Support Programme for Industrial Innovation (SPII) Guidelines

Product Process Development 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

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 Adjudication Committee engaged in the evaluation of the SPII Product Process Development Scheme.

2.   BASIC PRINCIPLES OF THE SPII PRODUCT PROCESS DEVELOPMENT SCHEME

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.

The PPD scheme intends to promote technology development through the provision of financial assistance for the development of new products and/or process. A new product is a product that has not been in the market before.

2.2   Basic principles

The Product Process Development Scheme provides financial assistance for small, very small and micro enterprises whose total assets (excluding fixed property) are below R5 million and a turnover of less than R13 million as well as total employees of below 50, as defined in the National Small Business Amendment Act of 2003 or any other Act replacing it.

3.   QUALIFYING COMPANIES AND INDUSTRIES

3.1   South African-registered companies

All South African registered enterprises engaged in pre-competitive development activity in manufacturing, services 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   Product Process Development Scheme

Financial assistance in the form of a non-taxable[1] non-repayable grant of between 50% and 85% (depending on the shareholding by BEE, women and persons with disabilities at the time of application) of qualifying costs during the technical development stage with a maximum grant amount of R2 million per project. At the time of application, for enterprises with ≤ 25% BEE shareholding, the grant is 50%; for enterprises with > 25% but ≤ 50% BEE shareholding or > 50%

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shareholding by women or people with disabilities, the grant is 75% and for enterprises with BEE shareholding of > 50%, the grant is 85%.

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, shall reside in a South African-registered company.

4.2.1 In the case of the SPII Product Process Development Scheme, IP rights, as defined in the IP Act, that have been developed as a result of a project supported by the SPII Product Process Development 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 Product Process Development Scheme 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 only be considered on completion, cancellation or withdrawal of a project.

4.5 The applicant must submit a valid South African Revenue Service Tax Clearance Certificate at the time of application and for each milestone payment request.

4.6 Only applications prepared by the applicant will be accepted for evaluation. No consultant or third party prepared application will be processed unless a formal declaration from the applicant is provided. Where applicable, an example of the application form completion will be provided by the SPII administrators.

5. PROJECTS THAT DO NOT QUALIFY

5.1 Products and processes developed for a single client will qualify for SPII support subject to the contractual conditions of the single client.

5.2 The SPII Product Process Development Scheme does not support basic and applied research.

5.3   The SPII Product Process Development Scheme does not support projects which are more than 70% complete at the time of application.

5.4   The SPII grant contribution grant contribution should be significant in relation to the total project costs; the grant must cover at least 20% of the total project costs

5.5   A project that receives other government funding will not receive support from the SPII Product Process Development Scheme.

5.6   Projects of a military nature will not receive SPII Product Process Development support unless the product or process being developed will have a substantial general commercial or civilian application.

5.7   Projects where technology is licensed from a third party and the license agreement restricts the commercial application will not qualify for SPII Product Process Development support.

6.   PRODUCT OR PROCESS CRITERIA

6.1   Support will be for pre-competitive development, excluding research of new products or processes.

6.2   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 unique 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.

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   Basis

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 which 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 80%.

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

7.2.5   Shareholders, directors, members and owners

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

this has been submitted to SARS. Proof required is an assessment and confirmation from SARS that payment of tax in relation with the income declared has been paid.

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

Direct materials for prototype or model: qualifying material costs comprises material of a non-capital nature 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. It is further required that the Intellectual Property (IP) developed as result of the project is wholly owned by the recipient.

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 cost 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-up or these could be shown separately; and
- An undertaking that it will carry out the work as prescribed in the client's business plan 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 the 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).
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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 cost. Such costs will, however, be limited to 10% of the total qualifying project costs

7.5   Tooling costs: General

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 development trials shall not exceed 50% of the support. This is not applicable in certain projects (viz. software).

7.6   Tooling costs: Specially approved items

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 special approved item.

7.7   Capital equipment: Specially approved items

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 costs. 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.

7.8.2   Computer hardware and software costs used in the development process will qualify. The grant value will be 5% to a maximum of R25,000 for both computer hardware and software components.

7.9   Patent costs

Costs incurred in respect of the lodging of patent applications are regarded as qualifying costs. The type of patent, registering authority and the 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 8.7)

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

7.10.2 Acceptable 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.
Cost for car hire, travel by 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 7.11.2 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. Material usage in case of foreign subcontracted development will be limited to 40% of foreign sourcing and 60% shall comprise local content.

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 50% 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 50% of the total SPII qualifying project costs. However, clinical trials will not be supported in isolation.

7.13   Documentation

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 a non-qualifying cost.

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 costs. (see 8.10)

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 costs.

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, consultant fees and foreign exchange contingencies are non-qualifying costs.

Value Added Tax (VAT) is also a non-qualifying cost. If rent is part of the project development, it will not exceed R12,000 per annum and only for the duration of the project, not exceeding 12 calendar months for registered business premises.

8.3   Salary and labour costs

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

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

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 manufactures 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.).

8.6 Patent costs

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

8.7 Travel costs

8.7.1 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.

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

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

8.8 Trials

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

8.9 Documentation

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

8.10 Quality assurance

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

8.11   Maintenance

8.11.1 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 in order 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 Product Process Development 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 **he 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, 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, databases etc. The same applies to technologies and programming languages used.

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

- Functionally unique and advanced;
- More efficient;
- Lower cost;
- If process driven it should be a substantial improvement/change of the original process; and
- The innovation should predominantly be the result of technical development as opposed to research/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 unique features to specific attributes that have never 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 which provides substantial efficiency improvements. These improvements could include a product being substantially easier to use, being substantially faster etc.

Examples of Software Innovation

Software projects are many and 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/PROGRAM

New software products/programs will be considered innovative if they offer substantial functionality or cost savings that is 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):

Using 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 mainly 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 be assessed on the following basis:

Criteria that may be considered in terms of innovation:

- The process improvement must be measurable, together with the hardware evaluation that must be measurable as well.
- Improved flexibility (viz. Bit length (32 to 64) etc.) will not be considered as innovative in this category
- 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 A NEW ROBUST PRODUCT (INTEGRATION)

Integration will be considered as innovative if the components have never 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 intellectual property 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, which 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 using 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 typically could include taking some existing modules, developing some new modules and putting them into a new system.

Embedded Software: 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, which 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: Products containing limited software content refer to projects where 50% or less of the product development costs consists of software.

Algorithms and subroutines: Refers to software logic and functions that form part of a software development.

Product Upgrades: Upgrades can refer to any of the above categories of software and involve a modification to an existing product. This could include bug fixes, addition of new functionality etc.

Approved by:

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