# R5.75bn to help boost manufacturing sector

CAPE TOWN: The manufacturing sector is to get a R5.75 billion injection over six years from the Department of Trade and Industry to help factories become more competitive in the increasingly difficult global economic environment.

Speaking at the launch of the Manufacturing Competitiveness Enhancement Programme in Cape Town on Tuesday, 15 May 2012, Trade and Industry Minister Rob Davies said the world was going through the second wave of the great recession brought on by the global financial crisis of 2008, with manufacturing coming under particular pressure.

Davies said the sector had been struggling with increasing input costs as well as the monetary policy response of advanced countries - where very low interest rates in developed countries had led to money flooding into emerging countries where interest rates were higher and had therefore pushed up currencies such as the rand and made exports uncompetitive.

Last year, the manufacturing sector contributed 14.6% to GDP, compared to 21% in 1977, while in fast-growing Asian countries the sector had been growing - in Korea from 23.6% in 1977 to 30.6% in 2010 and in Malaysia from 19% to 26.1% over the same period.

If South Africa wanted to become a leader in Africa, it also had to raise competitiveness, Davies said, adding that those manufacturers that did not boost their competitiveness around the onset of the global financial crisis were the ones that were hit particularly hard.

He said the new programme would complement the Industrial Policy Action Plan (IPAP) 2012/13 to 2014/15 which was launched in April.

Of the R5.75 billion available to manufacturing firms over the next six years, R1.25 billion had been allocated to the programme this financial year.

The programme, which would borrow on lessons from the successful Clothing and Textile Competitiveness Improvement Programme, includes six incentive grants.

These will help improve firms' competitiveness in capital investment, green technology and resource efficiency improvement, enterprise-level competitiveness improvement, cluster competitiveness improvement and funding for feasibility studies.

The programme would be complemented by a loan facility by the Industrial Development Corporation (IDC).

Firms that apply for support from the programme are required not to reduce employment during the duration of their participation in the programme.

Applicants had to be at level 4 on the BEE scorecard, or have a credible plan on how they plan to do so within the next four years.

Davies thanked industry roleplayers, particularly the Manufacturing Circle for their contributions in compiling the programme and said he was pleased that the organisation had become a much more prominent organisation among those in the manufacturing sector.

Detailing the workings of the programme, Tumelo Chipfupa, Deputy Director General of The Enterprise Organisation said incentives would be calculated according to manufacturing value added and given credits - smaller firms, as well as black-owned and managed firms, would be allocated a higher weighting when points are calculated.

Using these credits, an applicant would be able to draw on grant funding across the programme's six incentive grants.

Grants would be based on a cost-sharing principle, with smaller firms being able to allocate a higher percentage of grants to cover funding for their competitiveness-enhancing projects, than bigger firms.

The coverage offered by each of incentives differs, namely the:

- Capital Investment Grant to upgrade capital equipment and expand productive capacity will cover between 30% and 50% of the investment
- Green Technology Upgrading Grant for investment in technology and process that will make the production process greener will cover between 30% and 50% of the investment
- Enterprise-Level Competitiveness Improvement Grant for investment in the adoption of improved manufacturing practices to cover between 50% and 70% of project costs.
- Feasibility Studies Grant: A cost-sharing grant towards developing a bankable feasibility study for new manufacturing projects, to cover between 50% and 70% of project costs
- Cluster Initiatives Grant to help fund shared infrastructure such as a sector technology development centre, market research, international advertising and publicity costs, with the grant to cover 80% of qualifying project costs.

Grant funding for cluster initiatives is aimed at encouraging smaller firms to band together to carry out joint marketing or joint buying, which would help them become more competitive.

The Working Capital facility will include a revolving 180-day, 6% fixed interest rate facility, while the Distressed Fund consists of a concessionary 6% fixed interest rate loan for applicants that are accessing the IDC's Distress Fund.

Because most of the grants are in the form of reimbursements, which are paid out only later, often after a firm spends money on the project it requested coverage for, many small businesses that applied for the grant often experienced a cashflow shortage.

To counter this, Chipfupa said the IDC would be able to provide upfront to small enterprises while the grant was being processed.

Double dipping in funding and enterprises that charge import parity pricing would be excluded from the programme, he said.

Chipfupa said the department's current target for addressing applications was 60 days, but he stressed that the Enterprise Organisation was aiming to reduce this to 45 days.

The department's Director General Lionel October said applications will be handed out as of today, and the programme will go live on 1 June.