



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA



Support Programme
for Industrial Innovation
an initiative of **the dti**

Support Programme for Industrial Innovation (SPII) Guidelines Matching Scheme

*the dti reserves the right to amend, revise, cancel, and interpret
any of the guidelines on an ongoing basis.*

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Contents

1. PREAMBLE	3
2. BASIC PRINCIPLES OF THE SPII PROGRAMME	3
3. QUALIFYING COMPANIES AND INDUSTRIES.....	3
4. GENERAL CRITERIA	4
5. PROJECTS THAT DO NOT QUALIFY	5
6. INNOVATION CRITERIA	5
7. QUALIFYING COSTS.....	6
8. NON-QUALIFYING COSTS.....	10
9. MILESTONE AUDITS AND PAYMENTS	12
10. GUIDELINES FOR CONSULTANTS	13
ANNEXURE 1	14
DEFINITION OF TERMS	187
ANNEXURE 2.....	18

1. PREAMBLE

1.1. Purpose of the SPII Guideline Document (SGD)

This document (SGD) serves as a convenient reference for the Support Programme for Industrial Innovation (SPII) applicants and the Adjudication Committee engaged in the evaluation of the SPII Matching Scheme.

2. BASIC PRINCIPLES OF THE SPII MATCHING SCHEME PROGRAMME

2.1. General statement of purpose/intent of scheme

The SPII intends to promote technology development in South Africa through the provision of financial assistance for the development of innovative, competitive products and/or processes.

2.2. Basic principles

The SPII Matching Scheme provides financial assistance in the form of a non-taxable¹, non-repayable grant of 50% of qualifying costs incurred in pre-competitive development activity associated with a specific project to a maximum of R5 million.

3. QUALIFYING COMPANIES AND INDUSTRIES

3.1. South African-registered companies

All South African-registered enterprises engaged in pre-competitive development activity in manufacturing or related industrial fields, or software development, which intends to lead to commercialisation of the product being developed, may apply for SPII assistance. In the case of companies and close corporations, it is not necessary that the majority of equity be held by South African individuals or companies.

3.2. SPII Matching Scheme

Financial assistance under the Matching Scheme is provided in the form of a non-repayable grant of between 50% and 75% (depending on the black economic empowerment status (BEE) and shareholding of women and people with disabilities at the time of application) of the “qualifying” costs incurred during the technical development stage, up to a maximum of R5 million per project.

Financial assistance under the Matching Scheme is provided to large companies on a 50% matching basis. A large company is defined in the Small Business Act of 2003.

The incentives for BEE, women and people with disabilities provided under both the Product Process Development (PPD) and Matching Schemes do not apply to large companies.

¹ The non-taxability of the SPII grant is effective from February 2013
SPII Guidelines-Matching Scheme

At the time of application, the grant is 50% for enterprises with $\leq 25\%$ BEE shareholding; 65% for enterprises with $> 25\%$ but $\leq 50\%$ BEE shareholding or $> 50\%$ women/people with disabilities shareholding; and 75% for enterprises with $> 50\%$ BEE shareholding.

- 3.3. Enterprises with direct or indirect state shareholding may qualify if they are registered taxpaying entities with an arms' length relationship to associated government parties and do not receive any other government funding to finance the envisaged (SPII) project directly and/or indirectly (e.g. through sub-contracting).

4. GENERAL CRITERIA

- 4.1. The major proportion of the development project (refer to 7.4.5) and subsequent manufacturing of the product must take place in South Africa. This applies to the production envisaged at the time of evaluation, as reflected in the sales projections included in the report to the SPII Adjudication Committee.
- 4.2. All Intellectual Property (IP) rights in terms of the Intellectual Property Rights from Publicly Financed Research and Development Act, 2008 (Act No. 51 of 2008) ("the IP Act"), as amended from time to time, shall reside in a South African-registered company.
 - 4.2.1. In the case of the SPII Matching Scheme, IP rights, as defined in the IP Act, that have been developed as a result of a project supported by the SPII Matching Scheme, must reside in a South African-registered company from the initiation of development activity until three years after the completion of the project. (the completion date is the date of payment of the final milestone.)
- 4.3. Products developed with support from the SPII must, where applicable, comply with relevant national and international standards.
- 4.4. Only one application may be considered from any company at a time. Subsequent applications will be considered on completion, cancellation or withdrawal of a project.
- 4.5. The applicant must provide a valid South African Revenue Service Tax Clearance Certificate at the time of application and for each milestone payment request.

