterprise size as follows:

- Applicantswith total assets with a historical costbelow R5 million may qualify for a grant of 70% of expenditure, however the grant may not exceed **R2 million**;
- Applicantswith total assets with a historical costof at least R5millionbut less than R200 million may qualify for a grant of 60% of expenditure, however the grant may not exceed **R5 million**; and
- Applicantswith total assets with a historical costat least R200 million may qualify for a grant of 50% of expenditure to a maximum grant of **R10 million**.

7.1.3 The grant is provided directly to approved applicants based on actual qualifying costs incurred and subject to jobs being retained.

7.2 Qualifying Activities and Costs

Focus areas	Categories	Consulting fees and expenses
Process improvement/ optimisation	Process improvement	Introducing new improved processes e.g. world-class manufacturing practices.
Product improvements	Product design improvements	Pattern-making, prototyping, grading, sizing and counter-sampling.
	Product development improvements	Improving product ranges and product adaptations for new markets.
	Conformity assessment of products e.g. testing, inspection, certification	Costs for conformity assessment of products.
	Product efficiency	○ The improvement of production techniques. ○ Fees for the design of production information systems.
	Consumer acceptability studies	Marketing new or improved products to focus groups before product launch to market.
	Packaging design	Consultancy and design costs.
Conformityassessment certification	Quality management improvement, Environmental management improvement, process capability improvement and Product quality	○ Cost of Installing or improving quality management systems. ○ Costs for preparations for certification and pre/initial assessment costs

	improvement	
	Accreditation	Costs for preparations for accreditation and pre-/initial assessment.
Logistics improvements	Logistic arrangements and systems	Improving logistic efficiencies e.g. introducing logistic systems etc.
Information technology systems	Acquisition and deployment of systems	Acquisition software forintegrated production management information systems.
Skills development	Training accredited by SAQA as well as internationally recognised training in: Production Development, Product and Quality Management and the acquisition of any other skills directly related to manufacturing and/or engineering services as well accreditation and training of conformity assessment services staff	Short course fees.
	Training of existing and new qualified consultants in areas of standards such as ISO 9001 etc. to increase accreditation capacity	Course fees.
Procurement process improvement	Introducing improved and efficient procurement processes	Cost of introducing new procurement processes.
Bidding costs	Bidding for technical contracts with a minimum value of R50 million in State-Owned Enterprises (SOEs), public and private sector	Technical consultancy towards compiling bid documents up to a maximum grant of R7,5 million.

7.3. Non-Qualifying Costs

7.3.1 Staff wages and salaries, and staff related costs incurred in implementing any of the above projects;
7.3.2 Office equipment;
7.3.3 Software and hardware maintenance;
7.3.4 Acquisition and maintenance of office software such as MS Office;
7.3.5 Software licence renewals;
7.3.6 Technologyresearch and development;
7.3.7 Franchise agreements;
7.3.8 Annual license agreements and on-going fees;
7.3.9 Formal training (e.g. National Diplomas, Degrees, Further Education and Training (FET); and
7.3.10 Marketing and branding material.

8. Feasibility Studies

8.1 Programme Description

8.1.1 The objective of the programme is to facilitate feasibility studies that are likely to lead to bankable business/project plans that will result in investment in new components or products or processes not currently manufactured or performed by the applicant or creation of new markets that will result in a substantial increase in manufactured products of the applicant as well as conformity assessment services not currently available in the country. The expected investment project to result from the feasibility study should have a minimum value of R30 million.

8.1.2 It offers a cost sharing grant of 50% or 70% of the cost of the feasibility study to be payable according to expected milestones. The cost-sharing grant percentage will be differentiated by enterprise size as follows:

- Applicantswith total assets with a historical costbelow R30 million may qualify for a grant of 70% of the cost of the feasibility study; and
- Applicantswith total assets with a historical costof at least R30million may qualify for a grant of 50% of cost of the study.

8.1.3 Applicants should submit a pre-feasibility study report, confirming that the expected project minimum investment will be at leastR30 million for manufacturing enterprises and engineering services, and R5 million for conformity assessment agencies.

8.1.4 The maximum grant for feasibility studies will be capped at R8million for manufacturing enterprises and Engineering Services and R1 million for conformity assessment aodies.

8.1.5 The grant is provided directly to approved applicants based on actual qualifying costs incurred and subject to jobs being retained.

8.1.6 Pre-feasibility study should demonstrate the following:

- A positive impact on other developmental aspects including job creation, skills development, linkages with the small, medium and micro enterprises as well as black business empowerment etc.;
- A clear detailed time period within which the project emanating from the feasibility study will be realised;
- Buy-in from private and public sector organisations key to realising the project; and
- Sources of funding.

8.1.7 Projects already receiving government incentives for feasibility studies will not qualify for a feasibility study grant.

9. Cluster Competitiveness Improvement

9.1 Programme Description

9.1.1 The objective of this incentive is to support sustainable economic growth and job creation needs of South Africa by providing financial assistance to clusters and partnerships of companies, engineering services and conformity assessment services in the manufacturing industry to define and implement collaborative projects related to production and marketing that will enhance their productivity and international competitiveness.

9.1.2 It offers a cost-sharing grant of 80% of the costs of the cluster activities, to be payable at completion of the business development activities or milestones up to a maximum grant of R50million.

9.1.3 Paragraph 3.2.2 (grant calculation) is not applicable to Cluster Interventions.

9.1.4 The grant is provided directly to approved applicants based on actual qualifying costs incurred and subject to jobs being retained.

9.1.5 For additional information please refer to the Cluster Competitiveness guidelines available on **the dti** website.

10. Pre/Post-dispatch Working Capital Facility

10.1 Programme Description

10.1.1 The objective of the Pre/Post- dispatch Working Capital Facility is to offerfinance to manufacturers at a preferential interest rate that will lead to improved competitiveness by reducing the cost of finance.

10.1.2 The Pre-dispatch finance covers working capital requirements fromreceipt ofan orderto dispatching the order to customers. It can therefore include production raw material, packaging and transportation costs.

10.1.1.2 The Post-dispatch finance covers working capital requirements from the dateof dispatch of the goods to the date when the seller realises the proceeds of the sale.This may include performance bonds and performance guarantees.

10.1.2 It offers a working capital facility of up to R50 million at a fixed interest rate of four percent (4%). Any applicants that have requirements exceeding this maximum amount may qualify for IDC financing based on the normal IDC risk assessment.

10.1.2.1 Finance is available for a term of up to 4 years, depending on the enterprise circumstances.
10.1.2.2The facility may be revolving, depending on the circumstances and needs of the borrower.

10.1.3 The facility is available on condition that the applicant is in possession of a confirmed contract or purchasing order or an order that forms part of the state owned enterprise competitiveness supplier programme or a designated products value chain.

10.1.4 The facility may also be available to support manufacturers in distress to turn around their enterprises in order to achieve improved competitiveness levels and viability.Applicants may be required to have turnaround plans approved by the IDC.

10.1.5 No fees will be levied by the IDC for this facility

10.1.6 The working capital facility will not be available to fund normal overdraft requirements.

11. Industrial Policy Niche Projects Fund

11.1 Projects identified by **the dti** sector desks and IDC's strategic business units that focus on new areas with potential for job creation, diversification of manufacturing output and contribution to exports, that would otherwise not be candidates for commercial orIDC funding, may be eligible for an MCEP grant that may be structured as part of the borrower's equity contribution.

12. Exclusions and Limitations

The following entities and/or activities are prohibited from participating in MCEP

12.1 Government and semi-government institutions as listed on schedules 1, 2 and 3 of the Public Finance Management Act.

12.2 Entities where a Development Finance Institution (DFI) has a majority/controlling stake, unless an exit strategy is presented and accepted by the MCEP Adjudication Committee. Each of these will be evaluated on a case by case basis.

12.3 The manufacture of tobacco products

12.4 Applications from Trusts.

12.5 Applicants who have benefited from support of other dti incentives or programmes (e.g. BBSDP, MIP, CIS, 12i) will not qualify for MCEP support for the same assets and/or activities.

