From the desk of Marc – May 2015

The article below appeared in Business Day on 4 May 2015. What to make of it and its effect on our esteemed clients?

Firstly the Incentive Consultants Association (ICA) is an association of consultants which provide incentive services to industry. We are not members of that association as we have not thought them to be particularly effective in representing their members or in advancing members interest. The day we think otherwise will also be the day we become members of ICA.

The first question we need to consider is whether they are correct in saying that there will not be sufficient funds to cover applications already submitted. It is known that the budgeted figure for this scheme is R7.4bn between 2012 and 2018. This was re-affirmed by the Director General, Mr Lionel October in April 2015[1] in response to questions put to him by the Parliamentary Portfolio Committee on Trade and Industry (PPCTI). To be able to consider that, one needs to consider:

1. how many applications have actually been received in incentive value and
2. how accurately do the applications made reflect the incentives which will actually be paid out.

ICA cites as their own complied figures, this figure as being R10bn in applications. This is significantly contradicted by a Business Day article which states that as of February 2015, R5.2bn had been committed.[2] What does committed mean in the context in which it is used here? It means that applicants have made applications the sum of which by February 2015 commits the state to pay out R5.2bn in incentive payments. That raises another question:

Will the entire incentive Rand committed ultimately be paid out?

The answer to which can only be that this is most unlikely. Allow me to explain. The scheme requires that an applicant forecast its interventions for a two year period and that it apply at least two months prior to commissioning or implementing its interventions and also does not insist a that these interventions are fully realized, the only consequence being that incentive payments are related to commissioned interventions. This means: "spend less, get less". To not apply with a degree of prudence on the other hand means that the applicant is limited to the incentive applied for and approved. Let us turn to the other side of the equation. How much

[1] Article "DTI Grilled on Manufacturing Competitiveness Programme".
[2] Article in Business Day April 2015 "Backlog grows as claims for machine upgrade grants surge".

has actually been disbursed to date? Again the articles referred[3] to variously claim that between R1.5bn and R1.6bn have been paid out. The scheme became effective in June 2012. If by February or March 2015 it only disbursed R1.5-R1.6bn in 2.5 years, but got in applications for R5.2bn in that period, what is there to suggest that it will now manage to disburse R5.8bn in the remainder of the scheme period of 3.5 years? The scheme is in essence reactive in nature and applicants must first incur and commission interventions before they can realize their incentive receipts bit this disbursements picture to my mind suggests that despite words to the contrary, the scheme will not even get fully subscribed, never mind over-subscribed as is suggested by some so to suggest moratoriums and the like is the simple product of inadequate thought. In summary on this point, you as applicant ought to have little to worry about.

On ICA;'s point about interaction with consultants, the understanding of their role and purpose and their charges, we can only agree with them on this.

Til next time

Marc

"Call for action on industrial grant logjam. Applicants criticize incentives backlog

Linda Ensor
Critical Writer

The Incentive Consultants Association is calling for a moratorium on new applications for the Department of Trade and Industry's R7.4bn manufacturing competitiveness enhancement programme, which is struggling to process claims. The department has been inundated with claims and has insufficient funds to cover those already submitted. The association estimates that of about 100 applications from companies last year, only about 15 were approved. The programme provides a cash grant to companies planning to upgrade their machinery or buildings, or to invest in training. By 2017-18, when it will end, a total of R7.4bn would have been allocated to it. The association's members include large firms such as Deloitte; PwC and KPMG, as well as niche consultancies, which are responsible for about 80% of claims submitted. According to the figures the association had compiled, claims of more than R10bn had been submitted to the department by December, its vice-chairman, Duane Newman said last week. "Our analysis of the numbers indicates that there is a high likelihood

[3] 1 and 2 above.

that they are oversubscribed," he said. "The only way that they would not be oversubscribed is if there is a big fall-off rate in what companies were approved for, and what they ultimately claim for." There was likely to be a high fall-off rate because companies often claimed, and got approval for, larger amounts than they spent. This was because the programme required applicants to submit capital expenditure plans for the next two years. Mr. Newman said companies need to know what they could expect from the programme. They needed to be told by the department that it was oversubscribed, that there was no more money, and that no more applications would be accepted if this was the case. He said there was no alignment between the department's claims approval process and the investment cycle. Often the claims were paid long after the spending on the investment had been made. Trade and industry director-general Lionel October has acknowledged that there is a "massive backlog" of applications and that the department had beefed up capacity to deal with this. It has also reduced the maximum cap on what will be paid out to distribute the available funds more widely. But Mr. Newman was sceptical that the measures adopted increasing the number of adjudication meetings would clear the backlog any time soon and argued that the department should call a halt to new applications until this happened. He was also sharply critical of the department's efforts to exclude consultants from the application process. Mr. October said the cost of consultants detracted from the amount available for investment in productive capacity, but Mr. Newman was adamant that they provided a valuable service. "Government completely misunderstands the role of consultants. Their role is not simply to fill in a form." Mr. Newman said. "They advise companies on the details and appropriateness of this programme and gather information of complex capital projects." "It is not true that if the work is done in-house, there is no cost to this work. Often companies doesn't have these resources internally." He pointed out that the consultancy sector was highly competitive and that consultants could not charge their clients exorbitant fees if they wanted the work. Mr. Newman called for closer co-operation with the department on the manufacturing competitiveness enhancement programme. "If we present quality applications, their processes will be simplified and quicker," Mr. Newman said."