Uptake of DTI Incentives in the Northern Cape : 2013/14

Research and Development

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM, NORTHERN CAPE |
2 CECIL SUSSMAN STR, KIMBERLEY

Contents

1. Introduction

The Northern Cape Provincial Growth and Development Strategy (referred to as the PGDS) lays emphasis on the productive sectors as being central to directing the provincial economy towards a balanced trajectory of conditions conducive for both growth and job creation. The latest developments around the Renewable Energy and Strategic Infrastructure Projects place the Northern Cape as a strategic province for intense manufacturing. This is in line with the South African Industrialisation trajectory, which puts the resuscitation of the manufacturing sector at the forefront of growth of the economy. This is because manufacturing sector has the highest economic and employment multipliers than any sector.

The incentive programmes provided by the Department of Trade and Industry (herein referred to as the DTI) are designed to address identified market failures to support not only sector strategies but also the industrialisation trajectory of the country coined in the National Industrialisation Policy Framework. Incentive programmes provided by the DTI broadly fall into four clusters namely, Broadening Participation, Competitive Investment, Manufacturing Investment and Services Investment Clusters. Incentive performance year end reports from the DTI incessantly confirm a worryingly low uptake of these incentives in the Northern Cape Province.

In the 2014/15 financial year, Research and Development conducted an investigative research initiative to pursue reasons amongst manufacturers in the province for the low uptake of the manufacturing incentives. The findings pointed to a general lack of awareness of the incentives and or inadequate information to warrant applications for the incentives. Given the important role of unlocking job opportunities and economic growth that comes with developing the manufacturing sector, it is thus crucial that the uptake of DTI incentives in the province is persistently monitored. This economic intelligence provides an update on the uptake of the DTI incentive programmes in the province. Northern Cape uptake will be reported per incentive cluster.

2. Northern Cape Uptake of Incentives offered by the DTI as at 2013/14

This section of the report discusses the uptake of DTI incentives by firstly giving a brief background on the four incentive clusters, namely Broadening Participation, Competitive Investment, Manufacturing Investment and Services Investment Clusters. Secondly, the aims of each incentive programme within the four clusters and thirdly, status quo of the provincial uptake.

2.1 Broadening Participation Incentives Cluster (BPC)

The BPC aims to strengthen economic development and participation and continually attempts to address the needs of South Africa's economic citizens, particularly women, youth and people with disabilities and communities living in marginalised regions. This cluster consists of the Black Business Supplier Development Programme (BBSDP), the Co-operative Incentive Scheme (CIS) and the Incubator Support Programme (ISP). (The Industrial Development Incentive Admnistration Division(IDIAD), 2013-14)

2.1.1 Black Business Supplier Development Programme (BBSDP)

BBSDP is a cost-sharing grant offered to small black-owned enterprises to assist them in improving their competitiveness and sustainability in order to become part of the mainstream economy and create employment. DTI approved a total of **1 066** enterprises to the value of **R407.9 million** in the 2013/14 financial year under this programme.

There was a noteworthy improvement in the uptake of this incentive in the province, as **the number of enterprise approvals increased from one to seven** between 2011/12 and 2012/13 reporting periods. The number of enterprises approved **declined from seven (7) to five (5)** between 2012/13 and 2013/14, there was however **an increase in the value of approvals** in the same period **from R2.7 million to R3.7 million**. **The Northern Cape therefore accounts for only 0.5 per cent of the**

total approvals in the BBSDP incentive (5/1066), and 0.7 per cent value of approvals (R2.7m/R408m) which is the least performance in the country.

In 2013/14, the BBSDP largely supported enterprises in the following sectors; construction (40% of all approvals), services (26% of all approvals), retail (16% of all approvals) and manufacturing (10% of all approvals). BBSDP supported a significant number of **catering and events management enterprises from the services sector across all provinces, except for the Northern Cape**. Also, the **BBSDP empowered 375 female-owned black SMMEs** in 2013/14. Again, the **Northern Cape was the only exception as there were no black women owned businesses approved**.

2.1.2 Co-operative Incentive Scheme (CIS)

The Co-operative Incentive Scheme (CIS) is **an incentive for co-operative enterprises in the emerging economy** to acquire competitive business development, machinery and start-up and working capital requirements. DTI approved a total of 243 co-operatives to the value of R62 million in the 2013/14 financial year under this programme.

The number and value of approvals in the Northern Cape improved from **six (6) in 2012/13, worth R1.7 million, to ten (10) in 2013/14, worth R2.3 million**. Co-operatives mainly applied and supported for interventions such as fencing, vehicles, baking equipment, freezers, catering and toilet-paper-making equipment since they largely operate in the catering, baking and recycling industries. **At this level of uptake of the CIS, the Northern Cape Province accounts for 4 per cent of total approvals in the CIS incentive (10/243), and 3.7 per cent value of approvals (R2.3m/R62m) which is the second least performance in the country, after Mpumalanga.**

In 2013/14, CIS largely supported co-operatives in agriculture, manufacturing, services and transport sectors. Rural co-operatives in the agriculture sector continued to receive the most approvals during 2013/14, both in terms of the number and value of assistance. About 61% (974) of all members from co-operatives approved in 2013/14 were female, which is a slight improvement on the 56% (1 421) recorded in 2012/13. (The Industrial Development Incentive Administration Division

(IDIAD), 2013-14). There were 50 female co-operative members supported in the Northern Cape, thus accounting for 5 per cent of the total females supported in the country.

2.1.3 Incubation Support Programme (ISP)

The DTI initiated the ISP as a grant to develop incubators into successful enterprises with the potential to revitalise communities and strengthen local and national economies. The ISP encourages partnerships, in which big businesses assist SMMEs with skills transfer, enterprise development, supplier development and marketing opportunities.

Twenty eight incubators were approved to the value of R513.8 million in 2013/14. Northern Cape has made noteworthy improvements in uptake of this programme. **Since the inception of the ISP in October 2012, there were no approvals for the Northern Cape, however three (3) have been approved in 2013/14 to the value of R78.4 million. Northern Cape thus currently accounts for 15 per cent of the total ISP approvals.** The province projected 448 SMMEs to be supported and 2 350 jobs to be created by SMMEs in the province. Agriculture, construction, manufacturing and ICT in that specific order, received the most approvals in 2013/14.

2.2 Competitive Investment Cluster

All incentives in this cluster aim to promote industrial competitiveness and export growth. Incentive programmes under the CIC include the Manufacturing Competitiveness Enhancement Programme (MCEP), Capital Projects Feasibility Programme (CPFP), Sector-Specific Assistance Scheme (SSAS) and Export Marketing and Investment Assistance (EMIA).

2.2.1 Manufacturing Competitiveness Enhancement Programme (MCEP)

The DTI introduced the MCEP programme to assist local manufacturers to improve enterprise competitiveness and job retention. There was a marked improvement in both the number and value of MCEP approvals from 197 projects valued at R983 million in 2012/13 to 365 projects valued at R2.8 billion in 2013/14. Manufacturers in the agro-processing, metals and chemical sectors continued to dominate the MCEP approvals in 2013/14 as in the previous financial year.

The provincial distribution of MCEP approvals still shows dominance by three provinces namely Gauteng, Western Cape and KwaZulu-Natal. **There has been an improvement in the uptake of MCEP in Northern Cape, from one (1) approval valued at R5.5 million in 2012/13 to two (2) approvals valued at R5.7 million in 2013/14. This current level of uptake means that province accounts for 0.5 % of total approvals (2/365) and 0.2 % of the total MCEP value. Despite this improvement, Northern Cape is still the least performing province on the uptake of MCEP.**

2.2.2 Capital Projects Feasibility Programme (CPFP)

The CPFP is a cost-sharing programme that contributes to the cost of feasibility studies likely to lead to projects outside South Africa, which will increase local exports and stimulate the market for South African capital goods and services. There was an improvement in both the number and value of CPFP approvals from 9 to the value of R39.5 million in 2012/13 to 26 to the value of R195.4 million in 2013/14. Approved enterprises operate in engineering, construction and mining sectors in Gauteng and Western Cape provinces. **There have been no approvals and as such no enterprises from the province that receive the CPFP incentive since inception to date.**

2.2.3 Sector- Specific Assistance Scheme (SSAS)

The main objective of the SSAS scheme is to develop new export markets, stimulate job creation, broaden export base, propose solutions to factors inhibiting export growth and promote the broader participation of black-owned SMMEs in the economy (The Industrial Development Incentive Admnistration Division(IDIAD), 2013-14). There was an improvement in both the number and value of SSAS approvals from 25 projects to the value of R46 million in 2012/13 to 63 projects to the value of R69.3 million in 2013/14.

This improvement in both number and value of SSAS approvals translated to a noteworthy increase in the number of enterprises benefitting from 424 to 786. Enterprises in cultural, film, agro-processing and services sectors dominate the approvals. It is important to mention that 40% of the enterprises that are SSAS beneficiaries are black women-owned operating in the cultural sector. **There was an improvement in the provincial uptake, from no approvals since inception to two (2) approvals in 2013/14.**

2.2.4 Export Marketing and Investment Assistance (EMIA)

The primary objective of the EMIA programme is to develop export markets for South African products and services and to recruit new foreign direct investment (FDI) into the country. EMIA scheme provides marketing assistance to supporters to develop new and grow existing export markets for South African products.

Whilst there was a slight decline in the number of EMIA approvals from 1018 in 2012/13 to 1017 in 2013/14, the value of approvals however increased from R70 million to R77.1 million in the same reporting periods. Although majority of assisted exporters are white-owned SMMEs at 439, there was a significant improvement in black-owned SMMEs supported from 327 in 2012/13 to 383 in 2013/14. Cultural, agro-processing and electro-technical sectors dominated the EMIA approvals in the 2013/14 reporting year.

Gauteng, Western Cape and KwaZulu-Natal provinces continue to dominate the MCEP approvals accounting for 52%, 31% and 7% respectively of the total number of MCEP approvals. **It is concerning that there has been no Northern Cape uptake of MCEP since inception to date**. It is important to mention that the lack of uptake of this incentive is not because there are no applications from the province. The biggest challenge local exporting manufacturers face with EMIA is as a result of one of its eligibility requirements. Due to the geographic proximity of the SACU region to the province, local manufacturers prefer to export to SACU and EMIA does not cater for SACU. The planned export awareness workshops between NCEDA and the DTI will possibly assist with creating awareness of EMIA.

2.3 Manufacturing Investment Cluster

The MIC consists of incentive programmes that promote and attract investment into the manufacturing sector to support economic growth and job creation. These incentives are the Manufacturing Investment Programme (MIP), Automotive Investment Scheme (AIS), Section 12I Tax Allowance (12I TAI) and Aquaculture Development and Enhancement Programme (ADEP).

2.3.1 Manufacturing Investment Programme (MIP)

The MIP aims to stimulate manufacturing and investment; enhance the sustainability of manufacturing enterprises and facilitate job creation. Due to oversubscription, MIP was suspended in September 2012 and the DTI is currently dealing with applications received prior this suspension. This is seen in the decline in both number and value of MIP approvals from 548 to the value of R1.7 billion in 2012/13 to 374 to the value of R1.4 billion in 2013/14.

Majority of approved projects were small enterprises (177) to the value of R171 million, medium enterprises (132) to the value of R318 million, and together these account for 83% of the total MIP number of approvals. Gauteng, Western Cape and KwaZulu-Natal provinces continue to dominate the MIP approvals. **The Northern Cape continues to have the least uptake of the MIP incentive in the country. Between 2012/13 and 2013/14, the Northern Cape uptake level has regressed in both number and value of MIP approval, from 8 to the value of R40 million to 5 to the value of R37.9 million. This is attributed to the minimal level of manufacturing in the province.**

2.3.2 Automotive Investment Scheme (AIS)

The AIS is an incentive designed to grow and develop the automotive light motor vehicle component manufacturers through investment in new or replacement models and components with potential to increase plant production. There was a remarkable improvement in both number and value of AIS approvals from 29 to the value of R407 million in 2012/13 to 38 to the value of R2.4 billion in 2013/14.

Only five provinces are beneficiaries of the AIS incentive and these are Gauteng, Western Cape, KwaZulu-Natal, North West and Eastern Cape. **There is no uptake of AIS incentive in the Northern Cape, indicative of the non-existence of an automotive industry in the province.**

2.3.3 Section 121 Tax Allowance Incentive (121 TAI)

Section 121 TAI focuses on investment in new manufacturing projects as well as expansions or upgrades of existing industrial projects. The tax allowance programme, which incorporates a training allowance component, aims to accelerate economic growth in the South African industrial sector and supports the IPAP 2014/15 – 2016/17, particularly in terms of employment, skills development through training and energy efficiency in manufacturing. **Since inception of the Section 121 TAI, there are no approvals for the Northern Cape Province.**

2.3.4 Aquaculture Development and Enhancement Programme (ADEP)

ADEP is available to South African -registered entities engaged in primary, secondary and ancillary activities in both marine and freshwater, with the aim to increase production, sustain and create jobs, encourage geographical spread and broaden participation.

During 2013/14, 39 ADEP applications were received with projected investment totalling R824 million. Of the 39 applications, 20 (51%) were approved with a projected investment of approximately R383.5 million, while 14 (36%) were rejected with a projected investment of R209.5 million. **Seven provinces are beneficiaries of ADEP with the exception of Free State and Northern Cape.**

2.4 Services Investment Cluster (SIC)

The SIC comprises incentive programmes designed to promote increased investment, foreign direct investment, employment creation and growth in the services sector. Incentive programmes that fall under this cluster include the Business

Process Services Incentive (BPS), Film and TV Production Incentive, and Tourism Support Programme (TSP).

2.4.1 Business Process Services (BPS) Incentive

The South African Government implemented a Business Process Outsourcing and Offshoring (BPO & O) incentive programme as from July 2007. The programme aims to attract investment and create employment in South Africa through offshoring activities.

Nine projects were approved in 2013/14 for a grant amount of R 18.5 million. Of the R18.5 million, the Western Cape was approved for R14.9 million, an increase of R2.9 million from the previous financial year, Gauteng for R2.5 million and KwaZulu-Natal for R1.1 million. KwaZulu-Natal experienced a massive decrease of R19.2 million in the value of grants approved, from R20.3 million in 2012/13 to R1.1 million in 2013/14, followed by Gauteng with a decrease of R6.1 million, from R8.6 million to R2.5 million. **As a result, a total decrease in grant approved of R22.5 million has been observed, from R41 million to R18.5 million.** (The Industrial Development Incentive Admnistration Division(IDIAD), 2013-14). **There has still been no uptake of this incentive in the Northern Cape since its inception.**

2.4.2 Film and Television Incentive

The South African Government offers a package of incentives to promote its film production and post-production industry, which includes the Foreign Film and Television Production and Post-Production Incentive and South African Film and Television Production and Co-productive incentive. The incentive categories aim to support the local film industry and encourage and attract large budget films and television productions and post-production work that will contribute towards employment creation, the enhancement of the international profile and increase the country's creative and technical skills base.

A total of 83 Film and TV productions were approved in 2013/14, a marginal increase of 12 productions from the 71 approved in 2012/13. Of these 83 approved, 66 were

South African productions, six co-production, 11 foreign productions and no post-production. Of the 66 South African productions approved, Gauteng took the lead with 49, followed by the Western Cape with 13, KwaZulu-Natal with three and Mpumalanga with one. Only Gauteng and the Western Cape had foreign and co-productions during 2013/14. Gauteng is dominated by South African productions, while the Western Cape had a fair spread of productions across all categories.

During 2013/14, a total of 802 shooting weeks were recorded across all categories as compared to 689 in 2012/13. The 802 shooting weeks consisted of 646 for South African productions, 109 foreign productions and 47 Co-productions. SA productions increased by 152 shooting weeks from 494 in 2012/13 to 646 in 2013/14 followed by Foreign Productions with 11 from 98 to 109 whereas Co-productions decreased by 50 from 97 to 47.

Of the 646 shooting weeks for South African productions, the Western Cape dominated with 267, followed by Gauteng with 254, Mpumalanga 56, KwaZulu-Natal 32, the Northern Cape 16, Eastern Cape seven, Limpopo seven, Free State six and North West one. Shooting weeks for Gauteng increased notably by 121, from 133 the previous year to 254 in 2013/14, followed by Mpumalanga with 47, from nine to 56, KwaZulu-Natal with 24, from eight to 32, Free State with four, from two to six, **and the Northern Cape with three, from 13 to 16.** Conversely, the Western Cape slumped by 29 shooting weeks, from 296 in 2012/13 to 267 in 2013/14, followed by Limpopo with 13, from 20 to seven and the North West with five, from six to one. The Eastern Cape was consistent with seven shooting weeks both years. (The Industrial Development Incentive Admnistration Division(IDIAD), 2013-14)

2.4.3 Critical Infrastructure Programme (CIP)

The CIP is a 70/30 matching grant that enables and facilitates the establishment of strategic investment in the country. The programme supports infrastructure in mining, manufacturing and services on a reimbursement basis and will contribute to the National Development Plan, which emphasises the need to invest in strong networks of economic infrastructure. Typically, the kind of project that will qualify for assistance under this programme has two main elements: an investment project; and a supporting infrastructure project.

A total of 8 applications were approved in 2013/14 with an investment value estimated at R10 billion, while the incentive value amounts to R185.8 million. Of the eight projects approved for the CIP incentive, three are mining projects, three manufacturing and two agro-processing. Although the least projects approved were in the agro-processing sector, they received the biggest share (49.6%) of the incentive compared to the mining (28.7%) and manufacturing (21.7%) sectors.

There has been an improvement in the uptake of CIP in the Northern Cape, **from no approvals in 2012/13 to one in the mining sector in 2013/14. The approved CIP incentive value in the province amounts to R88.9 million (48 per cent of the total CIP incentive value in 2013/14) with an estimated investment value of only R600 million. Compared to the other two provinces, Gauteng and Limpopo, the number of approvals and investment value of the CIP in the Northern Cape is the least.**

Conclusion

There has been an overall improvement in the uptake of incentives in the Northern Cape between 2012/13 and 2013/14 financial years. The Broader Participation cluster has seen the most remarkable improvements as uptake in all the incentives under this cluster improved in both number and value of approvals.

Two out of the four incentive programmes under the CIC showed improvements, namely MCEP and SSAS. This cluster can be said to be the second in improvements of provincial uptake. Services Investment Cluster also displayed improvements placing it third compared to other clusters. It is worthwhile to mention that CIP incentive within this cluster has shown remarkable improvements in uptake. The MIC is the least performing cluster, with no uptake in three incentive programmes and regression in performance of the MIP.

There still exists a need to improve and ensure satisfactory levels of awareness amongst the Northern Cape businesses and there is reason to believe that the planned workshops on awareness will assist. What is also important is that consideration of provincially tailored incentives especially in support of manufacturing is indispensable. The restrictions posed by some of the eligibility requirements for instance, the exporting programme, infer a need upon provincial government for such a consideration.