



**the dti**

Department:  
Trade and Industry  
REPUBLIC OF SOUTH AFRICA



**PROGRAMME GUIDELINES  
PRODUCTION INCENTIVE PROGRAMME  
FY2016/2017**

**VERSION 1**

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**ABBREVIATIONS AND ACRONYMS**

<b>CMT:</b>	Cut, Make and Trim
<b>CIP:</b>	Competitiveness Improvement Programme
<b>CTCP:</b>	Clothing and Textiles Competitiveness Programme
<b>EIP:</b>	Enterprise Investment Programme
<b>FICA:</b>	Financial Intelligence Centre Act
<b>IDC:</b>	Industrial Development Corporation of South Africa Limited
<b>MVA:</b>	Manufacturing Value Addition
<b>NGOs:</b>	Non-Governmental Organisations
<b>PIP:</b>	Production Incentive Programme
<b>PRECCA:</b>	Prevention and Combating of Corrupt Activities Act
<b>ROI:</b>	Return on Investment
<b>SIC:</b>	Standard Industrial Classification
<b>SMEs:</b>	Small and Medium Enterprises
<b>SBU:</b>	Strategic Business Unit
<b>the dti:</b>	The Department of Trade & Industry
<b>VAT:</b>	Value Added Tax
<b>WCM:</b>	World Class Manufacturing

## 1. PREAMBLE

- 1.1 The purpose of this document is to provide the policies and guidelines of the **Production Incentive Programme (PIP)** 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 PIP is administered by the CTCP Desk at the IDC on behalf of **the dti**.
- 1.3 The PIP is aimed at structurally changing the clothing, textiles, footwear, leather & leather Goods manufacturing industries by providing funding assistance to invest in competitiveness improvement interventions.
- 1.4 The guidelines set out in this document seek to enable companies 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.
- 1.5 The PIP now consists of an Upgrade Grant Facility only. The interest subsidy was discontinued from 01 April 2014.
- 1.6 The guidelines for the PIP may be amended from time to time, as deemed necessary by **the dti** and the CTCP desk. These amendments will be published on the CTCP website ([www.ctcp.co.za](http://www.ctcp.co.za)) and will be of immediate effect upon publication.

- 1.7 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.
- 1.8 **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. SERVICES DELIVERED BY THE CTCP DESK**

- 2.1 No fees or charges are levied for the processing or evaluation of any PIP application or claim.
- 2.2 Companies are welcome to contact the CTCP desk directly for assistance in completing application or claim forms.
- 2.3 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.
- 2.4 Refer to Paragraph 13 for Contact Details of the CTCP Desk.

## **3. PROGRAMME DESCRIPTION**

- 3.1 The CTCP aims to help the industry upgrade its processes, products and people. This is expected to move the industry up the value chain to activities that are far more sustainable than competing against “sweatshop” labour practices and pervasive government subsidisation in other developing countries. The PIP is meant to encourage and support upgrading and competitiveness improvement programmes in the sector.

3.2 The PIP consists of an Upgrade Grant Facility, which is meant to focus on competitiveness improvement.

3.3 The PIP is a market-neutral incentive offered to the subsectors listed under paragraph 3.9 below, resulting in an incentive benefit equal to 7.5% for the year ending 31 March 2017 of a company's Manufacturing Value Addition (MVA).

3.4 The MVA will be calculated as follows:

<b>MVA Calculation</b>
<b>Net Sales (Non-sector items to be deducted)</b>
Less:
<b>Net Sales value of Goods Manufactured outside of South Africa</b>
Less:
<b>Net Sales value of other Bought in Finished Goods</b>
Less:
<b>Material Input Costs</b>
Less:
<b>Outsourced CMT costs</b>
=
<b>MVA</b>

**Appendix B contains detailed information on the MVA Calculation.**

3.5 The benefit thus determined will be referred to as the Benefit Ceiling which is the maximum amount that will be available to an applicant in a specific financial year.

