

## Introduction

The Department of Trade and Industry (the dti) is offering cash grants to the manufacturing sector (including engineering services and relevant support agencies) through the Manufacturing Competitiveness Enhancement Programme (MCEP) to:

- ▶ Stabilise and grow production;
- ▶ Invest in equipment and processes;
- ▶ Sustain employment;
- ▶ Promote enterprise competitiveness;
- ▶ Maximise value-addition; and
- ▶ Reduce environmental impact.

The incentive programme offers cash grants to enterprises in the manufacturing sector that are not already catered for by programmes designed for their industries, subject to the availability of funds.

The MCEP benefit consists of two components:

- ▶ A production incentive (PI), managed by the Department of Trade and Industry (the dti); and
- ▶ An industrial loan finance facility, managed by the Industrial Development Corporation (IDC).

Applications may be submitted from 4 June 2012 to 31 March 2018.

## Who can apply for the incentive benefit?

- ▶ Entities involved in manufacturing, engineering and support services, as well as conformity assessment agencies servicing the manufacturing sector.
- ▶ The following sectors will be considered on merit of downstream job creation:
  - Paper, pulp and board manufacturers;
  - Petroleum refineries and synthesisers;
  - Nuclear fuel processors;
  - Basic chemical manufacturers;
  - Basic iron and steel manufacturers; and
  - Basic precious and non-ferrous metals manufacturers.
- ▶ Applications from the private sector defence industry (excluding majority state-owned enterprises, whether SA or Foreign Government owned) falling under the following sectors are included for MCEP support:
  - Special purpose machinery manufacturers;
  - Electronic components and boards manufacturers;
  - Measuring, testing, navigating and control equipment manufacturers; and
  - Air and spacecraft related machinery manufacturers.
- ▶ Applicants that manufacture 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.

## Excluded sectors

The following are excluded from applying for MCEP:

- ▶ Greenfield projects or applicants in operation for less than a 12 month financial year
- ▶ Automotive, clothing, textile, leather and footwear sectors, where other sector specific incentive programmes already exist
  - Automotive component manufacturers with less than 25% of its base year turnover earned as part of the motor vehicle manufacturers supply chain may be considered for MCEP.

- ▶ 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.
- ▶ Government/semi-government institutions (per schedules 1, 2 and 3 of the PFMA).
- ▶ Where Development Finance Institution (DFI) has a majority/controlling stake;
- ▶ Tobacco product manufacturers; and
- ▶ Applications from Trusts.

## The incentive benefit

Production Incentive (PI) offers:

- ▶ Cost sharing grant;
- ▶ Benefit of 10 - 25% (refer Table 1) is calculated against the average;
- ▶ Manufacturing Value Added (MVA)\* per the last two years' audited financial statements; and
- ▶ The benefit can be utilised across one or a combination of the Production Incentive components as highlighted in Table 2.

Industrial Financing and Loan Facilities offer:

- ▶ Pre-and post-dispatch working capital facility of up to R50m at a fixed interest rate of 4% over a four-year term.
- ▶ Industrial policy niche projects fund.

## Qualifying criteria

To qualify, the applicant must:

- ▶ Be a legally-registered South African company, close corporation or co-operative.
- ▶ Maintain average employment levels in the entity (inclusive of full-time and full-time equivalent) in each year of the incentive period when compared to the average employees based on the 12-month period prior to the date of application.
- ▶ Submit applications 60 days prior to start of commercial production.
- ▶ Only provide one application within a two-year period in respect of each legal entity - after the two-year incentive agreement period and submission of the final MCEP claim, applicants may apply for further interventions under MCEP.
- ▶ Ensure that each legal entity within the group structure must submit its own application as group financial statements will not be accepted.
- ▶ Must have been in operation for at least one to two years.
- ▶ Be a BBBEE Level 4 contributor or provide a plan to achieve Level 4 compliance within two years. As from 1 June 2015 Applicants will only be considered for MCEP if they can prove at least a level 4 B-BBEE status. It is important to note that no plans will be accepted from this date.
- ▶ Submit a valid BEE certificate and tax clearance certificate.
- ▶ Meet minimum investment requirements and submit the required supporting documentation per the component (Table 2) which is being applied for.
- ▶ Sign Terms and Conditions attached to the application form.

