Manufacturing Competitiveness Enhancement Programme in context

The recent freeze on applications to the dti's Manufacturing Competitiveness Enhancement Programme (MCEP) stirred controversy. The short-term decision to end applications essentially reflects increasing efficiency in the dti approval processes. In the medium term, however, Treasury's current efforts to reduce state spending seem likely to bring to a halt the past decade's rapid growth in the resources available for the incentive.

In October, the dti announced that it could not approve further applications under the MCEP because it had exhausted the available funds. Under this programme, the dti commits to reimburse successful applicants, most of which are small or medium enterprises, for projects to enhance efficiency and green technology. Approved applications average around R15 million per applicant.

The applications are approved essentially on a first come, first served basis. Approvals have typically taken over a year, with payments starting a year after that. To date, the dti has approved R5 billion for 335 mostly small and medium enterprises, and has actually paid R1,5 billion.

At least in part, the exhaustion of the MCEP's funds halfway through the financial year reflects increased efficiency in spending by the dti. Two years ago, only 82% of the incentive funds were spent during the budget year; by 2014/5, the figure had risen to 97%.

The widespread criticism of the freeze apparently arose because most applicants pay consultants to prepare the application. A survey of 40 applicants undertaken under the auspices of the Manufacturing Circle found that while most employed consultants on a contingency basis, more than third had to pay them at least something, whatever the dti's decision.

In the sample, the dti had approved around half the applications. Over half felt that the dti's communication and service were below average or poor; only one said it was excellent and most of the rest found it average.

Treasury has committed to a run of austerity budgets over the next few years. In this context, incentive schemes are vulnerable because the funds are generally not contractually tied up in advance and because it is often difficult to demonstrate their effectiveness.

The impact of the austerity strategy appeared in the latest dti budget. Transfers to business now account for around 40% of the dti's total expenditure, up from 20% a decade ago. From 2005/6 to 2014/5, the dti's transfers to private business quadrupled in constant 2015 rand, rising from R1,1 billion to R4,1 billion. In the coming two fiscal years, in contrast, these transfers as a whole are expected to fall 1% in real terms.

That said, incentives to manufacturing are still expected to climb by 10%, rising from R3,3 billion in 2014/5 to R3,6 billion in 2015/6 in 2015 terms. Moreover, the department's support for critical economic infrastructure – both through the Special Economic Zones and through targeted investment in other areas – is planned to double in the coming two years, with R1,3 billion budgeted for 2015.