



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA



PROGRAMME GUIDELINES

COMPETITIVENESS IMPROVEMENT PROGRAMME

**For Clusters in the Clothing, Textiles,
Footwear, Leather and Leather Goods
Industries**

Version 6



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ABBREVIATIONS AND ACRONYMS

CIP:	Competitiveness Improvement Programme
CSIR:	Council for Scientific and Industrial Research
CTCP:	Clothing and Textiles Competitiveness Programme
FICA:	Financial Intelligence Centre Act
HIV:	Human Immunodeficiency Virus
IDC:	Industrial Development Corporation of South Africa Limited
IDPDD:	Industrial Development Policy Development Division of the dti
ISO:	International Standards Organisation
MOA:	Memorandum of Agreement
NGOs:	Non-Governmental Organisations
PAP:	Projects Approval Panel
PRECCA:	Prevention and Combating of Corrupt Activities Act
SMEs:	Small and Medium Enterprises
the dti:	The Department of Trade & Industry
VAT:	Value Added Tax



1. PREAMBLE

- 1.1 The purpose of this document is to provide the policies and guidelines of the **Competitiveness Improvement Programme (CIP)** as part of the overall Clothing and Textiles Competitiveness Programme (CTCP).
- 1.2 The CTCP is a programme of the Department of Trade and Industry (“**the dti**”) to stabilise employment and to improve overall competitiveness in the clothing, textiles, footwear, leather and leather goods manufacturing industries. The CIP is administered by the CTCP Desk at the IDC on behalf of **the dti**.
- 1.3 The guidelines set out in this document seek to enable clusters to present their business cases to the **CTCP desk** of the **Industrial Development Corporation of South Africa Limited (IDC)**, and provide a framework for the **CTCP desk** to evaluate such cases.
- 1.4 The guidelines (and the supporting Quick Guide) for the CIP may be amended from time to time, as deemed necessary by the CTCP desk. These amendments will be published on the CTCP website (www.ctcp.co.za) and will be of immediate effect upon publication.
- 1.5 Where the guidelines lend themselves to varying interpretations or do not deal with a specific subject matter, interpretation by the CTCP desk should be requested. Such interpretation will be decisive and final, and may from time to time be published on the CTCP website.
- 1.6 Due to the dynamic nature of clusters and industry, each application will be judged on its own merits and, in exceptional cases, mandatory conditions may be waived without prejudice by the dti and the relevant Management Committee.
- 1.7 Approval of applications will be subject to the availability of funds. The CTCP desk will endeavour to communicate to the public, in good time, should there be a likelihood of no funds being available for allocation to new approvals.

2. OBJECTIVES

The main objective of the CIP is to build and improve capacity in the manufacturing and related value chain of the clothing, textiles, footwear, leather and leather goods sectors in South Africa to effectively supply their customers, for example, major retailers, government and niche markets, both locally and internationally. The programme primarily aims to improve the global competitiveness of South African-



based clothing, textiles, footwear, leather and leather goods manufacturers and designers in the related sectors. The CIP understands competitiveness to encompass issues of cost, quality, flexibility, reliability, adaptability and the capability to innovate. Competitiveness improvement interventions should thus include innovative activities related to people, products, processes and market development.

The CIP aims, through the cluster approach, to create a group of globally competitive companies that would ensure a sustainable business environment able to retain and grow employment levels.

3. SERVICES DELIVERED BY THE CTCP DESK

- 3.1 No fees or charges are levied for the processing or evaluation of any CIP application or claim.
- 3.2 Companies or clusters are welcome to contact the CTCP desk directly for assistance in completing application or claim forms.
- 3.3 The CTCP desk will only disclose information pertaining to an application or claim to the applicant directly or a third party designated in writing by the applicant.

4. PROGRAMME METHODOLOGY

- 4.1 The CIP was initiated and designed to stimulate the competitiveness of the South African clothing, textiles, footwear, leather and leather goods manufacturing sectors. These sectors lag behind their international competitors in terms of conversion efficiencies and other key indicators of world-class manufacturing principles, of which quality, cost and delivery are the main drivers. To compete sustainably and effectively against international competitors in both the domestic and the export market, company-level and value chain competitiveness should be improved substantially.
- 4.2 Competitiveness improvement should focus on the various facets of the development of manufacturing entities in the clothing, textiles, footwear, leather and leather goods manufacturing sectors to achieve higher levels of productivity, including industrial, process engineering and management activities. Interventions to promote improvement should be based on a thorough benchmarking process. Benchmarking is a process wherein a business's performance and processes are compared to "best practise" both locally and internationally. Interventions proposed are required to address the performance gaps identified through the benchmarking



analysis. Interventions can include a combination of direct shop-floor interventions emphasising the need to improve people, product and processes within the production environment and assistance given to the enterprise as a whole to improve its standards and competitiveness capabilities. Competitiveness improvement should also focus on market development in order to find and grow markets for its manufactured products.

4.3 Competitiveness improvement interventions could include the following:

- 4.3.1 Manufacturing-related interventions to reduce the cost structure of local companies in the clothing, textiles, footwear, leather and leather goods manufacturing sectors.
- 4.3.2 Manufacturing-related interventions to increase the effectiveness, reliability and efficiency of supply.
- 4.3.3 Supply chain interventions to integrate the operations of manufacturing entities with upstream and downstream entities in the value chain.
- 4.3.4 Business management and good governance interventions are required for successful implementation of the programme. These interventions will establish a business foundation for the long term sustainability of the sector and the development of functional relationships along the value chain. More specifically best practice governance structures should be established, for example amongst others, sustainable and appropriate executive remuneration levels, and the development of strategic oriented executives that will ensure a sustainable and adaptable sector.
- 4.3.5 Developing appropriately skilled employees to support process and systems interventions.
- 4.3.6 Activities related to market development supported by a specific marketing strategy.
- 4.3.7 Innovation that focuses on processes, products, markets and technology to establish a culture of continuous innovation in the sectors.

4.4 It is expected that project outcomes would impact positively on the productivity, competitiveness and market penetration of the business activities of cluster members. Typical project outcomes are:

- Increased (maintained) market share/penetration.



- Increased labour or capital productivity.
- Increased skills levels of employees.
- Improved product/service quality, uniformity and reliability.
- Improved product design, packaging design, etc.
- Improved reliability and response times to client orders and order changes.
- Introduction or adoption of new technologies or techniques that result in the diversification or extension of the cluster's range of sellable products or services.

4.5 It is expected that the outcomes of each intervention will be monitored by participants in order to show quantifiable improvements.

4.6 The CIP is based on the belief that competitiveness improvement is best achieved through value chain networking and partnerships. The CIP is thus based on cluster formation of either similar manufacturing entities or a value chain cluster, comprising e.g. manufacturers, suppliers and retailers in order to engage in collective improvement activities which are more cost effective and could include benchmarking, supply chain interventions and value chain integration where competitive advantages are identified.

4.7 Trends in the global economy indicate that competitiveness improvement is driven by efficiency advantages (lowered costs, including transaction costs), flexibility advantages (lower production run, higher variability of production, quicker turn-around of production) and innovation advantages (product development, alternative product offerings, knowledge spill-overs and co-operation).

4.8 The CIP will require a network of companies that work together to improve the competitiveness of the network to include as many best practice elements that constitute successful clusters as possible, with clusters being characterised according to the globally developed definition.

4.9 Cluster initiatives involve mainly four necessary structures to ensure success:

- A network of different types of member companies and/or organisations. These member companies and/or organisations should preferably include members that represent private companies, public organisations and academic/research institutions.



- An independent cluster organisation (CO) with a separate office and identity, cluster administrator / facilitator / manager, a website, etc.
- Governance of the initiative (for example, the formation of a cluster board / management committee).
- Financing of the initiative (international / national / regional / local / public funding, member fees, consulting fees, etc.).

4.10 It is important to monitor the performance of competitiveness improvement interventions in order to sustain the commitment of cluster participants.

4.11 Dynamic clusters¹ create the foundation for collective planning to achieve improvement in competitiveness and will act as the driving force behind upgrading and innovation among incumbent companies. Examples of these are:

- Companies in clusters tend to share many activities through co-operation, for example, sharing and exchanging technology, components or products. Clusters facilitate both horizontal and vertical (buyer-supplier) co-operation within a setting of a 'common language', trust and high social capital.
- Companies in effective clusters can operate more efficiently, drawing on specialised assets, suppliers and buyers with short lead times. Critical resources and capabilities often do not exist within a company but are accessible through networks inside the cluster.
- Companies in clusters can achieve higher levels of knowledge creation and innovation. Knowledge spill-over, and close day-to-day interaction between buyers, suppliers and organisations lead to incremental improvements, which are in turn the foundation of both technical (product and process improvements) and non-technical (business model improvements) innovations. Furthermore, both types of innovations tend to diffuse quickly within clusters.
- Effective clusters create an environment that promotes innovation, technical adaptation and learning among enterprises: different resources (individuals, technologies, capital, etc.) can quickly be reshuffled and restructured (spin-offs, labour mobility, transferring skills across organizations, etc.), allowing for new and better economic combinations of skills, capital and technology.

¹ Sölvell, Ö, "Clusters, Balancing Evolutionary and Constructive Forces", Second edition, January 2009, www.cluster-research.org.



- The rate of new business formation tends to be higher in dynamic clusters. Start-ups are reliant on close interaction with suppliers and buyers. The cost of failure is typically lower within a cluster where many alternative opportunities exist.
- Clusters in many cases offer lead markets where sophisticated buyers encourage and cultivate technology development and innovation in close interaction with suppliers.