- 3.6 The MVA calculation must be based on Audited Financial Statements not older than 15 months.
- 3.7 The MVA calculation must be independently verified by the company's auditors and the auditors' confirmation letter submitted to the CTCP Desk together with the benefit ceiling application. **A detailed MVA calculation template is attached hereto as Appendix "B".**
- 3.8 A confirmation of the approved Benefit Ceiling will be issued to qualifying applicants. The amount available under the Benefit Ceiling can only be accessed on presentation of proof of qualifying expenditure to the satisfaction of the CTCP Desk through the redemption application process.
- 3.9 The PIP is available to the following (collectively referred to as the "the sector"):
- Clothing manufacturers;
  - Textile manufacturers;
  - Cut, Make and Trim (CMT) operators;
  - Footwear manufacturers;
  - Leather goods manufacturers;
  - Leather processors (Specifically for Leather Goods and Footwear industries) and
  - Design Houses (Provided the design house partners with one or more CMT's).

**IMPORTANT NOTE:** The PIP specifically excludes goods manufactured for the automotive sector which qualifies for any incentive programme offered for that sector.

- 3.10 The incentive programme provides investment support to South African manufacturing entities in the clothing, textiles, footwear, leather and leather-goods industries based in South Africa. Design Houses are, however allowed to participate in the programme as per Clause 5 of this document.

## 4. DETAILED PROGRAMME DESCRIPTION

### 4.1 Upgrade Grant Facility

4.1.1 An Upgrade Grant is available to provide financial support to the industry to assist it in attaining higher levels of competitiveness. Competitiveness Improvement interventions should be based on a proper analysis by a suitably qualified and/or experienced person(s). Performance gaps should be identified, documented and submitted with the application.

4.1.2 An Upgrade Grant can be used for the following qualifying expenditure:

- upgrading of existing plant and equipment;
- acquisition of new plant and equipment which will have the effect of improving the overall competitiveness of the applicant;
- developing people;
- improving manufacturing processes;
- optimising materials used;
- developing new products; or
- market development (excluding normal day to day marketing expenses such as advertising) as part of a clearly defined strategy. Treasury guidelines for travel and subsistence expenditure will apply.

4.1.3 An Upgrade Grant can also partly be used in conjunction with the Competitiveness Improvement Programme (CIP). Companies qualifying for an Upgrade Grant have the option of using it towards funding their own contribution of 25% (Ordinary Cluster application) or 35% (Company level application) required in terms of the CIP up to a maximum of 100% for Small and Medium Enterprises (SMEs) and 75% for others. (Please refer to the CIP guidelines for details).



Example:**IF YOU ARE A SMALL OR MEDIUM ENTERPRISE:*****CIP COMPANY LEVEL APPLICATIONS***

An individual company that has received approval for CIP grant funding is required to contribute 35% of Qualifying Expenditure from its own funding. The Upgrade Grant Facility can be used to fund the full requirement of 35%.

***CIP ORDINARY CLUSTER***

If it is an Ordinary Cluster, the cluster should jointly contribute 25% of the Qualifying Expenditure. The Upgrade Grant Facility can be used to fund the full requirement of 25% by the cluster members provided that they have applied under the PIP.

**IF YOU ARE NOT A SMALL OR MEDIUM ENTERPRISE:*****CIP COMPANY LEVEL APPLICATIONS***

An individual company that has received approval for CIP grant funding is required to contribute 35% of Qualifying Expenditure from its own funding. The Upgrade Grant Facility can be used to fund 26.25% of the required 35%, thus the company needs only to contribute 8.75% from its own funding sources.

***CIP ORDINARY CLUSTER***

If it is an Ordinary Cluster, the cluster should jointly contribute 25% of the Qualifying Expenditure. The Upgrade Grant Facility can be used to fund 18.75% of the required 25%, thus the cluster members need only to contribute 6.25% from their own funding sources provided that they have applied under the PIP.

