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the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Medium and Heavy Commercial Vehicles Automotive Investment Scheme (MHCV-AIS)

A sub-component of the

AUTOMOTIVE INVESTMENT SCHEME

PROGRAMME GUIDELINES

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Contents

Abbreviations and Acronyms

AGA Associate General Accountant

AIS Automotive Investment Scheme

CIPRO Companies and Intellectual Property Registration Office

IRBA Independent Regulatory Board for Auditors

IT Information technology

ITAC International Trade Administration Commission of South Africa

MHCV-AIS Medium and Heavy Commercial Vehicle Automotive Investment Scheme

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) Medium and Heavy Commercial Vehicles Automotive Investment Scheme (MHCV-AIS), a sub-component of the 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 MHCV-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 MHCV-AIS guidelines. 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 MHCV-AIS applications or claims.

2.2 Enterprises are welcome to contact **the dti** directly and the relevant 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 MHCV-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 Medium and Heavy Commercial Vehicles Automotive Investment Scheme (MHCV-AIS), a sub-component of the Automotive Investment Scheme (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 MHCV-AIS provides for a non-taxable cash grant of twenty per cent (20%) of the value of qualifying investment in productive assets by medium and heavy commercial vehicle manufactures and twenty five per cent (25%) of the value of qualifying investment in productive assets by component manufactures and tooling companies for MHCV's as approved by **the dti**.

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

3..3.1 An additional non-taxable cash grant of five per cent (5%) of the value of qualifying investment in productive assets may be available to projects that meet the requirements of paragraph 7.2 below.

3.3.2 An additional non-taxable cash grant of ten per cent (10%) of the value of qualifying investment in productive assets may be available to projects that meet the requirements of paragraph 7.2 and 7.3 below.

3.4 Projects will be evaluated on the following economic benefit requirements:

3.4.1 Investment in a new and/or replacement model;
3.4.2 Tooling;
3.4.3 Value-addition;
3.4.4 Employment creation/retention;
3.4.5 Increase in plant production volumes by medium and heavy commercial vehicle manufacturers;
3.4.6 Increase in unit production per plant by component manufacturers;
3.4.7 Strengthening of the automotive supply chain; and
3.4.8 Empowerment.
3.5 The approved MHCV-AIS grant is to be disbursed over a period of three (3) years.
3.6 The MHCV-AIS programme provides investment support to medium and heavy commercial vehicle manufacturers, MHCV component manufacturers and MHCV tooling companies.
3.7 In all cases, grant payment is subject to an evaluation by **the dti** to determine whether the project achieved the stipulated performance requirements.
3.8 These guidelines will be effective upon approval by the Minister of Trade and Industry.

4. Mandatory Conditions

4.1 The applicant must be a registered legal entity in South Africa in terms of The Companies Act, 2008 (Act No. 71 of 2008) (as amended); 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 MHCV-AIS grant is disbursed.

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

4.4 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.

4.4.1 The applicant must, in addition to the information supplied in paragraph 4.4, submit a B-BBEE certificate, ITAC Registration certificate, 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.

4.4.1.1 The applicant must submit a cost benefit analysis for the project in cases where it cannot provide information as per 4.4. in respect of a cost centre.

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

4.4.2.1 One hundred and twenty (120) days but not earlier than one hundred and eighty (180) days prior to commencement of production for medium and heavy commercial vehicle manufacturers; and

4.4.2.2 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

5. Transitional Provisions

5.1 The MHCV-AIS will be made applicable to investment projects initiated prior to the approval date of the guidelines but limited to projects with a start of production date of 1 April 2014.

5.2 The commissioning period for these projects may not exceed eighteen (18) months prior to start of production date.

5.3 The provisions of paragraph 4.4.2 (above) will not apply to investments with a start of production date between 1 April 2014 and 31 March 2015. This applies to both medium and heavy commercial vehicles manufacturers as well as component manufacturers and deemed component manufacturers. From 1st of April 2015, all applicants have to comply with this condition.

6. Qualifying Projects

6.1. Medium and heavy motor vehicle manufacturers that wish to take part have to register with the International Trade Administration Commission of South Africa (ITAC) and thereafter register with the South African Revenue Service (SARS). The registration with ITAC is in terms of Note 1 to Chapter 98 of the Customs and Excise Act, 1964.

6.1.1 The requirements for registration will be determined by ITAC through its registration process and provisions thereof will be stipulated on the ITAC registration certificate.

6.2 The project must be undertaken by a component manufacturer, a deemed component manufacturer, an automotive tooling company as well as Bus and Truck body manufacturer who is part of the original equipment manufacturer (medium and heavy commercial vehicle manufacturer) supply chain.

7. Eligibility Criteria

7.1 Truck Manufacturers

An existing or new manufacturer of medium and heavy motor vehicles (trucks) has to comply with the extent of assembly (i.e. C.K.D. definition as specified in Note 5 to Chapter 98.) The minimum extent of assembly required to be undertaken within SA for purposes of participating in the MHCV entails that:

7.1.1 The cab may be imported in an assembled and trimmed condition into South Africa until 31 March 2016

7.1.2 The engine and transmission, axles, radiators, suspension components, steering mechanisms, braking or electrical equipment and instrumentation may be imported into South Africa but have to be fitted to the floor pan or chassis frame of the truck within South Africa;

7.1.3 The body or cab has to be fitted to the floor pan or chassis frame within South Africa.

7.1.4 With effect from 1 April 2016 the amended CKD definition as specified in ITAC Report 419 will apply and projects with a start of production of 1 April 2016 and beyond that do not comply with the revised definition will not be supported.

7.2 Bus Chassis Manufacturers

7.2.1 The chassis, engine and transmission assemblies must comply with the CKD definition of Note 5 as stipulated in Chapter 98 of the Customs and Excise Act", 1964".

7.2.2 The chassis, engine and transmission must be assembled semi knocked down in South Africa and the hang-on parts (fuel tank, tyres, battery, wheel rims) for the chassis may be imported into South Africa but have to be fitted to the floor pan or chassis frame of the bus within South Africa.

7.2.3 Projects with a start of production date from 1 April 2016 onwards will be required to comply with the amended CKD definition as specified. From this date projects that do not comply with the revised definition will not be supported under the MHCV-AIS.

7.3 Component Manufacturers, Deemed Component Manufacturers, Tooling companies and Bus and Truck Body Manufacturers.

7.3.1. 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 medium and heavy commercial vehicle manufacturer supply chain locally and/or internationally; and

7.3.2. A component manufacturer that can prove that after this investment it will achieve at least 25% of total entity turnover or R10 million annually by the end of the first full year of commercial production, as part of a medium and heavy commercial vehicle manufacturer supply chain locally and/or internationally.

7.3.3 In the case of Bus Body Manufacturers where the contract is awarded by the entity to the original equipment manufacturer (OEM) to supply the chassis (for example if the Bid to supply busses was awarded to the Body Manufacturer), proof must be provided that the bid has been awarded and a contract has been entered to with the OEM for the supply of the chassis to the Body Manufacturing entity.

8. Evaluation Criteria

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

8.2 To qualify for an additional five (5) per cent MHCV-AIS grant, the project must:

8.2.1 Demonstrate that the investment will result in base year employment levels being maintained throughout the incentive period and, in the case of new investments by medium and heavy commercial vehicle manufacturers demonstrate also that the achieved employment levels will be maintained during the model phase-out period.

8.2.2 Achieve two (2) economic benefit requirements under Table A1 below. 10

Table A1: Economic Benefit Requirements

Requirements	Description
A. Tooling	Demonstrate substantial support for the development of the local vehicle related tooling industry: * Medium and heavy commercial 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 applied R&D, design, or development, performed in South Africa and resulting in production competitiveness over a three year period.
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

	R1-million investment or at least an additional 20 new direct jobs for medium and heavy commercial vehicle manufacturers or 10 new jobs for components.
D. Strengthening the automotive supply chain	* Medium and heavy commercial vehicle manufacturers: Must demonstrate that the Investment will result in introduction of new components, intermediate products or processes not currently manufactured or performed by that company in South Africa or creation of new markets for current components manufacturers or the introduction of a new foreign supplier of components not currently manufactured by that company in South Africa. * Component manufacturers and Tooling companies: must demonstrate that the Investment will result in introduction of new components, intermediate products or processes not currently manufactured or performed by that company 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 (Amended codes series 000 issued in Oct 2013)

8.3 To qualify for a second additional five per cent (5%) (Cumulative 10%) MHCV-AIS grant, the project, in addition to achieving the requirements of paragraph 7.2 must:

8.3.1 Achieve the economic benefit requirement under Table A2 below.

Table A2: Economic Benefit Requirements

Requirements	Description
A. Increase in unit production per plant for Medium and Heavy Commercial Vehicle Manufacturers	If current plant volume is less than 2 000 units per annum, the volume must be increased to 2500 units per annum. If current plant volume is greater than 2000 to 2500 units per annum, the volume must increase by 30%. If current plant volume is greater than 2500 to 3 000 units per annum, the volume must increase by 25%. If current plant volume is greater than 3500 units per annum, the volume must increase by 20%. If current plant volume is greater than 4000 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, Tooling companies and Bus Body Manufactures.	Demonstrate an increase in turnover of at least 20% in the first full year and 30% in year two (2) of production

	commencing on 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 per cent (5%) they have to demonstrate that they will be making components or tools of a type not currently manufactured by that company in South Africa or that the component or tool is not currently made for that OEM in South Africa (i.e. import replacement). Note that this criteria will not be applied at this level if has already been utilised to earn a point in 8.3.2 Table A1 - D

9. Qualifying Productive Assets and Investment Costs

The following productive assets and investment costs may qualify for assistance under the MHCV-AIS:

9.1 Owned buildings and/or improvements to owned buildings

9.1.1 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. Only factory and administrative areas will qualify. The cost of qualifying investment in buildings is limited to the cost of the qualifying investment in machinery and equipment.

9.2 New plant, machinery, equipment and tooling

9.2.1 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.

9.2.2 By way of example such plant, machinery and tooling include:

- Jigs, dyes and moulds;
- In-plant logistics (software and hardware);
- Raw material handling equipment;
- Fork Lifts;
- Production, testing and design equipment; and
- Information technology (IT) equipment and supporting software, used in the manufacturing process.

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

9.3.1 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.

9.3.2 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.

9.3.3 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.

9.3.4 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.

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

9.3.5.1 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 MHCV-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; and
- 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.

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

10. Competitiveness Improvement Costs for Component Manufacturers

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

10.2 This grant will be based on the grant percentage that the component manufacturer's investment project 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.

10.2.1 Where the competitiveness improvement grant application is made separately from an application for a capital investment grant the grant will be at 20% of the qualifying costs.

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

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

10.5 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	Installing or improving quality management systems
	Accreditation	Costs for preparations for accreditation and pre-/initial assessment
Product improvements	Product efficiency, or improvement of production techniques	Fees for the design of production information systems
Skills Development	Automotive Industry production specific skills upgrading or training	Course fees
Information technology systems	Acquisition and deployment of systems	Acquisition of software for integrated production, information systems

11. Exclusions and Limitations

11.1 Non-Qualifying Assets/Investment Costs

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

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

11.1.2 Assets acquired by way of an operational lease agreement;

11.1.3 Land;

11.1.4 Vehicles, including prototypes;

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

11.1.6 Office equipment;

11.1.7 Canteens, canteen furniture and catering equipment;

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

11.1.9 Housing, warehousing and storage outside of the qualifying building/s;

11.1.10 Revaluated assets;

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

11.1.12 Rates and taxes.

Non Qualifying Competitiveness Improvement Costs

11.2.1 Staff wages and salaries, and staff related costs incurred in implementing any of the above projects;

11.2.2 Office equipment;

11.2.3 Land cost

11.2.4 Vehicles.

11.3 General Exclusions and Limitations

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

11.3.2 Projects by medium and heavy commercial vehicle manufacturers, below R30 million, will not qualify for assistance under the MHCV-AIS.