5. PROJECTS THAT DO NOT QUALIFY

- 5.1. Products and processes developed for a single client do not qualify for SPII support.
- 5.2. The SPII Matching Scheme does not support basic and applied research.
- 5.3. The SPII Matching Scheme does not support projects that are more than 50% complete at the time of application. An exception may be made for applicants with total assets less than R5 million.
- 5.4. The SPII Matching Scheme grant contribution should be significant in relation to the total project costs; the grant must cover at least 20% of the total project costs. A lesser proportion may be considered in the case of SPII Partnership Scheme.
- 5.5. A project that receives other government funding will not receive support from the SPII Matching Scheme.
- 5.6. Projects of a military nature will not receive SPII Matching Scheme support unless the product or process that is developed will have a substantial general commercial or civilian application.
- 5.7. Projects where technology is licensed by a third party and the licence agreement restricts commercial application will not qualify for SPII Matching Scheme support.

6. INNOVATION CRITERIA

- 6.1. Innovation refers to new and unique products or processes that may be incremental, novel and radical. For a product to be considered innovative, the following will be considered:
 - Functionally unique and advanced
 - Efficient
 - Low cost
 - If process driven, it should be a substantial improvement of the original process
 - Predominantly be the result of technical development as opposed to research or studies and should emphasise technical innovation

Innovation includes projects where:

- A new and unique product with clear benefits is developed. These benefits can range from new features to specific attributes that have not been seen in a product before.
- A unique improvement to a product with clear benefits is developed. The new features added to the product are such that the entire product can be seen to be innovative.
- A new software development that provides substantial efficiency improvements. These improvements could include a product being substantially easier or faster to use.

Refer to Annexure 1 for more detail.

6.2. Special case: Generic pharmaceuticals

Refer to Annexure 2.

7. QUALIFYING COSTS

7.1. Commencement date

Only costs incurred after the commencement date will qualify. The commencement date will be the date on which a complete application and/or last outstanding document of the application is received and verified by the SPII administration.

7.2. Salary and labour costs

7.2.1. General

Only the costs of personnel directly involved in the project and contributing technical inputs are qualifying costs. Amounts claimed must not be out of line with the amount of such salaries or drawings prior to the date of application. Where there is inconsistency, a proper motivation must be provided, e.g. general salary increase or promotion, which should be to the satisfaction of SPII.

7.2.2. Basic

Qualifying remuneration is based on the total annual salary package of each individual. This would normally be the amount contained in the person's letter of appointment. Equipment such as desks, computers, telephones and office space are not included.

The hourly salary rate is calculated by dividing the qualifying remuneration by 2016 working hours per annum. The maximum hourly rate that may be claimed is R800 per hour. Qualifying costs will also be determined for the project team based on the approved rate and hours approved for the project, supported by relevant payslips and other documentation.

7.2.3. Overtime

Overtime will only qualify if this is specifically paid and the maximum hourly rate will be the salary rate as calculated in terms of 7.2.2 above. No double or improved time will be allowed.

7.2.4. Management costs

Only the costs of executive or managerial personnel, including directors, who are directly involved in the project qualify and only to the extent that such personnel are contributing technical inputs. The maximum time allocated for this category may not exceed 50%.

Project management relates to the development process and is regarded as a qualifying cost.

7.2.5 Shareholders, directors, members and owners

Personnel-related costs for such persons qualify if the actual cash has been paid out to them or transferred to their loan account. This must be supported by an IT3 (a) and proof that this has been submitted to SARS.

As a guideline, the hourly rate of support will be determined after comparison with the amount paid in the preceding year divided by 2016 working hours.

A maximum of 134 hours per month may be claimed.

7.3. Material costs

7.3.1. Direct materials for prototype or model: qualifying material costs comprise material of a non-capital nature that is consumed during the direct development and manufacture of prototypes and models.

7.4. Subcontractors

7.4.1. Where the subcontracted items are eligible for support (i.e. the costs would be regarded as qualifying costs if the subcontracted work was carried out by the applicant) and the subcontractor is at "arm's length", the subcontracting costs are regarded as qualifying costs.

7.4.2. In instances where it is considered that a subcontractor is not at "arm's length", expenditure by the subcontractor is to be treated as if incurred by the applicant and must be subject to the same rules as applied to the applicant.

7.4.3. Subcontractor costs

Subcontractors must at the time of the project evaluation provide a quotation that sets out the following:

- A detailed description of deliverables;
- Itemised costing using the headings as per SPII project costing with unit costs shown (e.g. machine time x hours @ R xx per hour). Unit costs could include overheads and mark-ups or these could be shown separately; and
- An undertaking that it will carry out the work as prescribed in the client's business plan that has been approved by the SPII Adjudication Committee and will not claim any IP resulting in the execution of such subcontracted work.

SPII reserves the right to audit subcontractor costs at the time of milestone audits if it deems such an undertaking necessary.

7.4.4. Government-funded institutions as subcontractors

Government-funded institutions such as Universities, Universities of Technology and Science Councils, e.g. Council for Scientific and Industrial Research (CSIR) may act as subcontractors (see 3.3).

7.4.5. Foreign subcontractors

In exceptional cases, where foreign subcontracting is a crucial component of the development project and the subcontracting cannot be done in South Africa, such costs may be regarded as qualifying costs. Such costs will, however, be limited to 10% of the total qualifying project costs. In the case of the SPII Matching Scheme, the maximum qualifying portion of such costs cannot exceed R500 000.

7.5. Tooling costs: General

7.5.1. The costs of design, compiling mechanical drawings, building models and prototypes of tooling up to the stage of the completion of the project are qualifying costs. All costs relating to the manufacturing or production may be considered as qualifying costs. This is not applicable in certain projects (viz. software).

7.6. Tooling costs: Specially approved items

7.6.1. Tooling that is purchased, or the manufacture of which is subcontracted, and that can be used for both development and commercialisation, may be considered as a qualifying cost and a specially approved item.

7.7. Capital equipment: Specially approved items

7.7.1. Capital items that are required specifically for the development project are qualifying costs. Where a capital item may also be used or hired during the production or commercialisation phase, or where the item will have a realisable market value at the end of the development phase, the cost of such capital items are considered as qualifying costs.

7.8. Computer hardware and software costs

7.8.1. In general, any costs related to computer hardware or software are non-qualifying (see item 8.6.1 and 8.6.2). Software (e.g. process software) will be approved as a qualifying cost, on a case-by-case basis, if it forms an integral and inseparable part of and is essential for the functioning of the prototype and eventual product. This will not include any licensed software.

7.9. Patent costs

7.9.1. Costs incurred in respect of the lodging of patent applications are regarded as qualifying costs. The type of patent, registering authority and applicable country or countries must be specified. The qualifying portion of patent costs is limited to 20% of the total SPII qualifying

project costs. Patent costs are treated as a specially approved item. The patent must be registered in the company's name.

7.10. Travel costs

7.10.1. Limitation on local and foreign travel costs (see 8.8.3)

In the case of the SPII Matching Scheme, qualifying travel costs are limited to R8,000 for local travel and R30,000 for overseas travel.

7.10.2. Qualifying travel costs

Qualifying travel costs are restricted to those required for development purposes and are limited to economy-class airfares for one person per trip. That person must be an employee of the company who is directly involved with the technical development.

Costs for car hire, buses and taxis are qualifying.

7.11. Licensing costs

7.11.1. Qualifying costs

Costs for licences or royalties for technology (excluding software) that is required in the development phase of a project will be considered on merit as qualifying costs, subject to the limitation in 7.12.2 below.

7.11.2. Local and foreign licensing costs

The qualifying portion of local or foreign licensing costs or royalties will be limited to 10% of the total qualifying project costs.

7.12. Trials

7.12.1. Product trials

The cost of product technical development trials may be accepted as qualifying costs and will be regarded as a specially approved item. The qualifying cost of the trials is limited to 20% of the total SPII qualifying project costs.

