PROGRAMME GUIDELINES
PRODUCTION INCENTIVE PROGRAMME
FY2018/2019

FINAL
ABBREVIATIONS AND ACRONYMS

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

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% of a company’s Manufacturing Value Addition (MVA) for the year ending 31 March 2019 should the programme not be oversubscribed.

3.4 The MVA will be calculated as follows:

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

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 18 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 Clothing, Textiles, Footwear, Leather and Leather Goods Sectors. Qualifying products should undergo a value adding manufacturing process and form part of one or more of the following processes:

- Clothing manufacturing;
- Textile manufacturing;
- Cut, Make and Trim (CMT) operators in the manufacturing processes mentioned;
- Footwear manufacturing;
- Leather goods manufacturing;
- Leather processing (specifically for the Leather Goods and Footwear Industries) and
- Design Houses (provided the Design House partners with one or more CMT).
To qualify for PIP, products must conform to the manufacturing processes as mentioned above and they must fall within the following chapters of the Harmonised System Code (HS Code) Commodity Classification [See Schedule No 1 General Notes, Part 1 - Chapters 1-99 Ordinary Customs Duty on SARS website -


- Clothing & Textile Products of Chapters 50-63
- Leather Products of Chapters 41-42
- Footwear Products of Chapter 64

The following products could qualify partially depending on their composition and textile and/or leather content:

- Headgear which contains fabric of Chapter 65 (6501.00 and 6505.00.90)
- Umbrellas containing fabric of Chapter 66 (66.01)
- Parachutes of Chapter 88 (8804.00)

IMPORTANT NOTE: THE PIP SPECIFICALLY EXCLUDES goods manufactured for the automotive sector which qualifies for any incentive programme offered for that sector.

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. Competiveness 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.

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 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 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 if 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 and BBBEE accreditation**

4.2.1 Where the PIP requires the applicant to incur Auditing Fees and for BBBEE verification, 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.

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:

5.1.1 The Design House must operate as an independent legal entity.

5.1.2 CMT’s must be Bargaining Council and Tax Compliant.

5.1.3 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.

5.1.4 The MVA to be audited and signed-off by the applicant’s auditors.

5.1.5 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).

5.1.6 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.

The Design House must provide proof of outsourced CMT work by providing an audited reconciliation per CMT of the 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’ and the relevant chapters of the HS codes as referred to under 3.9 above. 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.

6.8 The applicant should demonstrate that the business is solvent, profitable and sustainable even without the PIP grant. Should a company not currently be profitable the application should be supported by a detailed turnaround plan, to the CTCP Desk's satisfaction, that demonstrate that the company will be profitable and sustainable going forward.

6.9 Applicants that benefited from the PIP in previous years should demonstrate the positive impact that the previous PIP interventions had on the business’ financial position as well as operational measures against targets previously set in Form 4.

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 18 months);
- Audited MVA calculation (See Form 6);
- Valid Tax Clearance Certificate and PIN;
- Valid and acceptable Confirmation of Bargaining Council Compliance (where applicable);
o Evidence of compliance to relevant environmental regulations, where applicable;

o Management accounts not older than 3 months;

o Latest EEA2 forms as submitted and acknowledged by the Department of Labour;

o Documents in support of FICA compliance

o BBBEE verification certificate by an accredited BBBEE Verification Agency or Sworn Affidavit as prescribed by the BBBEE Codes for companies that meet such conditions.

o A confirmation from the Company’s Auditor that all PIP funded assets are reflected on the Company’s asset register and in productive use and that no PIP funded assets have been sold without the prior permission of the CTCP Desk.

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 2018.

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

7.5 Applications have to be submitted with the CTCP Desk before 31 January 2019. IMPORTANT NOTE: INCOMPLETE APPLICATIONS AND APPLICATIONS SUBMITTED AFTER 31 JANUARY 2019 WILL NOT BE CONSIDERED.
7.6 **IMPORTANT NOTE:** AS A RESULT OF THE SIGNIFICANT REDUCTION IN THE ALLOCATION TO THE CLOTHING AND TEXTILES COMPETITIVENESS PROGRAMME FROM NATIONAL TREASURY, 2018/19 WILL BE THE LAST YEAR THAT THE PROGRAMME WILL CONTINUE IN ITS CURRENT FORM. A COMPREHENSIVE REVIEW OF THE PROGRAMME WILL BE UNDERTAKEN AND, IF SUPPORTED BY FUNDING FROM NATIONAL TREASURY, A REVISED FORMAT WILL BE ANNOUNCED IN DUE COURSE.

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 2017. 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 should be submitted. 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 2017. 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:

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td><strong>World-class manufacturing principles.</strong> 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.</td>
</tr>
<tr>
<td></td>
<td><strong>ISO 9000</strong> - Basic quality management systems such as ISO 9001 should be introduced to companies to ensure compliance to downstream client requirements.</td>
</tr>
<tr>
<td>Labour relations and employee wellness programmes</td>
<td>Labour productivity.</td>
</tr>
<tr>
<td></td>
<td>Multi-skilling.</td>
</tr>
<tr>
<td></td>
<td>HIV/Aids programmes.</td>
</tr>
<tr>
<td></td>
<td>Employee-employer relationship building.</td>
</tr>
</tbody>
</table>
9.1.2 Product

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product-related supply chain integration</td>
<td>Quick and reliable delivery time.</td>
</tr>
<tr>
<td></td>
<td>Fashion design, pattern design and manufacturing integration process.</td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial engineering services</td>
<td>Layout planning / simulation. Using the latest planning and simulation tools and aids, companies could be assisted to improve process flow and facilities layout.</td>
</tr>
<tr>
<td></td>
<td>Logistics analysis and improvement. To improve supply chain efficiencies, both internally and externally, for example, effective inventory control to decrease operational cost.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Continuous Improvement activities.</td>
</tr>
<tr>
<td>Competitiveness improvement interventions</td>
<td>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.</td>
</tr>
<tr>
<td>World-class manufacturing</td>
<td>Focused on implementing principles of manufacturing that is regarded as best practice.</td>
</tr>
</tbody>
</table>
9.1.4 Market Development

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Research</td>
<td>Activities related to determining the size and dynamics of the market both locally and internationally.</td>
</tr>
<tr>
<td>Marketing Plan</td>
<td>Activities related to developing a marketing plan based on the results of the market research.</td>
</tr>
<tr>
<td>Product Certification Requirements (International and/or Country specific)</td>
<td>Interventions that relate directly to acquiring the relevant certification.</td>
</tr>
<tr>
<td>Showroom</td>
<td>Design of a showroom or development of a virtual showroom.</td>
</tr>
<tr>
<td>Brand Development</td>
<td>Registration of trademarks, graphic designs etc. Activities related to initial brand awareness. Point of Sale Branding.</td>
</tr>
<tr>
<td>Trade Shows, Inward- and Outward-Bound Missions (Group / Cluster activities - only where not covered by other Government programmes e.g. EMIA)</td>
<td>Travel, Accommodation, Design of Stands, Marketing Material and transportation thereof.</td>
</tr>
</tbody>
</table>
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 (except for textiles which is 10 years) from date of acquisition.

11.2.3 A beneficiary may not alter its share capital or dispose of any PIP funded assets without the prior approval of the CTCP Desk.

11.2.4 A breach of these prohibitions will result in the recovery of the total capital disbursed plus any punitive interest prescribed by the funding agreement between the parties.
11.2.4 The Desk requires confirmation that all PIP funded assets are at the premises of the client and in productive use. A letter from the auditor should be provided by the client every year, confirming that all PIP funded assets are included in the asset register and that all the assets are in productive use, and that no PIP funded assets have been sold without the permission of the CTCP Desk. Such letter should be provided as per par 7.1 above.

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 place the entity and its management on IDC’s delinquent register, cease all remaining payments and reclaim any payments made previously, with mora interest, and suspend the entity and its management from both the PIP and CIP.

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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Sandown  
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IDC Postal Address:  
P O Box 784055  
Sandton  
2146
Appendix A

REQUIRED FORMS AND DOCUMENTATION CHECKLIST

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. FORM 1: Benefit Ceiling Application</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2. FORM 2: Redemption Application (All 4 Sheets)</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3. FORM 3: PIP Questionnaire</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4. FORM 4: PIP M&amp;E Questionnaire</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>5. FORM 5: Employment Data</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>6. FORM 6: MVA Factual Findings Report</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

SUPPORTING DOCUMENTS

8. Proof of environmental Regulations Compliance.  
10. FICA Documents (Refer to Quick Guide).  
11. Audited Financial Statements (not older than 18 months)  
12. Audited Manufacturing Value Add Calculation on the Auditors Letterhead (Refer to Appendix B).  
13. Latest management accounts (not older than 3 months).
14. Latest EEA2 forms as submitted and acknowledged by the Department of Labour.

15. Competitiveness Improvement Plan (See Form 3)

16. Turnaround Plan (Where applicable) (See Form 3)

17. BBBEE verification certificate / Sworn Affidavit

18. Audit confirmation relating to PIP funded assets

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 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 include a hard copy of same with the application.

3. Please complete 2009 to 2018 numbers on an electronic copy of the attached form in Excel, email the electronic version to IDC and 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 2018/19 PRODUCTION INCENTIVE PROGRAMME GUIDELINES, WE ARE UNABLE TO PROCEED WITH YOUR APPLICATION UNLESS ALL REQUIRED DOCUMENTATION IS PROVIDED TO THE IDC.

INCOMPLETE OR LATE 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 2019 of a company’s Manufacturing Value Addition (MVA). The MVA will be calculated as follows:

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

Notes:

1.1 Net Sales
   a. Net Sales amount must be equivalent to Gross Sales less all discounts.
b. Net Sales amount presented on the calculation should correspond to the Net Sales amount as per the audited Income Statement of the company.
c. 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:
  
  o **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 2018/19 clause 3.3.

  o 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*.

  o 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.
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 decide whether 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, can 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.