13. Additional Conditions for Grant Disbursement

13.1 Any relaxation of minimum requirements or conditions or expansion of qualifying costs in this document is based on merit and at the sole discretion of **the dti**. The decision of **the dti** will be final.

13.2 Failure to submit a valid first claim forentities approved under PI sub-components other than the Capital Investment or Green Technology and Resource Efficiency Improvement within 6 months from the date of completion ofactivities as indicated in the application form will result in the forfeiture of the approved grant for the activity.

13.3 The applicant must notify **the dti** in writing within thirty (30) calendar days of the commencement date of production/start of commercial production date, as indicated in the approval letter. **the dti** must also be notified in writing of any changes in the commencement date of production / start of commercial production date. The new commencement date of production must not be more than one hundred and twenty (120) calendar days of the original approved commencement date.

13.4 It is the responsibility of the entity to provide complete and accurate information to **the dti** to enable speedy and correct processing of the grant. The entity must submit the following documents via **the dti**electronic system:

- An original completed Claim Form duly signed by the entity and an independent external auditor or accredited person;
- A factual findings report completed by an external auditor/accredited person and, or a consulting engineer approved by **the dti**;
- Latest Audited/Independently Reviewed financial statements for the entity not older than 18 months;
- An original valid Tax Clearance Certificate of the entity;
- Written confirmation of the bank details where payment must be made; and
- Acertificate of compliance with the Code of Good Practice for B-BBEE, where the entity's turnover is more than R5million, or such amount, as determined within the B-BBEE codes.

13.5 Payments shall be made directly into the bank account of the approved entity only. The name and addresses of the account holder must be the same as that of the applicant.

14. Additional Legal Conditions

14.1 The following are, inter alia, considered a circumvention of MCEP guidelines, and will lead to the rejection of an application or a claim:

14.1.1 Manipulation of inter-company assets, products, services and processes, and any other action that, in the sole discretion of **the dti**, can be regarded as circumvention to allow the entity, which otherwise would not have qualified, to qualify.

14.2 For participation in the MCEP scheme, entity representatives/contact people must sign the Terms and Conditions attached to the Application Form;

15. Appeal Process

15.1 Any dispute relating to a **decision** (including the rejection of an application) taken by **the dti** is limited to one internal appeal per application lodged within such time as set out in the letter of notification.

16. Criminal,Misleading, Dishonest and/or Irregular Acts

16.1 **the dti** may, upon actual offence or suspicion of contravention of any act/investigation/pending litigation of any such activities, suspend payments that may be due or become due to an applicant. **thedti** shall not be liable for any damages or interest, pending the finalisation of any investigation and any criminal proceedings brought as a result of the investigation.

16.2Findings of an investigation indicating such activities will be sufficient to allow **the dti** to cease all payments and reclaim any payments already made, with *more*interest;

16.3 **thedti** subscribes to the principles set out in the Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA). Applicants are requested to contact **thedti** fraud hotline on 0800 701 701 should they wish to report any suspicious behaviour.

16.4 A duty rests on the applicant and/or any other person that may benefit from the scheme to disclose everything that may have an influence on the adjudication of the application and/or claim. Failure thereof will lead to the termination, cancellation or suspension of the application/claim and criminal prosecution and/or civil claim.

17. Monitoring and Evaluation Reporting

17.1 All approved applicants will be monitored to assess how the MCEP is contributing towards the strategic objectives of the incentive and its intended outcomes.

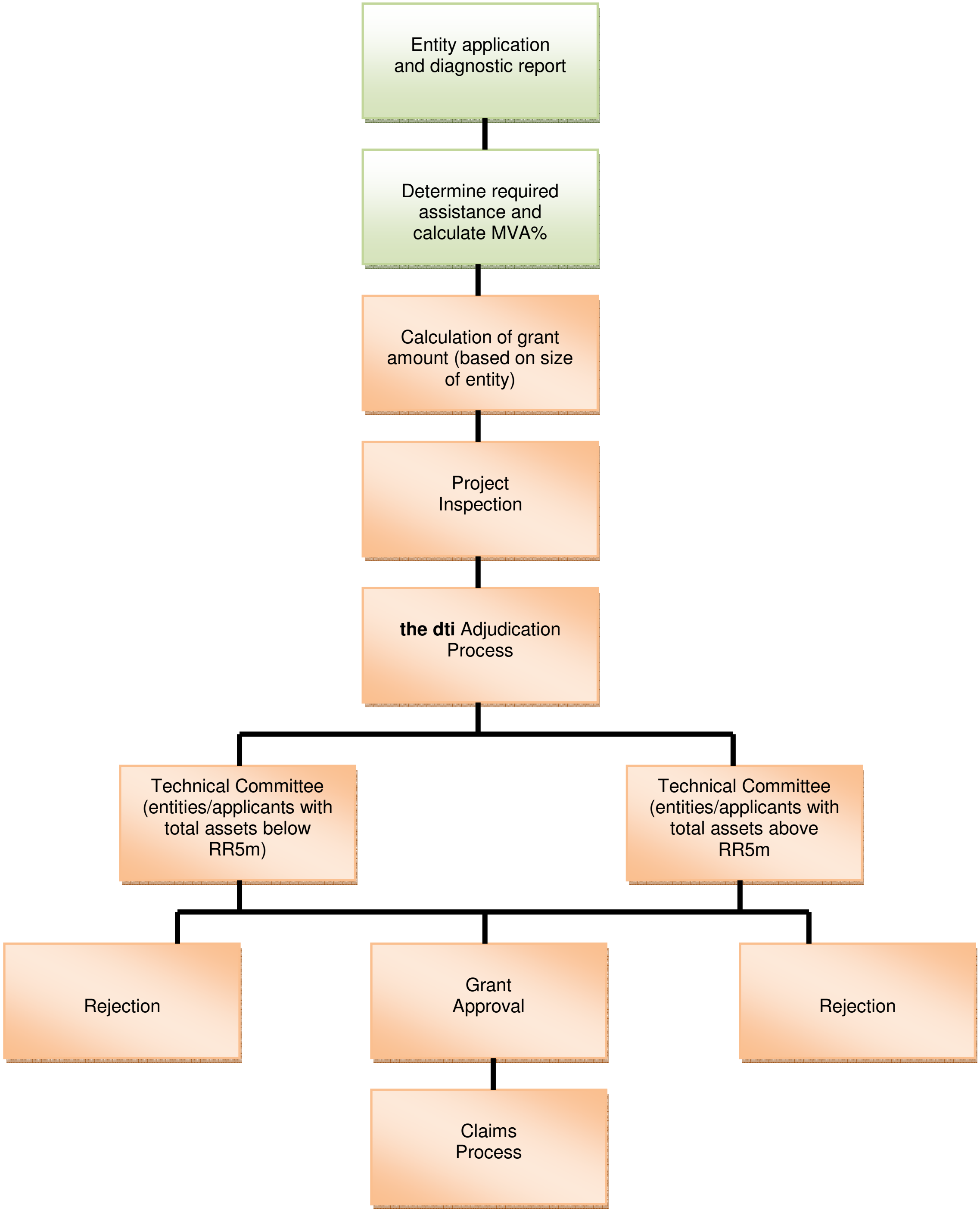
17.2 Monitoring information required from applicants will form part of the claim forms. Upon receiving the claim forms, **the dti** will conduct site inspections with all the approved applicants to verify the requested information.

17.3 In addition to the site inspection visits at each claim stage, applicants will be required to comply with periodic performance monitoring visit and the compilation of Project Monitoring Report.

17.4 Approved applicants are also required to submit annual performance reports, up to a period of 3 years after the final claim has been paid.

18. Application Process

18.1 The application process for Production Incentives administered by **the dti**is as follows:



Annexure A: Glossary of Terms and Definitions

a. Adjudication Committee (Board):an independent body established by the Minister to adjudicate applications under the MCEP.

b. Applicant: Anenterprise applying for the MCEPcost-sharing grant. Note that the word 'applicant' is used interchangeably with enterprise depending on its appropriateness.

c. 'Asset' A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

d. *'Average employment'*: This term refers to the average number of jobs over a period of twelve (12) moths prior to the application date. It is calculated by adding up the total number of full time employees as well as full time equivalent employees for the twelve months and dividing that number by the number of months.

e. 'Cleaner Production': The continuous application of an integrated preventative environmental strategy to Processes, Products and Services to increase efficiency and reduce risks to humans and the environment.

f. 'Conformity Assessment body (CAB)': A Body that is certified to perform conformity assessment services including certification, calibration, inspection, verification and laboratory services where the CAB determine, directly or indirectly, that the specified requirements in technical regulations, standards or any other relevant and validated documentation relating to a product, system, person or body has been fulfilled.

g. 'Connected party/persons/non-arm's length transactions': Connected, as described in the Income Tax Act, No. 58 of 1962, which, as at April 2007, reads as follows: in relation to a natural person – any relative; and any trust of which such natural person or such relative is a beneficiary;

And in relation to this definition, "arm's length transactions" will mean the opposite.

h. 'Date of application': the date a complete application is received by **the dti.**

i. 'e-Applicant': An applicant who submitstheir application and/or other documents electronically on MCEPIwebsite.

j. 'Energy Efficiency': Cost saving through viable initiatives and new technologies.

k. 'Employees' or 'Jobs': Persons who work a minimum of forty (40) hours a week for the same employer and are on the employer's payroll i.e. direct jobs

'Full-time Equivalent Employment': Refers to Contract/Seasonal/Temporary Employees, 1,920 hours worked per year will be an equivalent of one full-time employee.

'Employment': Total number of employees orfull-time equivalent of an enterprise.

l. 'Engineering services related to manufacturing': Refers to an entity that is primarily engaged in offering engineering related services to the manufacturing sector

m. 'Entity' or 'Applicant': A business registered as a legal entity is South Africa. The word entity is used here to refer to a business applying or one that has qualified for the incentives, or is claiming MCEP- I incentives

n. *Expansion'* or *'Expansion project':* Includes an existing business that invests in additional assets.

o. 'Financial year': Period referred to in the entity's financial statements and as is registered with the Companies and Intellectual Properties Commission (CIPC), irrespective of the calendar period thereof

p. Generically the same/ similar products': Products whose manufacture involves u*sing similar raw materials and production process*.

q. 'Green Technology': Technology that is considered environmentally friendly or less harmful than other traditional technologies, based on its production process

r. Independent external auditor' or 'accredited person': a person/agency that performs/undertakes a *systematic, independent and documented process for obtaining audit evidence and evaluating it objectively.*

i.r.o. a Close Corporation means practising members of the South Africa Institute of Professional Accountants (SAIPA); Practising members and Associate General Accountants of the South African Institute of Chartered Accountants (CA(SA) and/or AGA: Individual or enterprise/practice registered as an auditor with the Independent Regulatory Board for Auditors (IRBA).

s. 'Incentive period': This refers to the two year period for which the grant has been awarded to the applicant. It begins from the start of production date as indicated on the approval letter.

t. Material Changes': Changes that, if known at application stage, could have affected approval of the project e.g. changes business setup; composition; structure of operations; processes or products.

u. 'MCEP Agreement': The document containing an offer from **the dti** to the applicant setting out the terms and conditions of the MCEP incentive being offered to the applicant, which will by implication include the terms and conditions set out in these guidelines ('implied terms')

v. 'Shareholding': Includes reference to shareholding in a Company; membership in a Closed Corporation; members or owners in a Cooperative.

w. 'Start of production' or 'start of commercial production': Refers to the date that the assets are brought into commercial use. This is the period following the commissioning and testing stages.

x**.** *"Total Asset":total fixed assets at historical cost price (i.e. excluding revaluations) as per notes to the balance sheet, plus total current assets as per balance sheet.*

y. *'Upgrading'*: Modernising, refurbishing or renewing 'technology of production' that involves capital expenditure for replacement of old machinery and equipment or the addition of component(s) to the existing production line for purposes of competitiveness improvement.

Approved by:

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Dr Rob Davies, MP

Minister of Trade and Industry

Date: