



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

PROGRAMME GUIDELINES

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Manufacturing Competitiveness Enhancement Programme (MCEP): Cluster Competitiveness Improvement

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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.

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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
NPC	Non-profit Companies
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 for the 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 intended to enable enterprises to present their applications to 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 projects that meet the objectives of the MCEP as interpreted by these guidelines. To qualify for the incentive, participating projects 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 9.7.
- 1.4 These guidelines may be amended from time to time, as deemed necessary by **the dti**. These amendments will be published on **the dti** website and will be of effect upon publishing.
- 1.5 Where the guidelines lend themselves to varying interpretations or do not deal with specific subject matter, the interpretation of **the dti** must be requested and 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, relevant provisions of the Public Finance Management Act (PFMA) as well as the provisions of the Competition Act No. 89 of 1998.

2. Services Delivered by the dti

- 2.1 No fees or charges are levied by **the dti** for the processing or evaluation of any MCEP applications or claims.
- 2.2 Applicants are welcome to contact **the dti** directly and **the dti** 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 Programme Description

- 3.1 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.

- 3.2 Clusters 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 be considered provided the investment in the intended project will result in direct quantifiable jobs in downstream industries; and/or provide benefits for other applicants in the value chain such as access to new markets, introduction of new products and processes currently not available or performed in South Africa and/or that the sector is experiencing cyclical distress.
- 3.3 Clusters from the private sector defence industry¹ 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.
Cluster members 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
- 3.4 Clusters falling under the automotives² 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.
- 3.5 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.
- 3.6 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 optimization 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).

¹ This support is directed at the private sector defence industry and excludes state owned enterprises

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

- 3.7 The registered cluster must achieve at least level four B-BBEE contributor status in terms of the B-BBEE codes of good practice (refer to <http://bee.thedti.gov.za>).

4. Mandatory Conditions

- 4.1 The applying cluster must be a registered Company or Non-profit Company in South Africa in terms of the Companies Act, No. 71 of 2008, or a cooperative.
- 4.2 An eligible cluster should have five or more members who are registered tax paying entities or non-profit organisations.
- 4.3 All member companies participating in the cluster must have decision making powers either by virtue of being Directors and/or voting members of the Non- Profit Company (NPC).
- 4.4 All member companies within the cluster must commit themselves to a financial contribution towards the activities of the cluster. Cluster members must make at least 10% financial contribution³ towards the project(s).
- 4.5 Directors or managers of member companies are free to make non-financial contributions to the cluster. Such non-financial contributions/services rendered will not be eligible for the grant reimbursable from MCEP.
- 4.6 The governance of the cluster must be in line with the relevant corporate governance provisions and these must be detailed in the constitution of the cluster.
- 4.7 The member entities of the cluster may not be from the same group of companies.
- 4.8 The cluster must:
- 4.8.1 In the case of new clusters, submit together with an application a cluster proposal detailing the objectives of the cluster and the activities to be undertaken. An example of a cluster proposal/template is given in Annexure B.
- 4.8.2 In the case of existing clusters, the previous financial year's annual report, audited financial statements of the cluster and a proposal for any new projects not previously funded but will be undertaken with the MCEP funding, must be submitted.

³ **Example:** If the cost of the project is R1 million, the cost sharing will be R800 000 from **the dti** and R200 000 from the cluster. In this example the members may either contribute equally i.e. R40 000 per member (if there are 5 members). Alternatively if the members opt to contribute according to their abilities then the minimum amount that a member must contribute is R20 000 (10% of R200 000) per member.

5. Eligibility Criteria

- 5.1 The MCEP Cluster Competitiveness Improvement sub-component 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 R50 million.
- 5.2 The grant is provided directly to the approved cluster based on actual qualifying costs incurred and subject to collective jobs being retained in the cluster.
- 5.3 Clusters may include entities or organisations in the service sector related to manufacturing.
- 5.4 Clusters may include entities or organisations that provide business development support services, engineering services and conformity assessment services in the manufacturing sector.

6. Eligible Projects

- 6.1 Eligible projects should be aimed at assisting efforts to improve productivity and competitiveness of member companies.
- 6.2 Projects should not be general purpose in character (i.e. they should not focus on general management and financing issues that are generic to organisations across multiple activities) but should be 'specialised and tailored' to the specific requirements of organisations in specific activities.
- 6.3 The projects to be supported by the MCEP Cluster Competitiveness Improvement should have a business plan that clearly identifies project outputs and project outcomes. An example of a project executive summary detailing the plan, outputs, outcomes and costs is given in Annexure C.

7. Qualifying Activities and Costs

- 7.1 The following are the kinds of costs that will be considered:
- Market research;
 - Export promotion costs;
 - Product development costs;
 - International marketing costs;
 - Costs of developing shared infrastructure;
 - Process improvement costs;
 - Benchmarking costs; and
 - International advertising and publicity.

8. Exclusions and Limitations

- 8.1 The following organisations are excluded from either applying as clusters or forming part of the cluster:
- Export Councils;
 - Industry Associations;
 - Government Funded Entities or Institutions and Agencies of Government;
 - Trusts
- 8.2 Non Qualifying Costs
- Any activity that is partially supported by another government scheme, quasi government scheme or that receives any other support from an entity other than members of the cluster.
 - Salaries, wages, rent and general office costs.

9. Additional Conditions for Grant Disbursement

- 9.1 Failure to submit a valid first claim for projects approved under the cluster component of within 6 months from the date of completion of activities as indicated in the application form will result in the forfeiture of the approved grant for the activity.
- 9.2 The cluster applicant must notify **the dti** in writing within thirty (30) calendar days of the commencement date of activities, as indicated in the approval letter. **the dti** must also be notified in writing of any changes in the commencement date of activities. The new commencement date must be no more than one-hundred-and-twenty (120) calendar days of the original approved commencement date
- 9.3 It is the responsibility of the cluster to provide complete and accurate information to **the dti** to enable speedy and correct processing of the grant.
- 9.4 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 within six (6) months after the start of commercial production, the grant approval will be cancelled.
- 9.4.1 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 the grant approval will be cancelled.
- 9.4.2 For business development services and other activities, grant disbursement will be made upon completion of activities. 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.
- 9.5 The cluster must submit the following documents to the Programme Manager at **the dti**:
- 9.5.1 An originally completed Claim Form duly signed by the cluster representative and an independent external auditor or accredited person;

- 9.5.2 Where necessary a factual findings report completed by an external auditor/accredited person and, or a consulting engineer approved by **the dti**;
- 9.5.3 Latest available audited or independently reviewed financial statements for the cluster;
- 9.5.4 An original valid Tax Clearance Certificate of the entity;
- 9.5.5 Written confirmation of the bank details where payment must be made; and
- 9.5.6 Certificate of compliance with the Code of Good Practice for B-BBEE for all member companies of the cluster.

9.6 Additional Legal Conditions

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

- 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 would otherwise have not qualified, to qualify.

9.7 Appeal Process

- 9.3.1 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.

9.8 Criminal, Misleading, Dishonest and/or Irregular Activities

- 9.8.1 **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. **the dti** shall not be liable for any damages or interest, pending the finalisation of any forensic investigation and any criminal proceedings brought as a result of the investigation.
- 9.8.2 Findings of a forensic investigation indicating such activities will be sufficient to allow **the dti to cease all payments and reclaim any payments already made, with more interest.**
- 9.8.3 **the dti** subscribes to the principles set out in the Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA). Applicants are requested to contact **the dti** fraud hotline on 0800 701 701 should they wish to report any suspicious behaviour.
- 9.8.4 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.

10. Monitoring and Evaluation Reporting

- 10.1 All approved clusters will be monitored to assess how the MCEP is contributing towards the strategic objectives of the incentive and its intended outcomes.
- 10.2 Monitoring information required from clusters 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.
- 10.3 In addition to the site inspection visits at each claim stage, clusters may be required to comply with periodic performance monitoring visits.
- 10.4 Approved applicants are also required to submit annual performance reports up to a period of three years after the final claim has been paid.

11. Glossary of Terms and Definitions

- a. Adjudication Committee (Board): an independent body established by the Minister to adjudicate applications under the MCEP.
- b. Applicant: An enterprise applying for the MCEP cost-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. 'Base year': This term refers to a period of 12 months before submission of application to **the dti**.
- 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. '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.
- h. 'Engineering services related to manufacturing': Refers to an entity that is primarily engaged in offering engineering related services to the manufacturing sector.
- i. 'Entity' or 'Applicant': A business registered as a legal entity in 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.
- j. '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
- k. 'Green Technology': Technology that is considered environmentally friendly or less harmful than other traditional technologies, based on its production process
- l. 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).

Approved by:

Dr Rob Davies, MP
Minister of Trade and Industry

Date: