the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

AUTOMOTIVE INVESTMENT SCHEME

PROGRAMME GUIDELINES

Physical Address

the dti Campus

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0002

Contents

Abbreviations and Acronyms

AGA Associate General Accountant

AIS Automotive Investment Scheme

CIPC Companies and Intellectual Property Commission

IRBA Independent Regulatory Board for Auditors

IT Information technology

ITAC International Trade Administration Commission of South Africa

OEMs Original Equipment Manufacturer

PAA Productive Asset Allowance

PFMA Public Finance Management Act

PRECCA Prevention and Combating of Corrupt Activities Act

R&D Research and Development

SABS South African Bureau of Standards

SAICA South African Institute of Chartered Accountants

SAIPA South African Institute of Professional Accountants

SARS South African Revenue Service

SOP Start of Production

the dti Department of Trade and Industry

VAT Value-Added Tax

1. Preamble

1.1 The purpose of this document is to detail the policy and guidelines for the Department of Trade and Industry's (**the dti**'s) Automotive Investment Scheme (AIS).

1.2 The guidelines set out herein are intended to enable enterprises to present their business cases to **the dti**, and provide a framework for the Department to evaluate such cases. The purpose of the AIS is to advance certain industrial policy objectives of **the dti**. Granting of the incentive or approval of the application will only be for projects that meet the policy objectives of **the dti**, as advanced by these AIS guidelines. In order to qualify for the incentive, investment projects must obtain prior approval from **the dti** to proceed accordingly, and any such decision in this regard will be final.

1.3 The guidelines may be amended from time-to-time, as deemed necessary by **the dti**. These amendments will be published on **the dti** website and/or in the Government Gazette, and will be of immediate effect upon publication thereof.

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

1.5 Approval of applications will be subject to the availability of funds and compliance with the relevant provisions of the Public Finance Management Act (PFMA).

2. Services Delivered by the dti

2.1 No fees or charges are levied by **the dti** for the processing or evaluation of any AIS applications or claims.

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

2.3 **the dti** does not make use of any agent or consultant to promote the AIS and **the dti** will not be accountable for any service delivered or failure thereto by any other person or consultant who facilitates the application/claim forms on behalf of the enterprise.

3. Programme Description

3.1 **the dti** has initiated the AIS, an incentive designed to grow and develop the automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain.

3.2 The AIS provides for a ***non-taxable*** [1]cash grant of twenty percent (20%) of the value of qualifying investment in productive assets by light motor vehicle manufactures and twenty five percent (25%) of the value of qualifying investment in productive assets by component manufactures and tooling companies as approved by **the dti**.

3.3 An additional ***non-taxable*** cash grant of between five or ten percent (5 or 10%) may be available to projects that are found to be strategic by **the dti** as follows.

3.4 An additional ***non-taxable*** cash grant of five percent (5%) of the value of qualifying investment in productive assets may be available to projects that meet the requirements of paragraph 7.3.

3.5 An additional ***non-taxable*** cash grant of 10% of the value of qualifying investment in productive assets may be available to projects that meet the requirements of paragraph 7.3 and 7.4.1

3.6 Projects will be evaluated on the following economic benefit requirements:
3.6.1 Investment in a new and/or replacement model;
3.6.2 Tooling;
3.6.3 Value-addition;
3.6.4 Employment creation/retention;
3.6.5 Strengthening of the automotive supply chain.
3.6.6 Empowerment
3.6.7 Increase in plant production volumes by light motor vehicle manufacturers;
3.6.8 Increase in unit production per plant by component manufacturers; and
3.7 The approved AIS grant is to be disbursed over a period of three (3) years.
3.8 The AIS programme provides investment support to light motor vehicle manufacturers, automotive component manufacturers and automotive tooling companies.

[1] The AIS grant is exempt from normal taxation as per Section 12P of the eleventh schedule to the Income Tax Act, 1962 as inserted through the Taxation Laws Amendment Act No22 of 2012

3.9 In all cases, grant payment is subject to an evaluation by **the dti** to determine whether the project achieved the stipulated performance requirements.
3.10 The effective date of these guidelines is 1 April 2014.

4. Mandatory Conditions

4.1 The applicant must be a registered legal entity in South Africa in terms of the Companies Act, 1973 (as amended); or the Close Corporations Act, 1984 (as amended), and must undertake manufacturing in South Africa.

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

4.3 The applicant must submit a valid B-BBEE certificate of compliance (i.e. B-BBEE levels 1 to 8).

4.4 The grant will only be applicable to investment in assets that will be used in the entity's South African operations.

4.5 The applicant must retain base year employment levels during the entire incentive period from application stage until claim periods.

4.6 The applicant must submit a business plan with a detailed marketing and sales plan, a production plan, budget and projected financial income statement, cash flow statement and balance sheet, for a period of at least three (3) years for the project.

4.6.1 The applicant must, in addition to the information supplied in 4.3, submit a projected financial income statement, cash flow statement and balance sheet for a period of at least three (3) years of the relevant division, cost centre or branch where the project is located, if applicable.
4.6.1.1 The applicant must submit a cost benefit analysis for the project in cases where it cannot provide information as per 4.3.1 in respect of a cost centre.

4.6.2 Completed applications should reach the offices of **the dti** no later than:

4.6.2.1 One hundred and twenty (120) days but not earlier than one hundred and eighty (180) days prior to commencement of production for light motor vehicle manufacturers; and
4.6.2.2 Ninety (90) days but not earlier than one hundred and twenty (120) days prior to commencement of production for component manufacturers, deemed component manufacturers and /or tooling companies.

4.6.3 In the case of component manufacturers and tooling companies; an original letter of intent and/or purchase order on the letterhead of the awarding OEM/ customer, or certified copy thereof should be submitted with the application.

5. Qualifying Projects

5.1. The project must be undertaken by a manufacturer of specified light motor vehicles that is registered with the International Trade Administration Commission (ITAC), in terms of Note 1 to Chapter 98 of the Customs and Excise Act; or

5.2. The project must be undertaken by a component manufacturer, a deemed component manufacturer or an automotive tooling company who is part of the original equipment manufacturer (light motor vehicle manufacturer) supply chain.

6. Eligibility Criteria

6.1 Light Motor Vehicle Manufacturers

6.1.1 An existing light motor vehicle manufacturer that has achieved, or can demonstrate that it will achieve, within three (3) years, a minimum of 50 000 annual units of production per plant.

6.1.2 A new light motor vehicle manufacturer has to demonstrate that it will achieve within three (3) years a minimum of 50 000 annual units of production per plant.

6.2 Component Manufacturers, Deemed Component Manufacturers or Tooling companies

6.2.1. A component manufacturer that can prove that a contract is in place and/or a contract has been awarded and/or a letter of intent has been received for the manufacture of components to supply into the light motor vehicle manufacturer supply chain locally and/or internationally; and

6.2.2. A component manufacturer that can prove that after this investment it will achieve at least 25% of total entity turnover or R10m annually by the end of the first full year of commercial production, as part of a light motor vehicle manufacturer supply chain locally and/or internationally.

7. Evaluation Criteria

7.1 The project must be commercially viable when evaluated against its projections, which must be realistic and reasonable.

7.2 To qualify for an additional five (5) percent AIS grant, the project must:

7.2.1 Demonstrate that the investment will result in base year employment levels being maintained throughout the incentive period and, in the case of light motor vehicle manufacturers demonstrate also that the said levels will be maintained during the model phase-out period; **and**

7.2.2 Achieve two (2) economic benefit requirements under Table A1 below.

Table A1: Economic Benefit Requirements

Requirements	Description
A. Tooling	Demonstrate substantial support for the development of the local vehicle related tooling industry: * Light motor vehicle manufacturers must demonstrate this by indicating that at least 10% of their tooling budget or a 10% increase in real terms from base year in their tooling budget, whichever is the highest, shall be allocated to the support of the local vehicle related tooling industry. * Component manufacturers must demonstrate this by indicating that at least 20% of their tooling budget or a 20% increase in real terms from base year in

	their tooling budget, whichever is the highest, shall be allocated to the support of the local vehicle related tooling industry
B. R&D in South African-related to the project	Manufacturers must spend at least five percent (5%) of the value of the investment project on experimental research, development or invention to achieve technological advancement for the purpose of creating new, or making appreciable improvement to existing materials, devices, products or processes performed in South Africa and resulting in production competitiveness, provided that the five percent (5%) of the value may not be less than R50 million for light motor vehicle manufacturers and R1,5 million for component manufacturers
C. Employment Creation	Demonstrate that the plant employment levels at base year will be maintained throughout the incentive period and that the project will result in the creation of at least one (1) new job per R5-million investment or at least an additional 100 new direct jobs for light motor vehicle manufacturers or one (1) new job per R1 million investment for component manufacturers or deemed component manufacturers or at least 50 new jobs for components.
D. Strengthening the automotive supply chain	* Light Motor Vehicle Manufacturers: Must demonstrate that the Investment will result in introduction of new components not currently manufactured for that OEM or the creation of new markets for current component manufacturers or the introduction of a new foreign supplier of components not currently

	manufactured for that OEM in South Africa. * Component manufacturers and Tooling companies: Must demonstrate that the Investment will result in introduction of new components not currently manufactured or performed by that company or that the component or tool is not currently made for that OEM in South Africa.
E. Value addition	Demonstrate substantial increase in local content with respect to value addition of products.
F. Empowerment	Achieve level three (3) or higher on the B-BBEE codes of good practice as issued under Section 9 of the Broad Based Black Economic Empowerment Act of 2003[2]

7.3 To qualify for a second additional five percent (5%) (Cumulative 10%) AIS grant, the project, in addition to achieving the requirements of paragraph 7.3, must:

7.3.1 Achieve the economic benefit requirement under Table A2 below.

Table A2: Economic Benefit Requirements

Requirements	Description
A. Increase in unit production per plant for Light Motor Vehicle Manufacturers	If current plant volume is less than 50 000 units per annum, the volume must be increased to 65 000 units per annum. If current plant volume is greater than 50 000 to 65 000 units per annum, the volume must increase by 30%. If current plant volume is greater than 65 000 to 100 000 units per annum, the volume must increase by 25%. If current plant volume is greater than 100,000 units per annum, the volume must increase by 20%. If current plant volume is greater

[2] B-BBEE (Amended codes series 000 issued in Oct 2013

	than 200 000 units per annum, the applicant/legal entity must maintain volumes. The increased plant volumes should be achieved by the end of the second full year of commercial production.
B. Increase in turnover for component manufacturers and tooling companies	Demonstrate an increase in turnover of at least 20% in the first full year and 30% in year two (2) of production commencing from SOP (over and above the other requirements set out in these guidelines) for the legal entity's appropriate division or plant producing that type of component/ tool, or total company turnover in the case of a new category of product or tool. For a new component manufacturing company or tooling producer to qualify for this additional five percent (5%) they have to demonstrate that they will be making components or tools of a type not currently manufactured for that OEM in South Africa. *Note that this criteria will not be applied at this level if has already been utilised to earn a point in 7.3.2*

8. Qualifying Productive Assets and Investment Costs

The following productive assets and investment costs (to be used in the entity's South African operations) may qualify for assistance under the AIS:

8.1 Owned buildings and/or improvements to owned buildings

8.1.1 The investment in qualifying buildings must constitute newly acquired or constructed buildings and/or building improvements at cost, whether as part of a new project or expansion, and must be owned by the applying entity. Calculation of the investment grant, with respect to buildings, will take into account the area of the factory, warehousing and administrative space utilised for the project. The cost of qualifying investment in buildings is limited to the cost of the qualifying investment in machinery and equipment.

8.2 New plant, machinery, equipment and tooling

8.2.1 Plant, machinery, equipment and tooling (owned by the applicant/legal entity or leased by way of a financial lease, capitalised in the financial statements), at cost, will qualify.

8.2.2 By way of example such plant, machinery and tooling include:
· Jigs, Dies and Moulds;
· In-plant logistics (software and hardware);
· Raw material handling equipment;
· Production, testing and design equipment; and
· Information technology (IT) equipment and supporting software, used in the manufacturing process.

8.3 Second-hand, refurbished and upgraded plant, machinery and tooling

8.3.1 In this context ‘second-hand’, ‘refurbished’ and ‘upgraded’ plant, machinery and tooling refers to those assets that have not been used previously by the applicant and have not formed the basis for receipt of any South African government incentive or grant.

8.3.2 Any claim for second-hand, refurbished and upgraded plant, machinery and tooling assets must be accompanied by **the dti** consulting engineer’s assessment report confirming the cost of the asset, as well as the invoice of the asset. **the dti** will accept the lower value of the consulting engineer’s assessment report or the invoice.

8.3.3 All imported second-hand assets must be accompanied by a report from **the dti-** appointed consulting engineer, certifying the level of technology to be equivalent or better than the level currently used in South Africa. The intention is to ensure that assets brought into the local industry are of an acceptable level of technology and is claimed against at fair value.

8.3.4 Where an applicant/legal entity applies or claims for the refurbishment and/or upgrading of plant, machinery or tooling, of which he is the owner, only the actual costs of upgrading or refurbishing may qualify.

8.3.5 Second-hand plant, machinery, equipment or tooling may be regarded as qualifying investment assets provided they meet the following conditions:

8.3.5.1 Those productive assets that will be second hand, upgraded or refurbished must be specified. Full motivation must be provided why the second hand assets should qualify in terms of the overall objectives of the AIS as set out in these guidelines. In particular it should be motivated that the use of the 'second-hand' assets would:

- be technologically advantageous to the project;
- provide for high standard production facilities;
- lead to the manufacture of products that meet/exceed the quality standards required for sustained competitiveness in the global market;
- have at least, a three (3) years productive life span for the purpose of use in the project; or have the same productive life span as a new asset where the productive life span of a new asset is less than three years.

8.4 Approval of all assets set out above will be provisional pending the consulting engineer's assessment and recommendation at the claim assessment phase.

9. Competitiveness Improvement Costs for Component Manufacturers, Deemed component Manufacturers and Tooling Companies

9.1 The objective of this benefit is to enhance the competitiveness of component manufacturers through the improvement of processes, products, quality standards and related skills development through the use of business development services.

9.2 This grant will be based on the grant percentage that the applicant has been approved for and must be linked to an investment in assets (as per paragraph 8) to be used in support of a contract to supply into a motor vehicle manufacturers supply chain locally or internationally.

9.2.1 Where the competitiveness improvement grant application is made separately from an application for a capital investment grant the grant will be capped at 20% of the qualifying costs. To qualify for this grant the applicant must have an OEM contract that is current[3].

9.3 The grant will be limited to the competitiveness improvement costs incurred within the first three years after the start of production date and a total grant amount of R1 million per entity per three year cycle.

9.3.1 The number of competitiveness improvement applications will be limited to two applications per three year cycle.

9.4 Projects that have benefited from any other competitiveness enhancement programmes of **the dti** cannot claim this benefit.

9.5 Qualifying costs are as follows:

FOCUS AREAS	CATEGORIES	CONSULTING FEES AND EXPENSES
Process improvement/ optimisation	Process improvement	Introducing new improved processes
Conformity assessment	Quality management improvement, Environmental management improvement, process capability improvement and Product quality improvement	Costs for preparations for certification and pre/initial assessment costs
	Accreditation Energy efficiency and cleaner production audits, e.g. ISO 50001, ISO 50010	Costs for preparations for accreditation and pre-/initial assessment Audit and accreditation costs -Certification, measurement and verification costs
Product improvements	Product efficiency, or improvement of production	Fees for the design of production information systems

[3] Provide proof that a contract is in place and/or a contract has been awarded for the manufacture of components to supply into the light motor vehicle manufacturer supply chain locally and/or internationally and that the applicant is currently (at the date of application for competitiveness improvement grant) servicing that OEM contract.

	techniques	
Skills Development	Training accredited by SAQA as well as internationally recognised training in automotive manufacturing related technical fields.	Short Course fees[4]
Resource Efficiency	Energy and resource efficiency improvements	Introducing new improved processes that lead to energy savings and resource efficiency
Information technology systems	Acquisition and deployment of systems	Acquisition of software for integrated production, information systems

10. Exclusions and Limitations

10.1 Non-Qualifying Assets/Investment Costs

The following is a list of assets and investment costs that do **NOT** qualify under the AIS:

10.1.1 Any assets that are not directly utilised in the manufacturing of the product;

10.1.2 Assets acquired by way of an operational lease agreement;

10.1.3 Land;

10.1.4 Vehicles, including prototypes;

10.1.5 Loose implements/hand tools classifiable under Chapter 82 of the Customs and Excise Act;

10.1.6 Office equipment;

10.1.7 Canteens, canteen furniture and catering equipment;

10.1.8 Site services, consumables and maintenance, even if related to qualifying assets;

10.1.9 Vehicle Distribution Centres;

10.1.10 Housing

10.1.11 Revaluated assets;

10.1.12 Value-Added Tax (VAT) and finance charges on assets

10.1.13 Rates and taxes; and

10.1.14 Travel and accommodation costs associated with overseas and local training courses.

[4] The duration of a short course is one that is for a period of five (5) weeks or one hundred and fifty (150) national hours or below.

10.2 General Exclusions and Limitations

10.2.1 Projects by component manufacturers, below R1 million, will not qualify for assistance under the AIS.

10.2.2 Standalone competitiveness improvement applications by component manufacturers, deemed component manufacturers and tooling companies below R100 000, will not qualify for assistance under AIS.

10.2.3 Projects by light motor vehicle manufacturers, below R30 million, will not qualify for assistance under the AIS.

10.3 Projects that benefit from other capital investment incentives offered by the dti will not qualify for assistance under the AIS grant.

Further:

10.3.1 Section 21 companies and trusts do not qualify;

10.3.2 The project applicant must notify **the dti** in writing within thirty (30) calendar days of the commencement date of production, as indicated in the approval letter. **the dti** should, without delay, be notified in writing of any changes in the commencement date of production. The new commencement date of production must be within ninety (90) calendar days of the original approved commencement date.

10.3.3 Capital work-in-progress is excluded from claims until it has been taken into production or until it complies with the conditions of the first claim (Option 2) grant disbursement in terms of paragraph 10.1.

10.3.4 Financial lease assets must be capitalised in the balance sheet in order to be considered as qualifying for purposes of the incentive claim.

10.3.5 Component manufacturers that do not meet the requirements of paragraph 6.2.2.

11. Grant Disbursements

11.1 Grant payment schedule and performance requirements – Light motor vehicle manufacturers:

The grant is payable annually, subject to the project achieving the following requirements:

· ***First claim (Option 1):*** In order to process the first claim and qualify for a 40% payment, projects must have commenced commercial production; or

First claim (Option 2): In order to process the first claim and qualify for a 30% payment, projects must have commenced investment commissioning – where the commissioning period spans more than six (6) months – **and** where the projects have at least 50% of the qualifying investment on site, assembled and installed..

· ***Second claim:*** The second claim may only be lodged 12 months after commencement of commercial production. In order to process the second claim and qualify for the second payment, to a maximum of a cumulative 70% payment of the approved incentive amount, projects must achieve at least 50% of the approved eligibility criteria and at least 50% of the economic benefit requirements.

· ***Third claim:*** The third claim may only be lodged 24 months after commencement of commercial production. In order to process the third claim and qualify for a final payment to a maximum of a cumulative 100% payment of the approved incentive amount, projects must achieve the minimum 50 000 plant production volume and achieve 100% of the approved economic benefit requirements and eligibility criteria.

11.2 The grant payment schedule and performance requirements for Component Manufacturers, deemed component manufacturers and tooling companies will be published on **the dti** website.

11.2.1 A component manufacturer or tooling producer must also prove that after this investment, it will achieve at least 25% of the total entity turnover or minimum turnover of R10m annually by the end of the first full year of commercial production, as part of a light motor vehicle manufacturer supply chain locally and/or internationally.

11.2.2 A component manufacturer or tooling company must also prove that a contract is in place, and/or a contract has been awarded, and/or a letter of intent has been received, for the manufacture of components to supply into the light motor vehicle manufacturer supply chain locally and/or internationally. In addition a copy of a purchase order must be submitted as proof that the supply of components or tools is current.

11.3 At each grant claim stage, the project is eligible to claim a grant based on the full actual investment made at that stage, however, this amount may not exceed the maximum approved grant for that claim period.

11.4 For projects that do not achieve or maintain the conditions of eligibility criteria and/or economic benefit requirements at any claim stage, the AIS grant may be terminated at the discretion of **the dti**.

11.5 For all claim payments, base year employment levels should be maintained throughout the incentive period as per paragraph 4.5 of the guidelines and all payments of claims are subject to availability of funds.

11.6 Grant payment schedule and performance requirements – Competitiveness Improvement Costs

For business development services and other competitiveness improvement activities, grant disbursement will be made upon completion of activities under each focus area[5]. Where the duration of activities under a focus area exceeds 12 months, two claims may be submitted, i.e. the first claim at the end of 12 months and the second claim at the completion of the activities under the said focus area. If a claim is not submitted six (6) months after the completion of the activities for the focus area, the grant approval will be cancelled.

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 evaluation and processing of the investment grant.

12.2 Only a claimant that demonstrates an investment in qualifying assets on an approved project may claim for the AIS grant. Documented capital expenditure, which must be certified by an accredited consulting engineer, as appointed by **the dti**, will form the basis of the AIS grant payment. **the dti** will consider the report of the consulting engineer, who will verify the claim of the claimant and who shall further conduct an inspection on site.

[5] Applicants with multiple focus areas are advised to consolidate their claims to minimize administrative and audit costs associated with claims procedures.

12.3 **the dti** reserves the right to have an independent audit done in respect of the financial statements that substantiate the claim submitted for AIS.

12.4 To claim for the AIS grant, the entity must submit the following documents to the AIS Programme Manager at **the dti**:

12.4.1 An originally completed claim form, duly signed by a person authorised by a resolution of the Board of Directors of the company and an independent external auditor or accredited person must be submitted. Each page of the claim form as well as the asset list/ schedule must be initialled by the authorised representative of the applicant; as well as the external auditor or accredited person. On the last page of the claim form a full signature (s) is required.

12.4.2 A detailed factory layout, clearly showing the installed productive or commissioned assets, must be included in the claim for technical assessment by **the dti**-appointed consulting engineer, hired to conduct the site inspection.

12.4.3 The following supporting documents must be submitted together with each claim:

12.4.3.1 Latest audited financial statements not older than two (2) years for the entity and the project as well as management accounts in the case of divisions, cost centres and branches; not older than two (2) years
12.4.3.2 An original Factual Findings Report also confirming employment levels for the claim period.
12.4.3.3 A project monitoring report addressing the evaluation criteria and economic benefit criteria where applicable;
12.4.3.4 A valid B-BBEE verification certificate reflecting compliance to the B-BBEE codes of good practice (i.e. B-BBEE levels 1 to 8).
12.4.3.4 An original valid tax clearance certificate of the entity; and
12.4.3.5 A cancelled cheque/bank certificate and a completed credit order instruction form not older than six (6) months as written confirmation of the bank details of the approved entity.
12.4.3.6 A copy of the approval letter received from **the dti**
12.4.3.7 The confirmation of sound financial management in terms of section 38(1)(J) of the PFMA, to be on the company's letter head, duly signed by the authorised person
12.4.3.8 Declaration by the applicant and consultant (where applicable)
12.3.4.9 ITAC registration certificate

12.4.4 Further, the claim must contain a schedule of the approved productive assets which were taken into the asset register, their asset numbers, capitalisation values, dates acquired and the date when each one went into production, together with an assurance report from the external auditors.

12.5 Whether claiming by way of a paper version or **online claim**, the applicant must submit to **the dti** an electronic copy of the completed claim form and of the asset list containing the approved assets that have been taken into production in order to ease processing.

12.6 The value of the claim will be based on qualifying assets as certified by the Auditor and the report of **the dti**-approved consulting engineer, whichever is the lowest.

12.7 Each asset must be provided with a unique asset number that must be affixed or engraved on the asset wherever possible. This must be done in a manner that should endure for the duration of the project. Such asset numbers must correspond to those in the claim asset list as specified.

13. Conditions Regarding Grant Disbursement

13.1 Claims must be submitted within four (4) months after the end date of the specified claim period or at the financial year-end, whichever is the later.

13.2 Payments shall be made directly into the bank account of the approved entity only. The name and addresses of the account holder must be the same as that of the applicant.
13.3 Offshore assets of approved AIS entities will be excluded for grant calculation

13.4 Should there be material changes to the main business under which the grant was approved, **the dti** must be informed without delay and this may cause the grant approval to be cancelled in which event the entity shall be expected to reapply to **the dti,** provided that the entity will be evaluated as at the date of the new application and will be subject to all the requirements applicable to applicants as at the date of the new application. **the dti** does not accept any liability should the entity undergo material changes and does not qualify for a new application due to e.g. time period lapses or any other reason.

14. General Conditions

14.1 **the dti** must be notified in writing of any material changes related to the investment project and the changes must be approved by **the dti** prior to being effected.

14.2 **the dti** may, under certain market or production circumstances, adjust the requirements and conditions of the scheme or grant approval. Any such adjustments will be at the sole discretion of **the dti**. The decision of **the dti** in this regard will be final.

14.3 **the dti** will collect project monitoring information at each claim stage and will require clients to complete a project monitoring report in writing at the end of each year of production to measure the outputs and outcomes of the project.

14.4 In order to evaluate the impact of the programme, **the dti** requires that for a period of two (2) years after completion of the claim period, the client completes the project monitoring report annually. This requirement forms part of the terms and conditions subject to which the AIS grant is approved and paid out.

15. Additional Legal Conditions

15.1 The following are *inter alia* considered a circumvention of AIS Guidelines and will lead to the rejection of an application or claim:

15.1.1 Changing the business set-up, composition, structure or operations, processes or products in order to make the project qualify.

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

15.1.3 Any other action that, at the sole discretion of **the dti**, can be regarded as circumvention to allow the entity, which otherwise would not have qualified, to qualify for assistance under the AIS grant.

16. Appeal Process

16.1 Any dispute relating to a decision (including the rejection of an application or claim) taken by **the dti** is limited to one (1) internal appeal per application lodged, within forty-five (45) days of the date of issue of the notification letter by **the dti**.

16.2 Any appeal or request to consider an increase or decrease or any other amendment of approved qualifying assets or costs, should be submitted to the dti prior to submitting the first claim for that specific project.

17. Criminal, Misleading, Dishonest and/or Irregular Activities

17.1 **the dti** may, upon a suspicion of any of the above activities, suspend payments that may be due or may become due to an applicant. **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.

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

17.3 **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 any suspicious behaviour.

17.4 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 and criminal prosecution and or civil claim.

18. Monitoring, Reporting and Impact Assessment

18.1 All approved projects will be monitored in order to assess their performance and that of the AIS.

18.2 **the dti,** and/or its appointed accredited consulting engineer, may conduct a site visit to projects at application stage, at any claim stage or any time after an application has been submitted. A set of all financial statements, invoices and other relevant records must be retained and kept in a fireproof safe place, according to the South African Bureau of Standards (SABS) specifications, for at least five (5) years after submission of the claim to which it relates, or completion/termination of the AIS grant, whichever is the latest date. Such records must be made available to **the dti** inspector or consulting engineer upon request, failing which the AIS grant automatically terminates.

18.3 Project monitoring reports for approved projects must be submitted at the end of each full year of production, including an additional two (2) financial years following their final claim, i.e. two (2) years after the incentive period). Monitoring reports should be submitted within three months of the due date. Failure to comply shall entitle **the dti** to reclaim any moneys paid in terms of the AIS.

19. Application Process

19.1 The application process is as follows:

TABLE B: APPLICATION PROCESS

<table>
<tr><th></th><th>Project Application</th><th></th><th>the dti approval process</th></tr>
<tr><td rowspan="2">Project Appraisals</td><td rowspan="2">Ծ Applicant sends completed application form to the dti by mail or
via the dti’s website
Ծ Applicant may obtain further information about the criteria telephonically or</td><td>Project Appraisal</td><td>Ծ Project business plan analysis
Ծ Project and entity financial viability
Analysis
Ծ Economic benefit analysis</td></tr>
<tr><td>Verification and Inspection</td><td>Ծ Project verification inspection at applicant’s premises may be conducted
Ծ Inspector verifies that project meets all
requirements
Ծ Report submitted for consideration by
the Adjudication Committee
Ծ Application checked for completeness
Ծ Letter/e-mail requesting additional information sent to applicant
Ծ Fully completed application is scheduled for evaluation
Ծ Adjudication Committee reviews</td></tr>
<tr><td>Basic Assessment</td><td>Ծ Application checked for completeness
Ծ Letter/e-mail requesting additional
information sent to applicant
Ծ Fully completed application is</td><td>Adjudication</td><td>Ծ Adjudication Committee reviews report
from the project evaluator
Ծ Application approved, rejected or returned for additional information
Ծ Only one (1) appeal will be considered
Ծ The decision of the Adjudication Committee is final
Ծ Letter confirming approval of the application with applicant</td></tr>
<tr><th colspan="2">Grant Disbursements</th><th colspan="2">Monitoring</th></tr>
<tr><td colspan="2">• The approved grant is disbursed on achievement of predetermined performance requirements, as set out in Section 12.
• On completion of a milestone, the client completes a claim form with required attachments.
• Accredited consulting engineer visits client to verify the capital expenditure and assets.
• Accredited consulting engineer issues AIS</td><td colspan="2">• 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.
• In order to evaluate the impact of the programme, the dti requires that, for a period of two (2) years after completion of the claim period, the client completes the project monitoring report</td></tr>
</table>

certificate	annually. This requirement forms part of the terms and conditions of the AIS.

Annexure A:

Section A: Glossary of Terms and Definitions

a.	***'AIS approval'***: The document from the dti to the applicant, setting out the terms and conditions of the AIS incentive being offered to the applicant, which will by implication include the terms and conditions set out in these guidelines ('implied terms').
b.	***'Applicant' or 'Entity'***: This refers to a business registered as a legal entity is South Africa. The word 'entity' is used here to refer to an applying business, or one that has qualified for the incentive, or one which is claiming from the P-AIS incentive programme.
c.	***'At cost'****:* This refers to the 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.
d.	***'Automotive tooling'*****:** Refers to (i) dies for drawing and extruding metal; (ii) tools for pressing, stamping or punching; (iii) work holders; (iv) assembly jigs and assembly lines; (v) injection moulds, moulding patters and moulds where the principle use is for the manufacture of specified motor vehicles, heavy vehicles and automotive components for such vehicles.
e.	***'Base year employment'****:* This term refers to a period of twelve (12) months prior to start of production
f.	***"Capital work-in-progress'***: These are 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.
g.	***'Commencement date of production'***: This refers to the date commercial production started.
h.	***'Component manufacturers' including 'deemed component manufacturers'****:* This refers to manufacturers that have submitted a project in respect of manufacturing an automotive component such as a catalytic converter, an engine etc.
i.	***'Connected party/persons/non-arm's length transactions'***: A 'connected party', as described in the Income Tax Act, No. 58 of 1962, which, as at April 2007, could be defined, in relation to a natural person, as any relative, and any trust of which such natural person or such relative is a beneficiary.

	In relation to this definition, 'arm's length transactions' will mean the opposite.
j.	**'Development':** is the application of research findings or other scientific knowledge for the creation of new or significantly improved products, processes or services. The following costs incurred in South Africa will be considered: - Development of new products or processes or design; - Component and product testing for durability; and - Development of prototypes to facilitate localisation.
k.	***'E-applicant'****:* These are applications submitted and/or other documents electronically submitted on the P-AIS website.
l.	**'*Employees*'**: These are persons who work a minimum of forty (40) hours a week for the same employer and are on the employer's payroll.
m.	'***Financial year***': This denotes the period referred to in the entity's financial statements, and as registered with the Companies and Intellectual Property Registration Office (CIPRO), irrespective of the calendar period thereof.
n.	***'Full-time Equivalent Employment'****:* This term refers to contract/seasonal/temporary employees. One full-time employee will be the equivalent to 1 920 hours worked per year.
o.	***Full investment'****:* This refers to an investment that enables a project to start producing commercially
p.	***'Independent external auditor' or 'accredited person'****:* - In respect of a Company, this means the independent external auditor. - In respect of a Close Corporation, this means practising members of the Commercial and Financial Accountants of South Africa (CFA-SA); practising members and Associate General Accountants (AGAs) of the South African Institute of Chartered Accountants (SAICA) and/or AGAs; and individuals or enterprises/practices registered as auditors with the Independent Regulatory Board for Auditors (IRBA).
q.	***'Investment commissioning'****:* This refers to the process of assuring that plant and machinery are installed, tested and operated, according to the operational requirements of the project.
r.	***'Machinery and equipment and tools'****:* These are the machinery, implements, tools, utensils or articles used in a qualifying production process. 'Machinery and equipment' does not include *inter alia* commercial vehicles, office furniture, or office equipment.
s.	***'Material changes'****:* These are changes that, if known at application stage, could have affected approval of the project e.g. changes in business set-up, location, composition,

	structure of operations, processes or products as well as a change in the physical address/location of the approved project.
t.	***'New process'**:* This is a process that promotes backward and forward linkages.
u.	***Project'*:** This refer to any investment in plant, machinery and equipment by an light motor vehicle manufacturer to produce in accordance with the complete knock down principle at least 50 000 volumes per plant per year or to contribute to the competitiveness of the plant. In respect of a component manufacturer it means any investment in plant, machinery and equipment to manufacture components for the motor industry meeting the requirements of 5.2.
v.	***'Real terms'**:* This term refers to an increase in nominal value, adjusted to the effect of inflation, i.e. less average inflation.
w.	***Research and development or R&D'**: **Research** is experimental or theoretical work undertaken primarily to acquire new knowledge of a scientific or technological nature*
x.	***'Second-hand'**:* This refers to a production asset that has already been in productive operation, while a 'new asset' refers to one that has not yet been in production. A production asset that has been upgraded, refurbished, modernised, or reconstructed is regarded as second-hand.
y.	***'Shareholding'**:* This refers to shareholding in a Company, membership in a Close Corporation, or membership/ownership of a Co-operative.
z.	***'Substantial'**:* This term is determined by taking into consideration the entity's current status, improvements over a period of time, industry benchmarks and prevailing market conditions. The entity should be comparative to similar plants in South Africa or anywhere in the world. In this regard, **the dti** may be contacted for guidance on what would constitute 'substantial', with reference to a specific project.
aa.	**'Tooling company'**: This refers to Tool, Die and Mould making companies
bb.	'***Total qualifying investment costs' or 'total qualifying assets'***: In respect of new projects, this refers to the investment, qualifying and non-qualifying, to be made in the project. In respect of expansions, this refers to all additional investments already made, as well as the qualifying and non-qualifying investments to be made in the expansion.
	'.Warehousing': Refers to a commercial building for the storage of material inputs and goods/components to be used in the manufacturing as well as buildings to be used for the storage of finished products/ motor vehicles. The cost of the warehouse will include all fixtures that can be capitalised

Section B: Criteria for Research and Development

Each project will be evaluated against the following criteria:

- R&D activities should be scientific and/or technological.
- R&D activities should be systematic, investigative or experimental with the results unknown and must be discovered.
- R&D activities should be aimed at non obvious scientific or technological knowledge, or creating an invention or design or knowledge.
- R&D activities must be conducted to produce a new or improved function, performance, reliability and quality.
- The R&D must be innovative.

Approved by:

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Dr Rob Davies (MP)
Minister of Trade and Industry

Contact Details of the AIS Administrator

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