# A Guide to the dti

# Incentive Schemes 2018/19

the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

towards full-scale industrialisation and inclusive growth
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Nelson Mandela Centenary 2018 Be the legacy

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**Important Note:** All incentive schemes on offer by the Department of Trade and Industry (**the dti**) have their own specific guidelines and qualifying criteria. Please consult these before making any enquiries or decisions. Guidelines, application forms and further information about **the dti**'s many incentive offerings are available via **the dti** website (www.thedti.gov.za) under financial assistance and can also be obtained from the various administrative offices at **the dti** Campus.

# Contents

# OVERVIEW OF THE DEPARTMENT OF TRADE AND INDUSTRY (the dti)

## Vision

"A dynamic industrial, globally competitive South African economy, characterised by inclusive growth and development, decent employment and equity, built on the full potential of all citizens."

## Mission

- Promote structural transformation, towards a dynamic industrial and globally competitive economy;
- Provide a predictable, competitive, equitable and socially responsible environment, conducive to investment, trade and enterprise development;

- Broaden participation in the economy to strengthen economic development; and
- Continually improve the skills and capabilities of the Department of Trade and Industry (**the dti**) to effectively deliver on its mandate and respond to the needs of South Africa's economic citizens.

## Strategic Objectives

- Grow the manufacturing sector to promote industrial development, job creation, investment and exports.
- Improve conditions for consumers and artists, and open up markets for new patent players.
- Strengthen capacity to deliver on **the dti**'s mandate.

**the dti** stimulates and facilitates the development of sustainable, competitive enterprises through the provision of incentive programmes that support national priorities (i.e. sector strategies, as well as the National Industrial Policy Framework and its action plans). The department provides financial support to qualifying companies for various economic activities, including manufacturing, business competitiveness, export development and market access, as well as foreign direct investment.

These incentive programmes are grouped into the following clusters:

- **Broadening Participation and Industrial Innovation** promotes broadened economic participation and innovation and technology development. Its incentive programmes are the Black Industrialists Scheme (BIS), Support Programme for Industrial Innovation (SPII) and the Technology and Human Resources for Industry Programme (THRIP).
- **Competitiveness Investment** supports industrial competitiveness and consists of the Export Marketing and Investment Assistance (EMIA) programme, Sector Specific Assistance Scheme (SSAS), the Capital Projects Feasibility Programme (CPFP) and the Manufacturing Competitiveness Enhancement Programme (MCEP).
- **Manufacturing Investment** encourages additional investment in the manufacturing sector through the Aquaculture Development Enhancement Programme (ADEP), 12I Tax Allowance Incentive (12I TAI), Enterprise Investment Programme (EIP), which includes the Strategic Partnership Programme (SPP), and Automotive Investment Scheme (AIS), which includes the People-Carrier Automotive Investment Scheme (P-AIS).
- **Services Investment** stimulates increased investment and growth in the services sector through the Business Process Service (BPS) and Film and Television Production incentive programmes.

- **Infrastructure Support** leverages investments to the South African economy by providing infrastructure critical to industrial development and enterprise competitiveness within an industrial cluster. The incentive programme in the cluster is the Critical Infrastructure Programme (CIP).

All incentive schemes on offer by **the dti** have their own specific guidelines and qualifying criteria. This booklet serves only as a guide to what is on offer and who is eligible to apply. Please consult the relevant guidelines for more detailed information, available via **the dti** website (www.thedti.gov.za) under Financial Assistance or from the various administrative offices at **the dti** Campus. Application forms can also be obtained via the website.

# SECTION 1:
# BROADENING PARTICIPATION AND INDUSTRIAL INNOVATON INCENTIVES

## THE BLACK INDUSTRIALISTS SCHEME (BIS)

The purpose of the Black Industrialists (BI) policy is to leverage the state's capacity to unlock the industrial potential that exists within black-owned and managed businesses that operate within the South African economy through deliberate, targeted and well-defined financial and non-financial interventions as described in the Industrial Policy Action Plan (IPAP) and other government policies.

### Objectives

- Accelerate the quantitative and qualitative increase and participation of Black Industrialists in the national economy, selected industrial sectors and value chains, as reflected by their contribution to growth, investment, exports and employment; and

- Create multiple and diverse pathways and instruments for Black Industrialists to enter strategic and targeted industrial sectors and value chains.

In short, the broader objective is aimed at promoting industrialisation, sustainable economic growth and transformation through the support of black-owned entities in the manufacturing sector and related services linked to the manufacturing value chain.

**Focus areas**

The programme focuses on the following productive sectors:

a. Blue/ocean economy, including vessel building and repair
b. Oil and gas
c. Clean technology and energy
d. Mineral beneficiation
e. Aerospace, rail and automotive components
f. Industrial infrastructure
g. Information communication technologies
h. Agro-processing

i. Clothing, textiles/leather and footwear
j. Pulp, paper and furniture
k. Chemicals, pharmaceuticals and plastics
l. Nuclear
m. Manufacturing-related logistics
n. Designated sectors for localisation

### Benefits

The BIS offers a cost-sharing grant ranging from 30% to 50% to approved entities, to a maximum of R50 million. The size of the grant will depend on the level of black ownership and control, the economic benefit of the project and the project value.

The BIS offers support on a cost-sharing basis towards:

- capital investment costs
- feasibility studies towards a bankable business plan (to a maximum of 3% of projected investment costws)
- post-investment support (maximum of R500 000)
- business development services (maximum of R2 million)

## TECHNOLOGY AND HUMAN RESOURCES FOR INDUSTRY PROGRAMME (THRIP)

THRIP Is intended to leverage collaborative partnerships between government and industry (working with academia) for research and development in science, engineering and technology on a cost-sharing basis, to produce highly skilled human resources and technology solutions, for improved industry competitiveness.

## Objective

The objective of the programme is to increase the number of people with the appropriate skills in the development and management of applied research-based technology for industry.

This will be achieved through the implementation of:

- improved knowledge exchange and technology transfer through increased interaction and mobility among researchers in Higher Education Institutions (HEIs) and Science, Engineering, and Technology Institutions (SETIs) as well as technology personnel in industry;
- an increase in investment by industry and government, in research and technology;
- technology transfer and product or process improvement or development, through research collaboration between enterprises (large and small), HEIs and SETIs.

## Benefits

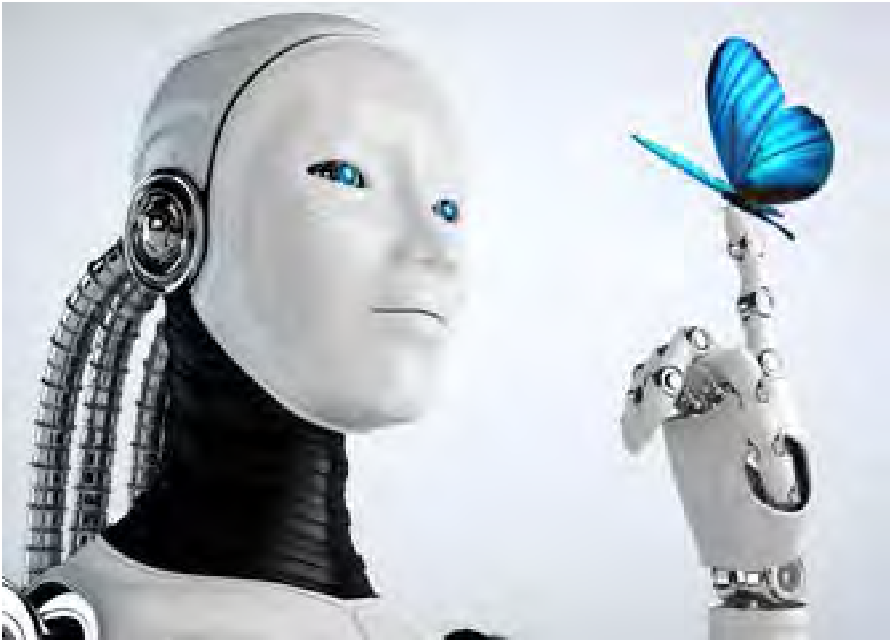
THRIP is a cost-sharing grant of up to R8 million for a period of three years for approved projects engaged in applied research and development in science, engineering and technology. Additional special inclusions in a grant may be funding for Technology Innovation Promotion through the Transfer of People (TIPTOP) and for the cost for legal advice on the development of Intellectual Property Rights (IPR) agreements.

**Eligible enterprises**

- The applicant must be a registered legal entity in South Africa.
- The project must have a partnership, with at least one partner being a South African Research Institution, which includes Higher Education Institutions, Science Engineering and Technology Institutions and National Research facilities.
- The duration of the partnership must be equal to or more than the period of the THRIP project.
- The project must include at least one registered South African student at fourth year level in the SET fields, who will be involved and trained through the research being conducted. The project must be applied research in the fields of science, technology or engineering, the outputs of which could make a significant contribution towards improving the industry partner’s competitiveness.
- The project intention should be to innovate.
- The project must have clearly defined scientific and technology outputs.

## SUPPORT PROGRAMME FOR INDUSTRIAL INNOVATION (SPII)

SPII is designed to promote technology development in South Africa's industry, through the provision of financial assistance for the development of innovative products and/or processes. SPII is focused specifically on the development phase, which begins at the conclusion of basic research and ends at the point when a pre-production prototype has been produced.



**The SPII offers two schemes:**

- **SPII Product Process Development (PPD) Scheme**
  - » Provides financial assistance to small and micro enterprises and individuals in the form of a non-repayable grant.
  - » A percentage of ‘qualifying’ costs incurred in the pre-competitive development activities associated with a specific project.

The scheme limit is a maximum grant of R2 million. If the applicant has less than 25% black economic empowerment (BEE) ownership, 50% of qualifying costs are incurred by the scheme. If the applicant has 25% to 50% BEE ownership, 75% of qualifying costs are incurred, and if BEE ownership is above 50%, 85% of qualifying costs are incurred by the scheme.

- **SPII Matching Scheme**
  - » Provides financial assistance to all enterprises and individuals in the form of a non-repayable grant.
  - » The scheme has a maximum grant limit of R5 million. If the applicant has less than 25% BEE ownership, 50% of qualifying costs are incurred by the scheme; 25% to 50% BEE ownership, 65% of qualifying costs are incurred; and above 50% BEE ownership, 75% of qualifying costs are incurred.

**Criteria for SPII support**

- Development should represent significant advance in technology
- Development and subsequent production must take place within South Africa
- Intellectual property to reside in South African registered company
- Participating businesses should (must) be South-African-registered enterprises
- Government-funded institutions (e.g. CSIR) do not directly qualify for support, but may participate as subcontractor(s)
- No simultaneous applications are allowed from the same company

**The qualifying costs in SPII are as follows:**

- Personnel-related
- Travel expenses (defined maximum)
- Direct material
- Capital items and tooling
- Software (not general software)
- Documentation
- Testing and trials
- Licensing
- Quality assurance and certification
- Patent
- Subcontracting and consulting

**Non-qualifying projects/costs:**

- Projects receiving other government funding
- Military projects
- Where SPII contribution is not significant (at least 20% of total project costs)
- Production and commercialisation related costs
- Marketing and administrative costs
- Product/process development for a single client
- Basic and applied research
- Projects that at the time of application are more than 50% (70% for PPD) complete
- All costs incurred prior to submitting a duly completed application

# SECTION 2:
# COMPETITIVENESS INVESTMENT INCENTIVES

## EXPORT MARKETING AND INVESTMENT ASSISTANCE (EMIA)

EMIA develops export markets for South African products and services, and recruits new foreign direct investment into the country.

**Objectives**

- Provide marketing assistance to develop new and grow existing export markets;
- Assist with the identification of new export markets through market research;
- Assist companies to increase their competitiveness by supporting patent registrations, quality marks and product marks;
- Assist with facilitation to grow foreign direct investment (FDI) through missions and FDI research; and

- Increase the contribution of black-owned businesses and small, medium and micro enterprises (SMMEs) to South Africa's economy.

### Benefits

- **Individual Exhibition Participation:**

  a. Transport of samples
  b. Rental of exhibition space
  c. Construction of stands
  d. Interpretation fees
  e. Internet connection
  f. Telephone installation
  g. Subsistence allowance per day
  h. Return economy-class airfare
  i. Exhibition fees up to a maximum of R45 000

- **Primary Market Research and FDI**

  Exporters will be compensated for the following costs incurred while recruiting new FDI into South Africa through personal contact by visiting potential investors in foreign countries:

  a. Return economy-class airfare
  b. Subsistence allowance per day
  c. Transport of samples
  d. Marketing material

- **Individual Inward Missions**

  a. Assistance is provided to South African entities organising an inward buying investor, to make contact with them to conclude an exporter's order or to attract FDI

  b. Registration of a patent in a foreign market: 50% of the additional costs capped at R100 000 per annum

  c. Return economy-class airfare

  d. Subsistence allowance per day

  e. Rental of exhibition space

**Eligible Enterprises**

- South African manufacturers and exporters
- South African export trading houses representing at least three SMMEs or businesses owned by historically disadvantaged individuals (HDIs)
- South African commission agents representing at least three SMMEs/HDI-owned businesses
- South African exports councils, industry associations and JAGs representing at least five South African entities

## SECTOR-SPECIFIC ASSISTANCE SCHEME (SSAS)

The SSAS is a reimbursable cost-sharing incentive scheme whereby financial support is granted to organisations supporting the development of industry sectors and those contributing to the growth of South African exports. Organisations supported under SSAS include Export Councils, Joint Action Groups, Industry Associations and those involved in the development of emerging exporters.

## Objectives

- Developing an industry sector as a whole
- Developing new export markets
- Stimulate job creation
- Broadening the export base
- Proposing solutions to factors inhibiting export growth
- Promote broader participation of black-owned companies and SMMEs to the economy

## Nature of SSAS projects

- A project is a task with a pre-determined outcome, a defined or short-term timeframe and measurable milestones.
- The project must be essentially developmental or promotional in nature.
- The project should benefit the sector as a whole in terms of the SSAS objectives.
- SSAS funding of non-profit business organisations in sectors and sub-sectors of industry prioritised by **the dti**.

**Note**: Any research/studies undertaken or databases obtained will become the property of **the dti**

### Benefits of Generic Funding

Funding of non-profit business organisations in sectors and sub-sectors of industry prioritised by **the dti**.

- Export development costs: market research, consultancy fees and other related expenses
- Export promotion costs: consultancy fees and other expenses
- Product development costs: consultancy fees and other expenses
- Company development costs: consultancy fees and expenses towards installing or improving quality management systems.
- Service development costs
- Advertising and publicity (international)

### Benefits of Project Funding for Emerging Exporters

Compensation of costs in respect of activities aimed at the development of South African emerging exporters.

- Travel and accommodation, transport of samples and marketing materials, exhibition costs, subsistence allowance, specialised training (product development, project management, etc.)
- Maximum allocation per project is R1.5 million

## Eligible Enterprises

- Export councils established through application to **the dti** (an export council is a Section 21 (non-profit) company that represents the developmental and promotional objectives of a particular industry or industries at a national level)
- Industry Associations, which are representative of sectors or sub-sectors of industry prioritised for development and promotion by **the dti**, as determined by the relevant Customised Sector Desk and Export Promotion Unit
- Joint Action Groups (JAGS), which are groups of three or more entities that seek to co-operate on a project in a particular sector or sub-sector in industry prioritised for development and promotion by **the dti**
- Provincial investment and economic development agencies
- Business chambers
- Small Enterprise Development Agency (**seda**)
- Local municipalities
- Metropolitan councils

## MANUFACTURING COMPETITIVENESS ENHANCEMENT PROGRAMME (MCEP) LOAN FACILITY

The MCEP is designed to make existing South African manufacturing companies more competitive. The programme provides working capital loans to qualifying companies. Plant and equipment loans are also provided to manufacturing companies that are owned by Black Industrialists. Both the Working Capital and Plant and Equipment loans are priced at a preferential rate fixed at 4% per annum.

**Qualifying criteria for a Working Capital loan:**

- The facility is available for working capital
- It is not applicable to start-ups
- Capped at R50 million per annum
- Only applicable to manufacturers under Standard Industry Classification Code 3
- The maximum repayment term is 48 months (including moratorium)
- The first drawdown must be within six months of the date of approval
- The applicant may not cut jobs during the term of the facility
- The applicant should be at B-BBEE level 4 – if not, this status should be achieved within 24 months of approval of the loan
- Fees are not applicable

**Qualifying criteria for Plant and Equipment loan:**

- Only available for Black Industrialists
- Start-up businesses may apply
- The maximum term for Plant and Equipment loans is 84 months (including moratorium)
- Maximum loan amount of R50 million per qualifying applicant
- Pre- and post-business-development sector support will be capped at R3 million per application
- Applicants must meet **the dti**'s definition of Black Industrialist

The programme is administered by the Industrial Development Corporation (IDC).

## CLOTHING AND TEXTILE COMPETITIVENESS IMPROVEMENT PROGRAMME (CTCIP)

The CTCIP aims to build capacity among clothing and textile manufactures and in other areas of the apparel value chain in South Africa to enable them to effectively supply their customers and compete on a global scale. Such competitiveness encompasses issues of cost, quality, flexibility, reliability, adaptability and the capacity to innovate.

### Objectives

The main objective of the CTCIP is to create a group of globally competitive clothing and textile companies, thus ensuring a sustainable environment that will retain and grow employment.

The project is administered by the Industrial Development Corporation (IDC).

# SECTION 3:
# SERVICES INVESTMENT INCENTIVES

## BUSINESS PROCESS SERVICES (BPS)

South Africa provides an enabling environment for potential investors, as well as a deeper domain skills advantage, significant cost savings and a world-class experience for those who set up their operations in the country. As a result of the anticipated benefits to be derived from South Africa, the

BPS incentive programme was implemented from January 2011 to attract investment and create employment opportunities in South Africa through offshoring activities.

### Objectives

The primary objective of the incentive is to create employment in South Africa through serving offshore activities.

Secondary objectives include:

- creating employment opportunities for the youth
- contributing to the country's export revenue from offshoring services

**Eligible Enterprises**

- The project must employ at least 80% youth (aged between 18 and 35) as part of its employment establishment.
- The new project or expansion of an existing project must have created at least 50 new offshore jobs in South Africa by the end of the three years from the start of operation, as defined by these guidelines;
- The project must be financially viable;
- The project operations must commence no later than six months from the date of the BPS incentive grant approval;
- In a joint venture arrangement, at least one of the parties must be registered in South Africa as a legal entity; and
- A pilot project that will result in investment and the creation of jobs within the six-month trial period.

### Benefits

- The base incentive is calculated on projected offshore jobs to be created based on a tapering scale and is awarded on actual offshore jobs created as per the definition of full-time equivalents.
- The base incentive offers a differential (two-tier structure) incentive for non-complex jobs and complex jobs based on a fully loaded operating cost per job.
- The base incentive is paid for a period of five years (60 months) from the date on which an offshore job is created.
- The bonus incentive is to be paid only at the end of the five years, when the applicant becomes eligible for it.
- The bonus incentive for non-complex jobs is only available to applicants that create and maintain more than 400 offshore jobs over a five-year period.

# THE SOUTH AFRICAN EMERGING BLACK FILMMAKERS INCENTIVE

## Objectives

The objectives of the South African Emerging Black Filmmakers Incentive, a sub-programme of the South African Film and Television Production and Co-Production Incentive, is to nurture and capacitate emerging black filmmakers to take up big productions and contribute towards employment opportunities.

**Benefits:**

The programme offers an incentive of 50% of the South African (50%) of the Qualifying South African Production Expenditure (QSAPE). The incentive programme offers a reimbursable grant to the maximum of R50 million per qualifying project.

**Eligible Projects:**

- The Qualifying South African Production Expenditure (QSAPE) must be a minimum of R500 000 for all qualifying production formats and a minimum of R500 000 for documentaries:
- At least eighty percent (80%) of the principal photography must be filmed in South Africa;
- The QSAPE must account for at least 75% of the total production budget;
- The majority of intellectual property must be owned by South African citizen(s); the
- copyright must be registered with Companies and Intellectual Property Commission (CIPC)and the certificate of registration must be provided at claim stage

- The Director must be a Black South African citizen who is credited for that role in the production;
- The Producer must be a Black South African citizen who is credited for that role; and
- The top writer and producer credits must include South African citizens either exclusive or shared collaboration credits.

## FOREIGN FILM AND TELEVISION PRODUCTION AND POST-PRODUCTION

**Objectives:**

The objectives of the Foreign Film and Television Production and Post-Production Incentive, a sub-programme of the South African Film and Television Production

Incentive Programme, is to attract large-budget foreign-based films and television productions and post-productions that will contribute towards employment creation, and enhance the international profile of the South African film and television industry while increasing the country's creative and technical skills base.

**Benefits:**

- The Foreign Film and Television Production and Post-Production Incentive provides an incentive of twenty-five percent (25%) of the Qualifying South African Production Expenditure (QSAPE).
- An additional incentive of five percent (5%) of QSAPE is provided for productions conducting post-production in South Africa and utilising the services of a Black owned service company.
- The Foreign Film and Television Production and Post-Production Incentive provides an incentive of twenty percent (20%) of the Qualifying South African Post-Production Expenditure (QSAPPE) of at least R1.5 million.
- An additional incentive of two-point-five percent (2.5%) of QSAPPE is provided for spending at least R10 million of the post-production budget in South Africa; or
- An additional incentive of five percent (5%) of QSAPPE is provided for spending at least R15 million of the post-production budget in South Africa.

- The incentive programme offers a reimbursable grant to the maximum of R50 million per qualifying project.

**Eligible Projects**

The Qualifying South African Production Expenditure (QSAPE) must be:

- A minimum of R15 million for all qualifying production formats.
- A minimum of R12 million for level one B-BBEE contributor status service companies.
- At least 50% of the principal photography must be filmed in South Africa.
- At least 21 calendar days of the principal photography must be filmed in South Africa.
- The QSAPP must be at least R1.5 million for all qualifying post-production activities.

# SA FILM & TV PRODUCTION AND CO-PRODUCTION

**Objective:**

To support the local film and television industry as well as contribute towards employment opportunities in South Africa.

**Benefits:**

- The South African Film and Television Production Incentive provides an incentive of 35% of Qualifying South African Production Expenditure (QSAPE).
- An additional 5% of QSAPE is provided for productions hiring at least 30% of Black South African citizens as head of departments (HODs) and procuring at

least 30%of the QSAPE from 51% South African black-owned entities which have been operating for at least a period of one year.

- The incentive programme offers a reimbursable grant to the maximum of R50 million per qualifying project.

**Eligible Projects:**

- The Qualifying South African Production Expenditure (QSAPE) must be a minimum of R1.5 million for all qualifying production formats and a minimum of R500 000 for documentaries.
- At least 60% of the principal photography must be filmed in South Africa.
- At least 14 calendar days of the principal photography must be filmed in South Africa
  The majority of intellectual property must be owned by South African citizens; the copyright must be registered with the Companies and Intellectual Property Commission (CIPC) and the certificate of registration must be provided at claim stage;
- The director must be a South African citizen and be credited for this active role in the production.

The top writer and producer credits must include South African citizens either exclusive or shared collaboration credits.

# SECTION 4:
# INFRASTRUCTURE INVESTMENT INCENTIVES

# SPECIAL ECONOMIC ZONE (SEZ) PROGRAMME

## Background

Special Economic Zones (SEZs), are geographically designated areas of a country set aside for specifically targeted economic activities, supported through special arrangements (that may include laws) and systems that are often different from those that apply in the rest of the country.

The purpose of the SEZ programme therefore is to:

- Expand the strategic industrialisation focus to cover diverse regional development needs and context;
- Provide a clear, predictable and systemic planning framework for the development of a wider array of SEZs to support industrial policy objectives, the IPAP and the NGP;
- Clarify and strengthen governance arrangements, expand the range and quality of support measure beyond provision of infrastructure; and
- Provide a framework for a predictable financing framework to enable long term planning.

Industrial Policy Action Plan (IPAP) identifies SEZs as key contributors to economic development. They are growth engines towards government's strategic objectives of industrialisation, regional development and employment creation. Special Economic Zones may be sector-specific or multi-product and the following categories of SEZs have been defined as per the SEZ Act No. 16 of 2014:

- **"Industrial Development Zone"** means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services;
- **"Free Port"** means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures;
- **"Free Trade Zone"** means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export;
- **"Sector Development Zone"** means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.

## Benefits of operating within an SEZ

A number of incentives will be available to ensure SEZs growth, revenue generation, creation of jobs, attraction of Foreign Direct Investment (FDI) and international competitiveness.

These SEZ incentives include:

- **Preferential 15% Corporate Tax**
  Businesses (prescribed in section 24(4) of the SEZ Act) that are located in a Special Economic Zone may be eligible for tax relief, including the reduced rate of corporate income taxation. In addition to satisfying the requirements of the SEZ Act, further criteria for some of the available tax incentives are stipulated in the Income Tax Act, 1962 (Act No. 58 of 1962.)

- **Building Allowance**
  Businesses and Operators (prescribed in section 1of the SEZ Act) operating within a Special Economic Zone may be eligible for tax relief, including the building allowance, subject to requirements contained in the Income Tax Act.

- **Employment Incentive**
  Businesses and Operators operating within a Special Economic Zone may be eligible for tax relief, including the employment tax incentive subject to requirements contained in the Employment Tax Incentive Act, 2013 (Act No. 26 of 2013).

- **Customs Controlled Area**

  Businesses and Operators located within a customs controlled area of a Special Economic Zone will be eligible for tax relief as per the Value-Added Tax Act, 1991 (Act No. 89 of 1991), the Customs and Excise Act, 1964 (Act No. 91 of 1964), the Customs Duty Act 2014 (Act No. 30 of 2014) and the Customs Control Act, 2014 (Act No.31 of 2014).

- **12I Tax Allowance**

  The 12I Tax Incentive is designed to support Greenfield investments (i.e. new industrial projects that utilise only new and unused manufacturing assets), as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). The new incentive offers support for both capital investment and training.

## CRITICAL INFRASTRUCTURE PROGRAMME (CIP)

The CIP aims to enhance investment by supporting critical infrastructure and thus lowering the costs of investment. It is made available to approved eligible enterprises upon the completion of the project concerned. Infrastructure for which funds are required is deemed to be ‘critical’ if the investment would not take place without the said infrastructure or the said investment would not operate optimally.

## Objectives

The programme is primarily designed to leverage private investment, but will also promote certain public sector investments that create an enabling environment that leads to private investments.

## Benefits

- The CIP offers a grant of 10% to 30% of the total qualifying infrastructural development costs, up to a maximum of R50 million, based on the achieved score in the economic benefit criteria.
- Agro-processing applicants and state-owned Aerospace and Defence National Strategic Testing Facilities: The CIP will offer a grant of 10% to 50% of the total infrastructural development costs, up to a maximum of R50 million.
- Projects that alleviate water and/or electricity dependency on the national grid: The CIP will offer a grant of 10% to 50%, up to a maximum of R50 million.
- Distressed municipalities and state-owned industrial parks: The CIP offers a maximum grant of up to 100%, capped at R50 million for infrastructural developmental. Applicants are encouraged to make a contribution according to their affordability.

**Eligible Enterprises**

- The applicant must be a registered legal entity in South Africa.
- The project must be at least a level four B-BBEE contributor in terms of the Codes of Good Practice for B-BBEE. This requirement takes into account the exemptions in terms of Qualifying Small Enterprises (QSEs) as set out in terms of the Codes of Good Practice.
- For FDI (i.e. foreign investors incorporated in South Africa), where it can be proven that such a foreign investor does not enter into any partnership arrangements in foreign countries, the Codes of Good Practice make a provision for the recognition of contributions in lieu of a direct sale of equity.
- For all projects, a grace period of 15 months after date of submission of the application is given for them to comply. In all cases, a B-BBEE certificate should be submitted at claim stage.
- The envisaged investment projects that may qualify for benefits under any investment incentive schemes offered by **the dti** are also eligible to apply for the CIP, provided such application is not for the same infrastructure activity items proposed by the project.
- Projects that have applied for the Shared Economic Infrastructure Facility (SEIF) will not be funded or co-funded for the same infrastructure activity under CIP.

# SECTION 5:
# MANUFACTURING INVESTMENT INCENTIVES


## AUTOMOTIVE INVESTMENT SCHEME (AIS)

The AIS is designed to grow and develop the automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain.

### Objectives

- Strengthen and diversify the sector through investment in new and/or replacement models and components.
- Increase plant production volumes.
- Sustain employment and/or strengthen the automotive value chain.

**Benefits**

- The AIS provides for a non-taxable cash grant of 20% of the value of qualifying investment in productive assets for OEMs and 25% of the value of qualifying investment in productive assets by component manufacturers and tooling companies as approved by **the dti**.
- An additional non-taxable cash grant of 5% may be made available for projects that maintain their base-year employment figure throughout the incentive period, and achieve at least two of the following economic requirements:
  - » Tooling
  - » Research and development in South Africa
  - » Employment creation
  - » Strengthening of the automotive value chain
  - » Value addition
  - » Empowerment

To qualify for an additional grant of 5% (cumulative 10%), the project must demonstrate the following:

- In respect of light motor vehicle manufacturers, a specified increase in unit production per plant;

- In respect of component manufacturers, a specified increase in turnover and manufacturing of components that are currently not being manufactured in South Africa.

### Eligible Enterprises

- The applicant must submit a valid B-BBEE certificate of compliance (i.e. B-BBEE levels 1 to 8).
- The applicant must retain base year employment levels during the entire incentive period from application stage until claim periods.
- **Light motor vehicle manufacturers**: Should have achieved or can demonstrate that they will achieve, within three years, a minimum of 50 000 annual units of production per plant.
- **Component manufacturers or deemed component manufacturers**
    - » A component manufacturer that can prove a contract is in place and/or has been awarded and/or a letter of intent has been received for the manufacture of components to supply to the light motor vehicle manufacturer supply chain locally and/or internationally.
    - » A component manufacturer that can prove that after this investment it will achieve at least 25% of total entity turnover or R10 million annually by the end of the first full year of commercial production, as part of a light motor vehicle manufacturer supply chain locally and/or internationally.

# PEOPLE-CARRIER AUTOMOTIVE INCENTIVE SCHEME (P-AIS)

The P-AIS is a sub-component of the AIS and provides a non-taxable cash grant of between 20% and 35% of the value of qualifying investment in productive assets approved by **the dti**.

Qualifying projects will be evaluated on the following economic benefit requirements:

- Tooling
- Research and Development (R&D) in South Africa
- Employment creation/retention
- Strengthening the automotive supply value chain
- Empowerment

The approved P-AIS grant is to be disbursed over a period of three years and, in all cases, grant payment is subject to an evaluation by **the dti** to determine whether the project achieved the stipulated performance requirements.

## Objective

The P-AIS is designed to stimulate a growth path for the people carrier vehicles industry through investment in new and/or replacement models and components that will result in new jobs or retention of employment and/or strengthen the automotive vehicles value chain.

## Benefits

- **Semi-Knocked-Down (SKD) Vehicle Assemblers**
  - No new applications will be considered for the P-AIS grant.
- **Complete-Knocked-Down (CKD) Vehicle Assemblers**
  - CKD investments with a start production from 1 April 2015 onwards may qualify for a grant of 20%.
  - For an additional 5%, the project must demonstrate that the investment will result in base year employment levels being maintained throughout the incentive period and during the model phase-out period.

» For a second additional 5% bonus grant (cumulative 10%), the project must meet the set economic benefit criteria.

- **Component Manufacturers**
  - » Component manufacturers may qualify for a grant of 25% of the qualifying investment costs.
  - » For an additional 5%, the project must demonstrate that the investment will result in base year employment levels being maintained throughout the incentive period and achieve at least two of the set economic benefit requirements.
  - » For a second additional 5% (cumulative 10%) P-AIS grant, the project must meet the set economic benefit criteria.

### Eligible Enterprises

- The applicant must submit a valid B-BBEE certificate of compliance (i.e. B-BBEE levels 1 to 8).
- The applicant must retain base year employment levels during the entire incentive period from application stage until claim periods.

### CKD Vehicle Assemblers

- People-carriers for the transport of between 10 and 35 persons, including the driver, with a vehicle mass exceeding 2 000kg.

- Floor panels, body sides or roof panels are not permanently attached to each other; the engine and transmission assemblies, axles, radiators, suspension components, steering mechanisms, braking or electrical equipment or instrumentation are not fitted to such floor pans or chassis frames; the bodies/cabs are not fitted to floor pans or chassis frames.

### Component Manufacturers

- A component manufacturer that can prove that a contract is in place or has been awarded or a letter of intent has been received for the manufacture of components to supply into the medium and heavy commercial vehicle manufacturer supply chain locally and/or internationally.
- A component manufacturer that can prove that after this investment it will achieve at least 25% of total entity turnover or R10 million annually by the end of the first full year of commercial production, as part of automotive (medium and heavy commercial vehicle) manufacturer supply chain locally and/or internationally.

# AGRO-PROCESSING SUPPORT SCHEME (APSS)

## Objectives

The Agro-Processing Support Scheme (APSS) aims to stimulate investment by the South African agro-processing / beneficiation (agri-business) enterprises. The investment should demonstrate that it will achieve some of the following:
Increased capacity, employment creation, modernised machinery and equipment, competitiveness and productivity improvement and broadening participation.

## Benefits

The scheme offers a 20% to a 30% cost-sharing grant to a maximum of R20 million over a two-year investment period, with a last claim to be submitted within six months after the final approved milestone.

- **the dti** may consider an additional 10% grant for projects that meet all economic benefit criteria such as employment, transformation, geographic spread and local procurement.
- The maximum approved grant may be utilised on a combination of investment costs provided the applicant illustrates a sound business case for the proposed investment activities.

## Eligibility criteria

- An applicant must submit a completed application form and business plan with detailed agro-processing/beneficiation activities, budget plans and projected income statement and balance sheet, for a period of at least three years for the project. The project/business must exhibit economic merit in terms of sustainability.
- The application must be submitted within the designated application window period, prior to start of processing/beneficiation or undertaking activities being applied for. Any assets bought and taken into commercial use or competitiveness

improvements costs incurred before applying for the incentive will be considered as non-qualifying.

- For existing entities, submit latest financial statements, reviewed by an independent external auditor or accredited person, not older than 18 months.
- The approved entity may not reduce its employment levels from the average employment levels for a 12-month period prior to the date of application, and these employment levels should be maintained for the duration of the incentive period/ agreement.

Minimum qualifying investment size, including competitiveness improvement cost, will be at least R1 million.

## SECTION 12I TAX ALLOWANCE INCENTIVE (12I TAI)

The 12I TAX is designed to support Greenfield Investments (i.e. new industrial projects that utilise only new and unused manufacturing assets) as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). The new incentive offers support for both capital investment and training.

### Objectives

The objectives of the incentive programme are to support the following:

- investment in manufacturing assets to improve the productivity of the South African manufacturing sector; and
- training of personnel to improve labour productivity and the skills profile of the labour force.

### Benefits

- R900 million additional investment allowance in the case of any Greenfield project with a preferred status.
- R550 million additional investment allowance in the case of any other Greenfield project.
- R550 million additional investment allowance in the case of any Brownfield project with a preferred status.
- R350 million additional investment allowance in the case of any other Brownfield project.
- An additional training allowance of R36 000 per employee may be deducted from taxable income.
- A maximum total additional training allowance per project, amounting to R20 million, in the case of a qualifying project and R30 million in the case of a preferred project.

- According to the points system, an industrial policy project will achieve ‘qualifying status’ if it achieves at least four of the total eight points and a ‘preferred status’ if it achieves at least seven of the total eight points.

**Targeted Enterprises**

The investment must be:

- a Greenfield project (new)
- a Brownfield project (expansion or upgrade)
- classified under ‘Major Division 3: Manufacturing in the SIC codes’

The project could score points for:

- Upgrading an industry within South Africa (via an innovative process, cleaner production technology or improved energy efficiency)
- Providing general business linkages within South Africa
- Acquiring goods and services from SMMEs
- Creating direct employment within South Africa
- Providing skills development within South Africa

## AQUACULTURE DEVELOPMENT ENHANCEMENT PROGRAMME (ADEP)

The ADEP is an incentive programme available to South-African-registered entities engaged in primary, secondary, and ancillary aquaculture activities in both marine and freshwater classified under SIC 132 (fish hatcheries and fish farms) and SIC 301 and 3012 (production, processing and preserving of aquaculture fish). The grant is provided directly to approved applications for new projects or the upgrading of existing projects.

## Objective

The objective of ADEP is to broaden participation and stimulate investment in the aquaculture sector with the intention to:

a. develop emerging aquaculture farmers

b. increase production

c. sustain and create jobs

d. encourage geographical spread

## Benefits

The ADEP offers a reimbursable cost-sharing grant up to a maximum of R30 million in qualifying costs in:

- Machinery and equipment (owned or capitalised financial lease)
- Bulk infrastructure
- Owned land and/or buildings
- Leasehold improvements
- Competitiveness improvement activities
- Commercial vehicles and work boats (owned or capitalised financial lease)

## Eligible Enterprises

### Primary Aquaculture Operations

- Brood stock operations
- Seed production operations
- Juvenile (spat, fry, fingerling) operations, including hatchery and nursery facilities
- On-growing operations, including but not limited to rafts, net closures, net pens, cages, tanks, raceways and ponds
- Aquaponics (a system of combining conventional aquaculture with hydroponics in a symbiotic environment)

### Secondary Aquaculture Operations

- Primary processing for aquaculture (post-harvest handling, eviscerating, packing, quick freezing)
- Secondary processing for aquaculture (filleting, portioning, packaging)
- Tertiary processing for aquaculture (value-adding such as curing, brining, smoking, further value-adding such as terrines, roulades, pates, paters)
- Waste stream handling for aquaculture (extraction of fish oils, protein beneficiation, organic fertilizers, pet and animal feeds)

### Ancillary Aquaculture Operations

- Aquaculture feed manufacturing operations
- Research and development projects related to aquaculture
- Privately owned aquaculture veterinary services (farm inspections, disease surveillance and control, histopathological analysis, etc. specifically for the aquaculture industry)

### Emerging Black Farmers

For the purpose of ADEP, the definition of the emerging black farmer will take into consideration the following characteristics:

a. high levels of black ownership (>51%)

b. exercises control over the business

c. makes long term commitments to the business and is a medium- to long-term investor

## STRATEGIC PARTNERSHIP PROGRAMME (SPP)

**the dti** initiated the SPP to develop and support programmes/interventions aimed at enhancing the manufacturing and services capacity of suppliers with linkages to strategic partner's supply chains, industries or sectors.

### Objectives

The objective of the SPP is to encourage large private-sector enterprises in partnership with Government to support, nurture and develop small and medium enterprises within the partner's supply chain or sector to be manufacturers of goods and suppliers of services in a sustainable manner.

## Qualifying costs

**The following costs are eligible for support:**

- Machinery, equipment and tools
- Infrastructure linked to the strategic partner's supplier development initiative (owned/leased buildings, leased improvements)
- Product or service development
- Information and Communication Technology
- Operational costs
- Business development services

## Grant support

The grant approval is capped at a maximum of R15 million (vat inclusive) per financial year over a three-year period towards qualifying costs, based on the number of qualifying suppliers and is subject to the availability of funds. The SPP offers a cost-sharing support of 50:50 towards manufacturing projects and 70:30 for projects that support manufacturing supply chain related services and deemed strategic by **the dti**.

## Eligibility criteria

- A South African registered legal entity in terms of the Companies Act, 1973 (as amended) or the Companies Act, 2008 (as amended); the Close Corporation Act, 1984 (as amended) or the Co-operatives Act, 2005 (as amended)
- An entity with a minimum turnover of R100 million per annum for at least two consecutive years at application stage, confirmed by the latest available audited financial statements
- An association with five or more registered legal entities

An association that can organise itself for this purpose and must in this regard provide a letter(s) of commitment from manufacturer(s) that control(s) and/or has a direct influence in the market/manufacturing value chain to be developed

## Notes:

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