- 4.1.4 Companies that have existing loans from any financial institution to fund expenditure for purposes that would have qualified under the Upgrade Grant Facility will be able to utilise their Upgrade Grant to settle or partially settle these loans.
- 4.1.5 The Upgrade Grant may not exceed the Benefit Ceiling.
- 4.1.6 Participating companies need to conform to the mandatory conditions as per paragraph 6.

## 4.2 **Auditing Fees**

- 4.2.1 Where the PIP requires the applicant to incur Auditing Fees which are in addition to the applicant's normal statutory requirements, the applicant can, at the discretion of the CTCP desk, in addition to the normal uses of the PIP, use their benefit to fund these additional costs.

## 5. **DESIGN HOUSES**

- 5.1 A Design House will be defined as a product design and related services entity which outsources some or all of its manufacturing to CMT's. Related services may include sample making, production development, pre-production planning, fabric sourcing, pattern making, quality control, labelling, packaging, distribution and delivery.
- 5.2 Design Houses wanting to be considered for a benefit under the PIP must partner with one or more of its local CMT's in order to qualify for a benefit.

The following will apply:

- 5.2.1 The Design House must operate as an independent legal entity.
- 5.2.2 CMT's must be Bargaining Council and Tax Compliant.
- 5.2.3 The MVA will be calculated based on the audited financial statements of the Design House. The CMT's may or may not participate in the PIP and they will have to claim separately and on their own account.
- 5.2.4 The MVA to be audited and signed-off by the applicant's auditors.
- 5.2.5 The Design House will be required to spend at least 50% of its Benefit Ceiling Amount on selected CMT's. If, for example, a Design House partners with 20 CMT's, the Design House can select a number of CMT's they wish to spend the benefit on. A Business Plan will be required to motivate and measure the intervention. The intervention must improve the competitiveness of the CMT(s).
- 5.2.6 The design house may also choose to own the assets acquired using the 50% benefit ceiling intended for use for the CMT's. However the design house will have to nominate a CMT(s) that will use these assets and the CTCP desk's prior approval will be required to move the assets. This will be in place until the assets are fully depreciated.
- 5.2.7 The Design House must provide proof of outsourced CMT work by providing an audited reconciliation per CMT to their financial statements and evidence of Bargaining Council and Tax Compliance for each CMT that it partners with.

## **6. MANDATORY CONDITIONS**

- 6.1 The applicant must be a registered legal entity in South Africa in terms of the Companies Act, 1973 (as amended) or the Close Corporations Act, 1984 (as amended).
- 6.2 The operations of the company applying must be classifiable as manufacturing (SIC code 3) in terms of the 'Standard Industrial Classification of all Economic Activities'. Design Houses are, however allowed to participate in the programme.
- 6.3 The applicant must be a taxpayer in good standing and must, in this regard, provide a valid tax clearance certificate.
- 6.4 The Applicant must, where applicable, be bargaining council compliant and must, in this regard, provide evidence of compliance.
- 6.5 The applicant must comply with all relevant environmental regulations, applicable to its operations and must, in this regard, provide evidence of compliance.
- 6.6 Should the company have any pending litigation against it, the outcome of which may have a material impact on the company's financial position, then this needs to be brought to the attention of the CTCP Desk at the time of application.
- 6.7 Should the company have any intentions or plans to retrench or downsize its manufacturing processes, such intentions or plans must be brought to the attention of the CTCP Desk.

## 7. APPLICATION PROCESS

7.1 In order to access the PIP, companies need to apply to the CTCP Desk at the IDC by completing Form 1: Benefit Ceiling Application, Form 2: Redemption Application, Form 3: PIP Questionnaire, Form 4: PIP M&E Questionnaire and Form 5: Employment Data and in addition the following documents must be submitted:

- Audited financial statements (not older than 15 months);
- Audited MVA calculation (See Form 6);
- Valid Tax Clearance Certificate;
- Valid and acceptable Confirmation of Bargaining Council Compliance (where applicable);
- Evidence of compliance to relevant environmental regulations, where applicable;
- Management accounts not older than 3 months;
- Latest EEA2 forms as submitted and acknowledged by the Department of Labour;
- Documents in support of FICA compliance

7.2 The CTCP Desk will perform a due diligence on the application and if found in order, the desk will issue a confirmation of the PIP benefit amount after obtaining the necessary approvals. Upon approval, the CTCP desk will set aside funds, which will be earmarked for the company concerned. The company's allocated funds for the year will be available to them for a period of two years from the approval date of the PIP benefit. All unclaimed PIP benefits shall be cancelled automatically after 24 months

7.3 The PIP is an annual programme and the effective date for receipt of applications under this programme is 01 April 2016.

7.4 Applications have to be submitted with the CTCP Desk before 28 February 2017.

**IMPORTANT NOTE: INCOMPLETE APPLICATIONS AND APPLICATIONS SUBMITTED AFTER THIS DATE WILL NOT BE CONSIDERED.**

- 7.5 The PIP is a long term programme which will run for a minimum period of six (6) years from 1 April 2010. In the event of the PIP being discontinued, notification will be issued 12 months in advance.

**IMPORTANT NOTIFICATION: DUE TO THE OVERSUBSCRIPTION OF THE PIP THE BENEFIT CEILING % WILL BE REVIEWED ANNUALLY AND POSSIBLY BE SIGNIFICANTLY ADJUSTED DOWNWARDS IF THE NEED ARISES. THE NEXT REVIEW WILL BE FOR NEXT YEAR'S PIP COMMENCING ON 01 APRIL 2017**

- 7.6 The company will have to redeem its benefit as per the provisions of paragraph 8 below.

## 8. REDEMPTION PROCESS

A company can redeem its benefit by applying to the CTCP Desk for an Upgrade Grant. Invoices on upgrading expenditure should not be dated prior to 01 April 2015. Expenditure incurred and approved from the FY2014/15 PIP onwards can be claimed in subsequent benefit years if the benefit ceiling is not sufficient to cover the full claim approved irrespective of the invoice date.

### 8.1 Application for redemption

8.1.1 Upon submitting the **FORM 1: Benefit Ceiling Application** to the CTCP Desk, applicants have to also submit a completed **FORM 2: Redemption Application, FORM 3: PIP Questionnaire, FORM 4: PIP M&E Questionnaire and FORM 5: Employment Data** together with all information required.

8.1.2 The redemption application for an Upgrade Grant should, amongst others, provide the following details:

- Description of the impact of the **upgrading intervention** in terms of productivity or competitiveness improvements: A clear identification of the **elements to be measured**, the current status of each element and projections for improvements thereof as a result of the interventions. Where other measurables are identified that more clearly demonstrates the impact of the intervention, these can also be used. The elements to be measured must be a combination of both financial and operational indicators. **If an applicant has not achieved its previous projections then reasons need to be provided to the CTCP desk for consideration.**

- The budget for the project being claimed for and the justification for such support, indicating dates at which reimbursement will be required and the outputs against which payment will be requested. The budget should include actual costs to be incurred in implementing the project.
- **The final redemption application must be submitted to the CTCP desk 3 months before the expiry of the 24 months utilization period.**

**Please refer to the Quick Guide for a comprehensive list of requirements and the application process.**

## 8.2 Verification by the CTCP desk

8.2.1 The CTCP desk reserves the right to carry out audits on activities of the applicant from time to time which may include a physical on-site inspection by the CTCP desk at every claim stage or whenever necessary.

8.2.2 If the Approval Panel finds that a grant was based on false information, or that applicants furnished misleading information, it will disallow the grant and recover the full amount paid to the company. Interest on such grant payments shall be levied at a prescribed rate from the day the grant was received.

8.2.3 Should there be material changes to the main business under which the grant was approved, the grant approval will be cancelled and the entity will be expected to re-apply to the CTCP desk.

8.2.4 The Approval Panel further reserves the right to authorise publication of full details, including company names, in cases of grant abuse.



### 8.3 **Adjudication**

The CTCP Desk will submit the benefit and redemption applications as well as all relevant documentation to an Approval Panel who will adjudicate an Upgrade Grant. Any relaxation of the 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.

### 8.4 **Disbursement**

8.4.1 Once the Approval Panel has adjudicated an Upgrade Grant facility, claim forms/ proof of payment will be considered by the CTCP desk for reimbursement of approved upgrade expenditure already incurred or for payment of approved upgrade expenditure to be effected. Claim documents must be submitted at least 3 months before the expiry of the 24 months utilization period.

8.4.2 Invoices of all qualifying expenditure already incurred should not be dated prior to 01 April 2015. Expenditure incurred and approved from the FY2014/15 PIP onwards can be claimed in subsequent benefit years if the benefit ceiling is not sufficient to cover the full claim approved irrespective of the invoice date. The PIP benefit will be available for utilisation within a period of 24 months only from the approval date.

8.4.3 Upgrade Grants made by the programme will be made exclusive of Value Added Tax (VAT).

8.4.4 Payments shall be made directly into the bank account of the approved receiver, whether it be the applicant (on reimbursement of expenditure already effected) or a supplier of goods or services to be expended. **The name of the account holder must be the same as that of the approved receiver.**

## 9. QUALIFYING EXPENDITURE

9.1 Some of the qualifying expenditure relating to competitiveness improvement interventions could be broken down into the following core focus areas of the Upgrade interventions, namely People, Product, Process, and Market Development. Following are non-exhaustive examples of qualifying interventions:

### 9.1.1 People

Intervention	Description
Training	<b>World-class manufacturing principles.</b> 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.
	<b>ISO 9000</b> - 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.
	<b>Process development.</b> The introduction of new processes into mainstream production.
	<b>Technology focus (automation).</b> 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

<b>Intervention</b>	<b>Description</b>
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

<b>Intervention</b>	<b>Description</b>
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 (International and/or Country specific)	Interventions that relate directly to acquiring the relevant certification.
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 (Group / Cluster activities only where not covered by other Government programmes e.g. EMIA)	Travel, Accommodation, Design of Stands, Marketing Material and transportation thereof.
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## 10. EXCLUSIONS AND LIMITATIONS

10.1 Eligible projects will be financially supported only if the upgrading investment costs could be linked directly to productivity and competitiveness improvement activities in a company. 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.

### 10.2 **Non-qualifying cost**

The following are examples of costs that do **NOT** qualify under the Upgrade Grant:

10.2.1 Normal operating costs.

10.2.2 Staff costs.

10.2.3 Upgrading of vehicles.

10.2.4 Land and buildings.

10.2.5 Interest Expenditure

### 10.3 **General exclusions and limitations**

- 10.3.1 Entities that are already receiving incentives approved on recommendation by the **Clothing and Textiles Competitiveness Programme, the Enterprise Investment Programme (EIP)** or any other Government programmes are required to declare such support as part of the application for the **PIP**. A specific intervention / expenditure can benefit from more than one incentive as long as the combined grants do not exceed the total cost of the intervention / specific expenditure.
- 10.3.2 The CTCP desk reserves the right to withhold, reject or terminate approval for projects or disbursements under the incentive programme if a project is seen to be circumventing the rules of the 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 agreement and institute action to reclaim any moneys that have already been paid to the entity. The monitoring of projects is the responsibility of the CTCP desk of the IDC.
- 10.3.3 Section 21 companies or 'not-for-profit-or-gain' organisations, Trusts, partnerships, co-operatives and individuals are specifically excluded from applying.
- 10.3.4 **Grant approval and disbursements will cease if the entity ceases manufacturing or is liquidated.**

## 11. ADDITIONAL CONDITIONS

11.1 Amongst others, the following are considered a circumvention of the PIP guidelines and will lead to the rejection of an application or claim:

11.1.1. Changing the business set-up, composition, structure or operations, processes or products to enable the project to qualify.

11.1.2. Restructuring the business internally, forming a new entity or project, or phasing in or segmentation of investment to avoid exceeding maximum or differentiating levels.

11.1.3. 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.

11.1.4. 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.

11.1.5. Manipulation of inter-company assets, products, services and processes.

11.1.6. 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.

### 11.2 PIP Funded Assets

11.2.1 All assets acquired using PIP funds and sold to date need to be declared to the CTCP desk. This applies to all funds received since inception of the PIP.

11.2.2 Permission must be obtained from the CTCP desk prior to the disposal of any PIP funded assets within 5 years from date of acquisition.

## 12. CRIMINAL, MISLEADING, DISHONEST AND/OR IRREGULAR ACTIVITIES

12.1 **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.

12.2 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.

12.3 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.

12.4 A duty rests with the applicant and/or any other person that may benefit from the PIP 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.

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**2196**

**IDC Postal Address:**  
**P O Box 784055**  
**Sandton**  
**2146**

**REQUIRED FORMS AND DOCUMENTATION CHECKLIST**

**(Please Index File according to the required Checklist and use dividers between documentation)**

	Notes	YES	NO
1. FORM 1 : Benefit Ceiling Application	1	<input type="checkbox"/>	<input type="checkbox"/>
2. FORM 2 : Redemption Application (All 4 Sheets)	2	<input type="checkbox"/>	<input type="checkbox"/>
3. FORM 3: PIP Questionnaire	1	<input type="checkbox"/>	<input type="checkbox"/>
4. FORM 4: PIP M&E Questionnaire	2	<input type="checkbox"/>	<input type="checkbox"/>
5. FORM 5: Employment Data	3	<input type="checkbox"/>	<input type="checkbox"/>
6. FORM 6: MVA Factual Findings Report	4	<input type="checkbox"/>	<input type="checkbox"/>

**SUPPORTING DOCUMENTS**

7. Valid Confirmation of Bargaining Council Compliance.		<input type="checkbox"/>	<input type="checkbox"/>
8. Proof of environmental Regulations Compliance.		<input type="checkbox"/>	<input type="checkbox"/>
9. Valid Tax Clearance Certificate.		<input type="checkbox"/>	<input type="checkbox"/>
10. FICA Documents (Refer to Quick Guide).		<input type="checkbox"/>	<input type="checkbox"/>
11. Audited Financial Statements (not older than 15 months)	4	<input type="checkbox"/>	<input type="checkbox"/>
12. Audited Manufacturing Value Add Calculation on the Auditors Letterhead (Refer to Appendix B).	4	<input type="checkbox"/>	<input type="checkbox"/>
13. Latest management accounts (not older than 3 months).		<input type="checkbox"/>	<input type="checkbox"/>
14. Latest EEA2 forms as submitted and acknowledged by the Department of Labour.		<input type="checkbox"/>	<input type="checkbox"/>
15. Competitiveness Improvement Plan (See Form 3)		<input type="checkbox"/>	<input type="checkbox"/>
16. Turnaround Plan (Where applicable) (See Form 3)		<input type="checkbox"/>	<input type="checkbox"/>

**COMMENTS**

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.....  
.....

**Notes**

1. All clients must complete an electronic copy of the attached form in Word, email the electronic soft version to IDC and also include a hard copy of same with the application.
2. All clients must complete an electronic copy of the attached form in Excel, email the electronic version to IDC and also include a hard copy of same with the application.
3. Please complete 2009 to 2016 numbers on an electronic copy of the attached form in Excel, email the electronic version to IDC and also include a hard copy of same with the application.
4. All entities whether private or close corporations must submit audited Annual Financial Statements and an Audited MVA calculation as per the template (Form 6) and / or as per Appendix B of the PIP Guidelines.

**PLEASE NOTE THAT AS PER THE REVISED 2016/17 PRODUCTION INCENTIVE PROGRAMME GUIDELINES, WE ARE UNABLE TO PROCEED WITH YOUR APPLICATION UNLESS ALL REQUIRED DOCUMENTATION IS PROVIDED TO THE IDC.**

**INCOMPLETE APPLICATIONS WILL BE REJECTED AND RETURNED TO THE SENDER.**

## GUIDE TO THE MANUFACTURING VALUE ADD (MVA) CALCULATION

### 1. MVA CALCULATION EXPLANATION

The PIP is a market-neutral incentive offered to the subsectors listed under paragraph 3.9 of the PIP Guidelines, resulting in an incentive benefit equal to 7.5% for the year ending 31 March 2017 of a company's Manufacturing Value Addition (MVA). The MVA will be calculated as follows:

Notes	MVA Calculation
1.1	<b>Net Sales (Non-sector items to be deducted)</b>
	Less:
1.2	<b>Net Sales value of Goods Manufactured outside of South Africa</b>
	Less:
1.3	<b>Net Sales value of other Bought in Finished Goods</b>
	Less:
1.4	<b>Material Input Costs</b>
	Less:
1.5	<b>Outsourced CMT costs</b>
	=
	<b>MVA</b>

#### Notes:

##### 1.1 Net Sales

- Net Sales amount must be equivalent to Gross Sales less all discounts.
- Net Sales amount presented on the calculation should correspond to the Net Sales amount as per the audited Income Statement of the company.
- Should the Net Sales amount differ from the amount as reflected in the audited Income Statement, the auditors of the company are to provide a full reconciliation of the different amounts.

### **1.2 Net Sales Value of Goods Manufactured outside of South Africa**

- d. This refers to Net Sales amounts of goods fully manufactured outside of South Africa.
- e. An amount should be included in the calculation and reflect the actual value or stated as zero depending on the actual events pertaining to the business.

### **1.3 Net Sales Value of other Bought in Finished Goods**

- f. This refers to Finished Goods bought from others, whether locally manufactured or imported.
- g. An amount should be included in the calculation and reflect the actual value or stated as zero depending on the actual events pertaining to the business.

### **1.4 Material Input Costs**

- h. Material Input Costs refers to all material input purchases (e.g. raw hide material and all the chemical purchases to be used in the processing of such raw hides) relating to the manufacturing process but exclude other overheads such as labour, transport costs or any other items not constituting material purchases.

### **1.5 Outsourced CMT Costs**

- i. Please specify costs incurred by the business relating to CMT work to produce manufactured goods (part or fully manufactured). This relates to instances of Material Input Costs and labour being provided by the CMT.
- j. If Material Input Costs have been purchased on behalf of the CMT for the benefit of the business seeking a PIP benefit, please specify the amount in Material Input Costs (on behalf of the CMT) as indicated in note 1.4

## 2. GUIDE TO THE VERIFICATION OF THE MANUFACTURING VALUE ADD (MVA) CALCULATION

- The Annual Financial Statements of the business (***Closed Corporation, Private Companies and Listed Companies***) are to be audited by Independent Auditors (**Registered Auditor**, in public practice, in terms of the Auditing Profession Act, 26 of 2005) as recognised by the **Independent Regulatory Board for Auditors (IRBA)** on an annual basis.
- The Manufacturing Value Add Calculation is to be verified by **the Registered Auditor** in accordance with the following:
  - **A Factual Findings Report of The Independent Auditors** to the Directors/ Members of the Business with respect to the Manufacturing Value Add calculation in accordance with the Production Incentive Programme Guidelines: FY 2016/17 clause 3.3.
  - The engagement between the Independent Auditors and Directors/Members of the business should be undertaken in accordance with International Standards on Related Services 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*.
  - The Agreed-upon Procedures to be used are as follows:
    - ✓ **Agree Net Sales amounts per the MVA calculation** to the trial balance of the business, as used and included in the audited annual financial statements of the business for the year ended.
    - ✓ **Agree Net Sales Value of Goods Manufactured outside of South Africa amounts per the MVA calculation** to the trial balance of the business, as used and included in the audited annual financial statements of the business for the year ended.
    - ✓ **Agree Net Sales Value of other Bought in Finished Goods amounts per the MVA calculation** to the trial balance of the business, as used and included in the audited annual financial statements of the business for the year ended.
    - ✓ **Agree Material Input Costs amounts per the MVA calculation** to the trial balance of the business, as used and included in the audited annual financial statements of the business for the year ended.

- ✓ **Agree Outsourced CMT Costs amounts per the MVA calculation** to the trial balance of the business, as used and included in the audited annual financial statements of the business for the year ended.
- ✓ **Recalculate** the MVA amount and report the Benefit Ceiling value at 7.5% of the calculated MVA for the year ended.

**Business Plan Guidelines – Incorporated in Form 3**

The drafting of a business plan should always be done with the aim to convince a financier of the success of the business venture, so much so that they are willing to provide more funds.

It is crucial that the foundations of the business plan are based predominantly on facts and market research, as opposed to opinion and belief. The more facts in the business plan, the easier it is to make a decision whether or not to inject funds in a business.

The plan should demonstrate that it is workable and that all those involved in the project, from management to employees and consultants, are able to deliver on the plan.

It is also crucial that, as far as possible, all commitments are formally put in writing. These would include contracts with customers for the supply of goods and services, letters of intent from customers, lease agreements, offers to purchase and so on.

A good business plan should consist of the following:

**Executive Summary:**

1. General overview of the business.
  - Background/ History of the business.
  - Products being offered.
  - Outline of expansion plan or competitiveness improvement plan

**Organograms**

2. Group structure (if there is more than one company)
3. Hierarchy of staff



**Capital Expenditure**

4. Quotations from suppliers for all fixed assets to be purchased (not older than 3 months)

**Production**

5. Production process description and process flow diagram
6. A copy of the factory layout
7. A detailed bill of materials, together with recent quotations for all raw material input costs.

**Market analysis**

8. Sales forecasts
  - Projected turnover levels need to be based on secured contracts, letters of intent and or detailed market research.
  - Copies of all contracts with customers (these may still be in draft form), letters of intent from potential customers and market research to be provided.
  - Turnover levels projected without any marketing backup or based purely on verbal agreements will be significantly discounted, which could result in the business forecasts being non-viable.
9. For existing businesses, full details of existing contracts being serviced and remaining periods on these contracts.
10. For existing businesses, full details of major customers and work done for these over the past 12 months, which is not contract based.
11. A detailed marketing strategy and market research.
  - Over and above general market research, it is vital that there is a specific marketing strategy in place that encompasses how the business is going to attract market share and achieve projected turnover levels.
12. Some of the areas that the marketing research should focus on are:
  - Competitor analysis
  - Competitive edge of the business
  - Demand vs. supply
  - Sustainability of demand
  - Future technological developments, new market entrants, alternate products etc.
  - Contracts with customers

- Letters of intent from potential customers
- Other networks and relationships created
- Strategic location of the business.

**Financial information and forecasts**

13. Historical financial statements for 2 years (audited/draft where applicable) and latest management accounts (not older than 3 months)
14. Detailed two-year income statement, balance sheet and cash flow forecasts
  - Show monthly forecasts for the first 12 months
15. Amount of benefit applied for and the application of these funds.
16. Copies of agreements with other financiers and equipment upgrade.