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

Further:

11.4.1 Section 21 companies and trusts do not qualify;

11.4.2 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 one hundred and twenty (120) calendar days of the original approved commencement date.

11.4.3 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 11.1.

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

11.4.5 Component manufacturers supplying more than 75% of their production to the after-market and accessories do not qualify.

12. Grant Disbursements

12.1 Grant payment schedule and performance requirements - Medium and heavy commercial vehicle manufacturers and component manufacturers and/or deemed component 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 20% 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. In order to qualify for the 33, 33% first claim payment, projects must have commenced commercial production.

· **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 75% 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 2000 plant production volume and achieve 100% of the approved economic benefit requirements and eligibility criteria.

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

12.3 A component manufacturer or tooling companies 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 medium and heavy commercial vehicle manufacturer supply chain locally and/or internationally.

12.4 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 financial year.

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

12.6 Grant payment schedule and performance requirements – Competitiveness Improvement Costs

For business development services and other activities, grant disbursement will be made upon completion of activities under each focus area[1]. 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

13. Claims Submission

13.1 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.

13.2 Only a claimant that demonstrates an investment in qualifying assets on an approved project may claim for the MHCV-AIS. Documented capital expenditure, which must be certified by an accredited consulting engineer, as appointed by **the dti**, will form the basis of the MHCV-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.

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

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

13.4.1 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 as well as all separate pages attached to the claim must be initialled by the authorised representative of the applicant; as well as the external auditor or accredited person.

13.4.2 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.

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

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

13.4.3.1 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;

12.4.3.2 A consulting engineer's (approved by **the dti**) certificate confirming commissioning of the project or start of production (SOP);

13.4.3.3 An original Factual Findings Report

13.4.3.4 A project monitoring report addressing the evaluation criteria;

13.4.3.5 An original valid tax clearance certificate of the entity; and

13.4.3.6 A cancelled cheque/bank certificate and a credit order instruction not older than three (3) months as written confirmation of the bank details of the approved entity.

13.4.4 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.

13.5 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 of the approved assets that have been taken into production in order to ease processing.

13.6 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.

13.7 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.

14. Conditions Regarding Grant Disbursement

14.1 Claims must be submitted within six (6) months after the end date of the specified claim period or at the financial year-end, whichever is the later.

14.2 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.

14.3 Offshore assets of approved MHCV-AIS entities will be excluded for grant calculation.

14.4 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.

15. General Conditions

15.1 **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.

15.2 **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.

15.3 **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 financial year to measure the outputs and outcomes of the project.

15.4 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 MHCV-AIS grant is approved and paid out.

16. Additional Legal Conditions

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

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

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

16.1.3 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 MHCV-AIS grant.

17. Decision Review Process

17.1 Any dispute relating to a decision (including the rejection of an application) taken by **the dti** is limited to one (1) decision review to **the dti** per application lodged, within forty-five (45) days of the date of issue as set out in the notification letter.

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

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

18.1 **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.

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

18.3 **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 are requested to contact **the dti** fraud hotline on 0800 701 701 should they wish to report any suspicious behaviour.

18.4 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.

19. Monitoring, Reporting and Impact Assessment

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

19.2 **the dti,** or its appointed accredited consulting engineer, may conduct a site visit to projects at application stage as well as at any claim stage. 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 MHCV-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 MHCV-AIS grant automatically terminates.

19.3 Project monitoring reports for approved projects must be submitted at the end of each financial year, including an additional two (2) financial years following their final claim, i.e. two (2) years after the incentive period). Failure to comply shall entitle **the dti** to reclaim any moneys paid in terms of the MHCV- AIS

20. Application Process

20.1 The application process is as follows:

TABLE B: APPLICATION PROCESS

	Project Application		**the dti approval process**
Project Appraisals	♉ Applicant sends completed application form to **the dti** by mail or via **the dti**'s website ♉ Applicant may obtain further information about the criteria telephonically or	**Project Appraisal**	♉ Project business plan analysis ♉ Project and entity financial viability Analysis ♉ Economic benefit analysis
		Verification and Inspection	♉ Project verification inspection at applicant's premises may be conducted ♉ Inspector verifies that project meets all requirements ♉ Report submitted for consideration by the Adjudication Committee ♉ Application checked for completeness ♉ Letter/e-mail requesting additional information sent to applicant ♉ Fully completed application is scheduled for evaluation ♉ Adjudication Committee reviews
Basic Assessment	♉ Application checked for completeness ♉ Letter/e-mail requesting additional information sent to applicant ♉ Fully completed application is	**Adjudication**	♉ Adjudication Committee reviews report from the project evaluator ♉ Application approved, rejected or returned for additional information ♉ Only one (1) appeal will be considered ♉ The decision of the Adjudication Committee is final ♉ Letter confirming approval of the application with applicant

Grant Disbursements	**Monitoring**
• 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 certificate	• **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 annually. This requirement forms part of the terms and conditions of the AIS.

21. Contact Details of the AIS Administrator

Incentive Development and Administration Division (IDAD)
Department of Trade and Industry

Sunnyside
Pretoria
0002
Enquiries should be directed to: aisappsq@thedti.gov.za

Annexure A:

Section A: Glossary of Terms and Definitions

1.	**'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 MHCV-AIS incentive programme.
2.	**'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.
3.	**'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.
4.	**'Base year employment'**: This term refers to a period of twelve (12) months prior to start of production
5.	**'Buses':** Refers to motor vehicles for the transport of thirty six (36) or more persons, including the driver
6.	**"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.
7.	**'Connected party/persons/non-arm's length transactions'**: A 'connected party', as described in The Income Tax Act, 1962 (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.
8.	**'Commencement date of production'**: This refers to the date commercial production started.
9.	**'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. For the purposes of these guidelines component manufacturers include Bus and Truck Body Manufacturers as well as Tooling Companies
10.	**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.
11.	**'E-applicant'**: These are applications submitted and/or other documents electronically submitted on **the dti** website.

12.	**'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.
13.	**'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.
14.	**'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.
15.	**'Full investment'**: This refers to an investment that enables a project to start producing commercially.
16.	**'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 South African Institute of Professional Accountants (SAIPA); 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 26 with the Independent Regulatory Board for Auditors (IRBA).
17.	**'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.
18.	**'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.
19.	**'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, composition, structure of operations, processes or products.
20.	**'MHCV-AIS approval'**: The document from **the dti** to the applicant, setting out the terms and conditions of the MHCV-AIS incentive being offered to the applicant, which will by implication include the terms and conditions set out in these guidelines ('implied terms').
21.	**New processes:** This is a process that promotes backward and forward linkages.
22.	**'Project':** This refers to any investment in plant, machinery and equipment by a medium and heavy commercial vehicle manufacturer to produce in accordance with the complete knock down principle at least 2000 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.
23.	**'Real terms'**: This term refers to an increase in nominal value, adjusted to the effect of inflation, i.e. less average inflation.
24.	**'Research and development or R&D'**: **Research** is experimental or theoretical work undertaken primarily to acquire new knowledge of a scientific or technological nature.
25.	**'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.

26.	**'Shareholding':** This refers to shareholding in a Company, membership in a Close Corporation, or membership/ownership of a Co-operative.
27.	**'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.
28.	'**Tooling company**': This refers to Tool, Die and Mould making companies
29.	**'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.
30.	**Trucks:** This refers to as a motor vehicle for the transport of goods
31.	**'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

Date: