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REPUBLIC OF SOUTH AFRICA

THE MANUFACTURING COMPETITIVENESS ENHANCEMENT PROGRAMME (MCEP)

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BACKGROUND

SOUTH AFRICA'S MANUFACTURING SECTOR



“Manufacturing and industrialisation is the key to the long term growth and economic well-being of South Africans. Developing countries that have been able to make the transition from low income to upper middle and high income status, mainly Asia, have relied on the manufacturing sector as the main source and engine of economic growth. The growth in this sector has drawn labour from the less productive sectors thus raising output, incomes and employment”.

Minister of the dti, Dr Rob Davies (15 May 2012: MCEP launch)



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BACKGROUND

CHALLENGES FACED BY SA'S MANUFACTURING SECTOR

- Decline in performance since the 1970's
- In 2011, sectors contribution to GDP was 14.6% vs to 21% in 1977
- **the dti** investigations revealed key sector challenges:
 - negative impact of the 2008/09 recession that resulted in a loss of approx. million jobs; 200 000 from the manufacturing sector
 - increasing domestic input costs e.g. rising electricity prices & labour costs
 - cheap imports from low cost manufacturing countries e.g. China
 - manufacturing entities that neglected to invest in competitiveness (mostly affected by the recession & closed down) i.e. factories with obsolete & outdated machinery & equipment.



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MCEP OBJECTIVES

- Promote enterprise competitiveness & job retention by funding existing manufacturing entities to:
 - invest in capital equipment, upgrading of production facilities, processes and products
 - invest in green technology improvement that will lead to cleaner production & resource efficiency
 - enhance competitiveness through skills development, information technology systems that are part of the manufacturing process
 - facilitate FS that are likely to lead to bankable project plans that will result in new investments
 - encourage collaboration amongst a cluster firms in order to increase productivity and international competitiveness
 - reduce the cost of finance for distressed enterprises by offering preferential interest rates



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MCEP SUBPROGRAMMES

MCEP IS MADE UP OF 2 SUBPROGRAM'S:

- Production Incentive (**PI**) managed by **the dti** under the IDAD
- Working Capital Facility Loan & Niche Policy Project Fund managed by the IDC

PI IS MADE UP OF 5 COMPONENTS:

- Capital Investment (**CI**)
- Green Technology and Resource Efficiency Improvement (**GT & REI**)
- Enterprise Level Competitiveness Improvement (**ELCI**)
- Feasibility Studies (**FS**) and;
- Cluster Competitiveness Improvement (**CCI**)

Applicants can apply for one or a combination of the above components subject to the max. cost-sharing grant based on entity size & limited to the MVA



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MCEP ELIGIBILITY CRITERIA

1. Applicant must be registered as a legal entity in SA
2. Be an existing manufacturing entity for a period of 2 years
3. Have a valid tax clearance certificate
4. Investment project(s) must be classified under the SIC 3 (*check with SARS*)
5. Level 4 B-BBEE contributor status in terms of B-BBEE codes:
 - if an applicant has not achieved this level = submit a plan to demonstrate how they will progress towards achieving this level within 4 yrs.
6. Investment project (s) may not result in reduction of base-yr employment fig.
 - *employment fig. should be maintained for the duration of the agreement & applicants unable to meet this condition must communicate reasons at the time of application and the dti will consider each case on its own merit*



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MCEP ELIGIBILITY CRITERIA

7. Minimum investment required

- 3rd party funding is sourced = submit proof of funding within 3 months

8. Submit an e- application (*no manual applications*) 60 D before you put assets into commercial production or undertake business development activities (BDA):

- Assets taken into commercial production or BDA undertaken before approval will be non-qualified, *however:*
 - ✓ If **the dti** does not respond within 60 D after submission of a complete e- application, an applicant *may* take its assets into commercial production or undertake implementation of BDA. These will not be disqualified on the basis of being in commercial use or being undertaken before approval *but the applicant should notify the dti of its intention to go into commercial production or undertake implementation of BDA before approval*

9. Pending litigation (s) against the applicant that may have material effect on the applicant's financial position should be brought to the attention of **the dti** at the time of the application.

10. Last Audited financial statements (not older than 18 months)



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EXCLUSIONS

- Projects that are receiving benefiting from:
 - Motor Industry Development Programme (**MIDP**)
 - Automotive Production Development Programme (**APDP**)
 - Automotive Incentive Scheme (**AIS**)
 - Clothing & Textile Competitiveness Improvement Programme (**CTCIP**)
 - Clothing and textile Competitiveness Programme (**CTCP**)
 - National Industrial Participation Programme (**NIPP**)



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PI COMPONENTS (*not in order of priority*)

CAPITAL INVESTMENT (CI)

- Cost sharing grant of 30, 40% and 50% of the actual investment cost for upgrading capital equipment and expansion of productive capacity.
- The cost sharing depends on the entity size:
 - **Assets: < R5m = 50%; between R5m - R30m = 40% & R30 m> = 30%.**
- Additional 10% bonus grant to a max. of R5m applicable to all assets sizes (except < R5m)
- Additional bonus conditions:
 - **creation of additional jobs i.e. additional to current jobs or**
 - **procuring 50% (in rand value) of the machinery and equipment and tooling manufactured in SA.**
- Maximum grant is R50m



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PI COMPONENTS (*not in order of priority*)

GREEN TECHNOLOGY & RESOURCE EFFICIENCY IMPROVEMENT (GT & REI)

- Cost sharing grant of 30, 40% & 50% of the actual investment cost for technology and processes that will lead to cleaner production & energy efficiency.
- The cost sharing depends on entity size:
 - **Assets: < R5m = 50%; between R5m - R30m = 40% & R30 m> = 30%.**
- Additional 10% bonus grant to a max. of R5m applicable to all assets sizes (except < R5m)
- Additional bonus conditions:
 - **creation of additional jobs i.e. additional to current jobs or**
 - **procuring 50% (in rand value) of the machinery and equipment and tooling manufactured in SA.**
- Maximum grant is R50m



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PI COMPONENTS (*not in order of priority*)

ENTERPRISE LEVEL COMPETITIVENESS IMPROVEMENT (ELCI)

- Cost sharing grant of 50, 60 & 70% of the actual investment depending on entity size
 - **assets < R5m = 70%; between R5m - R200m = 60% & > R200m = 50%**
- Adoption of world class manufacturing practices such as conformity assessment certificates, logistics improvements, skills development, information technology systems, procurement, product and process improvements and bidding costs.
- The above manufacturing process activities will only be approved if they are part of the manufacturing process.
- **No maximum grant, investment cost limited to the MVA**
- **Additional 10 % bonus grant does not apply**



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PI COMPONENTS (*not in order of priority*)

FEASIBILITY STUDIES (FS)

- Cost sharing grant of 50 or 70% depending on entity size:
 - **assets < R30m = 70%; between R30m - R200m = 50%.**
- FS likely to lead to bankable project plans that will result in investment in new components, products, processes, new conformity assessment services and new markets.
- Investment activities not currently performed by the applicant and the *minimum* expected investment from the FS is R30m.
- Maximum grant is R7.5m
- **Additional 10% bonus grant does not apply**



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PI COMPONENTS (*not in order of priority*)

CLUSTER COMPETITIVENESS IMPROVEMENT (CCI)

- Cost sharing grant of 80% for cluster initiatives (5 or more manufacturing entities)
 - **entity size not applicable**
- Improve the clusters productivity, competitiveness, innovation and access to new markets.
- Examples funded include:
 - shared infrastructure such as a sector technology development centre, market research
 - export promotion, process improvement, international marketing, product development etc.
- Maximum grant is R50m
- **Additional 10 % bonus grant does not apply**



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SUMMARY OF PI COMPONENTS

COMPONENT	MAX GRANT	ASSETS	GRANT	10% BONUS GRANT (R5m)
Capital Investment	R50m	< R5m	50%	N/A
		R5m to R30m	40%	>10
		>R30m	30%	>20
		>R200m		>25
Green Technology & Resource efficiency	R50m	< R5m	50%	N/A
		R5m to R30m	40%	>10
		>R30m	30%	>20
		>R200m		>25
Enterprise Level Competitiveness Improvement	N/A	< R5m	70%	N/A
		R5m to R200m	60%	
		>R200m	50%	
Feasibility Studies	R7.5m	< R30m	70%	N/A
		R30m to R200m	50%	
Cluster Competitiveness Improvement	R50m	N/A	80%	N/A



GRANT CALCULATION

- Based on the MVA & max. cost-sharing grant
- MVA is the max. qualifying grant (i.e. cap) an applicant can get in terms of all the components
- Between MVA and max. cost -sharing grant, the lowest amount is qualifying
- **2 TYPES OF MVA'S**
- Manufacturing entities & calculated:
 - Sales/turnover – sales value of imported goods – sales value of other bought in finished goods – material inputs costs used in the manufacturing process
= MVA
- Engineering services & conformity assessment agencies & calculated:
 - Sales/turnover – sales value of imported goods – sales value of other bought in finished goods – salaries/wages **= MVA**



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GRANT CALCULATION

- **MVA calculation not applicable to entities with assets <R5m**
- 25% of MVA - 100% black-owned enterprises
- 25% of MVA - enterprises with assets >R5m – <R30m
- 20% of MVA - enterprises with assets >R30m – <R200m
- 10% of MVA - enterprises with assets \geq R200m



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THANK YOU

Q & A

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