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# GOVERNMENT NOTICES

## DEPARTMENT OF TRADE AND INDUSTRY

**No. 732** **4 July 2008**

### ENTERPRISE INVESTMENT PROGRAMME
### (MANUFACTURING INVESTMENT PROGRAMME)

The Department of Trade and Industry hereby makes public the guidelines for the sub-programme under the Enterprise Investment Programme, namely the Manufacturing Investment Programme (MIP), as set out in the schedule.

**SCHEDULE**

the **dti**

Department:
Trade and Industry
**REPUBLIC OF SOUTH AFRICA**

## PROGRAMME GUIDELINES

## MANUFACTURING INVESTMENT PROGRAMME

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# Contents



**Disclaimer:**

This guidelines document provides the criteria for assessing applications for the investment incentives under the Manufacturing Investment Programme (MIP) and the process of applying for the incentive. The guidelines are approved and issued by the Minister of Trade and Industry for purposes of ensuring clarity on the aim and requirements of the incentives programme. **The dti** reserves the right to amend the guidelines as it deems appropriate. Furthermore, **the dti** has a right to, in its sole discretion; provide decisions on the interpretation of these guidelines in instances where guidelines seem not to be specific. Amendments and interpretive decisions will be published on **the dti** website and in the Government Gazette and will be of immediate effect upon publication on the website.

# 1. Preamble

1.1 The purpose of this document is to provide the policy and guidelines of the Manufacturing Investment Programme (MIP).

1.2 The guidelines set out in this document are to enable enterprises to present their business cases to **the dti** and to provide a framework for **the dti** to evaluate such business cases. The purpose of the incentive it to advance certain policy objectives. It is thus not a guarantee that the incentive will be granted, and **the dti** reserves the right to allow or disallow the incentive in its sole discretion and any such decision will be final.

1.3 The guidelines for the MIP may be amended from time to time. These amendments will be published on **the dti** website and in the Government Gazette and will be of immediate effect upon publication.

1.4 Where the guidelines lend themselves to varying interpretations or do not deal with a subject matter, the interpretation of **the dti** must be requested and such interpretation will be decisive and final, and may from time to time be published on **the dti** website.

1.5 Approval of applications will be subject to the availability of funds. **The dti** will endeavour to communicate to the public in good time should there be likelihood of funds available for allocation to new approvals being exhausted.

### *SERVICE DELIVERED BY THE DTI*

1.6 No fees or charges are levied for the processing or evaluation of any MIP application or claims.

1.7 Enterprises are welcome to contact **the dti** directly and **dti** officials will assist them to complete application forms or claim forms.

1.8 Except for agencies owned by **the dti, the dti** does not request or appoint any person or business entity external to **the dti** to approach applicants in respect to this programme. Applicants may approach **the dti** for assistance to apply or claim on this incentive programme. Although an applicant may make use of the services of a consultant or representative, **the dti** does not accept liability for any loss or damage incurred due to an action or omission, including the giving of advice (with or without the knowledge of the applicant) of an applicant's consultant or representative.

1.9 **The dti** will only disclose information to the applicant directly. Authorisation given to a representative outside the business operations of the applicant in respect of communication with **the dti** will not be accepted.

## 2. Programme Description

2.1 The Manufacturing Investment Programme (MIP) is one of the investment incentives that the South African government is implementing to stimulate investment growth in line with the National Industrial Policy Framework. The primary objective of MIP is to stimulate investment within manufacturing.

2.2 The incentive programme aims to enhance the sustainability of manufacturing investment projects by small enterprises and to support large to medium-sized investment projects in manufacturing that would not materialise without the grant.

2.3 The incentive programme provides investment support to both local and foreign owned entities by offering an investment grant of up to 30% of the value of qualifying investment costs in machinery, equipment, commercial vehicles, land and buildings required for establishing a new production facility, expanding an existing production facility, or upgrading production capability in an existing clothing and textile production facility.

2.4 The investment grant applicable is as follows:

2.4.1 Investment projects of R5m and below may qualify for an investment grant equal to 30% of their total qualifying investment cost, payable over a three year period. The third year is payable subject to the project achieving an incentive per employee Rand value which is less than or equal to R60, 000 as detailed in section 10.2.1

2.4.2 Investment projects of above R5m may qualify for an investment grant of between 15% and 30% of their qualifying investment costs, calculated on a regressive scale (as detailed in section 10.5), and payable over a period of two years. This investment grant cannot exceed R30m.

2.4.3 Foreign investment projects may qualify for an additional grant for the cost of transporting their qualifying machinery and equipment to South Africa. The additional grant is the lower of 15% of the value of qualifying imported machinery and equipment or the actual transport costs of relocating qualifying new machinery and equipment from abroad to a maximum of R10m.

2.5 In all cases, grant payment is subject to the approved project achieving the stipulated performance requirements of investment and employment creation specified under section 11 herein.

2.6 The MIP incentive is offered in conjunction with other instruments already available through the provisions of the Income Tax Act that the government is implementing to stimulate investment, which include the accelerated depreciation on investment assets; the graduated tax rates applicable to small enterprises; and the tax incentives applicable to research and development capital expenditure.

2.7 The effective date for receiving applications under this programme is 21 July 2008 for a period of 6 years, ending in 2014.

## 3. Mandatory conditions

3.1 The applicant must be a registered legal entity in South Africa in terms of the Companies Act, 1973 (as amended); Close Corporations Act, 1984 (as amended) Co-operatives Act, 2005 as amended. Section 21 companies or 'not for profit or gain' organisations are specifically excluded from applying.

3.2 The applicant must be a taxpayer in good standing and must in this regard provide a valid tax clearance certificate before the grant is disbursed.

3.3 The project being applied for must constitute a **new production facility**; **expansion** of an existing production facility; or **upgrading** of production capability in an existing clothing and textile production facility. The cost of the qualifying investment in machinery, land and buildings and commercial vehicles will be capped at R200 million[1].

3.4 The project must be classifiable as manufacturing (SIC code 3)[2] in terms of the 'Standard Industrial Classification of all Economic Activities'[3]. The project and its activities must comply with all applicable South African legislation that could materially affect the project.

3.5 Projects must apply and receive approval before acquiring the qualifying investment assets. Projects will not be considered earlier than 12 months or less than three (3) months before the planned commencement date of production. However, if the lead time for delivering specific machinery and equipment or other qualifying assets exceeds a 12 month period, the application can be considered earlier than 12 months before the commencement date of production. In this instance, the project will need to submit confirmation from the supplier of the asset, confirming the lead times and the expected delivery date for the asset.

[1] Projects exceeding R200m may apply; however, their additional investments over R200m will not be taken into consideration when calculating the investment grant.

[2] See Annex A1 for a full list of activities that are included and excluded.

[3] Standard Industrial Classification of all Economic Activities (Fifth Edition), 1993, Central Statistical Service , RSA

# 4. Evaluation Criteria

The evaluation criteria distinguishes between applicants with investment projects of R5 million and below (referred to as "small projects"); and those with investment projects of above R5 million (referred to as "medium to large projects").

## *4.1 Small Projects (investment projects of R5 million and below)*

4.1.1 The applicant must demonstrate commitment to the planned investment project. For purposes of this requirement, **the dti** will consider :

a) the financing structure for the project
b) that the finance sourced together with the grant is adequate in relation to the requirements of the project
c) that there is evidence of commitment to fund the project from the financiers that form part of the funding structure of the project. (Conditional approval for the MIP grant may be given to qualifying projects that wish to use the grant to leverage other sources of funding).

4.1.2 The project must be financially viable, subject to the projections being realistic and reasonable.

4.1.3 The applicant must substantiate a need for financial grant assistance and the application must indicate how the grant will be used to improve the financial viability of the planned project.

4.1.4 The applicant must provide business plan information indicating customers, competitors, competitive advantage, technology, marketing and management.

4.1.5 The project must achieve a minimum score of 50 for contribution to industrial policy targets. This score relates to achievement of development impact criteria in Table A1 below.

**Table A1: Development Impact Criteria**

| Factor | | Points | Weighting | Score |
|---|---|---|---|---|
| Contribution to Broad Based Black Economic Empowerment(BB BEE) | Non-Compliant Contributor (<30 points) | 0 | 5.5 | 0 |
| | Level 8 Contributor (≥30 points <40 points | 1 | | 6 |
| | Level 7 Contributor (≥40 points <45 points) | 2 | | 11 |
| | Level 6 Contributor (≥45 points <55 points) | 3 | | 17 |
| | Level 5 Contributor (≥55 points <65 points) | 4 | | 22 |
| | Level 4 Contributor (≥ 65 points <75) | 5 | | 28 |
| | Above Level 3 Contributor (≥ 75 points) | 6 | | 33 |
| Incentive per Employees (Total incentive/ Total no. of Employees) | > R350 000 | 1 | 6.5 | 7 |
| | >R300 000 – R350 000 | 2 | | 13 |
| | >R100 000 – R300 000 | 3 | | 20 |
| | >R60 000 – R100 000 | 4 | | 26 |
| | ≤R60 000 | 5 | | 33 |
| Locating in areas advancing spatial economic activities | Projects locating in regions with higher unemployment rate than the national average [4] or in Industrial Development Zones. | 5 | 6.8 | 34 |

4.1.6 The criteria in Table A1 are described as follows:

A: Contribution to Broad-Based Black Economic Empowerment: A project's contribution to Broad-Based BEE as measured in terms of the Code of Good Practice for Broad-Based BEE[5]. For example, projects that are level 4 contributors will be given 5 points which will be multiplied by the weighting of 5.5 to give a score of 28.

B: Incentive Per Employee: This is the total Rand value of the incentive divided by the total number of new employees. For example, where the total Rand value of the incentive divided by the total number of new employees is

[4] The unemployment data is based on the Statistics South Africa Census 2001. The dti may update the data on locations qualifying as having higher than average unemployment rate as the latest Census data becomes available. Details of the eligible establishment points are listed with the guidelines on www.thedti.gov.za

[5] Code of Good Practice for Broad-Based Black Economic Empowerment, as issued in Government Gazette 09 February 2007.

R150 000, the project will be awarded three (3) points, this will be multiplied by the weighting of 6.5 to give a score of 20.

D: Locating in areas advancing spatial economic activities: These are projects locating in areas that advance the geographic spread of activities and are defined as locations with higher than national average unemployment rate or projects locating within the designated Industrial Development Zones (IDZ). These projects will be awarded a score of 34.

## *4.2 Medium to Large Projects (investment projects of above R5 million)*

4.2.1 In addition to the evaluation criteria for small projects as stipulated in paragraph 4.1.1 to 4.1.4 herein, the following criteria will apply for projects of above R5 million:

a) The applicant must demonstrate why the grant is necessary in order to enable the project to proceed. Projects are expected to explore other sources of funding before seeking grant funding. The principle is to use the incentive to:

i) fill funding gaps where there is not sufficient equity capitalisation for the project
ii) fill funding gaps where cash flows cannot support more third party debt
iii) influence location of the project in favour of SA in cases where the investor is considering other countries for locating the project
iv) satisfy the company's internal investment evaluation criterion (IRR or NPV).

4.2.2 The project must achieve a minimum score of 4 points for contribution to industrial policy targets. These points relate to the following economic benefit criteria: - investment within the priority sectors, creation and sustaining of direct employment, Broad-Based BEE compliance and location in areas advancing spatial economic activities, as detailed in Table A2.

**Table A2: Economic benefit criteria**

| Criteria | Description | Potential Points |
|---|---|---|
| A. Investment project within priority sectors: | Projects involved in manufacturing under the following sectors: Capital/transport equipment and Metals fabrication, Chemicals, Plastic fabrication and Pharmaceuticals; Furniture; and Automotive and Components (See Annex A1) | **4** |
| A1 Expansion or upgrading project in the clothing and textile sector | Projects involved in the clothing and textile sector (See Annex A1) | **4** |
| B Incentive per employee | >R350 000 | **0** |
| | >R180 000 – 350 000 | **1** |
| | ≤180 000 | **2** |
| C. Compliance with Broad Based BEE requirements: | Achieve a required status in terms of the Broad-Based Black Economic Empowerment Code of Good Practice as follows: | |
| | • BEE Scoring from 65 – 75 (Level 4 Contributor) | **1** |
| | • BEE scoring of more than 75 (Level 3 Contributor) | **2** |
| D. Location in areas advancing spatial economic activities | Projects locating in regions with higher unemployment rate than the national average or locating in the IDZs. | **2** |

### 4.2.3 The criteria in Table A2 are described as follows:

A: Investment project within a priority sector: An investment project that is classifiable under the lead sectors prioritised in terms of the National Industrial Policy Framework (NIPF) and its Action Plan. Four (4) points are allocated to applying entities where the applicant project involves downstream manufacturing activities classifiable under the following sectors: Capital/transport equipment and Metals fabrication; Chemicals, Plastic fabrication and Pharmaceuticals; Furniture; and Automotive and components[6].

A1 Expansion or upgrading project in the clothing and textile sector: Projects that are expanding or upgrading their production facilities in the clothing and textile sector.

[6] National Industrial Policy Framework and the Industrial Policy Action Plan as issued by **the dti** on 06 August 2007. **The dti** may from time to time revise the priority sectors as guided by the Industrial Policy Action Plan.

B: Incentive per employee: Projects where the total Rand value of the incentive divided by the total number of new employees is less than or equal to R180 000, will be awarded two (2) points. Projects whose incentive per employee ratio is greater than R180 000 but less than or equal R350 000, will be awarded one (1) point. Any incentive per employee ratio above R350 000 will not be awarded any points.

C: Compliance with Broad-Based Black Economic Empowerment: An applying entity achieving a required status in terms of the Code of Good Practice for Broad-Based BEE[7]. This requirement takes into account the exemptions in terms of Qualifying Small Enterprises (QSE) as set-out in terms of the Code of Good Practice. Points are allocated to applying projects as follows:

- Applicants that are a Level 4 Contributor to BEE, achieving a Broad-Based BEE score of between 65 and 75 and are allocated 1 point.
- Applicants that are a Level 3 Contributor to BEE, achieving a Broad-Based BEE score of above 75 are allocated 2 points.

D: Locating in areas advancing spatial economic activities: Two points are allocated to projects locating in regions with higher than national average unemployment rate or projects locating within the designated Industrial Development Zones (IDZ).

[7] Code of Good Practice for Broad-Based Black Economic Empowerment, as issued in Government Gazette 09 February 2007.

# 5. Qualifying Assets and Investment costs

5.1 Machinery and Equipment (owned or capitalised financial lease), at cost. This will exclude any office furniture and equipment.

5.2 Owned land and buildings at cost. The investment in land and buildings must constitute newly acquired land and buildings at cost, whether as part of a new project or expansion, and must be owned by the applying entity. The land costs must be directly associated with the purchase, renovation, or construction of a new production facility for the investment project under consideration, and must be located on land that has been zoned for industrial or commercial activity. Calculation of the investment grant with respect to land and buildings will be based on a *pro rata* amount of the factory and administrative space utilised.

5.3 The lease for land and buildings may not exceed 20% of the cost of qualifying machinery and equipment. The cost of leased land is capitalised for the five years of the lease. It is calculated at the rental cost for year one multiplied by five.

5.4 Where the applicant leases land and buildings from connected party, the value of the premises included as part of the capital investment is calculated at the preparation cost of the land and the erection cost of the buildings, **or** the actual net rental as per lease agreement, capitalised, or the actual net rental paid as per income statement, capitalised, which ever amount is the lower. VAT and rates and taxes are excluded from this calculation.

5.5 Commercial Vehicle (owned or capitalised financial lease). Only eligible if such vehicles are for use on the production site, and or have been customised for a particular business, e.g. refrigeration.

5.6 Second hand (previously used) machinery and equipment and commercial vehicles can be regarded as qualifying investment costs provided they meet the following conditions:

5.6.1 The purchase of these assets must be at arm's length. The assets may be acquired locally or internationally from existing project(s); a Liquidation Sale; a Public Auction; through an offer directly to the Liquidator; or a *bona fide* machine dealer. The applicant must provide the liquidation order or auctioneer report reflecting the source of the relevant machinery and equipment.

5.6.2 All imported second hand assets must be accompanied by an engineer's report certifying the level of technology to be equivalent or better than the level currently in use in South Africa. The intention is to ensure that assets brought into the local industry are of an acceptable level of technology and fair value.

5.6.3 Applying projects that are **Black/women owned and all entities with investment of R5 million and below** may invest up to 100% in second hand assets without making an equivalent investment in new assets.

5.6.4 Investments in vehicles may not exceed 20% of the qualifying investment in machinery and equipment.

5.6.5 Purchase of second hand machinery and equipment by **projects with investment of above R5 million** is subject to the following additional rules:

a) The entity must invest in new machinery and equipment at a cost equal to 100% of the cost of the qualifying [actual] second hand machinery and equipment as approved in the entity's MIP application, before the end of the first full financial year.

b) In calculating the equivalent investment in new machinery and equipment, any investment in new commercial vehicles will be excluded.

# 6. Exclusions and Limitations

## *6.1 Non-Qualifying Assets/Investment Costs*

The following is a list of costs that do NOT qualify under the MIP:

6.1.1 Assets acquired by way of an operational lease agreement.

6.1.2 Passenger vehicles (i.e. non-commercial vehicles), collection, delivery, distribution and vehicles not complying with section 5.5 hereof

6.1.3 Damaged assets or assets not utilised for the qualifying production process

6.1.4 Revaluated assets

6.1.5 VAT and finance charges on assets

6.1.6 Rates and taxes

6.1.7 Farms, smallholdings and residential land

6.1.8 Assets acquired between connected parties, i.e. all transactions pertaining to the acquisition of investment assets at non-arm's length.

## *6.2 General Exclusions and Limitations*

6.2.1 Entities that are already receiving incentives approved on recommendation by the Manufacturing Development Board (MDB) and those that have any approved MIP projects, do not qualify for additional MIP incentives until the later of the end date of the incentive/grant period set out in the relevant incentive agreement, or the last date for submission of the final claim under the relevant incentive agreement.

6.2.2 Entities that are already receiving incentives approved on recommendation by the MDB, may not attempt to convert the existing incentive approval to the MIP incentive.

6.2.3 An entity may only apply for one project, be it a new project, expansion or upgrading, per district or metropolitan area. Entities planning a number of investments within a period of three (3) years across different metropolitan areas or district municipalities, should discuss their investment proposals with **the dti**, prior to submitting an application in order to determine the eligibility of these projects.

6.2.4 The project must notify **the dti** in writing within 30 days of the commencement date of production as indicated in the approval letter. **the dti** must be notified in writing of any changes in the commencement date of production. The new commencement date of production must be within 60 days of the original approved commencement date.

6.2.5 **The dti** reserves the right to withhold, reject or terminate approval for projects that are seen to be circumventing the rules of the incentive programme. The entity may not change the facts in its application, such as the business setup or how its operations work in order to make the project of the entity qualify while it should actually not qualify. If **the dti** 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 dti** will terminate that MIP agreement and institute action to reclaim any moneys that have already been paid.

6.2.6 Projects that have qualified for the Productive Assets Allowance (PAA) of the Motor Industry Development Programme (MIDP) will not qualify for the MIP grant.

6.2.7 Non-Governmental Organisations (NGOs), Trusts, Partnerships, Sole Proprietors and Foreign Governments are explicitly excluded from participating in this programme directly or indirectly.

6.2.8 Applicants that have majority shareholding held by public owned enterprises or state institutions are not eligible. However, shareholding by Development Finance Institutions will be considered on a case by case basis.

6.2.9 Applications concerning a project within a division, branch or profit centre of an entity must be submitted by their headquarters and financial information must be provided for both the entity (headquarters) and the project.

6.2.10 Capital work-in-progress is excluded until taken into production.

6.2.11 Financial lease assets must be capitalised in the balance sheet in order to be considered for purposes of the incentive.

6.2.12 Grant approval will cease if the entity goes into liquidation.

# 7. Conditions applicable to expansion projects

The incentive support is intended for projects involving substantial expansions to existing production capacity. To be approved as a qualifying expansion project, an application must meet the following conditions:

7.1 The entity must show an increase (over and above total qualifying historic costs) of at least 50% in qualifying investment in machinery and equipment; entities with projects below R5 million whose existing assets (combined cost of land and buildings, machinery, equipment and vehicles) are R5 million or below, must show an increase (over and above total qualifying historic costs) of at least 35% in qualifying investment in machinery and equipment. The increase in investment must be made in year one and must be maintained for the duration of the incentive agreement. Any increase in investment in land and buildings and commercial vehicles is excluded for the purpose of calculating the increase in investment.

7.2 The base year machinery and equipment of the existing entity or project cannot have a zero rand cost. In other words, the existing entity or project must be actively involved in the manufacturing of a product with productive assets e.g. an entity or project that is below R 5 m, may qualify for an expansion, if the existing entity or project (its base year) had a R 100 000 of machinery and equipment for the production of diapers, and demonstrates R 135 000 as the cost of qualifying machinery and equipment for year one in the balance sheet. This will demonstrate a 35% increase in qualifying machinery and equipment.

7.3 The expansion must demonstrate an increase in projected revenue of 15% in the 1$^{st}$ year of production and 25% increase in the 2$^{nd}$ year of production above the revenue as reflected in the base year financial statements.

7.4 The period of the base year for the expansion and the end of its first full financial year may not exceed 24 months.

7.5 An expansion may not result in a reduction in the existing number of *personnel* employed in the *base year*, in any of the incentive years over the period of the incentive agreement. That is, the total number of personnel employed in each year of the incentive period, may not be less than the total number of personnel employed at base year. Any reduction in total numbers of personnel as compared to base year, will disqualify the entity and if an agreement has been issued the agreement will be terminated. Any claims not yet evaluated or paid will immediately lapse and no obligation will accrue to **the dti** on such claims.

7.6 Expansion projects in the clothing and textile sector should refer to Section 8 herein.

# 8. Conditions applicable for expansions and industrial upgrading projects in the Textile and Clothing sector

8.1 The incentive support for upgrading available under the MIP is intended to encourage substantive enterprise level upgrading in order to improve competitiveness in the clothing and textiles sector.

8.2 The entity must show an increase in qualifying investment of at least 35% above the historic qualifying investment in machinery and equipment and this must be made in year 1.

8.3 The incentive grant will be towards qualifying investment costs, which are defined as capital expenditure for the replacement of old and inefficient machinery and equipment or the addition of new machinery and equipment to the existing production line.

8.4 The aim of the upgrading project should be to assist the entity to improve or sustain competitiveness. This should include at least one of the following:

8.4.1 Improvement in value added measured as the difference between gross turnover and cost of sales

8.4.2 Improvement in productivity measured as value added/capital assets[8]

8.4.3 Reduction in production costs per unit of output

[8] Assets measured at depreciated replacement value.

8.4.4 Or redirection of product mix to niche market

8.5 The applying entity is required to indicate the impact of the upgrading project on employment, before and after the project

# 9. Foreign Investment Grant (FIG) for qualifying foreign investors

9.1 The incentive grant compensates qualifying foreign investors for the costs to move qualifying new machinery and equipment (vehicles excluded) from abroad to the Republic of South Africa (RSA).

9.2 The grant is available only to foreign entities establishing,production facilities for the first time in South Africa and is offered once only to any single entity. It will be the lower of 15% of the value of qualifying imported machinery and equipment or the actual transport costs of relocating qualifying new machinery and equipment from abroad to a maximum of R10m.

9.3 This grant is not available to foreign investment from the South African Custom Union Countries (SACU) and Southern African Development Community (SADC).

9.4 FIG is only available to projects of registered incorporated legal entities in the RSA.

9.5 FIG is conditional to the approval of the MIP project for the incorporated legal entity in the RSA. The application for the FIG is to be submitted before the shipment from abroad and together with the MIP application.

9.6 Relocations are limited to a maximum of two (2) phases per project provided that all phases are executed within one year of commencement of production.

9.7 Only new machinery and equipment (vehicles excluded) acquired from abroad and required for a manufacturing project in the RSA will be considered. **Second hand** or Used machinery and equipment may be qualified where a dti appointed consulting engineer can certify that the machinery and equipment represent the latest technology.

9.8 The grant will not be considered where obsolete technology is to be relocated to the RSA, irrespective of whether the machinery and equipment is new or not.

9.9 The following expenditure might be considered and qualifying for the grant:

**Table B: Qualifying FIG Expenditure**

| **Freight Expenditure** | **Statutory Requirements** |
|---|---|
| **Machinery & equipment transfer cost:** Freight costs for the transfer of qualifying machinery and equipment | **Wharfage:** Only applicable for RSA harbours<br>**Handling:** Only applicable for RSA harbours<br>**Duty:** Only applicable for RSA harbours |
| **Travelling Expenditure** | **Local Expenditure** |
| **Commissioning Technicians:** Travel and accommodation costs as determined by an appointed consulting engineer | **Inland Transport:** Costs applicable to the establishment point in the RSA<br>**Offloading:** Costs applicable at the establishment point<br>**Insurance:** Insurance from the point of origin to the point of establishment in the RSA<br>**Agency Charges:** Costs applicable in the RSA |

9.10 The following expenditure is considered to be non-eligible for the grant:

**Table C: Non-Qualifying FIG Expenditure**

| **Capitalised Elements** | **In Country of Origin Expenditure** |
|---|---|
| Electrical & mechanical installation | Transport costs |
| Remuneration of commissioning personnel | Insurance costs |
| (staff or non-staff) | **Statutory Expenditure** |
| Engineering services | VAT |

9.11 The effective exchange rate as on the date of all documents relating to the importation, of machinery and equipment, will be used for conversion purposes of foreign currency.

9.12 There must be at least a 50% direct foreign shareholding and this must be maintained for a period of at least two years after completion of the foreign investment in new machinery and equipment and certification of being in production.

9.13 If the holding company of the project is liquidated, then the grant approval will terminate with immediate effect.

9.14 If the entity received the additional incentive and sells or re-exports any of the imported machinery and equipment or terminates manufacturing operations within a period of two years from the date of production stated in the agreement, **the dti** will institute action to reclaim the foreign investment grant.

9.15 The payment of the grant will only be effected if all of the approved machinery and equipment is imported within one year of the commencement date of production as certified by the accredited consulting engineer. Thereafter, no payments will be effected.

9.16 Transferred machinery and equipment must be free of any financial liability or lien in order to qualify for the foreign investment grant. Such machinery and equipment must, therefore, be the property of the foreign investor or must be purchased with foreign funds.

9.17 If the machinery and equipment was financed by means of a foreign shareholder(s) loan(s), such loan(s) may not be transferred to any citizen of the RSA or any financial institution in the RSA during the payment period of the investment grant or the validity thereof. Foreign shareholder(s) loans must also be maintained for a period of at least two years after completion of the transfer of machinery and equipment and the certification of being in production, provided by the consulting engineer.

9.18 All imported machinery and equipment that will be considered for relocation costs must be accompanied by an auditor's report certifying that the equipment meets all the above requirements of the grant.

9.19 **The dti** will appoint a registered consulting engineer (CE) accredited to the South African Association of Consulting Engineers. The CE will evaluate the project; verify the technology and commencement of production; and recommend payment of the FIG against certified documented expenditure. **The dti** is responsible for the payment of the CE's fees.

9.20 **If less or other machines and equipment, than those originally approved, or if the same machines and equipment, as approved, are imported but the machine value as determined locally by the consulting engineer as**

**appointed by the dti differs from the original machine values, payments will be:**

a) the foreign investment grant recommended by the CE, or
b) the actual transportation cost, or
c) the pro rata FIG, or
d) 15% of the recommended machine value as determined by the appointed consulting engineer's final report, or
e) the approved FIG, whichever is lower value.

9.21 **If the value of the imported machines and equipment as determined locally by the consulting engineer as appointed by the dti is in accordance with or more than the approved value, payments will be:**

a) the FIG recommended by the CE, or
b) the actual transportation costs, or
c) 15% of the recommended machine and equipment value as determined by the appointed consulting engineer, whichever is the lower value.

9.23 **If the imported machines and equipment vary substantially in respect of mass, type and value from the original approval, the dti reserves the right to adjust or terminate the agreement.**

9.24 After completion of the transfer of new machinery and equipment to RSA:

9.24.1 the entity must notify **the dti** in writing within 30 days of commencement of production.

9.24.2 a site visit will be conducted by the CE and a representative of **the dti.**

9.24.3 a production certificate will be issued by the CE reflecting the production status of the project and recommendation of payment.

# 10. Incentive Grant Calculation

10.1 The investment grant on offer is up to the maximum of R30 million for investors investing locally and an additional 15% of the qualifying imported machinery and equipment for foreign investors relocating machinery and equipment to South Africa.

10.2 The investment grant is calculated proportionally on a regressive scale in relation to the qualifying investment cost, as follows:

10.2.1 Investment projects of R5m and below qualify for an investment grant equal to 30% of their qualifying investment cost, payable over a three year period, on compliance with conditions outlined in this document. The grant for the third year will be payable subject to the project achieving an incentive per employee Rand value of R60, 000 or less. That is, the total approved grant divided by the total number of employees at the end of year two should be R60, 000 or less.

10.2.2 Investment projects of above R5m, that obtain a minimum economic benefit criteria score of 4 (in terms of Table A2 of Section 4.2 herein), may qualify for an investment grant as stipulated below:

a) **Projects above R5m but less the R30m** may qualify for a grant on a regressive scale between **15% and 30%** of their qualifying investment costs.
b) **Projects above R30 m** may qualify for a grant of **15%** of their investment costs.

**10.2.3** In exceptional cases the Adjudication Board may consider a higher grant up to a maximum of 20% of qualifying investment costs for large projects that:

i. have high IRR requirements; or
ii. are foreign direct investments in priority sectors considering competing locations, and
iii. where the 15% grant is not sufficient to influence an investment decision for the investor.

a) These projects must have considerably higher economic spin-offs – such as potential for opening up market competition, diversifying industrial output or having a technological demonstration effect. **The** sum of the grants awarded cannot exceed 5% of the annual programme allocation.

10.3 The grant offered cannot exceed **the dti's** assessment of the funding gap or funding shortfall in the project.

10.4 The grant offered in terms of MIP is tax exempt in terms of Section 10 (1) (y) of the Income Tax Act, No 58 of 1962, as amended.

## 10.5 Grant Scale

**Summary**

| Investment | ≤ R5m | > R5m to ≤ R30m | ≥ R30m |
|---|---|---|---|
| Grant | 30% | 30% - 15% | 15% |
| Grant Ceiling | R1.5m | R4.5m | R30m |

**Grant scale for projects between R1m and R20m**

| Investment R m | 0.00 | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 | 7.00 | 8.00 | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.00 | 17.00 | 18.00 | 19.00 | 20.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 0.00 | 0.30 | 0.60 | 0.90 | 1.20 | 1.50 | 1.62 | 1.74 | 1.86 | 1.98 | 2.10 | 2.22 | 2.34 | 2.46 | 2.58 | 2.70 | 2.82 | 2.94 | 3.06 | 3.18 | 3.30 |
| Grant % | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 27.00 | 24.86 | 23.25 | 22.00 | 21.00 | 20.18 | 19.50 | 18.92 | 18.43 | 18.00 | 17.63 | 17.29 | 17.00 | 16.74 | 16.50 |

**Grant scale for projects between R21m and R40m**

| Investment R m | 21.00 | 22.00 | 23.00 | 24.00 | 25.00 | 26.00 | 27.00 | 28.00 | 29.00 | 30.00 | 31.00 | 32.00 | 33.00 | 34.00 | 35.00 | 36.00 | 37.00 | 38.00 | 39.00 | 40.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 3.42 | 3.54 | 3.66 | 3.78 | 3.90 | 4.02 | 4.14 | 4.26 | 4.38 | 4.50 | 4.65 | 4.80 | 4.95 | 5.10 | 5.25 | 5.40 | 5.55 | 5.70 | 5.85 | 6.00 |
| Grant % | 16.29 | 16.09 | 15.91 | 15.75 | 15.60 | 15.46 | 15.33 | 15.21 | 15.10 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R41m and R60m**

| Investment R m | 41.00 | 42.00 | 43.00 | 44.00 | 45.00 | 46.00 | 47.00 | 48.00 | 49.00 | 50.00 | 51.00 | 52.00 | 53.00 | 54.00 | 55.00 | 56.00 | 57.00 | 58.00 | 59.00 | 60.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 6.15 | 6.30 | 6.45 | 6.60 | 6.75 | 6.90 | 7.05 | 7.20 | 7.35 | 7.50 | 7.65 | 7.80 | 7.95 | 8.10 | 8.25 | 8.40 | 8.55 | 8.70 | 8.85 | 9.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R61m and R80m**

| Investment R m | 61.00 | 62.00 | 63.00 | 64.00 | 65.00 | 66.00 | 67.00 | 68.00 | 69.00 | 70.00 | 71.00 | 72.00 | 73.00 | 74.00 | 75.00 | 76.00 | 77.00 | 78.00 | 79.00 | 80.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 9.15 | 9.30 | 9.45 | 9.60 | 9.75 | 9.90 | 10.05 | 10.20 | 10.35 | 10.50 | 10.65 | 10.80 | 10.95 | 11.10 | 11.25 | 11.40 | 11.55 | 11.70 | 11.85 | 12.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R81m and 100m**

| Investment R m | 81.00 | 82.00 | 83.00 | 84.00 | 85.00 | 86.00 | 87.00 | 88.00 | 89.00 | 90.00 | 91.00 | 92.00 | 93.00 | 94.00 | 95.00 | 96.00 | 97.00 | 98.00 | 99.00 | 100.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 12.15 | 12.30 | 12.45 | 12.60 | 12.75 | 12.90 | 13.05 | 13.20 | 13.35 | 13.50 | 13.65 | 13.80 | 13.95 | 14.10 | 14.25 | 14.40 | 14.55 | 14.70 | 14.85 | 15.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

Grant scale for projects between R101m and R120m

| Investment R m | 101.00 | 102.00 | 103.00 | 104.00 | 105.00 | 106.00 | 107.00 | 108.00 | 109.00 | 110.00 | 111.00 | 112.00 | 113.00 | 114.00 | 115.00 | 116.00 | 117.00 | 118.00 | 119.00 | 120.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 15.15 | 15.30 | 15.45 | 15.60 | 15.75 | 15.90 | 16.05 | 16.20 | 16.35 | 16.50 | 16.65 | 16.80 | 16.95 | 17.10 | 17.25 | 17.40 | 17.55 | 17.70 | 17.85 | 18.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

Grant scale for projects between R121m and R140m

| Investment R m | 121.00 | 122.00 | 123.00 | 124.00 | 125.00 | 126.00 | 127.00 | 128.00 | 129.00 | 130.00 | 131.00 | 132.00 | 133.00 | 134.00 | 135.00 | 136.00 | 137.00 | 138.00 | 139.00 | 140.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 18.15 | 18.30 | 18.45 | 18.60 | 18.75 | 18.90 | 19.05 | 19.20 | 19.35 | 19.50 | 19.65 | 19.80 | 19.95 | 20.10 | 20.25 | 20.40 | 20.55 | 20.70 | 20.85 | 21.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

Grant scale for projects between R141m and R180m

| Investment R m | 141.00 | 142.00 | 143.00 | 144.00 | 145.00 | 146.00 | 147.00 | 148.00 | 149.00 | 150.00 | 151.00 | 152.00 | 153.00 | 154.00 | 155.00 | 156.00 | 157.00 | 158.00 | 159.00 | 160.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 21.15 | 21.30 | 21.45 | 21.60 | 21.75 | 21.90 | 22.05 | 22.20 | 22.35 | 22.50 | 22.65 | 22.80 | 22.95 | 23.10 | 23.25 | 23.40 | 23.55 | 23.70 | 23.85 | 24.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

Grant scale for projects between R161m and R180m

| Investment R m | 161.00 | 162.00 | 163.00 | 164.00 | 165.00 | 166.00 | 167.00 | 168.00 | 169.00 | 170.00 | 171.00 | 172.00 | 173.00 | 174.00 | 175.00 | 176.00 | 177.00 | 178.00 | 179.00 | 180.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 24.15 | 24.30 | 24.45 | 24.60 | 24.75 | 24.90 | 25.05 | 25.20 | 25.35 | 25.50 | 25.65 | 25.80 | 25.95 | 26.10 | 26.25 | 26.40 | 26.55 | 26.70 | 26.85 | 27.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

Grant scale for projects between R181m and R200m

| Investment R M | 181.00 | 182.00 | 183.00 | 184.00 | 185.00 | 186.00 | 187.00 | 188.00 | 189.00 | 190.00 | 191.00 | 192.00 | 193.00 | 194.00 | 195.00 | 196.00 | 197.00 | 198.00 | 199.00 | 200.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 27.15 | 27.30 | 27.45 | 27.60 | 27.75 | 27.90 | 28.05 | 28.20 | 28.35 | 28.50 | 28.65 | 28.80 | 28.95 | 29.10 | 29.25 | 29.40 | 29.55 | 29.70 | 29.85 | 30.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

# 11. Grant Disbursement

## 11.1 Grant Payment Schedule and Performance Requirements

11.1.1The grant is disbursable on a bi-annual basis, subject to the approved entity meeting the prescribed performance requirements as set-out below.

11.1.2 At each grant claim stage the project may be eligible to be paid a grant which is based on the full value of the actual investment made at that stage, however, this may not exceed the maximum approved grant for that financial year.

| Yr | Claim stages | Disbursement (Under R5m) | Disbursement (Above R5m) | Performance requirements |
|---|---|---|---|---|
| YEAR 1 | **Stage 1:** End of 6 months from date of commencement of operations | Grant % of actual investment made, limited to 33.3 % of total approved grant | Grant % of actual investment made limited to 50% of total approved grant. | • Minimum investment of 30% of the total approved qualifying investment for projects above R5m<br>• Minimum investment of 15% of the total approved qualifying investment for projects below R5m<br>• Achieve and maintain the conditions for points allocated in terms of the economic benefit criteria<br>• Achieve at least 10% of projected turnover for year 1 |
| | **Stage 2:** End of 1st full financial year | Grant % of actual investment made, limited to 33.3% of the total approved grant less amount paid at stage 1 | Grant % of actual investment made limited to 50% of the total approved grant less amount paid at stage 1 | • Minimum of 60% of the total approved qualifying investment must be made for projects of over R5 million<br>• Minimum investment of 30% of the total approved qualifying investment for projects below R5m<br>• Achieve 80% of employment levels projected for year 1<br>• For projects over R5m, achieve at least 70% of the turnover projected for year 1<br>• For projects below R5m, achieve at least 50% of the projected turnover for year 1.<br>• Achieve and maintain the conditions for points allocated in terms of the economic benefit criteria<br>• Upgrading projects to achieve at least 70% of agreed year 1 productivity, value add or cost reduction targets |

| | | | | |
|---|---|---|---|---|
| YEAR 2 | **Stage 3:** End 6 months of 2nd financial year | Grant % of actual investment made limited to 33.3 % of total approved grant. | Grant % of the actual investment made limited to 50% of total approved grant. | • Minimum of 60% of the total approved qualifying investment must be made for projects above R5 million<br>• Minimum investment of 30% of the total approved qualifying investment for projects of below R5 m<br>• Achieve 80% of employment levels projected for year 1<br>• For projects above R5m, achieve at least 70% of the projected turnover year 1<br>• For projects below R5m, achieve at least 50% of the projected turnover for year 1<br>• Achieve and maintain the conditions for points allocated in terms of the economic benefit criteria |
| | **Stage 4:** End of 2nd full financial year | Grant % of actual investment made, limited to 33.3% of the total approved grant less amount paid at stage 3 | Grant % of actual investment made, limited to 50% of total approved grant less amount paid at stage 4. | • A minimum of 80% of the total approved qualifying investment must be made for projects above R5 m<br>• Minimum investment of 60% of the total approved qualifying investment for projects below R5 m<br>• Achieve 80% of employment levels projected for year 2<br>• Achieve at least 80% of the projected turnover for year 2<br>• Achieve and maintain the conditions for points allocated in terms of the economic benefit criteria<br>• Upgrading projects to achieve at least 70% of agreed productivity, value add or cost reduction targets for year 2. |

| | | | | |
|---|---|---|---|---|
| YEAR 3 | **Stage 5:** End of 6 months of 3rd financial year | Grant % of actual investment made limited to 33.3 % of total approved grant. | Monitoring | • Minimum of 80% of the total qualifying investment must be made for projects > R5 m<br>• Minimum of 60% of the total qualifying investment made for projects below or equal to R5m<br>• Incentive per employee should be is less than or equal to R30 000<br>• Maintain projected employment levels<br>• Maintain at least 80% of the projected turnover<br>• Maintain the conditions for points allocated in terms of the economic benefit criteria |
| | **Stage 6:** End of 3rd full financial year | Grant % of actual investment made, limited to 33.3% of the total approved grant less amount paid at stage 5 | Monitoring | • Minimum of 80% of the total investment made<br>• Maintain at least 80% of the projected employment levels<br>• Maintain at least 80% of the projected turnover<br>• Maintain the conditions for points allocated in terms of the economic benefit criteria<br>• Upgrading projects to achieve at least 80% of agreed productivity, value add or cost reduction targets |

11.1.3 Projects that do not achieve or maintain the conditions for points allocated in terms of economic benefit criteria at claim stage may be terminated if the project no longer qualifies (i.e. achieves a score of less than 4 on the economic benefit criteria matrix, Table A2 hereof).

11.1.4 Projects that do not meet the minimum performance requirements for stage 1 above or do not have audited financial statements at stage 1, may wait until stage 2 (i.e. the end of their first full financial year) before they submit their first claim.

11.1.5 In submitting a claim for stage 3, audited financial statements of stage 2 may be used. A full reconciliation will then need to be submitted at stage 4 with full audited financial statements. The same principle applies for stage 5 &6.

11.1.6 Any relaxation of minimum requirements or conditions in this document, is based on merit and it is at the sole discretion of **the dti**. The decision of **the dti** will be final.