7.12.2. Clinical trials

The cost of clinical trials may be accepted as qualifying costs and will be regarded as a specially approved item. The qualifying cost of the trials is limited to 20% of the total SPII qualifying project costs. However, clinical trials will not be supported in isolation.

7.13. Documentation

7.13.1. Preparation of development-related, user, maintenance and specification manuals

The cost of the preparation or compilation of development-related operating, user, maintenance and specification manuals are qualifying costs. The cost of printing such documents is non-qualifying.

7.14. Quality assurance

7.14.1. The costs of in-house quality assurance and control of the development process are regarded as qualifying.

7.14.2. The costs of preparation of the quality assurance manual for the product being developed are regarded as qualifying (see 8.11.1).

7.15. Product certification

7.15.1. Quality or performance certification

The costs of product quality or other certification (e.g. SABS, DIN and CE compliance) are qualifying and specially approved items. SANAS-accredited laboratories must be used, where applicable.

7.16. Proof of market

During milestone three or equivalent milestone, the applicant must include the proof of market as one of the deliverables. The cost for undertaking the proof of market is qualifying.

8. NON-QUALIFYING COSTS

8.1. Costs incurred prior to the commencement date are non-qualifying.

8.2. General management costs, marketing, production, administration, support personnel, commissions, interest, allocated costs of overheads and services (e.g. rent, electricity, telephone), statutory costs, consultants, brokerage, application preparation and processing fees (paid directly or otherwise) and foreign exchange contingencies are non-qualifying. Value Added Tax (VAT) is also non-qualifying.

8.3. Salary and labour costs

8.3.1. Costs that are not substantiated with time sheets are non-qualifying.

8.3.2. Any non-guaranteed payments, such as profit or performance bonuses and share options are non-qualifying.

8.3.3. Statutory staff-related costs such as Regional Service Council (RSC) levies, Skills Development Levy (SDL payments and Unemployment Insurance Fund (UIF) contributions are non-qualifying.

8.4. Material costs

8.4.1. Materials consumed within the production environment are non-qualifying costs.

8.4.2. Materials purchased or manufactured for stockholding are non-qualifying costs.

8.5. Tooling costs

8.5.1 The cost of tooling that is purchased or the manufacture of which is subcontracted and will be used only in the manufacture of the product will be non-qualifying (see 7.6.1).

8.6. Computer hardware and software costs

8.6.1. Computer hardware

Computer hardware, even though used in the development process, is a non-qualifying cost. This includes desktops, notebooks or palmtops or components thereof such as CPUs, hard drives or memory and computer peripherals such as printers, scanners, monitors and modems. The material and labour costs of any computer-related installation are also non-qualifying. Computer hardware includes all industrial-related computer equipment. Exceptions to the above will be approved on a case-by-case basis.

8.6.2. Computer software

With the exception noted in 7.8.1, any software acquired for the development, including software licences, generic business software (e.g. word processors, spreadsheet software, CAD and CAM software, solid modelling software), business process software (e.g. accounting packages) and the development of in-house software and software tools, are non-qualifying costs. This is also applicable to industrial-related software.

8.7. Patent costs

8.7.1. The costs of defending patents are non-qualifying.

8.8. Travel costs

8.8.1. Travel costs that are not related to the development of the product or process are non-qualifying. An example is those costs related to the marketing of the product.

8.8.2. Travel costs to attend seminars, conferences, training courses and workshops are non-qualifying.

8.8.3. Costs for accommodation, meals, laundry and tips are non-qualifying. Travel costs related to any type of public holiday will not qualify.

8.9. Trials

8.9.1. The costs of marketing trials and tests are non-qualifying.

8.10. Documentation

8.10.1. The costs of the preparation, compilation and production of marketing-related documents, such as brochures and pamphlets are non-qualifying.

8.11. Quality assurance

8.11.1. The costs of company ISO certification are non-qualifying.

8.12. Maintenance

8.12.1. All maintenance and related costs are non-qualifying

9. MILESTONE AUDITS AND PAYMENTS

9.1. In the event that the actual SPII portion of the initial milestones exceeds the budgeted grant amount for those milestones, up to 20% excess above the approved amount for those milestones may be paid, subject to the final milestone budgeted grant amount being at least 20% of the total grant amount approved.

9.2. SPII grant recipients must produce a valid SARS Tax Clearance Certificate with each request for a milestone payment.

9.3. Pre-payment

Payments of milestone claims prior to the attainment of the milestone deliverables or at the beginning of the milestone development will be made to kick-start the development.

The pre-payment for the final milestone is limited to 50% of the SPII contribution, with the remainder paid out after the final milestone audit.

9.4. Final milestone

In the case of the SPII Matching Scheme, the approved amount for the final milestone must be at least 20% of the grant amount.

10. GUIDELINES FOR CONSULTANTS

- 10.1. SPII consultants may not prepare applications and are subject to the following terms as per their contract with SPII:
 - 10.1.1. The consultant warrants that, to the best of its knowledge, it does not and is not likely to have any conflict of interest in the performance of this agreement. If a conflict or risk of conflict of interest arises (without limitation, because of work undertaken for any person other than **the dti**), the consultant will immediately give notice of the conflict of interest, or the risk of it, to **the dti**.
 - 10.1.2. The consultant will take all reasonable measures to ensure that its employees, agents and subcontractors do not engage in any activity or obtain any interest that is in conflict with providing the services to **the dti** fairly and independently. The consultant will immediately give notice to **the dti** of any conflict of interest relating to the activities of interest of any of its employees, agents or subcontractors.
- 10.2. If **the dti** is given notice of a conflict of interest pursuant to clause 10.1, **the dti** will proceed to terminate its legal agreement with that SPII consultant.
- 10.3. Notwithstanding anything to the contrary, the consultant undertakes that it will not at any time while this Agreement is in force:
 - 10.3.1. Charge any fees (including that for referral/preparation) to a prospective or current applicant for SPII funding, in respect of the services being rendered in relation to the application; and
 - 10.3.2. Unless agreed with **the dti**, engage the services of any other consultant or subcontractor to perform any function related to the services.

ANNEXURE 1

SPII: SOFTWARE INNOVATION

Background

Software consists of a very fragmented range of products and technologies. It includes retail and off-the-shelf software, and different market and product types such as operating systems, applications and solutions. This includes internet security software, embedded control software, enterprise resource solutions, 3D-modelling software and databases. The same applies to technologies and programming languages.

Purpose

The purpose of this document is to serve as a reference for what software innovation is in the context of projects requesting SPII funding and aims to provide clarity on the criteria for when software projects should be considered to be innovative.

Innovation

Innovation refers to new and unique products or processes that may be incremental, novel and radical. The basic principle support for pre-competitive development (excluding research) of new products or processes involves a global technological advance. For a product to be considered innovative for SPII it should be:

- Functionally unique and advanced
- More efficient
- Low cost
- If process-driven, it should be a substantial improvement or change of the original process
- The innovation should predominantly be the result of technical development as opposed to research or studies and should emphasise technical innovation

Software innovation includes projects where:

- A new and unique product with clear benefits is developed. These benefits can range from new features to specific attributes that have not been seen before in a product;
- A unique improvement to a product with clear benefits is developed. The new features added to the product are such that the entire product can be seen to be innovative; and
- A new software development that provides substantial efficiency improvements. These improvements could include a product being substantially easier or faster to use.

Examples of Software Innovation

Software projects are diverse, with a plethora of variations and applications. To assist with determining the innovativeness of a software project, the following outline should be used as a guide.

A. NEW PRODUCT / PROGRAMME

- New software products or programs will be considered innovative if they offer substantial functionality or cost savings that are not available in other products on the market.
- Innovation can apply to a new algorithm, a solution allowing a substantial integration of existing programs, a product suite or a single product.

Criteria to be considered in terms of innovation (either Yes or No):

- Utilisation of a different operating system: No supporting different bit length (e.g. 64 bit instead of 32 bit): No
- Developing a product to support additional hardware or software compatibility: No
- Creation of a new Algorithm or new functionality: Yes

The innovativeness of the product will only be evaluated on the basis of new functionality of the product.

B. NEW METHODOLOGY/LANGUAGE/TOOLBOX

Software methodologies will be considered as innovative if the processes involved are substantially different from existing methodologies and if they offer a substantial benefit to software development. The innovation will only be applicable to the development of the methodology itself and not to products developed using the new methodology. These products will need to qualify as innovative in their own right to qualify for funding.

A new language can be considered innovative if it does not currently exist and will offer significant benefit to the software community.

New tool boxes may be considered as new software products and the innovativeness assessed.

Criteria that may be considered in terms of innovation:

- The process improvement must be measurable, as must be the hardware evaluation;
- Improved flexibility (viz. Bit length (32 to 64) etc.) will not be considered as innovative in this category; and
- Functionality – this innovative feature must be evaluated and should be substantial.

C. UPGRADE OF EXISTING PACKAGES

Product upgrades will be considered as innovative only if they offer substantial additional functionality that is not available in competing products:

- The functionality of the package must be increased substantially; and
- A change to support a new operating system will not be considered innovative.

D. PAY-FOR-SERVICES TYPE PACKAGES

These will not be considered for SPII support in isolation:

- Enabling existing package for the web-type applications and internet coupling development will not be considered as a qualifying activity; and
- ASP type packages will not be considered if ASP is the core objective of the development.

E. COMBINING TWO BEST-OF-BREED PRODUCTS TO DEVELOP NEW, ROBUST PRODUCT (INTEGRATION)

Integration will be considered as innovative if the components have not been combined before and if the resultant product provides significant functionality not available in competing products.

- This will be considered on a case-by-case basis, subject to the development being sufficiently innovative.

F. GENERAL

- Software applications that aim to serve a single client will not qualify for SPII support.
- Embedded software development will only be considered for support under exceptional circumstances. It will be considered if it represents a minor component of the development.
- Any project that results in IP restrictions imposed by exclusivity agreements or similar will not qualify for support if they inhibit the optimal commercialisation of the project.

DEFINITION OF TERMS

In order to assist with a common understanding of what the many variations of software mean and the difference between them, the following definitions are provided as a guide:

New Software Product

Relates to a product that consists entirely or largely (>50%) of software alone. An example is a software application such as Microsoft Excel.

New Languages

Refers to the definition and development of a programming language and associated compiler. The product would be the language and/or the compiler and not a product developed through the use of the new language.

New Tool Boxes

New tool boxes, which typically consist of libraries of functions etc. (for use by third parties), should be considered as new software products.

Integration

Refers to the combining of software and/or hardware so as to create a new product/system. This could include taking some existing modules, developing some new modules and putting them into a new system.

Embedded Software

Refers to microprocessor-based software, which is embedded within a hardware device. An example is the software running in some washing machines.

Web Software

Refers to software that requires a web server and allows for remote access of information by multiple users. Examples include internet and intranet applications.

Software Methodologies

Refers to the processes involved in developing software.

Limited Software Content Products

Refers to projects where 50% or less of the product development costs consists of software.

Algorithms and Subroutines

Refer to software logic and functions that form part of software development.

Product Upgrades

Can refer to any of the above categories of software and involve a modification to an existing product. This could include bug fixes and addition of new functionality.

ANNEXURE 2

SPECIAL CASE: GENERIC PHARMACEUTICALS

While not strictly speaking an innovative activity, applications from manufacturers of generic pharmaceutical products for the support of the development of the process to manufacture a generic product may be considered if the development project has substantial technological merit. The aspect of possible patent infringement needs to be rigorously addressed and the following applies:

1. The application must comply with the SPII criteria, according to the SPII policy guidelines as set out in the application documentation;
2. There must be clarity on the patent status of the generic product, not only in the country of manufacture (in this case South Africa), but also in countries to which the generic product is to be exported. The applicant must provide legal opinions from known reputable patent lawyers in the country/countries where the product will be distributed or exported in order to ensure that no patent infringement will occur in the said country/countries;
3. The applicant must provide reasons for not applying for a patent on the product/process; and
4. The following clauses must be included in the SPII Agreement:
 - Payback of the grant by the company to the IDC, if the company infringes on any aspect of IP rights; and
 - Assurances by the applicant that the dti cannot be held liable for legal action regarding the support to a company that develops a generic medicine for which a patent may exist.

Approved by:

Dr Rob Davies (MP)
Minister of Trade and Industry
Date: