



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Pilot Guidelines for the Cluster Development Programme (CDP)

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List of Acronyms

AIS	Automotive Investment Scheme
APDP	Automotive Production Development Programme
B-BBEE	Broad-Based Black Economic Empowerment
CDP	Cluster Development Programme
CMO	Cluster Management Organisation
CTCIP	Clothing and Textile Competitiveness Improvement Programme
CTCP	Clothing and Textile Competitiveness Programme
EIA	Environmental Impact Assessment
MCEP	Manufacturing Competitiveness Enhancement Programme
MIDP	Motor Industry Development Programme
MIP	Manufacturing Investment Programme
MVA	Manufacturing Value Added
NPC	Non-profit companies
PFMA	Public Finance Management Act
the dti	The Department of Trade and Industry

1. Preamble

- 1.1 The purpose of this document is to provide the guidelines for the Cluster Development Programme (CDP), an incentive programme that aims to promote industrialisation, sustainable economic growth and job creation needs of South Africa through cluster development.
- 1.2 The guidelines set out in this document are intended to enable enterprises to present their applications to **the dti** and provide a framework for **the dti** to evaluate such applications.
- 1.3 The application will be approved only for projects that meet the criteria of the CDP as interpreted by these guidelines. To qualify for the incentive, eligible projects have to apply and receive approval from **the dti**, and any such decision will be final.
- 1.4 These guidelines may be amended from time to time, as deemed necessary by **the dti**. These amendments will be published on **the dti** website and will be of immediate effect upon publication.
- 1.5 Where the guidelines are subject to varying interpretations or do not deal with specific subject matter, the interpretation of **the dti** must be requested and such interpretation will be decisive and final.
- 1.6 Approval of applications will be subject to the availability of funds; compliance with the programme guidelines, the relevant provisions of the Public Finance Management Act (Act No.1 of 1999) and the provisions of the Competition Act No. 89 of 1998.

2. Services Delivered by the dti

- 2.1 No fees or charges are levied by the dti for the processing or evaluation of any CDP applications or claims.
- 2.2 Applicants are welcome to contact **the dti** directly and **the dti** officials will provide guidance on how to complete the application or claim forms.
- 2.3 **the dti** will not be held accountable for any service delivered or failure thereto by any other person or consultant who facilitates the application or claim forms on behalf of the applicant.

3. Programme Description

- 3.1 The objective of the CDP is to enhance competitiveness of enterprises within a cluster. This is to be implemented through defined collaborative projects that address production, productivity and marketing.
- 3.2 The objectives of clustering industrial entities is to:
 - build competitiveness of local companies to improve manufacturing share in domestic market aggregate demand;
 - enhance export readiness, competitive intelligence and scaling up critical export mass of local companies;

- promote development of industrial clusters in functional regions within the value chains;
- build the competitiveness of the regions by developing appropriate business infrastructure, sector specific employable skills and formative sector education, institutions and other key requirements to support the long-term exploitation of the comparative advantage of the regions;
- facilitate capacity and institutional partnership for the management of clusters to enhance economic development potential;
- build strategic partnerships between government, enterprises, academia as well as research and development institutions and international institutional affiliations to facilitate agglomeration and fusion innovation within and beyond supported clusters;
- create inclusive platform within the clusters for emerging black industrialists to develop and effectively participate in the economy;
- develop technology consortia and sector development advisory capacity; and
- create collaborative platforms for facilitating development needs of industrial sectors through radical sector development approach.

3.3 The CDP consists of the following components:

3.3.1 Shared Infrastructure Grant

3.3.2 Business Development Services

3.3.3 Cluster Management Organisation (CMO) Funding

3.4 Applicants will be able to apply for one or a combination of the above-mentioned components based on their needs.

3.5 Clusters from the following sectors will be prioritised:

- Metal fabrication, capital and rail transport equipment
- Plastics, chemicals, cosmetics and pharmaceuticals
- Forestry, Timber, Pulp, Paper and Furniture
- Agro-processing
- Business Process Services
- Cultural and creative industries, crafts, music and film
- Boat building
- Green and energy saving industries
- Downstream mineral beneficiation
- Upstream oil and gas services and equipment
- Nuclear
- Advanced manufacturing (including defence, aerospace, electro-technical and white goods)

3.6 Clusters in the automotives, clothing, leather and footwear sectors that are already receiving benefits from **the dti** industrial policy sector desk do not qualify for support under the CDP.

3.7 The registered cluster must achieve at least level four B-BBEE contributor status in terms of the B-BBEE codes of good practice.

4. Mandatory Conditions

- 4.1 The applying cluster must be a registered Non-profit Company (NPC) in South Africa in terms of the Companies Act, No. 71 of 2008.
- 4.1.1 The applicant must be an existing or new Special Purpose Vehicle (SPV) incorporated as per paragraph 4.1 solely for the purpose of existing activities that support the cluster members.
- 4.2 An eligible cluster should have five or more members who are registered tax paying entities or non-profit organisations. At least 20% of the membership of the cluster should be made up of 51% black-owned entities.
- 4.3 All member companies participating in the cluster must have decision making powers either by virtue of being Directors and/or voting members of the Non-Profit Company (NPC).
- 4.4 All member companies within the cluster must contribute financially towards the activities of the cluster. Cluster members must make at least 20% financial contribution towards the project(s).
- 4.5 Directors or managers of member companies are free to offer non-financial contributions to the cluster; however such non-financial contributions/services rendered will not be eligible for the reimbursable grant from CDP.
- 4.6 The governance of the cluster must be in line with the relevant corporate governance provisions and these must be detailed in the constitution of the cluster as well as in the memorandum of association of the registered entity.
- 4.7 Not more than 20% of the member entities of the cluster may be from the same group of companies i.e. under the same holding company.
- 4.8 The cluster must:
 - 4.8.1 In the case of new clusters, they must submit an application form and a cluster proposal detailing the objectives of the cluster and the activities to be undertaken. An example/template of a cluster proposal is given in Annexure A.
 - 4.8.2 In the case of existing clusters, the previous financial year's annual report, audited financial statements of the cluster, a proposal for new projects not previously funded that will be undertaken with the CDP funding must be submitted.
- 4.9 Applicant(s) must submit a **complete** application at least 60 calendar days prior to commencement of commercial use of the assets or undertaking activities being applied for. Any assets taken into commercial use or activities commencing before approval by **the dti** will be considered as non-qualifying.

5. Grant Calculation

- 5.1 The CDP offers a cost-sharing grant of up to 80% for the first approved business plan of the costs of the cluster activities, to be payable at acquisition of assets or the completion of the activities or milestones up to a maximum grant of R10 million for the three components of the programme combined.
- 5.1.1 Where a cost sharing component will be provided by a government funded entity including local, provincial government or agencies this contribution can only be considered up to 15% of the co-funding
- 5.2 The benefits applicable to each CDP component and the caps thereof are addressed in section 9 to 11 of these guidelines.
- 5.3 The grant is provided directly to the approved cluster based on actual qualifying costs incurred and subject to collective jobs being retained by the individual cluster member companies.
- 5.3.1 For clusters that have been in existence for a period of less than three (3) years, an advance payment of up to 25% of the approved business plan for the financial year, may be paid to the SPV/cluster account applicant upon approval.

6. Eligible Clusters

- 6.1 Eligible projects should be aimed at assisting the efforts to improve productivity and competitiveness of cluster member companies
- 6.2 Projects should not be general purpose in character (i.e. they should not focus on general management and financing issues that are generic to organisations across multiple activities) but should be 'specialised and tailored' to the specific requirements of organisations in specific activities.
- 6.3 The projects to be supported by the CDP should have a business plan that clearly identifies project outputs and project outcomes.

7. Qualifying Activities

- 7.1.1 The following are the categories whose costs will be considered:
- 7.1.2 Shared Infrastructure
- 7.1.3 Business Development Services
- 7.1.4 Cluster Management Organisation Funding

8. Exclusions and Limitations

- 8.1 The following organisations are excluded from either applying as clusters or forming part of the cluster:
 - 8.1.1 Export Councils
 - 8.1.2 Industry Associations¹
 - 8.1.4 Trusts
 - 8.1.5 Clusters referred to in paragraph 3.6 of these guidelines

- 8.2 Non qualifying costs: any activity that is partially supported by another government scheme, quasi government scheme or that receives any other support from an entity other than members of the cluster.

- 8.3 Maximum grant: the total grant available for all activities or/ costs combined is R10m.

9. Shared Infrastructure Grant

- 9.1 The shared infrastructure grant is a non-taxable matching cash grant of up to 80% of the investment to a maximum of R10 million per cluster.

- 9.2 Cluster projects will be evaluated based on their contribution to the following focus areas:
 - 9.2.1 Enterprise Development
 - 9.2.2 Location
 - 9.2.3 Skills development
 - 9.2.4 Export promotion

- 9.3 Qualifying costs include:
 - 9.3.1 Building
 - 9.3.2 Machinery and equipment
 - 9.3.3 Commercial vehicles
 - 9.3.4 Tools, jigs and dies

- 9.4 The following costs are excluded:
 - 9.4.1 Office furniture
 - 9.4.2 Computer furniture
 - 9.4.3 Land costs

¹ Industry Associations may form part of the membership of the cluster or a SPV with specific members that will benefit directly from the activities supported by the CDP.
Cluster Development Programme (CDP) Guidelines

10. Business Development Services

- 10.1 The business development services grant is a non-taxable cash matching grant of up to 80% of the investment to a maximum grant of R5 million per cluster.
- 10.2 Cluster projects for this component will be evaluated based on their demonstrated improvement in the following areas for the members:
 - 10.2.1 Innovation
 - 10.2.2 Employment creation
 - 10.2.3 Product development
 - 10.2.4 Supplier Development Programme (SDP)
- 10.3 Qualifying costs include:
 - 10.3.1 Consulting fees
 - 10.3.2 Benchmarking costs
 - 10.3.3 Conformity assessments and accreditation
 - 10.3.4 Intellectual Property registration (local and international)
 - 10.3.5 Feasibility studies costs
 - 10.3.6 Technology/ product improvements
 - 10.3.7 Post-prototype development (prototype tested and validated)
 - 10.3.8 Bio-prospecting
- 10.4 The following costs are excluded:
 - 10.4.1 Machinery and equipment
 - 10.4.2 Land and buildings
 - 10.4.3 Vehicles
 - 10.4.4 Travel and accommodation costs

11. Cluster Management Organisation (CMO) Funding

- 11.1 To support strong dynamics amongst enterprises and other stakeholders in the cluster, the purpose of the CMO is to manage core operation and delivery by the cluster.
- 11.2 The CMO funding will be subject to the application being supported by a cluster and/or local or provincial government department or agency.
- 11.3 The CMO funding is a non-taxable matching cash grant of up to 80% of the costs payable at the establishment of the CMO to a maximum of R5 million per cluster.
- 11.4 CMO funding will be granted to entities that meet the following criteria:
 - 11.4.1 Relevant sector knowledge and experience;
 - 11.4.2 Alignment to government policies;
 - 11.4.3 Public/Private Partnership;

- 11.4.4 Demonstrate the ability to grow and support the establishment of new enterprises or SMMEs in the sector; and
- 11.4.5 Demonstrate the ability to create networking and knowledge sharing sessions for the cluster through workshops.

- 11.5 Qualifying costs include:
 - 11.5.1 Project management fees
 - 11.5.2 Administration fees
 - 11.5.3 Salaries and wages (to a maximum of 3 staff and capped at the lesser of R2 million or 70% of the total payroll)
 - 11.5.4 Rent up to 70% of rental cost (will be capped at R250 000)
 - 11.5.5 Furniture and Office equipment
 - 11.5.6 Operational costs (incl. electricity, water, telephone and stationery)
 - 11.5.7 Travel and accommodation including traveling allowances and costs (capped at R50 000 per annum)
 - 11.5.8 Event management costs (for networking sessions)

- 11.6 The following costs are excluded:
 - 11.6.1 Capital equipment
 - 11.6.2 Land and buildings
 - 11.6.3 Vehicles

12. Conditions for Grant Disbursement

- 12.1 For clusters that have been in existence for less than three (3) years, there will be an upfront first payment which will be limited to 25% of the total incentive amount approved and subsequent payments will be upon agreed milestones.
 - 12.1.1 Subsequent grant disbursements are subject to satisfactory verification of expenditure incurred by the cluster and this may include audit confirmation and a site visit by **the dti**.

- 12.2 For clusters that have been in existence for more than three (3) years, grant disbursements will be subject to satisfactory verification of expenditure incurred by the cluster and this may include audit confirmation and a physical on-site visit by **the dti**.
 - 12.2.1 In this case no advance payments will be made and clusters will be expected to prove that payment has been made on a reimbursement basis based on expenditure incurred and according to agreed milestones.

- 12.3 A total number of two claims may be submitted per cluster per financial year or over a twelve month period as per the MOU/ contract and according to achieved milestones

- 12.4 The claim form should be accompanied by relevant documentation as requested by **the dti** on the approval letter.

- 12.5 The applicant shall claim for payment during each financial year and as per agreed milestones failing which **the dti** shall allow a grace period of three (3) months for the submission of claim(s)

and thereafter the application approval shall automatically terminate and no further claim(s) will be processed.

- 12.6 The cluster applicant must notify **the dti** in writing within thirty (30) calendar days of the commencement date of activities, as indicated in the approval letter. **the dti** must also be notified in writing of any changes in the commencement date of activities. The new commencement date must be no more than one-hundred-and-twenty (120) calendar days of the original approved commencement date
- 12.7 It is the responsibility of the cluster to provide complete and accurate information to **the dti** to enable speedy and correct processing of the grant.
- 12.8 The cluster must submit the following documents to the Programme Manager at **the dti**;
- 12.8.1 An originally completed Claim Form duly signed by the cluster representative and an independent external auditor or accredited person;
- 12.8.2 Where necessary a factual findings report completed by an external auditor/accredited person and/or a consulting engineer approved by **the dti**;
- 12.8.3 Latest available audited/independently reviewed financial statements for the cluster;
- 12.8.4 An original valid Tax Clearance Certificate of the entity;
- 12.8.5 Written confirmation of the bank details where payment must be made; and
- 12.8.6 Certificate of compliance with the Codes of Good Practice for B-BBEE for all member companies of the cluster.

13 Additional Legal Conditions

- 13.1 The following are inter alia considered a circumvention of the CDP guidelines and will lead to the rejection of an application or claim:
- Changing the business set-up, composition, structure or operations or sector to make the project qualify;
 - Manipulation of inter-company assets and infrastructure; and
 - Any other action that, in the sole discretion of **the dti**, can be regarded as circumvention to allow for the
 - qualification of an entity that otherwise would not have qualified.

14. Appeal Process

Any dispute relating to a decision (including the rejection of an application) taken by **the dti** is limited to one internal appeal per application lodged within such time as set out in the letter of notification.

15. Criminal, Misleading, Dishonest and Irregular Activities

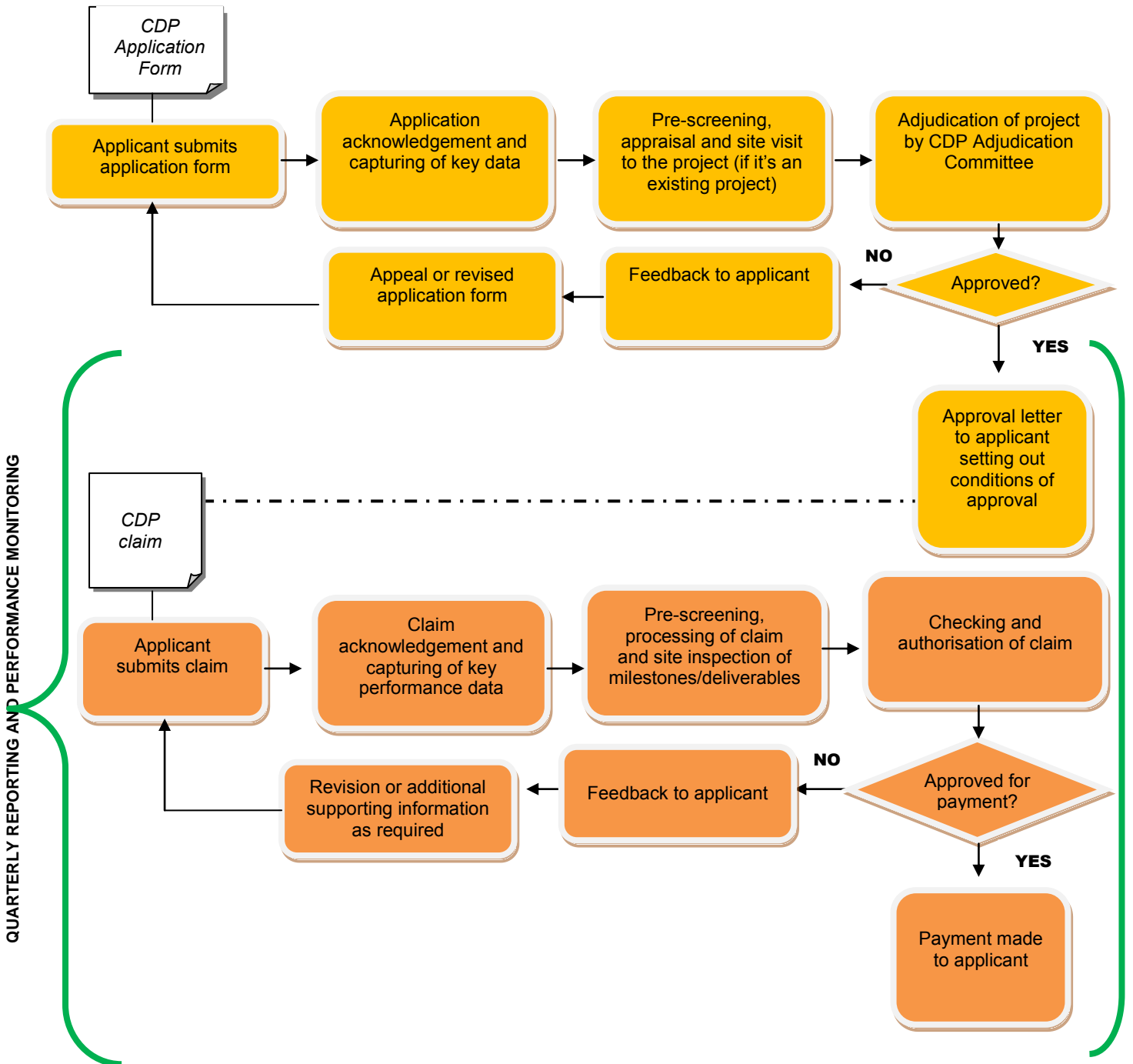
- 15.1. **the dti** may, upon alleged offence or suspicion of contravention of any act or pending litigation of any such activities, suspend payments that may be due or become due to the applicant. **the dti** shall not be liable for any damages or interest, pending the finalisation of any investigation and criminal proceedings brought as a result of the investigation.

- 15.2. Findings of a forensic investigation indicating such activities will be sufficient to enable **the dti** to cease all payments with interest and reclaim any payments already made, with *mora* interest.
- 15.3. **the dti** subscribes to the principles set out in the Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004) (PRECCA). Applicants or any other persons are advised to contact **the dti** fraud hotline on 0800 701 701 should they wish to report any suspicious behaviour.
- 15.4. 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 any other civil claim.

16. Monitoring and Evaluation Reporting

- 16.1 All approved clusters will be monitored to assess how the CDP is contributing towards the strategic objectives of the incentive and its intended outcomes.
- 16.2 Monitoring information required from clusters will form part of the claim forms. Upon receiving the claim forms, **the dti** will conduct site inspections with all the approved applicants to verify the requested information.
- 16.3 In addition to the site inspection visits at each claim stage, clusters may be required to comply with periodic performance monitoring visit.
- 16.4 Approved applicants are also required to submit annual performance reports, up to a period of three years after the final claim has been paid.
- 16.5 Information required will include progress made towards the following:
- Job creation within the cluster
 - Number of new entities developed
 - Number of black owned entities
 - Performance of cluster members (i.e. increased turnover, productivity etc)
 - Number of new markets created
 - Report back on networking/ knowledge sharing sessions (mandatory 2 events per annum)

17. Application Process



18. Glossary of Terms and Definitions

- a) *Adjudication Committee (Board)*: an independent body established by the Minister to adjudicate applications under the CDP
- b) *„Applicant“*: a cluster company applying for the CDP cost-sharing grant. Note that the word ‘applicant’ is used interchangeably with enterprise depending on its appropriateness.
- c) *„Asset“*: a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- d) *„Base year“*: the term refers to a period of 12 months before submission of application to **the dti**
- e) *„Black-owned“*: 51% owned by South African black people.
- f) *„Cleaner Production“*: the continuous application of an integrated preventative environmental strategy to processes, products and services to increase efficiency and reduce risks to humans and the environment.
- g) *„Cluster“*: a cluster is a sectoral and geographical concentration of emerging companies facing common opportunities and threats.
- h) *„Cluster Management Organisation (CMO)“*: the entity responsible for managing and operating the cluster and to support strong dynamics among cluster companies and other stakeholders in the cluster.
- i) *„Commencement date of production“*: refers to the date commercial production started.
- j) *„Competitiveness“*: refers to the ability and performance of an entity or firm
- k) *„Cluster member“*: member entities of the cluster from the same group of companies i.e. under the same holding company.
- l) *„Employees“ or „Jobs“*: persons who work a minimum of forty (40) hours a week for the same employer and are on the employer’s payroll i.e. direct jobs
- m) *„Industry Clusters“*: Industry clusters are groups of similar and related firms in a defined geographic area that share common markets, technologies, worker skill needs, and which are often linked by buyer-seller relationships.
- n) *„Entity“ or „Applicant“*: a business registered as a legal entity in South Africa. The word entity is used here to refer to a business applying or one that has qualified for the incentives, or is claiming CDP incentives
- o) *„Financial year“*: period referred to in the entity's financial statements and as is registered with the Companies and Intellectual Properties Commission (CIPC), irrespective of the calendar period thereof.
- p) *„Green Technology“*: technology that is considered environmentally friendly or less harmful than other traditional technologies, based on its production process
- q) *„Independent external auditor“ or „accredited person“*: a person/agency that performs/undertakes a systematic, independent and documented process for obtaining audit evidence and evaluating it objectively.

i.r.o. a Close Corporation means practising members of the South Africa Institute of Professional Accountants (SAIPA); practising members and Associate General Accountants of the South African Institute of Chartered Accountants (CA(SA) and/or AGA: Individual or enterprise/practice registered as an auditor with the Independent Regulatory Board for Auditors (IRBA).
- r) *„Productivity“*: refers to an average measure of the efficiency of production.

- s) *'Tooling'*: tooling supply and maintenance support (tools, dies, moulds, jigs, fixtures, gauges, purpose built machinery)
- Testing, debugging and optimisation; (Machinery, equipment, tooling,)
 - Metrology Services (Measurement, non-destructive testing, destructive testing, certification, calibration)
 - Surface Treatment services (Hardening, polishing, etching, texturing)