# *12 Claims Submission*

12.1 It is the responsibility of the entity to provide complete and accurate information to **the dti** in order to enable speedy and correct processing of the investment grant. To claim for the MIP grant, the entity must submit the following documents to the Programme Manager at **the dti**:

12.1.1 An originally completed Claim Form, duly signed by the entity and an independent external auditor

12.1.2 Audited financial statements for the entity and audited management accounts for the project

12.1.3 Project Monitoring Report

12.1.4 Audited asset list(s) of total assets of the project

12.1.5 An original valid tax clearance certificate of the entity

12.1.6 A cancelled cheque and a Credit Order Instruction as a written confirmation of the bank details where payment must be made

12.1.7 A certificate of compliance with the Code of Good Practice for Broad-Based BEE, where the entity's turnover is more than R5 Million, or such amount as determined by **the dti** from time to time.

## *12.2 Conditions regarding grant disbursement*

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

12.2.2 The commencement date of claims may not precede the commencement date of production, and must be within a period of 15 months from the commencement date of production.

12.2.3 The claim period of each project should coincide with the financial year. If the date of commencement of production is less than six months before the end of the financial year, then the claim date for the project should align to the start of the next financial year. In instances where the date of commencement of production is greater than six months before the end of the financial year, the project claim period should start in the same financial year as the production start date. No change in the financial year will be allowed over the claim period.

12.2.4 An approved project must commence its operation within a period of 30 days from the production date specified at the time of application, and remain in production for the duration of the incentive agreement, failing which the grant is forfeited. The applicant must send written confirmation of the commencement of production to **the dti.**

12.2.5 Failure to submit a valid claim within fifteen months from commencement of production will result in termination of the MIP grant agreement.

12.2.6 Claims must be submitted within 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.

12.2.7 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 the name of the applicant.

12.2.8 Should there be material changes to the main business under which the grant was approved, the grant approval will be cancelled and the entity must reapply to **the dti.**

## *12.3 Additional Legal Conditions*

12.3.1 The following are *inter alia* considered a circumvention of EIP guidelines and will lead to rejection of an application or claim:

a) Changing the business setup, composition, structure or operations, processes or products in order to make the project qualify

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

c) More than one 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 dti**, any real commercial reason for the separation

d) Splitting up of an integrated production process, including where the one process manufactures the raw material for another process (e.g. thereby excluding a non qualifying process, or allowing two projects to qualify for the incentives)

e) Manipulation of inter company assets, products, services and processes, and

f) Any other action that, in the sole discretion of **the dti**, can be regarded as circumvention to allow the entity, which otherwise would not have qualified, to qualify.

**12.3.2 CRIMINAL, MISLEADING, DISHONESTAND/OR IRREGULAR ACTIVITIES**

a) The **dti** may, upon a suspicion of any such activities, suspend payments that may be due or may become due to an applicant and the **dti** 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.

b) Findings of a forensic investigation indicating such activities will be sufficient to allow <u>**the dti** to cease all payments and reclaim any payments already made, with *mora* interest.</u>

c) The **dti** 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 anything suspicious.

d) A duty rests on the Applicant and / any other person that may benefit from the scheme to disclose everything that may have an influence on the adjudication of the application and / or claim. Failure thereof will lead to termination / cancellation / suspension of the application / claim

# 13 Application Procedure

13.1 The application process is as follows:

**Table E: Application process**

| | Project application |
|---|---|
| Project Appraisal | ▪ Applicant sends completed application form (prior to the investment taking place)to **the dti** by mail or via **the dti's** MIP website<br>▪ Applicant may obtain further information about the criteria telephonically or by meeting with MIP staff at **the dti**<br>**NB Applicants are not required to use a consultant to prepare or submit an application** |
| Basic Assessment | ▪ Application checked for completeness<br>▪ Letter/email requesting additional information sent to applicant<br>▪ Fully completed application is scheduled for evaluation |

| | The dti approval process |
|---|---|
| Project Appraisal | - Project business plan analysis<br>- Project and entity financial viability analysis<br>- Analysis of funding gap<br>- Economic benefit analysis |
| Verification Inspection | - Project verification inspection at applicant's premises may be conducted<br>- Inspector verifies that project meets all requirements and<br>- submits for the Adjudication Board |
| Adjudication | - Adjudication Board reviews report from project evaluator<br>- Application approved, rejected or returned for additional information<br>- The decision of the Adjudication Board is final<br>- Letter confirming agreement with applicant |

| Grant Disbursement |
|---|
| - The approved grant is disbursed on achievement of predetermined performance requirements as set out in section 11.<br>- On completion of milestone client completes a claim form with required attachments.<br>- Inspector may visit client to verify that all requirements have been met. |

| Monitoring |
|---|
| - **The dti** will collect project monitoring information at each claim stage and will require clients to complete a project monitoring report at the end of each financial year to measure the outputs and outcomes of the project.<br>- In order to evaluate the impact of the programme, **the dti** requires that for a period of two years after completion of the claim period, the client completes the project monitoring report annually. This requirement forms part of the legal agreement between **the dti** and the applicant.<br>- |

13.2 The following information is required when submitting the application form:

13.2.1 Information about the applying entity:

a) Contact details of parent company

b) Details of registration in South Africa

c) Copies of certificates of Incorporation

d) Written guarantees for financing or letters of intent, where applicable

13.2.2 Details about the planned investment project:

a) Planned date of commencing operations

b) Business activities, products and services

c) Expected revenue streams and markets to be served

d) Employment opportunities to be created by the project

13.2.3 Investment expenditure and expansion plans

13.2.4 Projected Cash Flow Statement, Income Statement and Balance Sheet.

13.2.5 Engineer's report confirming level of technology for foreign entities looking to import machinery and equipment for the project.

# 14 Monitoring, Reporting and Impact Assessment

All approved projects will be monitored in order to assess performance of the project and MIP.

**The dti** may conduct a site visit to projects at application stage and /or at claim stage. A set of all financial statements, invoices and other relevant records must be retained and kept in a fireproof safe, according to SABS specifications, for at least 5 years after submission of the claim that it relates to. Such records must be made available to **the dti** inspector upon request, failing which the agreement automatically terminates.

All approved expansion and upgrading projects will be required to complete the project baseline monitoring report at the start of the project.

All approved projects must submit a Project Monitoring Report at the end of each financial year, including for an additional two financial years following their final claim (i.e. two years after the incentive period).

**Table E: Summary of Monitoring and Evaluation**

| Monitoring Level | Indicators at Project Level | Indicators at Programme Level |
|---|---|---|
| **Input** | ▪ Completed application form | ▪ No project applications approved / declined |
| **Output** | ▪ Total capital investment<br>▪ Total grant disbursed<br>▪ Increased turnover | ▪ No. & value of new projects per sector, BEE, location & project size<br>▪ No. & value of expansion projects per sector, BEE, location & project size<br>▪ No. and value of upgrading projects per location, BEE & project size<br>▪ Amount of funds committed and disbursed |
| **Outcome** | ▪ % change in investment<br>▪ % change in employment<br>▪ % change in sales<br>▪ % change in profitability<br>▪ % change in value add<br>▪ % change in exports<br>▪ % change in capacity utilisation<br>▪ % change in productivity, costs in clothing & textile | ▪ Value of increase in investment<br>▪ Increase in manufacturing growth (no. of new projects, production output, employment)<br>▪ Change in manufacturing capacity utilisation<br>▪ Competitiveness improvement (textile & clothing) |
| **Economic Impact** | | ▪ The net addition to the economy (outcome minus the counterfactual) |
| **Cost-benefit / Effectiveness** | | ▪ Economic impact vs. project costs |

# Annexure A: Glossary of Terms and Definitions

a. *'Entity' or 'Applicant'*: Means a business registered as a legal entity is South Africa. The word entity is used here to refer to a business applying, or that has qualified for the incentives, or is claiming MIP incentives.

b. *'New Production facility' or 'new business' or 'new project' or 'new investment'*: Includes - where the entity was non-existent prior to the production date; Where the entity was services orientated, and made a change over to production or manufacturing; Where a new product line is pursued, which product line may not be generically linked to the original product line, and which product line must be financially (separate income statement, balance sheet and cash flow statements and physically separated from the previous product line.

c. *'Expansion' or 'Expansion project'* Includes - A minimum of 50% increased investment in total qualifying machinery and equipment above the existing investment in total qualifying machinery and equipment at cost as reflected in the base year financial statements, made in year one and maintained for year two and year three. In respect of land and buildings refers to additional square meters. Where the product(s) to be produced by the new machinery and equipment is/are generically the same as the products produced by an existing project or existing business;

'Expansion' or 'Expansion project' will exclude existing businesses with a 0 base year in respect of the MIP application. These projects may apply as a new project, provided that they comply with these guidelines and that the Entity can substantiate why it has a 0 base year.

d. *'Existing business'*: Includes: Minimal changes in staff, machinery, location, stocks, creditors, debtors e.g. where a business closes its doors on day 1 and opens its doors on day 2 as under new management or with new owners or new entity. The base year statements for this project will be as handed over to the new owner by the previous owners. An entity that is in production; an entity which is not in production but has no liquidation actions or orders against it, i.e. it can start production at any time.

e. *Acquired assets:* Assets that have been bought, ordered, commissioned, erected or where there is a contractual agreement or an memorandum of understanding to obtain certain assets. Turnkey projects are considered to be acquired assets and such projects must apply before entering into a turnkey agreement. 'Acquiring qualifying investment assets' will have a corresponding meaning.

f. *'At cost'*: Actual asset price at purchase time. For purposes of the incentive programme, the investment grant will be calculated and paid based on the lower of the actual historical cost paid for the asset; cost price of the asset; the market value of the asset; or a valuation by an independent valuator.

g. *Base year*: A period of 12 months reflected in audited financial statements and is the last financial year prior to the investment in the fixed (not current) assets of the new expansion.

h. *SIC code*: Standard Industrial Classification of all economic activities

i. *'Bi-Annual Claim'*: A claim covering the first 6 months of the Entity's financial year, and which may not be more, nor less than 6 consecutive calendar months.

j. *'Black owned'*: 51% owned by South African Black People.

k. *"Capital Work in Progress'*: assets that are not yet fully installed or are still being prepared for the production process and are not yet part of the production process.

l. *'Connected party/persons/non-arm's length transactions'*: means connected as described in the Income Tax Act, 1962 (Act 58 of 1962), which as at April 2007 reads as follows: in relation to a natural person- any relative; and any trust of which such natural person or such relative is a beneficiary;

And in relation to this definition, "arm's length transactions" will mean the opposite.

m. *'Commencement date of production'*: refers to the date physical production started.

n. *'Commercial vehicles'*: means motor vehicles that are constructed for a special purpose other than the carriage of persons and have no accommodation for carrying persons other than such as is incidental to that purpose and that are used for the approved project only, and includes forklifts. A vehicle that will usually qualify as a commercial vehicle will be disqualified if it is or may be used at any time, as a passenger vehicle. Any motor vehicle, of a kind normally used on public roads that have two or more wheels and that are constructed or adapted wholly or mainly for the carriage of persons (this includes 4x4 and double cab vehicles) are excluded for incentive purposes. Commercial vehicles will not be used in any calculation as forming part of machinery and equipment and specifically will not be used in calculating the required percentages relating to machinery and equipment.

o. *"Counterfactual"*: The forecast of the contribution of the project would have made to the economy in the absence of the grant.

p. *Cotii : Council of Trade and Industry Institutions*

q. 'E-Applicant': Applicants who have submitted and/or accepted applications and/or other documents electronically on **the dti**'s MIP website.

r. *'Employees'*: Persons that work a minimum of 40 hours a week for the same employer.

s. Upgrading: means modernising, refurbishing or renewing 'technology of production' that involves capital expenditure for replacement of old machinery and equipment or the addition of component(s) to the existing production line for purposes of competitiveness improvement.

t. *'Financial year'*: The period referred to in the entity's financial statements and as is registered with the Companies and Intellectual Property Registration Office (CIPRO), irrespective of the calendar period thereof.

u. *'Independent external auditor'*: individual or firm registered as an auditor with the Independent Regulatory Board for Auditors (IRBA)

v. *'Large Projects'*: Projects with investments over R5 million. For the purposes of this definition, investment is the total investment to be made for the project, excluding working capital and work in progress.

w. *'Machinery and Equipment'*: means machinery, implements, utensils or articles used in a qualifying production process. *Machinery and Equipment* does not include *inter alia* commercial vehicles; office furniture; or office equipment

x. *'Manufacture'*: For purposes of the MIP incentive means a production process that adds value to the raw material and *inter alia* includes the manufacture of the products set out in Annex A1, subject to the requirement that the process must be qualifying and the Applicant must show value addition. Products not included in Annex A1 may qualify and the Applicant is requested to approach **the dti** for guidance prior to submitting an application for MIP. Assembly that does not involve further value adding production, does not qualify.

y. *'Material Changes'*:Changes that, if known at application stage, could have affected approval of the project e.g. changes business setup; composition; structure of operations; processes or products.

z. *'Small Projects'*: Projects with investments below R5 million. For purposes of this definition investment is total investment excluding working capital and work in progress.

aa. *'Same industrial area'*: does not refer to demarcated or zoned areas and may include: In the same metropolis or municipal area; Having the same market; In a proximate area;

bb. *'Second Hand'*: Refers to a production asset that has been in productive operation and a new asset will refer to a production asset that has never been in production. A production asset that has been upgraded, refurbished, modernised, or reconstructed is regarded as second hand.

cc. *'Shareholding'*: Reference to 'shareholding' includes reference to shareholding in a Company; membership in a Closed Corporation; members or owners in a Cooperative.

dd. *'MIP Agreement'*: The document containing an offer from **the dti** to the applicant setting out the terms and conditions of the MIP incentive being offered to the Applicant, which will by implication include the terms and conditions set out in these guidelines ('implied terms').

ee. *'Total qualifying investment costs'* or *'total qualifying assets'*: in respect of new projects means the investment, qualifying and non-qualifying to be made in the project, and in respect of expansions refers to all additional investment already made as well as the qualifying and non-qualifying investment to be made in the expansion

# Annexure A1: Eligible Activities, Exclusions & Priority Sectors

**ELIGIBLE MANUFACTURING ACTIVITIES**

**MAJOR DIVISIONS AND MAJOR GROUPS**

**1.1 List of major divisions, divisions and major proups**

| Division | Major Group | Title of Category |
|---|---|---|
| | | **MAJOR DIVISION 3: MANUFACTURING** |
| **30** | | **Manufacture of food products, beverages and tobacco products** |
| | 301 | Production, processing and preserving of meat,fish,fruit,vegetables, oils and fats |
| | 302 | Manufacture of dairy products |
| | 303 | Manufacture of grain mill products, starches and starch products and prepared animal feeds |
| | 304 | Manufacuture of other food products |
| | 305 | Manufacture of beverages |
| **31** | | **Manufacture of textiles, clothing and leather goods** |
| | 311 | Spinning,weaving and finishing of textiles |
| | 312 | Manufacture of other textiles |
| | 313 | Manufacture of knitted and crocheted fabrics and articles |
| | 314 | Manufacture of wearing apparel, except fur apparel |
| | 315 | Dressing and dying of fur; manufacture of articles of fur |
| | 316 | Tanning and dressing of leather; manufacuture of luggage, handbags, saddlery and harness |
| | 317 | Manufacture of footwear |
| **32** | | **Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials; manufacture of paper and paper products; publishing; printing and reproduction of recorded media** |
| | 321 | Sawmilling and planing of wood |
| | 322 | Manufacture of produts of wood, cork, straw and plaiting materials |
| | 323 | Manufacture of paper and paper products |
| | 325 | Printing and service activities related to printing |
| **33** | | **Manufacture of coke, refined petroleum products and nuclear fuel; manufacture of chemicals and chemicals and chemical products** |
| | 331 | Manufacture of coke oven products |
| | 332 | Petroleum refineries/synthesisers |
| | 333 | Processing of bio-fuel |
| | 334 | Manufacture of basic chemicals |
| | 335 | Manufacture of other chemical products |
| | 336 | Manufacture of man-made fibres |
| | 337 | Manufacture of rubber products |

| | | |
|---|---|---|
| | 338 | Manufacture of plastic products |
| **34** | | **Manufacture of other non-metallic mineral products** |
| | 341 | Manufacture of glass and glass products |
| | 342 | Manufacture of non-metallic mineral products n.e.c. |
| **35** | | **Manufacture of basic metals, fabricated metal products, machinery and equipment and of office, accounting and computing machinery** |
| | 351 | Manufacture of basic iron and steel |
| | 352 | Manufacture of basic precious and non-ferrous metals |
| | 353 | Casting of metals |
| | 354 | Manufacture of structural metal products, tanks, reservoirs and steam generators |
| | 355 | Manufacture of other fabricated metal products; metalwork service activities |
| | 356 | Manufacture of general purpose machinery |
| | 357 | Manufacture of special purpose machinery |
| | 358 | Manufacture of household appliances |
| | 359 | Manufacture of office, accounting and computing machinery |
| **36** | | **Manufacture of electrical machinery and apparatus n.e.c.** |
| | 361 | Manufacture of electric motors, generators and transformers |
| | 362 | Manufacture of electricity distribution and control apparatus |
| | 363 | Manufacture of insulated wire and cable |
| | 364 | Manufacture of accumulators, primary cells and primary batteries |
| | 365 | Manufacture of electric lamps and lighting equipment |
| | 366 | Manufacture of other electrical equipment n.e.c |
| **37** | | **Manufacture of radio, television and communication equipment and apparatus and of medical, precision and optical instruments, watches and clocks** |
| | 371 | Manufacture of electronic valves and tubes and other electric components |
| | 372 | Manufacture of television and radio transmitters and apparatus for line telephony and line telegraphy |
| | 373 | Manufacture of television and radio receivers, sound or video recording or reproducing apparatus and associated goods |
| | 374 | Manufacture of medical appliances and instruments and appliances for measuring, checking, testing, navigating and other purposes, except optical instruments |
| | 375 | Manufacture of optical instruments and photographic equipment |
| | 376 | Manufacture of watches and clocks |
| **38** | | **Manufacture of transport equipment** |
| | 381 | Manufacture of motor vehicles |
| | 382 | Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers |
| | 383 | Manufacture of parts and accessories for motor vehicles and their engines |
| | 384 | Building and repairing of ships and boats |
| | 385 | Manufacture of railway and tramway locomotives and rolling stock |
| | 386 | Manufacture of aircraft and space craft |
| | 387 | Manufacture of transport equipment n.e.c. |

| | | |
|---|---|---|
| **39** | | **Manufacture of furniture; manufacturing n.e.c.; recylcing** |
| | 391 | Manufacture of furniture |
| | 392 | Manufacture n.e.c. |
| | 395 | Recycling n.e.c. |

| | | |
|---|---|---|
| | | **EXCLUSIONS** |
| **30** | | **Manufacture of food products, beverages and tobacco products** |
| | 306 | Manufacture of tobacco products |

| | | |
|---|---|---|
| **32** | | **Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials; manufacture of paper and paper products; publishing; prlnting and reproduction of recorded media** |
| | 324 | Publishing |
| | 326 | Reproduction of recorded media |

| | | |
|---|---|---|
| **PRIORITY SECTORS ELIGIBLE ACTIVITIES** | | |
| **MAJOR DIVISIONS AND MAJOR GROUPS** | | |
| | | |
| **Division** | **Major Group** | **Title of Category** |

**SECTOR : TEXTILE & CLOTHING**

| | | |
|---|---|---|
| **31** | | **Manufacture of textiles, clothing and leather goods** |
| | 311 | Spinning, weaving and finishing of textiles |
| | 312 | Manufacture of other textiles |
| | 313 | Manufacture of knitted and crocheted fabrics and articles |
| | 314 | Manufacture of wearing apparel except fur apparel |
| | 315 | Dressing and dyeing of fur; manufacture of articles of fure |

**SECTOR: PULP, PAPER & FURNITURE**

| | | |
|---|---|---|
| **32** | | **Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of sraw and plaiting materials; manufacture of paper and paper products; publishing, printing and reproduction of recorded media** |
| | 323 | Manufacture of paper and paper products |
| | | |
| **39** | | **Manufacture of furniture; manufacturing n.e.c.; recycling** |
| | 391 | Manufacture of furniture |

**SECTOR: CHEMICALS, PLASTIC FABRICATION & PHARMACEUTICALS**

| | | |
|---|---|---|
| **33** | | **Manufacture of coke, refined petroleum products and nuclear fuel; manufacture of chemicals and chemical products; manufacture of rubber and plastic products** |
| | 334 | Manufacture of basic chemicals |
| | 335 | Manufacture of other chemical products |
| | 336 | Manufacture of man made fibres |

| | |
|---|---|
| 338 | Manufacture of plastic products |

**SECTOR: CAPITAL/TRANSPORT EQUIPMENT & METALS**

| | | |
|---|---|---|
| **35** | | **Manufacture of basic metals, fabricated metal products, machinery and equipment and of office, accounting and computing machinery** |
| | 351 | Manufacture of basic iron and steel |
| | 352 | Manufacture of basic precious and non-ferrous metals |
| | 353 | Casting of metals |
| | 355 | Manufacture of other fabriacted metal products; metalwork service activities |
| | 356 | Manufacture of general purpose machinery |
| | 357 | Manufacture of special purpose machinery |

| | | |
|---|---|---|
| **36** | | **Manufacture of electrical machinery and apparatus n.e.c.** |
| | 361 | Manufacture of electric motors, generators and transformers |
| | 362 | Manufacture of electricity distrubtion and control apparatus |
| | 363 | Manufacture of insulated wire and cable |
| | 364 | Manufacture of accumulators, primary cells and primary batteries |

**SECTOR: AUTOMOTIVES & COMPONENTS**

| | | |
|---|---|---|
| **38** | | **Manufacture of transport equipment** |
| | 381 | Manufacture of motor vehicles |
| | 382 | Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers |
| | 383 | Manufacture of parts and accessories for motor vehicels and their engines |
| | 385 | Manufacture of railway and tramway locomotives and rolling stock |
| | 386 | Manufacture of aircraft and space craft |
| | 387 | Manufacture of transport equipment n.e.c. |

**EXCLUSIONS**

| | | |
|---|---|---|
| **35** | | **Manufacture of basic metals, fabricated metal products, machinery and equipment and of office, accounting and computing machinery** |
| | 35770 | Manufacture of weapons and ammunition |

**No. 733** **4 July 2008**

**ENTERPRISE INVESTMENT PROGRAMME**

**(TOURISM SUPPORT PROGRAMME)**

The Department of Trade and Industry hereby makes public the guidelines for the sub-programme under the Enterprise Investment Programme, namely the Tourism Support Programme (TSP), as set out in the schedule.

## SCHEDULE

the **dti**

Department:
Trade and Industry
**REPUBLIC OF SOUTH AFRICA**

# PROGRAMME GUIDELINES

## ENTERPRISE INVESTMENT PROGRAMME
## TOURISM SUPPORT PROGRAMME

*Programme Manager*
*The Enterprise Organisation*
Department of Trade and Industry
Private Bag X84; Pretoria, 0001
*Website: www.thedti.gov.za*
*Enquiries: tspappq@thedti.gov.za*

***The dti** Campus; 77 Meintjies St.,*
*Sunnyside; Pretoria, 0002 South Africa*

## Contents



**DISCLAIMER:**

This guidelines document provides the criteria for assessing applications for the investment incentives under the Enterprise Investment Programme (EIP) and the process of applying for the incentive. The guidelines are approved and issued by the Minister of Trade and Industry for purposes of ensuring clarity on the aim and requirements of the incentives programme. **The dti** reserves the right to amend the guidelines as it deems appropriate. Furthermore, **the dti** has a right to, in its sole discretion; provide decisions; on the interpretation of these guidelines in instances where guidelines seem not to be specific. Amendments and interpretive decisions will be published on **the dti** website and in the Government Gazette and will be of immediate effect upon publication on the website.

# 1. Preamble

1.1 The purpose of this document is to provide the policy and guidelines of the Tourism Support Programme (TSP).

1.2 The guidelines set out in this document are to enable enterprises to present their business cases to **the dti** and to provide a framework for **the dti** to evaluate such business cases. The purpose of the incentive it to advance certain policy objectives. It is thus not a guarantee that the incentive will be granted, and **the dti** reserves the right to allow or disallow the incentive in its sole discretion and any such decision will be final.

1.3 The guidelines for the TSP may be amended from time to time. These amendments will be published on **the dti** website and in the Government Gazette and will be of immediate effect upon publication.

1.4 Where the guidelines lend themselves to alternative interpretations or do not deal with a subject matter, the interpretation of **the dti** must be requested and such interpretation will be decisive and final, and may from time to time be published on **the dti** website.

1.5 Approval of applications will be subject to the availability of funds. The dti will endeavour to communicate to the public in good time should there be likelihood of funds available for new allocations being exhausted.

**SERVICE DELIVERED BY THE DTI**

1.6 **the dti** does not levy charges for the processing or evaluation of any EIP application or claims.

1.7 Applicants or Claimants ("Enterprise(s)") are welcome to contact **the dti** directly and **dti** officials will assist them to complete application forms or claim forms.

1.8 Except for agencies owned by **the dti, the dti** does not request or appoint any person or business entity external to **the dti** to approach applicants in respect to this programme. Applicants may approach **the dti** for assistance to apply or claim on this incentive programme. Although an applicant may make use of the services of a consultant or representative, **the dti** does not accept liability for any loss or damage incurred due to an action or omission, including the giving of advice (with or without the knowledge of the applicant) of an applicant's consultant or representative.

1.9 **The dti** will only disclose information to the Enterprise directly. Authorisation given to a representative outside the business operations of the Enterprise in respect of communication with **the dti** will not be accepted

## 2. Programme Description

2.1 The South African govemment recognises the important economic role played by the tourism sector and has prioritised tourism for interventions within the Accelerated and Shared Growth Initiative for South Africa (ASGI-SA).

2.2 The dti has introduced the targeted incentive programme to support the development of tourism enterprises that would stimulate job creation and encourage geographic spread of tourism investment. Given the fact that tourism is highly concentrated in the metropolitan (metros) areas of Johannesburg, Cape Town and eThekwini, projects locating within these metros are excluded from the programme.

It is however recognised that not all areas within the municipal boundaries of the three metros are equally developed, and therefore projects locating in marginalised areas within the metros will be considered under the programme. Marginalised areas are considered to be those areas with higher than national average unemployment rate.

2.3 The incentive programme offers a grant of up to 30% towards qualifying investment cost for establishing and expanding existing operations in South Africa. The incentive is available to local and foreign owned enterprises and is provided towards qualifying investment costs of fumiture and equipment, vehicles and land and buildings of up to R200m.

2.4 The investment grant applicable is to the maximum of R30 million, calculated in relation to the qualifying investment cost, as follows

2.4.1 Investment projects of R5m and below may qualify for an investment grant equal to 30% of their qualifying investment cost, payable over a three year period.

2.4.2 Investment projects of above R5m may qualify for an investment grant of between 15% to 30% of their qualifying investment costs, calculated on a regressive scale, and payable over a period of two years. This investment grant cannot exceed R30m.

2.5 In all cases, grant payment is subject to the approved project meeting the stipulated performance requirements of employment creation, Broad Based Black Economic Empowerment (BB-BEE), location and investment.

2.6 The Tourism incentive is offered in conjunction with other instruments already available through the provisions of the Income Tax Act of 1962 that the government is implementing to stimulate investment, which include the graduated tax rates applicable to small enterprises, The Enterprise Support Programme of the Department of Environmental Affairs and Tourism (DEAT).

2.7 The effective date for receiving applications under this programme is 21 July 2008 for a period of 6 years, ending in 2014.

## 3. Mandatory Conditions

3.1 The applicant must be a registered legal entity in South Africa in terms of the Companies Act, 1973 (as amended); Close Corporations Act, 1984 (as amended), Co-operatives Act, 2005 (as amended), Trust in terms of the Communal Property Act. Section 21 companies or 'not for profit or gain' organisations are specifically excluded from applying.

3.2 The applicant must be a taxpayer in good standing and must in this regard provide a valid tax clearance certificate when submitting an application and before the grant is disbursed.

3.3 The project in the application must constitute a **new investment** or **expansion** of an existing tourism project. The cost of the qualifying investment in furniture and equipment, vehicles and land and buildings will be capped at R200 million[1].

3.4 The project activities must be classifiable under tourism activities as defined in these guidelines. For purpose of this requirement the applicant must disclose all the activities that its business will be involved in, together with the percentages of revenue generated or projected to be generated from each activity. The project and its activities must comply with all relevant applicable South African legislation, permits and licences that could materially affect the project.

**3.5** The projects must create a minimum number of full-time employment opportunities which may include one (1) owner operator as stipulated in the table below: **TABLE A**

| Investment size | Minimum number of new jobs | Minimum job requirements for Black owned enterprises investing below R5m |
|---|---|---|
| Below R5m | 8 jobs | 3 jobs |
| ≥R5m – R10m | 10 jobs | |
| ≥R10 – R20m | 12 jobs | |
| ≥R20m – R30m | 15 jobs | |
| ≥R30m – R50m | 20 jobs | |
| ≥R50m – R75m | 30 jobs | |
| ≥R75m – R100m | 50 jobs | |
| ≥R100m – R150m | 70 jobs | |
| ≥R150m – R200m | 85 jobs | |

[1] New projects exceeding R200m may apply; however, their additional investment over R200m will not be taken into consideration when calculating the investment grant.

3.5.1 The wages paid must be in line with or exceed the hospitality sector wages as determined by the Department of Labour.

**3.5.2 Black owned enterprises investing less than R5m** and creating a minimum of 3 jobs which may include one (1) owner operator will be considered if they comply with all other mandatory conditions.

3.6 The project must be at least a level four (4) BB-BEE contributor achieving a score of 65 and above on the Generic Scorecard in terms of the Codes of Good Practice for Broad-Based BEE[2]. This requirement takes into account the exemptions in terms of Qualifying Small Enterprises (QSE) as set-out in terms of the Codes of Good Practice.

3.7 The project must locate outside the Metropolitan areas of Cape Town, eThekwini and Johannesburg. Projects locating in marginalised area[3] within these metros as determined by the dti will be eligible to apply. In exceptional cases projects creating a new market segment that enhances product diversity within a developed area may be considered by the adjudication Board.

3.8 Projects must apply and receive approval before acquiring the qualifying investment assets. Projects will not be considered earlier than 12 months or less than three (3) months before the planned commencement date of operation. However, if the lead time for delivering specific equipment exceeds a 12 month period, the application can be considered earlier than 12 months before the commencement date of operation. In this instance, the project will need to submit confirmation from the equipment supplier, confirming the lead times and the expected delivery date for the equipment.

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[2] Code of Good Practice for Broad-Based Black Economic Empowerment, as issued in Government Gazette 09 February 2007.

[3] Marginalised areas are those with unemployment higher than 25.5% as identified in the Statistics South Africa Census 2001. A detailed list of locations that are eligible is listed with the guidelines on www.thedti.gov.za.

3.9 The project must indicate the intended operation start date when applying. Once operation has started the project should notify the dti within 30 days of operation that the project has started.

3.10 Projects should notify the dti of the change of operation start date before the original intended start date and the dti may accept only one request. Failure to notify the dti of change of operation start date may result in termination of the agreement.

## 4. Evaluation Criteria

The evaluation criteria distinguishes between applicants with investment projects of R5 million and below (referred to as "small enterprises"); and those with investment projects of above R5 million (referred to as "medium to large enterprises").

### *4.1 Small Projects (Investment projects of R5 million and below)*

4.1.1 The applicant must demonstrate commitment to the planned investment project. For purposes of this requirement, **the dti** will consider:

4.1.1.1 the financing structure for the project

4.1.1.2 that the finance sourced together with the grant is adequate in relation to the requirements of the project

4.1.1.3 that there is evidence of commitment to fund the project from the financiers that form part of the funding structure of the project. (Conditional approval for the grant may be given to qualifying projects that wish to use the grant to leverage other sources of funding).

4.1.2 The project must be financially viable, subject to the projections being realistic and reasonable.

4.1.3 The applicant must substantiate a need for financial grant assistance and the application must indicate how the grant will be used to improve the financial viability of the planned project.

4.1.4 The applicant must provide business plan information indicating target market, competitive advantage, marketing channels and management.

### *4.2 Medium to Large projects (investment projects of above R5 million )*

4.2.1 In addition to the evaluation criteria for small projects (as stipulated in 4.1 above), the following criteria will apply for projects of above R5 million.

4.2.2 The applicant must demonstrate why the grant is necessary in order to enable the project to proceed. The principle is to use the incentive to:

4.2.2.1.1 fill funding gaps where there is not sufficient equity capitalisation for the project

4.2.2.1.2 fill funding gaps where cash flows cannot support more third party debt

4.2.2.1.3 influence location of the project in favour of SA in cases where the investor is considering other countries for locating the project

4.2.2.1.4 satisfy the company's internal investment evaluation criterion (IRR or NPV).

## 5. Qualifying Activities

**Accommodation services:**

| Corresponding UNWTO/CPC codes | Eligible Tourism Specific Products |
|---|---|
| **63110, 63191, 63192, 63193, 63195** | • Hotels<br>• Motels<br>• Bed and breakfasts<br>• Guest Houses<br>• Lodges<br>• Backpacking accommodation<br>• Holiday resorts<br>• Self catering accommodation<br>• Fixed tents and caravans |
| **Specific excl.** | • Permanent hostel accommodation primarily utilised by university or other full time students<br>• Non-fixed tents and caravans |

**Passenger Transport services – Rail transport**

| Corresponding UNWTO/CPC codes | Eligible Tourism Specific Products |
|---|---|
| **64111.1, 64111.2, 64112** | • Tourist specific trains including scheduled and route based tourist trains, and scheduled and unscheduled excursion trains |
| **Specific excl.** | • Commuter rail transport services and government owned rail transport services |

**Passenger Transport services – Road transport**

| Corresponding UNWTO/CPC codes | Eligible Tourism Specific Products |
|---|---|
| **64219.1, 64219.2, 64222, 64223, 64224,** | • Teleferics-funicular services<br>• Transfer operators dedicated to tourists and attached to dedicated tourism facilities<br>• Bus and coach operators dedicated to tourists<br>• Man- or bicycle- or animal-drawn vehicles dedicated to tourists including rickshaws, donkey carts, etc. |
| **Specific excl** | • Commuter, freight and government owned road transport services, chauffer driven vehicles, taxis etc |

**Passenger Transport services – Water transport**

| Corresponding UNWTO/CPC codes | Eligible Tourism Specific Products |
|---|---|
| 65111, 65119.3, 65130.1, 65211, 65219.1, 65219.2, 65219.3, 65230 | • Coastal and inland water transport services such as ferries dedicated to tourists<br>• Cruise ship services registered and based in South Africa and **must** pay tax in the Republic of South Africa<br>• Rental services of water transport vessels (with operator) dedicated to tourists including diving or whale watching charter services<br>• Water based sight seeing and excursion services including sundowner cruises. Boat restaurants and houseboats dedicated to tourists **must not be permanently docked** |
| **Specific excl.** | • Commuter, freight and government owned water transport services. Rental services for fishing |

**Tour operators**

| Corresponding UNWTO/CPC codes | Eligible Tourism Specific Products |
|---|---|
| 67812 | • Tour operator services |

**Cultural services**

| Corresponding UNWTO/CPC codes | Eligible Tourism Specific Products |
|---|---|
| 96411, 96412, | • Privately owned museums, historical sites with buildings commercially operated and dedicated to tourists |
| **Specific excl.** | • Government owned, leased or non-tourism related services, art pieces and attraction pieces |

**Recreation and entertainment services**

| Corresponding UNWTO/CPC codes | Eligible Tourism Specific Products |
|---|---|
| 96510, 96520.2, 96520.3, 96520.5, 96590.1, 97230.4, 97230.3, 97230.1, 97230.2, | • Privately owned sports and recreation services that form part of accommodation establishment and are for the exclusive use of tourists e.g tennis courts, fitness centres, spas etc. **Investment in these facilities should be matched by at least a 50% investment in accommodation establishment**<br>• Bungi jumping facilities |
| **Specific excl.** | • Training facilities<br>• Sport and recreation facilities that form part of residential developments<br>• Government owned sport and recreation facilities |

- The Board will consider anchor projects that enhance a destination and create employment, but provide activities which are not listed above.

## 6. Qualifying Assets/Investment Costs

6.1 Furniture and Equipment (owned or capitalised financial lease), at cost, excluding any office furniture and equipment.

6.2 Owned land and buildings at cost. The investment in land and buildings must constitute newly acquired land and buildings at cost, whether as part of a new project or expansion, and must be owned by the applying entity. The land costs must be directly associated with the purchase, renovation, or construction of a tourism facility for the investment project under consideration. The value of the land may not exceed 20% of the investment value in buildings for the purpose of the grant calculation. In case of under-utilisation of land and buildings, the calculation and payment of the Tourism incentives for the land and buildings will be based on a *pro rata* amount of the space utilised.

6.3 The leased land and buildings may not exceed 20% of the cost of qualifying machinery and equipment. The cost of leased land is capitalised for the five years of the lease. It is calculated at the rental cost for year one multiplied by five.

6.4 Where the applicant leases land and buildings from a connected party, the value of the premises included as part of the capital investment is calculated at the preparation cost of the land and the erection cost of the buildings, **or** the actual net rental as per lease agreement, capitalised, or the actual net rental paid as per income statement, capitalised, which ever amount is the lower. VAT and rates and taxes are excluded from this calculation.

6.5 Vehicles (owned or capitalized financial lease). Only eligible if such vehicles are for tourist transfers from an accommodation facility, and or have been specifically modified for particular tourism activities, e.g. tour operator vehicles and game drive vehicles.

6.5.1 Investment in vehicles by projects other than tour operators will be capped at 20% of the qualifying investment.

6.6 Second hand (previously used) furniture and equipment can be regarded as qualifying investment cost provided it meets the following conditions:

6.6.1 The purchase of these assets must be at arm's length. It must be acquired locally from either existing project(s); a Liquidation Sale; a Public Auction; through an offer directly to the Liquidator; or a *bona fide* dealer. The applicant must provide the liquidation order or auctioneer report reflecting the source of the relevant furniture and equipment.

6.6.2 Applying projects that are **Black/women owned and all applicants with investment of R5 million and below** may invest up to 100% in second hand assets without making an equivalent investment in new assets.

6.6.3 Investment in second hand vehicles other than by tour operators, may not exceed 20% of qualifying investment.

6.6.4 Investment in second hand furniture and equipment by **applicants with investment of above R5 million** is subject to the following additional rules:

6.6.4.1 The applicant must invest in new furniture and equipment at cost, equal to 100% of the cost of the qualifying [actual] second hand furniture and equipment as approved in the application, before the end of the first full financial year.

6.6.4.2 In calculating the equivalent investment in new furniture and equipment, any investment in new vehicles will not be taken into consideration, except for tour operator businesses.

## 7. Exclusions and Limitations

### 7.1 Non-Qualifying activities

**7.1.1** Fast food and take away restaurants, nightclubs, bars, gaming and gambling venues will not be considered

**7.1.2** Franchised restaurants

**7.1.3** Restaurants not attached to a tourism facility

**7.1.4** Tourism investment as part of projects that include residential development, where the shareholder is one and the same as the residential developer, will not be considered

**7.1.5** Conference facilities not attached to accommodation facilities

**7.1.6** No investment in government-owned or partial government owned (e.g. PPP) projects will be considered. This exclusion does not apply to concessions where the private sector owns the management company although the land is under the management of public sector authorities

**7.1.7** No investment in arts and craft facilities will be considered as a separate development

**7.1.8** No retail operations will be considered.

### 7.2 Non-Qualifying Assets/Investment Costs

The following is a list of investment costs that do not qualify under the Tourism Incentive.

7.2.1 Assets acquired by way of an operational lease agreement

7.2.2 Damaged assets or assets not utilised for the qualifying activities

7.2.3 VAT and finance charges on assets

7.2.4 Revaluated assets (only the lower of the historical cost or cost price may qualify)

7.2.5 Sports cars

7.2.6 Commercial vehicles (e.g. trucks, tractors, bakkies etc)

7.2.7 Imported 2nd hand assets

7.2.8 Refurbishment[4] of existing operations.

[4] Refurbishments will be considered in future competitiveness promotion incentives.

### *7.3 General Exclusions and Limitations*

**7.3.1** Entities that are already receiving incentives approved on recommendation of the Manufacturing Development Board (MDB), and those that have approved Tourism Support Programme (TSP) projects, do not qualify for additional TSP incentives until the later of the end date of the incentive/ grant period set out in the relevant incentive agreement, or the last date for submission of the final claim under the relevant incentive agreement.

**7.3.2** Entities that are already receiving incentives approved on recommendation of the MDB, may not attempt to convert the existing incentive approval to the TSP incentive.

**7.3.3** An entity may only apply for one project per district municipality or metropolitan municipality area. Applicants planning a number of investments across different metropolitan areas within a a 3 year period, should inform and discuss their investment proposals with **the dti**, prior to submitting an application in order to determine eligibility of these projects.

**7.3.4** The project must notify **the dti** in writing within 30 days of commencement date of operations as indicated in the approval letter. **the dti** must be notified in writing of any changes in the commencement date of production. The new commencement date of production must be within 60 days of the original approved commencement date.

**7.3.5** **The dti** reserves the right to withhold, reject or terminate approval for projects that are seen to be circumventing the rules of the incentive programme. The applicant may not change the facts in its application, such as the business setup or how its operations work in order to make the project of the applicant qualify while it should actually not qualify. If **the dti** finds that the applicant tried to circumvent or circumvented these guidelines, the applicant will automatically be disqualified, and if an agreement has already been signed, **the dti** will terminate that TSP agreement and institute action to reclaim any moneys that have already been paid.

**7.3.6** Non-Governmental Organisations (NGOs), and majority Foreign Government funded agencies, Partnerships and Sole Proprietors are explicitly excluded from participating in this programme directly or indirectly.

**7.3.7** Applicants that have majority shareholding held by public owned enterprises or state institutions are not eligible. However, applicants owned by Financial Development Institutions may qualify.

**7.3.8** Applications concerning a project within a division, branch or profit centre of an entity must be submitted by their headquarters. Their headquarters and financial information must be provided for both the entity (headquarters) and the project.

**7.3.9** Capital work-in-progress is excluded until fully utilised.

**7.3.10** Financial lease assets must be capitalised in the balance sheet in order to be considered for purposes of the incentive.

**7.3.11** Grant approval will cease if the applicant goes into liquidation.

## 8. Conditions applicable to expansion projects

The incentive support is intended for projects involving substantial increase in capacity on current operations of an existing project. To be approved as a qualifying expansion project, an application must meet the following conditions:

**8.1** The project must increase capacity of current operations by 35% in year one.

**8.2** The entity must show an increase (over and above total qualifying historic costs) in qualifying investment in furniture and equipment of at least 35%; which must be made in year one and must be maintained for the duration of the incentive agreement. Except for tour operators, any increase in investment in commercial vehicles is excluded for the purpose of calculating the increase in investment.

**8.3** The base year furniture and equipment of the existing entity or project cannot have a zero rand cost. In other words, the existing entity or project must be actively involved in providing tourism services with assets e.g. an entity or project may qualify for an expansion, if the existing entity or project (its base year) had a R 100 000 of furniture and equipment for a Bed and Breakfast, and demonstrates R 135 000 as the cost of qualifying furniture and equipment for year one of the expansion project in the balance sheet. This will demonstrate a 35% increase in qualifying furniture and equipment.

**8.4** The expansion must demonstrate an increase in projected revenue of 15% in the 1$^{st}$ year of operation and 25% increase in the 2$^{nd}$ year of operation above the revenue as reflected in the base year financial statements; and

**8.5** The Entity must achieve **both** the minimum number of total jobs for the project and minimum net increase in new full-time employment opportunities from the base year as stipulated in the Table B below[5].

[5] i.e. An expansion project below R5m which has 3 employees in the base year has to employ minimum additional 5 employees to be considered **and** a similar project with 6 employees has to employ minimum additional 4 employees to be considered.

**TABLE B**

| Expansion investment size | Minimum number of jobs to be achieved by project | Minimum net new additional number of jobs to be created | Minimum job requirements for Black owned enterprises investing below R5m | Minimum net new additional number of jobs to be created |
|---|---|---|---|---|
| Below R5m | 8 jobs | 4 | 3 jobs | 2 |
| ≥R5m – R10m | 10 jobs | 5 | | |
| ≥R10 – R20m | 12 jobs | 6 | | |
| ≥R20m – R30m | 15 jobs | 7 | | |
| ≥R30m – R50m | 20 jobs | 10 | | |
| ≥R50m – R75m | 30 jobs | 15 | | |
| ≥R75m– R100m | 50 jobs | 25 | | |
| ≥R100m– 150m | 70 jobs | 35 | | |
| ≥R150m– 200m | 85 jobs | 45 | | |

**8.6** An existing entity can only submit one application for an expansion.

**8.7** The period of the base year for the expansion and the end of its first full financial year may not exceed 24 months.

# 9. Incentive Grant Calculation

**9.1** The incentive grant on offer is up to a maximum of R30 million for applicants investing R200m.

9.2 The incentive grant is calculated proportionally on a regressive scale (as set out in section 10 herein) in relation to the qualifying investment cost, as follows:

9.2.1 Investment projects of R5m and below qualify for an investment grant equal to 30% of their qualifying investment cost when achieving mandatory requirements and complying with conditions of the grant.

9.2.2 Investment projects of above R5m achieving the mandatory requirements, qualify for a Tourism grant as below payable over 2 years:

- **Projects above R5m but less than R30m** qualify for a grant on a regressive scale between 15% and 30 %
- **Projects above R30m** qualify for a grant of 15%

9.2.3 In exceptional cases the Adjudication Board may consider a higher grant up to a maximum of 20% of qualifying investment costs for large projects that:

i. have high IRR requirements; or
ii. are foreign direct investments in tourism considering competing locations, and
iii. where the 15% grant is not sufficient to influence an investment decision for the investor.

(a) These projects must have considerably higher economic spin-offs – such as potential for opening up market competition, diversifying tourism products or having a technological demonstration effect. **The** sum of the grants awarded cannot exceed 5% of the annual programme allocation.

9.2.4 The grant offered in terms of TSP is tax exempt in terms of Section 10 (1) (y) of the Income Tax Act, No 58 of 1962, as amended.

## 10. Grant Scale

**Summary**

| Investment | ≤ R5m | > R5m to ≤ R30m | ≥ R30m |
|---|---|---|---|
| Grant | 30% | 30% - 15% | 15% |
| Grant Ceiling | R1.5m | R4.5m | R30m |

**Grant scale for projects between R1m and R20m**

| Investment R m | 0.00 | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 | 7.00 | 8.00 | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.00 | 17.00 | 18.00 | 19.00 | 20.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 0.00 | 0.30 | 0.60 | 0.90 | 1.20 | 1.50 | 1.62 | 1.74 | 1.86 | 1.98 | 2.10 | 2.22 | 2.34 | 2.46 | 2.58 | 2.70 | 2.82 | 2.94 | 3.06 | 3.18 | 3.30 |
| Grant % | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 27.00 | 24.86 | 23.25 | 22.00 | 21.00 | 20.18 | 19.50 | 18.92 | 18.43 | 18.00 | 17.63 | 17.29 | 17.00 | 16.74 | 16.50 |

**Grant scale for projects between R21m and R40m**

| Investment R m | 21.00 | 22.00 | 23.00 | 24.00 | 25.00 | 26.00 | 27.00 | 28.00 | 29.00 | 30.00 | 31.00 | 32.00 | 33.00 | 34.00 | 35.00 | 36.00 | 37.00 | 38.00 | 39.00 | 40.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 3.42 | 3.54 | 3.66 | 3.78 | 3.90 | 4.02 | 4.14 | 4.26 | 4.38 | 4.50 | 4.65 | 4.80 | 4.95 | 5.10 | 5.25 | 5.40 | 5.55 | 5.70 | 5.85 | 6.00 |
| Grant % | 16.29 | 16.09 | 15.91 | 15.75 | 15.60 | 15.46 | 15.33 | 15.21 | 15.10 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R41m and R60m**

| Investment R m | 41.00 | 42.00 | 43.00 | 44.00 | 45.00 | 46.00 | 47.00 | 48.00 | 49.00 | 50.00 | 51.00 | 52.00 | 53.00 | 54.00 | 55.00 | 56.00 | 57.00 | 58.00 | 59.00 | 60.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 6.15 | 6.30 | 6.45 | 6.60 | 6.75 | 6.90 | 7.05 | 7.20 | 7.35 | 7.50 | 7.65 | 7.80 | 7.95 | 8.10 | 8.25 | 8.40 | 8.55 | 8.70 | 8.85 | 9.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R61m and R80m**

| Investment R m | 61.00 | 62.00 | 63.00 | 64.00 | 65.00 | 66.00 | 67.00 | 68.00 | 69.00 | 70.00 | 71.00 | 72.00 | 73.00 | 74.00 | 75.00 | 76.00 | 77.00 | 78.00 | 79.00 | 80.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 9.15 | 9.30 | 9.45 | 9.60 | 9.75 | 9.90 | 10.05 | 10.20 | 10.35 | 10.50 | 10.65 | 10.80 | 10.95 | 11.10 | 11.25 | 11.40 | 11.55 | 11.70 | 11.85 | 12.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R81m and 100m**

| Investment R m | 81.00 | 82.00 | 83.00 | 84.00 | 85.00 | 86.00 | 87.00 | 88.00 | 89.00 | 90.00 | 91.00 | 92.00 | 93.00 | 94.00 | 95.00 | 96.00 | 97.00 | 98.00 | 99.00 | 100.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 12.15 | 12.30 | 12.45 | 12.60 | 12.75 | 12.90 | 13.05 | 13.20 | 13.35 | 13.50 | 13.65 | 13.80 | 13.95 | 14.10 | 14.25 | 14.40 | 14.55 | 14.70 | 14.85 | 15.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R101m and R120m**

| Investment R m | 101.00 | 102.00 | 103.00 | 104.00 | 105.00 | 106.00 | 107.00 | 108.00 | 109.00 | 110.00 | 111.00 | 112.00 | 113.00 | 114.00 | 115.00 | 116.00 | 117.00 | 118.00 | 119.00 | 120.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 15.15 | 15.30 | 15.45 | 15.60 | 15.75 | 15.90 | 16.05 | 16.20 | 16.35 | 16.50 | 16.65 | 16.80 | 16.95 | 17.10 | 17.25 | 17.40 | 17.55 | 17.70 | 17.85 | 18.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R121m and R140m**

| Investment R m | 121.00 | 122.00 | 123.00 | 124.00 | 125.00 | 126.00 | 127.00 | 128.00 | 129.00 | 130.00 | 131.00 | 132.00 | 133.00 | 134.00 | 135.00 | 136.00 | 137.00 | 138.00 | 139.00 | 140.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 18.15 | 18.30 | 18.45 | 18.60 | 18.75 | 18.90 | 19.05 | 19.20 | 19.35 | 19.50 | 19.65 | 19.80 | 19.95 | 20.10 | 20.25 | 20.40 | 20.55 | 20.70 | 20.85 | 21.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R141m and R160m**

| Investment R m | 141.00 | 142.00 | 143.00 | 144.00 | 145.00 | 146.00 | 147.00 | 148.00 | 149.00 | 150.00 | 151.00 | 152.00 | 153.00 | 154.00 | 155.00 | 156.00 | 157.00 | 158.00 | 159.00 | 160.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 21.15 | 21.30 | 21.45 | 21.60 | 21.75 | 21.90 | 22.05 | 22.20 | 22.35 | 22.50 | 22.65 | 22.80 | 22.95 | 23.10 | 23.25 | 23.40 | 23.55 | 23.70 | 23.85 | 24.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R161m and R180m**

| Investment R m | 161.00 | 162.00 | 163.00 | 164.00 | 165.00 | 166.00 | 167.00 | 168.00 | 169.00 | 170.00 | 171.00 | 172.00 | 173.00 | 174.00 | 175.00 | 176.00 | 177.00 | 178.00 | 179.00 | 180.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 24.15 | 24.30 | 24.45 | 24.60 | 24.75 | 24.90 | 25.05 | 25.20 | 25.35 | 25.50 | 25.65 | 25.80 | 25.95 | 26.10 | 26.25 | 26.40 | 26.55 | 26.70 | 26.85 | 27.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

**Grant scale for projects between R181m and R200m**

| Investment R M | 181.00 | 182.00 | 183.00 | 184.00 | 185.00 | 186.00 | 187.00 | 188.00 | 189.00 | 190.00 | 191.00 | 192.00 | 193.00 | 194.00 | 195.00 | 196.00 | 197.00 | 198.00 | 199.00 | 200.00 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant R m | 27.15 | 27.30 | 27.45 | 27.60 | 27.75 | 27.90 | 28.05 | 28.20 | 28.35 | 28.50 | 28.65 | 28.80 | 28.95 | 29.10 | 29.25 | 29.40 | 29.55 | 29.70 | 29.85 | 30.00 |
| Grant % | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |

# 11. Grant Disbursement

## *11.1 Grant Payment Schedule and Performance Requirements*

11.1.1 The grant is disbursable on a bi-annual basis, subject to the approved project meeting the prescribed performance requirements as set-out below.

11.1.2 At each grant claim stage the project may be eligible to be paid a grant which is the full value of the actual investment made at that stage, however, this may not exceed the maximum approved grant for that financial year.

| Yr | Claim stages | Disbursement (Under R5m) | Disbursement (Above R5m) | Performance requirements |
|---|---|---|---|---|
| YEAR 1 | **Stage 1:**<br>End of 6 months from date of commencement of operations | Grant % of actual investment made, limited to 33.3 % of total approved grant | Grant % of actual investment made limited to 50% of total approved grant. | ▪ Minimum investment of 30% of the total approved qualifying investment for projects above R5m<br>▪ Minimum investment of 15% of the total approved qualifying investment for projects below R5m |
| | **Stage 2:**<br>End of 1st full financial year | Grant % of actual investment made, limited to 33.3% of the total approved grant less amount paid at stage 1 | Grant % of actual investment made limited to 50% of the total approved grant less amount paid at stage 1 | ▪ Minimum of 60% of the total approved qualifying investment must be made for projects of over R5 million<br>▪ Minimum investment of 30% of the total approved qualifying investment for projects below R5m<br>▪ Achieve 80% of employment levels projected for year 1<br>▪ For projects over R5m, achieve at least 70% of the turnover projected for year 1<br>▪ For projects below R5m, achieve at least 50% of the projected turnover for year 1. |

| | | | | |
|---|---|---|---|---|
| YEAR 2 | **Stage 3:** End 6 months of 2nd financial year | Grant % of actual investment made limited to 33.3 % of total approved grant. | Grant % of the actual investment made limited to 50% of total approved grant. | • Minimum of 60% of the total approved qualifying investment must be made for projects above R5 million<br>• Minimum investment of 30% of the total approved qualifying investment for projects of below R5 m<br>• Achieve 80% of employment levels projected for year 1<br>• For projects above R5m, achieve at least 70% of the projected turnover year 1<br>• For projects below R5m, achieve at least 50% of the projected turnover for year 1 |
| | **Stage 4:** End of 2nd full financial year | Grant % of actual investment made, limited to 33.3% of the total approved grant less amount paid at stage 3 | Grant % of actual investment made, limited to 50% of total approved grant less amount paid at stage 4. | • A minimum of 80% of the total approved qualifying investment must be made for projects above R5 m<br>• Minimum investment of 60% of the total approved qualifying investment for projects below R5 m<br>• Achieve 80% of employment levels projected for year 2<br>• Achieve at least 80% of the projected turnover for year 2 |

| | | | | |
|---|---|---|---|---|
| YEAR 3 | **Stage 5:**<br>End of 6 months of 3rd financial year | Grant % of actual investment made limited to 33.3 % of total approved grant. | Monitoring | ▪ Minimum of 80% of the total qualifying investment must be made for projects above R5m<br>▪ Minimum of 60% of the total qualifying investment made for projects below or equal to R5m<br>▪ Maintain 80% of projected employment levels for year 3<br>▪ Maintain at least 80% of the projected turnover |
| | **Stage 6:**<br>End of 3rd full financial year | Grant % of actual investment made, limited to 33.3% of the total approved grant less amount paid at stage 5 | Monitoring | ▪ Minimum of 80% of the total qualifying investment must be made.<br>▪ Maintain 80% of projected employment levels for year 3<br>▪ Maintain at least 80% of the projected turnover |

11.1.3 Projects that do not meet the minimum performance requirements for stage 1 above or do not have audited financial statements at stage 1, may wait until stage 2 (i.e. the end of their first full financial year) before they submit their first claim.

11.1.4 In submitting a claim for stage 3, audited financial statements of stage 2 may be used. A full reconciliation will then need to be submitted at stage 4 with full audited financial statements. The same principle applies for stage 5 &6.

**11.1.5** Any relaxation of minimum requirements or conditions in this document, is based on merit and it is at the sole discretion of **the dti**. The decision of **the dti** will be final.

Issued 4th July 2008

## *12. Claims Submission*

It is the responsibility of the applicant to provide complete and accurate information to **the dti** in order to enable speedy and correct processing of the grant. To claim for the TSP grant, an applicant must submit the following documents to the Programme Manager at **the dti**:

12.1 An originally completed Claim Form, duly signed by the entity and an independent external auditor

12.1.1 Audited financial statements for the entity and audited management accounts for the project

12.1.2 Project Monitoring Report

12.1.3 Audited asset list(s) of total assets of the project

12.1.4 Confirmation of the number of jobs

12.1.5 An original valid tax clearance certificate for the entity

12.1.6 A cancelled cheque and a Credit Order Instruction as a written confirmation of the bank details where payment must be made

12.1.7 A certificate of compliance with the Code of Good Practice for Broad-Based BEE.

12.1.8 Audited average number of employees per month.

### *12.2 Conditions regarding grant disbursement*

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

12.2.2 The commencement date of claims may not precede the commencement date of operation, and must be within a period of 15 months from the commencement date of operation.

12.2.3 The claim period of each project should coincide with the financial year. If the date of commencement of operation is less than six months before the end of the financial year, then the claim date for the project should start at the start of the next financial year. In instances where the date of commencement of operation is greater than six months before the end of the financial year, the project claim period should start in the same financial year as the project start date. No change in the financial year will be allowed.

12.2.4 Failure to submit a valid claim within fifteen months from commencement of tourism operation will result in automatic termination of the TSP grant agreement.

12.2.5 Claims must be submitted within 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.

12.2.6 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 the name of the applicant.

12.2.7 Should there be material changes to the main business under which the grant was approved, the grant approval will be cancelled and the entity must reapply to **the dti.**

## *12.3 Additional Legal Conditions*

12.3.1The following are *inter alia* considered a circumvention of TSP guidelines and will lead to rejection of an application or claim:

12.3.2 Changing the business setup, composition, structure or operations, processes or tourism products in order to make the project qualify

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

12.3.4 More than one business in reasonable proximity, owned by connected person(s), offering generically the same or similar products, or delivering generically the same or similar services – without, in the sole opinion of **the dti**, any real commercial reason for the separation,

12.3.5 Manipulation of inter company assets, offerings and services

12.3.6 Any other action that, in the sole discretion of **the dti**, can be regarded as circumvention to allow the Enterprise which otherwise would not have qualified, to qualify.

**CRIMINAL, MISLEADING, DISHONESTAND/OR IRREGULAR ACTIVITIES**

12.4 The **dti** may, upon a suspicion of any such activities, suspend payments that may be due or may become due to a claimant and the **dti** 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.

12.5 Findings of a forensic investigation indicating such activities will be sufficient to allow **the dti** to cease all payments and reclaim any payments already made, with *mora* interest.

12.6 The **dti** subscribes to the principles set out in the Prevention and Combating of Corrupt Activities Act, 12 of 2004 ('PRECCA'). Enterprises are requested to contact the **dti** fraud hotline on 0800 701 701 should they wish to report anything suspicious.

12.7 A duty rests on the Enterprise and / any other person that may benefit from the scheme to disclose everything that may have an influence of the adjudication of the application and / or claim. Failure thereof will lead to termination/ cancellation / suspension of the application / claim.

# 13 Application Procedure

13.1 The application process is as follows:

**Figure B: Application process**

| | Project application: |
|---|---|
| Project Appraisal | ▪ Applicant sends completed application form (prior to the investment taking place)to **the dti** by mail or via **the dti's** TSP website<br>▪ Applicant may obtain further information about the criteria telephonically or by meeting with TSP staff at **the dti**<br>**NB Applicants are not required to use a consultant to prepare or submit an application** |
| Basic Assessment | ▪ Application checked for completeness<br>▪ Letter/email requesting additional information sent to applicant<br>▪ Fully completed application is scheduled for evaluation |

| | The dti approval process: |
|---|---|
| - Project Appraisal | - Project fatal flaw and business plan analysis<br>- Project and entity financial viability analysis<br>- Analysis of funding gap<br>- Economic benefit analysis |
| - Verification Inspection | - Project verification inspection at applicant's premises may be conducted<br>- Inspector verifies that project meets all requirements and<br>- submits for the Adjudication Board |
| Adjudication | - Adjudication Board reviews report from project evaluator<br>- Application approved, rejected or returned for additional information<br>- The decision of the Adjudication Board is final<br>- Letter confirming agreement with applicant |

| Grant Disbursement |
|---|
| - The approved grant is disbursed on achievement of predetermined performance requirements as set out in section 11.<br>- On completion of milestone client completes a claim form with required attachments.<br>- Inspector may visit client to verify that all requirements have been met. |

| Monitoring |
|---|
| - **The dti** will collect project monitoring information at each claim stage and will require clients to complete a project monitoring report at the end of each financial year to measure the outputs and outcomes of the project.<br>- In order to evaluate the impact of the programme, **the dti** requires that for a period of two years after completion of the project, the client completes the project monitoring report annually. This requirement forms part of the legal agreement between **the dti** and the applicant.<br>- |

13.2 The following information is required when submitting the application form:

13.2.1 Information about the applying entity:

- Contact details of parent company

- Details of registration in South Africa
- Copies of certificates of Incorporation
- Valid Tax Clearance Certificate
- Written guarantees for financing, where applicable

13.2.2 Details about the planned investment project:

- Planned date of commencing operations
- Business activities, products and services
- Expected revenue streams and markets to be served
- Employment opportunities to be created by the project

13.2.3 Investment expenditure and expansion plans

13.2.4 Projected Cash Flow Statement, Income Statement and Balance Sheet.

# 14 Monitoring, Reporting and Impact Assessment

All approved projects will be monitored in order to assess performance of the project and TSP.

**The dti** may conduct a site visit to projects at application stage and / or at claim stage. A set of all financial statements, invoices and other relevant records must be retained and kept in a fireproof safe, according to SABS specifications, for at least 5 years after submission of the claim that it relates to. Such records must be made available to **the dti** inspector upon request, failing which the agreement automatically terminates.

All approved expansion projects will be required to complete the project baseline monitoring report at the start of the project.

All approved projects must submit a Project Monitoring Report at the end of each financial year, including for an additional two financial years following their final claim (i.e. two years after the incentive period).

**Table E: Summary of Monitoring and Evaluation**

| Monitoring Level | Indicators at Project Level | Indicators at Programme Level |
|---|---|---|
| **Input** | ▪ Completed application form | ▪ No project applications approved/declined |
| **Output** | ▪ Total capital investment<br>▪ Total grant disbursed<br>▪ Increased turnover | ▪ No. & value of new projects per sector, BEE, location & project size<br>▪ No. & value of expansion projects per sector, BEE, location & project size<br>▪ No. and value of upgrading projects per location, BEE & project size<br>▪ Amount of funds committed and disbursed |
| **Outcome** | ▪ % change in investment<br>▪ % change in employment<br>▪ % change in sales<br>▪ % change in profitability<br>▪ % change in capacity utilisation | ▪ Value of increase in investment<br>▪ Increase in tourism growth (no. of new and employment)<br>▪ Change in occupancy or capacity utilisation |
| **Economic Impact** | | ▪ The net addition to the economy (outcome minus the counterfactual) |
| **Cost-benefit / Effectiveness** | | ▪ Economic impact vs. project costs |

# Annexure A: Glossary of Terms and Definitions

a. *'Entity' or 'Applicant'*: Means a business registered as a legal entity in South Africa. The word entity is used here to refer to a business applying, or that has qualified for the incentives, or is claiming TSP incentives.

b. *New tourism facility or new business' or 'new project' or 'new investment'*: Includes - where the entity was non-existent prior to the operation date; Where the entity was not tourism orientated, and made a change over to tourism services or adding a new tourism offering different from the existing one, that complements the existing tourist facility.

c. *Expansion' or 'Expansion project'* Includes - A minimum of 35% increased capacity on current operations and 35% increased investment in total qualifying furniture, equipment and vehicles above the existing investment in total qualifying furniture, equipment and vehicles at cost as reflected in the base year financial statements, made in year one and maintained for year two and year three. In respect of employment the net increase in employment and minimum employment requirements have to be achieved.

   'Expansion' or 'Expansion project' will exclude existing businesses with a 0 base year in respect of the TSP application. These projects may apply as a new project, provided that they comply with these guidelines and that the Entity can substantiate why it has a 0 base year.

d. *'Existing business'*: Includes: Minimal changes in staff, furniture and equipment, location, stocks, creditors, debtors e.g. where a business closes its doors on day 1 and opens its doors within 12 months as under new management or with new owners or new entity. The base year statements for this project will be as handed over to the new owner by the previous owners. An entity that is in operation; an entity which is not in operation but has no liquidation actions or orders against it, i.e. it can start operating at any time.

e. *'Acquired Assets'*: Assets that have been bought, ordered, commissioned, erected, or where there is an agreement or a memorandum of understanding to obtain certain assets. Turnkey projects are considered to be acquired assets and such projects must apply before entering into a turnkey agreement. 'Acquiring the qualifying investment assets' will have a corresponding weekend.

f. *'At cost'*: Actual asset price at purchase time. For purposes of the incentive programme, the investment grant will be calculated and paid based on the lower of the actual historical cost paid for the asset; cost price of the asset; the market value of the asset; or a valuation by an independent valuator.

g. *Base year*: A period of 12 months reflected in audited financial statements and is the last financial year prior to the investment in the fixed (not current) assets of the new expansion.

h. *'Capacity'*: Bed nights; seats; covers; spaces.

i. *SIC code*: Standard Industrial Classification of all economic activities

j. *'Bi-Annual Claim'*: A claim covering the first 6 months of the Entity's financial year, and which may not be more, nor less than 6 consecutive calendar months.

k. *'Black owned'*: 51% owned by South African Black People.

l. *'Capital work in progress': Assets that are not yet ready for use and are still being prepared for use in the tourism facility.*

m. *'Connected party/persons/non-arm's length transactions'*: means connected as described in the Income Tax Act, 1962 (Act 58 of 1962).,And in relation to this definition, "arm's length transactions" will mean the opposite.

n. *'Commencement date of operation'*: refers to the date physical operation or service offering started.

o. *'Counterfactual'*: The forecast of the contribution that the project would have made to the economy in the absence of the grant.

p. *'Vehicles'*: means motor vehicles that are constructed for carriage of persons and that are used for the approved project only, Man-or-bicycle-or-animal drawn vehicle. Luxury 4x4, double cab, sports and commercial vehicles are excluded for incentive purposes. Other than for tour operators, vehicles will not be used in any calculation as forming part of furniture and equipment and specifically will not be used in calculating the required percentages relating to furniture and equipment.

q. 'E-Applicant': Applicants who have submitted and/or accepted applications and/or other documents electronically on **the dti**'s TSP website.

r. *'Full-time Employment/employees'*: Persons that work at least 40 hours a week for the same employer and receive wages that are in line with hospitality sector rates as determined by the Department of Labour For the purposes of this definition, only one owner will be counted as an employee .

s. *'Financial year'*: The period referred to in the entity's financial statements and as is registered with the Companies and Intellectual Property Registration Office (CIPRO), irrespective of the calendar period thereof.

t. *'Independent external auditor'*: An individual or firm registered as an auditor with the Independent Regulatory Board for Auditors (IRBA)

u. *'Large Project': Projects with investments over R5 million or for purposes of this definition, investment is the total investment to be made for the project, excluding working capital and work in progress*

v. *'Furniture and Equipment'*: means furniture, equipment, implements, utensils or articles considered to be of a long-tern use. *Furniture and Equipment* does not include *inter alia* vehicles; office furniture; or office equipment

w. *'Material Changes'*: Changes that if known at the application stage, could affect the approval of the project, for example changes in the services offered or structure of the project.

x. *'Tourism activity'*: For purposes of the TSP incentive means as listed in section 5 of these guidelines. Niche products not included in section 5 may qualify and the Applicant is requested to approach **the dti** for guidance prior to submitting an application for TSP.

y. *'Second Hand'*: Refers to an asset that has been in operation and a new asset will refer to an asset that has never been in operation. An asset that has been upgraded, refurbished, modernised, or reconstructed is regarded as second hand.

z. *'Shareholding'*: Reference to 'shareholding' includes reference to shareholding in a Company; membership in a Closed Corporation; Trustees of a Trust; members or owners in a Cooperative.

aa. *'Small Projects'*: Projects with investments below R5 million. For purposes of this definition, investment is total investment excluding working capital and work in progress.

*bb.* '*Total qualifying investment costs' or 'total qualifying assets'*: in respect of new projects means the investment, qualifying and non-qualifying to be made in the project, and in respect of expansions refers to all additional investment already made as well as the qualifying and non-qualifying investment to be made in the expansion

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