5. REQUIREMENTS FOR CIP CLUSTER FORMATION

The following elements of cluster formation should be used as a guideline to develop proposals to the CIP cluster programme. These elements are based on published best practices determined through a worldwide cluster survey. Successful clusters worldwide determined that the following elements significantly influence the success of clusters to improve competitiveness and ensure growth:

- 5.1 The cluster organisation should be a separate legal entity in the South African context, registered as a not for profit company (previously called a section 21 company), as it provides the regulatory foundation for financial management and project implementation.
- 5.2 Successful clusters are managed by an entity/individual/s that have in-depth industry knowledge and experience in running collectives and have a strong network of contacts to implement competitiveness improvement initiatives. The CTCP desk will therefore require cluster proposals to include a Programme Administrator/Administrator Organisation to oversee the finances and the balanced implementation amongst members of the cluster. The administrator competency should encompass professional third-party capacity to ensure transparent and effective implementation of the competitiveness improvement interventions.
- 5.3 Successful clusters have developed a high degree of consensus on what actions to perform to improve competitiveness. The CTCP desk requires the formulation of a Memorandum of Agreement (MOA) between companies in the cluster that specifically details agreement on the implementation plan (actions, targets and budget), as detailed in section 13.6 below.
- 5.4 The CTCP desk will further require the formation of a management committee that will govern the implementation process. The management committee/cluster board will be responsible for all governance-related aspects of the cluster and will consist of a diverse group of individuals represented by different role-players in the cluster.



- 5.5 Cluster role-players could include manufacturing companies, design related entities, retailers, public institutions, universities, research institutions, labour organisations and, where relevant, financial and media actors.
- 5.6 Clusters have failed in the past if no clear identity and brand were established. The CTCP desk will require the cluster to differentiate itself from the individual companies represented in the cluster. It is further required to strongly promote the entity's own branding and identity.

6. THE COMPETITIVENESS IMPROVEMENT PROGRAMME

- 6.1 To obtain higher levels of world-class manufacturing, **the dti** would support competitiveness improvement interventions for clusters through the CIP.
- 6.2 Two different cluster compositions will be supported, namely an ordinary cluster and a national cluster preferably supported by subnational (previously known as regional) clusters.
- 6.3 Clusters applying for support for competitiveness improvement interventions through the CIP should base their application and interventions on the following:
- 6.3.1 An analysis of market opportunities for each cluster member to determine a market focus and areas where potential exists to compete effectively on price, delivery, flexibility, reliability and quality.
 - 6.3.2 A detailed company-level competitiveness analysis for each cluster member based on (at least) operational benchmarking data in order to identify performance gaps.
- 6.4 A competitiveness improvement plan for the cluster with reference to each cluster member's role, based on the market and operational analyses should be compiled as part of the overall business plan for the cluster.
- 6.5 The proposal should clearly reflect the interventions on people, processes, product and market development with a corresponding budget for each category.
- 6.6 In the case of national clusters technology demonstration and incubation activities should be added to the list.
- 6.7 A vital component of the programme is measurement. All interventions must be measurable and the impact of each intervention must be monitored. A well structured benchmarking capability should form a principal part of the cluster implementation.
- 6.8 It is further required that benchmarking be based on an internationally accepted benchmarking methodology.
- 6.9 Trade union participation in project formulation and implementation would be preferred.



7. ORDINARY, NATIONAL AND SUBNATIONAL CLUSTERS

7.1 ORDINARY CLUSTERS

- 7.1.1 An ordinary cluster is a group of at least five manufacturing companies or a combination of manufacturing and related organisations (e.g. retailers, design houses, component manufacturers) that are collaborating towards improving the competitiveness of each cluster member both individually and as a cluster.
- 7.1.2 Although it is desirable that the majority of the cluster members are manufacturers, cluster composition may be varied at the sole discretion of the CTCP Desk.
- 7.1.3 The group of companies or organisations will form a cluster to jointly work towards obtaining mutually beneficial objectives.
- 7.1.4 Competitiveness improvement interventions should include innovative plans focused on people, process, product and market development.
- 7.1.5 The activities of participating cluster members should fall within the South African clothing, textiles, footwear, leather and leather goods manufacturing and/or design sectors.
- 7.1.6 The interventions must be classifiable as manufacturing and/or design and must include benchmarking of performance.
- 7.1.7 Only private sector entities through their South African operations, that are engaged in clothing, textiles, footwear, leather and leather goods manufacturing and/or design are eligible for support.
- 7.1.8 All members of the cluster must commit themselves to a financial contribution towards the activities. Cluster members are free to decide amongst themselves the relative size of each member's financial contribution to the partnership, and this is to be detailed in the cluster Memorandum of Agreement (MOA), as detailed in 13.6 hereunder.

7.2 NATIONAL CLUSTERS

- 7.2.1 A National Cluster is a sector or sub-sector wide development initiative coordinated by a national structure that is responsible for facilitating and managing national shared resources and projects as well as overseeing subnational cluster projects where applicable.
- 7.2.2 A National Cluster requires the following:
 - A shared sector strategy or development plan which must be supported by the relevant industry or sector association or a sector body that was formed for the sole purpose of coordinating the competitiveness of the sector.



- The sector strategy or development plan should be well documented and supported by all major stakeholders, including **the dti** Sector Desk, business, industry associations and labour unions as reflected in the minutes of the stakeholder meeting/s.
- The final application shall be subject to approval by **both** the Deputy-Director General of the Industrial Development Policy Development Division (IDPDD) of **the dti** **and** the CTCP Desk.
- It is recommended that a task team be formed at the inception of the initiative that includes representatives from all the stakeholder groupings within the value chain. A national cluster should include representation from the full value chain and not just manufacturers.
- The National Cluster activities should be underpinned by independent benchmarking capability in order to steer the competitiveness development of the sector. The benchmarking capability should be based on internationally accepted benchmarking methodology that will be assessed by the dti Sector Desk supported by experts in the field.
- Value chain cooperation and integration is a pre-requisite for national clusters. Cluster members should include retail, manufacturers, service providers and suppliers to manufacturers. It should also include a strategic service provider (technology partner) and/or an educational institution.
- A five year business plan and corresponding budget reflecting how the national cluster will generate income in order to fund the income gap in years 2, 3, 4, 5 and beyond.
- A sector skills plan that identifies the skills required to develop a competitive supply chain capability.

7.2.3 Activities of the National Cluster should be focused on the following:

7.2.3.1 **Skills Development**

A sector skills plan is required identifying scarce and critical skills that are required to move the sector to higher levels of competitiveness. The plan should also look at the service providers providing skills training in order to identify opportunities for improvement. Intervention projects should address the identified skills gaps as well as the gaps in delivering skills training.

It will be important for national clusters to form partnerships with educational institutions in order to establish the critical link between required skills by manufacturers and skills produced by educational institutions.



7.2.3.2 **Technology Development and Research**

National Clusters should include a strategic technology partner preferably from a public educational institution that would support the sector in developing appropriate technology and satisfy technological skills requirements by providing the students as required by the sector. An example of such an arrangement would be where a University would identify, inform and train the students to support the technology requirements of the sector.

Ownership of any Technology Demonstration and Research shall remain with the CTCP Desk and movement of such equipment will need to be applied for in writing and will be subject to the CTCP Desk's discretion.

7.2.3.3 **Incubation**

National Clusters should support the development of SME manufacturers, service providers and suppliers by providing shared services in the form of administrative as well as operational support. An environment should be created where work can be subcontracted to these SME's from larger manufacturers to ensure production continuity in their operations. The CTCP Desk may waive the requirement for audited financial results for these SME's.

7.2.3.4 **Shared Resources Facilities**

Shared resources should be made available to all members of the cluster and could be made available at a cost to companies outside the cluster to generate funds for the national cluster. Shared resources can include things like testing facilities, standardisation of fit and sizing, cooperative buying of fabric, administrative services, design and innovation centre etc.

7.3 **SUBNATIONAL (PREVIOUSLY CALLED REGIONAL) CLUSTERS**

7.3.1 A Subnational Cluster may be formed with or after a National Cluster to implement and support the strategic objectives and activities of the National Cluster, as outlined in clause 7.2.3 above.

7.3.2 The Subnational Cluster's application should be well documented and supported by all major stakeholders, including the relevant National Cluster, **the dti** Sector Desk, business, industry associations and labour unions, as reflected in the minutes of the stakeholder meeting/s.



- 7.3.3 The final application shall be subject to written approval from ***both*** the Deputy Director General of the Industrial Development Policy Development Division (IDPDD) of **the dti**, the relevant National Cluster ***and*** the CTCP Desk.
- 7.3.4 The Subnational Cluster is required to have an MOA with the relevant National Cluster.
- 7.3.5 The Subnational Cluster is required to have an MOA with each of its members.

8. EXTENT OF GRANT

- 8.1 The incentive programme aims to subsidise competitiveness improvement activities in small, medium-sized and large companies in the clothing, textiles, footwear, leather and leather goods manufacturing sectors that would otherwise not be able to finance these interventions. The programme will also support and in fact encourage interventions that include supplier and/or customer organisations to these manufacturing entities (a value chain approach).
- 8.2 Preference will be given to cluster level interventions that are based on world class manufacturing principles and which take an holistic approach targeting all four of the intervention elements, namely people, process, product and market development. Technological innovation will also be supported in national clusters.
- 8.3 The applicable investment grant is as follows:
- **ORDINARY CLUSTERS:** The incentive programme provides investment support to South African registered entities by offering a cost-sharing grant incentive of 75% of the qualifying project cost on cluster projects. The remaining 25% should come from the cluster participants. These incentives will not cover costs pertaining to machinery, equipment, commercial vehicles, land or buildings. Grant support for each approved partnership will be limited to a cumulative ceiling of R25-million over the period of the programme implementation.
 - **NATIONAL AND THEIR SUPPORTING SUBNATIONAL CLUSTERS:** The incentive programme provides investment support to South African registered entities by offering an initial investment grant of 100% for the first year, where after it becomes a cost sharing grant of 95% from the incentive programme and 5% from cluster participants in year 2, 90% from the incentive programme and 10% from cluster participants in year 3, 80% from the incentive programme and 20% from cluster participants in year 4 and 70% from the incentive programme and 30% from cluster participants in year 5.



- 8.4 Grants made by the programme will be made exclusive of Value Added Tax (VAT).
- 8.5 Partners that do not qualify in terms of the minimum criteria as set out in this document will not have the cost-sharing grant funding extended to them.
- 8.6 In all cases, the incentive payment is subject to the approved project/s achieving the stipulated performance requirements, as described in section 12 of this document.
- 8.7 The Ordinary Cluster Programme commenced on 01 April 2009. The National Cluster Programme commenced on 01 January 2012.
- 8.8 The CIP is currently funded until 31 March 2017.
- 8.9 Should the CIP be terminated, an announcement will be made at least twelve months in advance and this will not affect already approved CIP interventions that have programmes with budgets extending beyond this termination date.

9. QUALIFYING EXPENDITURE

9.1 Competitiveness improvement interventions could be broken down into the following core focus areas of the CIP, namely People, Product, Process and Market Development. Following are non exhaustive examples of qualifying interventions:

9.1.1 People

Intervention	Description
Training	World-class manufacturing principles. These projects should have a strong leaning towards training and building the competency of management, supervisors, support personnel and shop-floor workers to carry out continuous improvement activities.
	ISO 9000 - Basic quality management systems such as ISO 9001 should be introduced to companies to ensure compliance to downstream client requirements.
Labour relations and employee wellness programmes	Labour productivity.
	Multi-skilling.
	HIV/Aids programmes.
	Employee-employer relationship building.



9.1.2 Product

Intervention	Description
Product-related supply chain integration	Quick and reliable delivery time.
	Fashion design, pattern design and manufacturing integration process.
	Process development. The introduction of new processes into mainstream production.
	Technology focus (automation). The use of technology centres and partnerships with support organisations such as the Council for Scientific and Industrial Research (CSIR) and related subsidiaries as well as Public Education Institutions will foster collaborative partnerships in developing technologies within the sector.

9.1.3 Process

Intervention	Description
Industrial engineering services	Layout planning / simulation. Using the latest planning and simulation tools and aids, companies could be assisted to improve process flow and facilities layout.
	Logistics analysis and improvement. To improve supply chain efficiencies, both internally and externally, for example, effective inventory control to decrease operational cost.
	Maintenance principles. Total Productive Maintenance has become a benchmark practice towards international competitiveness. This principle has been applied globally to improve equipment utilisation, support and maintenance.
	Continuous Improvement activities.
Competitiveness improvement interventions	These projects should be aimed at the implementation of economically viable and sustainable models for technical assistance through an approach to improve quality, efficiency and international competitiveness in individual companies or supply chains.
World-class manufacturing principles	Focused on implementing principles of manufacturing that is regarded as best practice.
Bottom-line business processes	Interventions that increase the profitability of the company.

9.1.4 Market Development

Intervention	Description
Market Research	Activities related to determining the size and dynamics of the market both locally and internationally.
Marketing Plan	Activities related to developing a marketing plan based on the results of the market research.



Product Certification Requirements	Interventions that relate directly to acquiring the relevant certification (International and/or Country specific).
Showroom	Design of a showroom or development of a virtual showroom.
Brand Development	Registration of trademarks, graphic designs etc.
	Activities related to initial brand awareness.
	Point of Sale Branding.
Trade Shows, Inward- and Outward-Bound Missions	Travel, Accommodation, Design of Stands, Marketing Material and transportation thereof (Group / Cluster activities only where not covered by other Government programmes e.g. EMIA).

9.1.5 Technological Innovation - Technology Demonstration (through National Clusters only)

Intervention	Description
New Software Technology demonstration	Demonstrate the impact on the competitiveness of the value chain with the use of new software technology in a cluster environment. The software should not have been used in the sector before.
New Hardware Technology demonstration	Demonstrate the impact on the competitiveness of the value chain with the use of new hardware technology in a cluster environment. The qualifying hardware should be world-class cutting edge technology in the sector or related sectors, or should impact dramatically on the process cost and/or the time of processing, and/or the change-over time in the manufacturing process.
Process innovation	Demonstrate the impact on the competitiveness of the value chain through the use of different, non-conventional technology. A technology not ever used before in the sector in which the cluster operates. Examples could include, but are not limited to: <ul style="list-style-type: none"> Processes that reduce the impact on the environment; Processes considerably reducing energy consumption; Processes that use integrated processing techniques. Examples are the use of organic process waste to generate energy, used again as energy inputs to other processes. Innovative processes to reduce batch sizes and / or increase process efficiency through cellular manufacturing, etc.



10. CAPACITY TO IMPLEMENT

- 10.1 It is the objective of the CIP to give effect to interventions which will have a permanent positive impact on organisations. It is therefore imperative that the clusters ensure that the internal capacity exists within the organisations to implement the recommended intervention(s) and maintain it in the long term, long after consultants have left.
- 10.2 It is recommended that clusters import local or foreign experts in order to train and mentor employees to maintain and sustain higher standards of operations and performance.

11. MONITORING AND EVALUATION

- 11.1 In order for clusters to meet the requirements set out in this document, it is required that a cluster measurement exercise be done for each cluster member quarterly in order to determine the performance gaps and how these will be closed.
- 11.2 In the case of a National Cluster, it would be important to understand the competitive position of the specific sector as a whole in order to focus interventions on those aspects that will allow the sector to become more competitive nationally and internationally.
- 11.3 Interventions to improve competitiveness are required to be measured, showing a baseline measurement prior to implementation and subsequent measurements at regular intervals to show improvement in relevant areas.
- 11.4 In addition, the CTCP desk requires a standard annual benchmarking exercise to be conducted by a reputable benchmarking company based on CTCP approved benchmarking methodology. An annual report on performance improvement must be submitted to the CTCP Desk. The cost of such a benchmarking exercise may be included in your CIP proposal. This standard annual benchmarking is to comply with clause 17.4 herein.

12. APPLICATION PROCESS

- 12.1 The completed application must be submitted to the CTCP Desk at the IDC for processing.
- 12.2 The CTCP Desk will send an expert team to perform a Due Diligence investigation to evaluate the proposal. The applicant should present their



proposal to the team, where after a recommendation will be prepared for the Projects Approval Panel (PAP).

- 12.3 The application will be presented by the CTCP Desk to the PAP, which meets once a month.
- 12.4 The PAP will then make a decision whether to support the project or not.
- 12.5 If the applicant has met all the mandatory requirements and the project has been approved, the applicant will be informed accordingly and a legal agreement will be entered into with the IDC.
- 12.6 The applicant may then start claiming according to the budget and milestones of the project.

13. APPLICATION EVALUATION CRITERIA

- 13.1 Applications to the CIP require a thorough **market analysis**. The market analysis will inform the company of opportunities that exist in the areas where the company/ies have capabilities, but will also identify the risks associated with these markets. The application should inform the reader which sustainable market/s were identified by the applicant/s and the opportunities to accessing these markets (market access risk assessment).
- 13.2 A **detailed company-level competitiveness analysis** for each cluster member should be done based on data obtained through at least an operational benchmarking using a reputable benchmarking methodology and performed by a reputable benchmarking company. The cost of this benchmarking exercise may be claimed back from the CIP.
- 13.3 Based on the market analysis and operational benchmarking data, **competitiveness improvement interventions** shall be identified with **baseline and target measurements** for each intervention. These shall be included in the **project plan**. Measurements are to include quarterly project specific operational and financial measures as well as annual standardised benchmarking, as described in section 11.
- 13.4 The project plan is to clearly indicate each activity to be undertaken, the persons or organisations responsible for its execution, the planned start, completion and payment dates as well as the expected project outputs (the end-result of an activity or a set of related activities). Project outputs are to include benchmarking reports and other project specific outputs like consultant reports, reports of seminars attended, training courses attended, etc.



13.5 All the above should be contained in a **Cluster Business Plan** together with a **budget** clearly outlining each intervention category (people, process, product, market development or technology demonstration), the associated costs and milestones for when payments will be required. The budget should include real costs to be incurred in implementing the project. The costs associated with internal resources cannot be taken into account. Members are free to make non-financial contributions to the partnership. However, such non-financial contributions will not be eligible for cost-sharing grant reimbursement.

13.6 A signed **Memorandum of Agreement (MOA)** between the Cluster Organisation and each cluster member must be submitted with the application.

The MOA should detail the relationship between the cluster and each of the members, be they participating or non-participating.

Over and above the implementation plan (actions, milestones, responsibilities and budget for each member's programme), the MOA's must govern the relationship between the cluster and the members by defining mutual responsibilities, roles and undertakings and MOA's should deal with all ancillary or consequential legal matters.

Some common issues that should be addressed include commitments to ensure:

- The relationship, rights, obligations, and responsibilities of the cluster and the members to each other, including how intellectual property, confidentiality, autonomy and independence issues shall be addressed,
- There is no collusion and anti-competitive activity between the cluster and / or it's members,
- Measurable milestones, budgets and activities addressing who is doing what, when and for whom,
- Checks and balances so as to ensure milestones are met and systems to address grievances or allegations of non-performance of any member.

13.7 **National Clusters and any supporting Subnational (formerly called Regional) Clusters:**

National Clusters should submit an application for funding which should consist of the following:

- National Sector Strategy Development Plan (including proof of stakeholder support – refer par 7.2.2)
- Sector Skills Plan



- Business / Implementation Plan for the national and each of the subnational interventions:
 - Market analysis
 - Operational benchmarking data
 - Identified competitiveness improvement interventions
 - Baseline and target measures
 - Budgets linked to interventions and outcomes
- Memorandum of Agreement between the Cluster members and the Cluster Organisation.

13.8 Verification by the CTCP desk

- 13.8.1 Applications from clusters are to be accompanied by a declaration of good tax standing with the South African Revenue Service from each member of the cluster.
- 13.8.2 Applicants to submit evidence of Bargaining Council Compliance of each member (see 14.4).
- 13.8.3 Applicants need to submit to the CTCP desk all documents as prescribed by FICA.
- 13.8.4 The CTCP desk reserves the right to carry out audits on activities of partnerships approved by the approval panel from time to time.
- 13.8.5 The CTCP desk may request any additional information that could be required in order to make a final recommendation to the PAP.
- 13.8.6 If the approval panel finds that a grant was based on false information, or that applicants furnished misleading information, it may disallow the grant and recover the full amount paid to the cluster or individual cluster member/s. Interest on disqualified grant payments shall be levied at the rate prescribed in terms of the Prescribed Rate of Interest Act, section 1(2) of Act No. 55 of 1975 as from the day the grant was received.

The approval panel further reserves the right to authorise publication of full details, including company or cluster names, in cases of grant abuse.



14. MANDATORY CONDITIONS FOR CLUSTERS

- 14.1 The Cluster administrator or cluster managing company must form a not for profit company (previously called a Section 21 company).
- 14.2 The applicant and participating cluster members must be taxpayers in good standing and must, in this regard, provide valid tax clearance certificates with the application.
- 14.3 The project and its activities must comply with all applicable South African legislation that could materially affect the project.
- 14.4 The entities participating in the cluster must be Bargaining Council compliant (where applicable) and must, in this regard, provide evidence of compliance or must make a case for exemption with written support from the Department of Labour for the panel to consider.
- 14.5 The cluster must comply with FICA, as detailed in the current Quick Guide (see www.ctcp.co.za).
- 14.6 The applicant and participating cluster members must be financially viable and will be required to submit evidence including audited financial statements during the due diligence, as detailed in the Quick Guide.
- 14.7 National Clusters and their related subnational clusters must submit a 5-year development plan including a budget as per paragraph 7.2.
- 14.8 All clusters are to submit project specific measurement results as well as standardised CTCP benchmarking reports, as detailed in clause 17.4 herein.
- 14.9 The Cluster and the Cluster Member(s) shall not engage in any practices which amounts to anti-competition behaviour with the effect of substantially lessening competition or which amounts to a prohibited practice prescribed by the Competition Act 89 of 1998 and the cluster MOA's need to address this specifically.
- 14.10 The latest version of the CIP Quick Guide (with the supporting forms et al), as published on the www.ctcp.co.za website, should be consulted as it details how these mandatory conditions are to be interpreted.



15. EXCLUSIONS AND LIMITATIONS

15.1 Eligible projects will be financially supported only if project costs can be directly linked to productivity and competitiveness improvement activities in a company or cluster. All expenditures incurred wholly and exclusively on a qualifying activity will be considered for support, as long as these expenditures are adequately motivated by a business plan.

15.2 **Non-qualifying costs**

The following is a list of typical costs that do **NOT** qualify under the CIP:

15.2.1 Rent, buildings and vehicles will not be considered for support.

15.2.2 Staff costs for cluster member employees will only qualify at the discretion of the CTCP Desk if such staff are specifically dedicated to the implementation of a qualifying CIP intervention.

15.2.3 Non-financial contributions will not be eligible for cost-sharing grant reimbursement.

15.2.4 Acquisition of assets of a capital or working capital nature to be used in the production processes of cluster members, for example, expansion or modification of a company's production facility or process, the provision of raw materials, etc.

15.2.5 Hardware costs will not be considered for support for Ordinary Clusters.

15.3 Any activity that is partially supported by another government scheme, quasi-government scheme or that receives any other financial support from an entity other than the members of the cluster can be eligible for cost-sharing grant support, however the applicant needs to disclose such information to the CTCP Desk.

15.4 Costs associated with technology demonstration will be considered as eligible in the case of a National Cluster.

15.5 General exclusions and limitations

15.5.1 Entities that are already receiving incentives approved under the **Clothing and Textiles Competitiveness Programme** are required to declare such support as part of the application for the **CIP**.



- 15.5.2 The **CTCP desk** reserves the right to withhold, reject or terminate approval for projects seen to be circumventing the rules of the incentive programme.

The entity may not change the facts in its application, such as the business set-up or how it operates, in order to have the entity's project meet the prerequisites for qualification, when it does not meet the appropriate criteria.

If the **CTCP desk** finds that the entity tried to circumvent or circumvented these guidelines, the entity will automatically be disqualified, and if an agreement has already been signed, the **CTCP desk** will terminate that CIP agreement and institute action to reclaim any moneys that have already been paid to the entity.

- 15.5.3 Non-governmental organisations (NGOs), Trusts, Partnerships, Sole Proprietors and Foreign Governments are explicitly excluded from benefiting from this programme directly or indirectly. Please note that the SME's who form part of the incubation project as part of the National Clusters will be allowed to be trusts, partnerships or sole proprietors and the CTCP Desk may waive the requirement for audited financial statements in this case.
- 15.5.4 Applicants who have majority shareholding held by public-owned enterprises or state institutions are not eligible for grants. However, shareholding by Development Finance Institutions will be considered on a case-by-case basis.
- 15.5.5 Applications concerning a project within a division, branch or profit centre of an entity must be submitted by its headquarters. Financial information must be provided for both the entity (headquarters) and the project.
- 15.5.6 Grant approval will cease if the entity is liquidated.
- 15.5.7 Agreements may be terminated at the discretion of the CTCP Desk if there is no evidence of adequate progress.



16. CLAIMS SUBMISSION

- 16.1 Once the application has been approved and the applicant has met all the requirements and signed the legal agreement between them and the IDC, the applicant may claim against the project implementation plan.
- 16.2 It is the responsibility of the entity to provide complete and accurate information to the **CTCP desk** to enable speedy and correct processing of the claim. To claim against the CIP grant, the entity must submit the following documents to the Programme Manager at the **CTCP desk**:
- 16.2.1 Financial statements for the entity (except for SME's that are part of the incubation project under national clusters).
 - 16.2.2 A project monitoring report detailing progress and expenditure against the approved plan.
 - 16.2.3 The competitiveness improvement performance of the company as supported by benchmarking results and including any prescribed Monitoring and Evaluation forms for each member.
 - 16.2.4 An original valid tax clearance certificate of the entity
 - 16.2.5 Evidence of Bargaining Council Compliance (see 14.4).
 - 16.2.6 A cancelled cheque and a credit order instruction as written confirmation of the bank details where payment must be made.
 - 16.2.7 Proof that the cluster has already raised or spent their own contribution of any claim on approved qualifying expenses.

17. GRANT DISBURSEMENTS

17.1 Grant payment schedule and performance requirements

- 17.1.1 The grant is disburseable to clusters after project approval, subject to the approved entity meeting the prescribed performance requirements, as set out in section 17.2. Grants will be made available against the agreed budget on a pre-expenditure basis
- 17.1.2 During the initial period (as determined during the due diligence) grant payments will be based on the match of the competitiveness improvement interventions and the activities that require actions



as identified by benchmarking. No benchmarking improvement requirements are set for the initial period. The scheme will thus allow companies to adjust to the constant improvement culture.

17.1.3 Payments subsequent to the initial period will be based on both the alignment of interventions with benchmarking requirements and the performance of the company on critical competitiveness criteria, as indicated by benchmarking and trends in the monitoring and evaluation responses of cluster members.

17.1.4 Any relaxation of minimum requirements or conditions in this document is based on merit and is at the sole discretion of the **CTCP desk**. The decision of the **CTCP desk** will be final.

17.2 **Conditions regarding grant disbursement**

17.2.1 Grant disbursement is subject to the satisfactory verification of qualifying investment expenditure items and may include a physical on-site inspection by the CTCP desk at every claim stage or whenever necessary.

17.2.2 The commencement date of claims must be within a period of twelve (12) months from the approval date.

17.2.3 Failure to submit a valid claim within twelve (12) months from the approval date will result in the termination of the CIP grant agreement.

17.2.4 Claims must be submitted within three (3) months after the end date of the specified claim period or end of the relevant financial year. Where bi-annual claims are not made in time, an entity must submit a claim for the full financial year at financial year-end.

17.2.5 Payments shall be made directly into the bank account of the approved beneficiary only. The name of the account holder must be the same as that of the applicant.

17.2.6 Should there be material changes to the main activities of the cluster under which the grant was approved, the grant approval will be cancelled and the entity will be expected to reapply to the **CTCP desk**.

17.3 **General monitoring conditions that apply to cluster programmes**

17.3.1 The monitoring of projects is the responsibility of the CTCP desk of the IDC.



- 17.3.2 Two levels of monitoring cluster projects will be carried out by the CTCP desk.
- 17.3.3 The first level of monitoring concerns the output of activities carried out by the cluster. This will be accomplished via reports on outputs identified and the performance against the agreed program and budget.
- 17.3.4 The second level of monitoring will involve the measurable project outcomes by evaluating benchmarking reports, i.e. the impact of the outputs of the cluster project on the competitiveness of the participating members.

17.4 **Monitoring through benchmarking:**

- 17.4.1 The benefit of benchmarking is that it not only monitors a company over time, but also the competitive performance of a company against its immediate peers (competitors) and other competitors elsewhere in the world.
- 17.4.2 To effectively supply customers, manufacturers will have to reduce cost structures continuously and increase the supply effectiveness and quality of its products to its customers. The aim of benchmarking will be to monitor how well companies are performing to improve their competitiveness in the market
- 17.4.3 The CTCP desk shall publish the standard annual Monitoring and Evaluation forms on the CTCP website (www.ctcp.co.za) and these must be submitted for each cluster and cluster member on an annual basis, as described on the forms (which may be amended from time to time). We suggest that your internal measures be set up so as to give the information required for the annual benchmarking. Your internal measures supplement, but do not replace, your annual benchmarking exercise.

18. **ADDITIONAL LEGAL CONDITIONS**

- 18.1 Amongst others, the following are considered a circumvention of CIP guidelines and will lead to the rejection of an application or claim:
 - a. Changing the business set-up, composition, structure or operations, processes or products to enable the project to qualify.



- b. Restructuring the business internally, forming a new entity or project, or phasing in or segmentation of investment to avoid exceeding maximum or differentiating levels.
- c. More than one (1) business in reasonable proximity or in a defined municipal area, owned by connected person(s), manufacturing generically the same or similar products, or delivering generically the same or similar services without, in the sole opinion of the **CTCP desk**, any real commercial reason for the separation.
- d. Splitting up of an integrated production process, including where the one (1) process manufactures the raw material for another process, thereby excluding a non-qualifying process, or allowing two (2) projects to qualify for the incentives.
- e. Manipulation of inter-company assets, products, services and processes.
- f. Any other action that, in the sole discretion of the **CTCP desk**, can be regarded as circumvention to allow the entity, which otherwise would not have qualified, to qualify.

19. CRIMINAL, MISLEADING, DISHONEST AND/OR IRREGULAR ACTIVITIES

- 19.1 **The CTCP desk** may, upon suspicion of any such activities, suspend payments that may be due or may become due to an applicant. **The CTCP desk** 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.
- 19.2 Findings of a forensic investigation indicating such activities will be sufficient to allow the **CTCP desk** to cease all payments and reclaim any payments already made, with mora interest.
- 19.3 The **CTCP desk** 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.
- 19.4 A duty rests with the applicant and/or any other person that may benefit from the CIP to disclose all information that may influence the adjudication of the application and/or claim. Failure thereof will lead to termination/cancellation/suspension of the application/claim.



20. CONTACT DETAILS OF THE CTCP DESK'S CIP PROGRAM

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