*Businesses that have converted from another business type to a registered legal entity (e.g. (PTY) Ltd, CC or Co-op) may apply, provided that the registration of the entity occurred before the submission of the application and two years of independently-reviewed financial statements is available for the previous business type.*

Table 1: Benefit scale

Total assets**	% MVA claimable as grant ceiling
< R5m	May qualify for a direct cost sharing grant per applicable component (Refer Table 2)
≥ R5m; < R30m	25%
≥ R30m; < R200m	20%
≥ R200m	10%

Applicants with 100% black shareholding may qualify for 25% of MVA.

\*MVA=Sales

less sales value of imported finished goods  
 less sales value of other bought-in finished goods  
 less material input costs (used in the manufacturing process)

\*\* Total Assets: 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.

\*\*\* An additional 10% cost sharing Bonus Grant (not exceeding R5m) available to applicants (whose historical total assets are greater than R5m) that invest in Capital or Green technology and either create additional jobs per Table 3 or procure at least 50% of the total approved investment from a South African manufacturer. The Bonus Grant will be payable only at the time when the new jobs have been created and sustained for at least 12 months.

\*\*\*\* Clusters may include entities or organisations in the service sector relating to manufacturing or those that provide business development support services for enterprises in the manufacturing sector. Eligible clusters should have five or more members who are registered tax paying entities or non profit organisations.

Table 2: Production incentive components

Component	Historical cost of assets**	Minimum required investment	Cost sharing grant ***	Qualifying assets / costs
Capital Investment	< R5m ≥ R5m; < R30m ≥ R30m	R500k in Machinery & Equipment R1m in Machinery & Equipment R2m in Machinery & Equipment	50% of investment cost, maximum grant R5m 40% of investment cost, maximum grant R30m 30% of investment cost, maximum grant R30m	Owned / capitalised machinery and equipment Capitalised building improvements and / extensions, Capitalised leasehold improvements and extensions (limited to qualifying investment in machinery and equipment) Forklifts Tools, jigs & dies
Green Technology and Resource Efficiency Improvement	< R5m ≥ R5m; < R30m ≥ R30m	Not applicable	50% of investment cost, maximum grant R5m 40% of investment cost, maximum grant R20m 30% of investment cost, maximum grant R20m	Cleaner production Waste management Energy efficiency Renewable energy Water use efficiency Conformity assessments
Enterprise-Level Competitiveness Improvement	< R5m ≥ R5m; < R200m ≥ R200m	Not applicable	70% of investment cost, maximum grant R2m 60% of investment cost, maximum grant R5m 50% of investment cost, maximum grant R10m	Process improvement / optimisation Product improvements Conformity assessment certification Logistics improvements IT systems (software for integrated production management information systems) Skills development (production development, product and quality management short courses that are SAQA accredited or internationally recognised) Procurement process improvement Bidding costs
Feasibility Studies	< R30m ≥ R30m	R30m project investment for manufacturing enterprises and engineering services and R 5 mil. for conformity assessment agencies	70% of the cost of the feasibility study 50% of the cost of the feasibility study (maximum grant limited to R8m for manufacturing enterprises and engineering services and R1m for conformity assessment agencies)	Submit a pre-feasibility study report that demonstrate the following: <ul style="list-style-type: none"> <li>▶ Positive impact on other developmental aspects</li> <li>▶ Clear detailed time period within the project will be realised</li> <li>▶ Buy in from private and public sector organisations key to realising the project</li> <li>▶ Sources of funding</li> </ul>
Cluster Competitiveness Improvement****			80% of costs, maximum grant R50m	Market research Export promotion costs Product development costs International marketing costs Costs of developing shared infrastructure Process improvement costs Benchmarking costs International advertising and publicity

Table 3: Bonus grant: Job requirements

Entity size: Total assets	Job requirement
> R5m; < R30m	≥ 10
≥ R30m; < R200m	≥ 20
≥ R200m	≥ 25