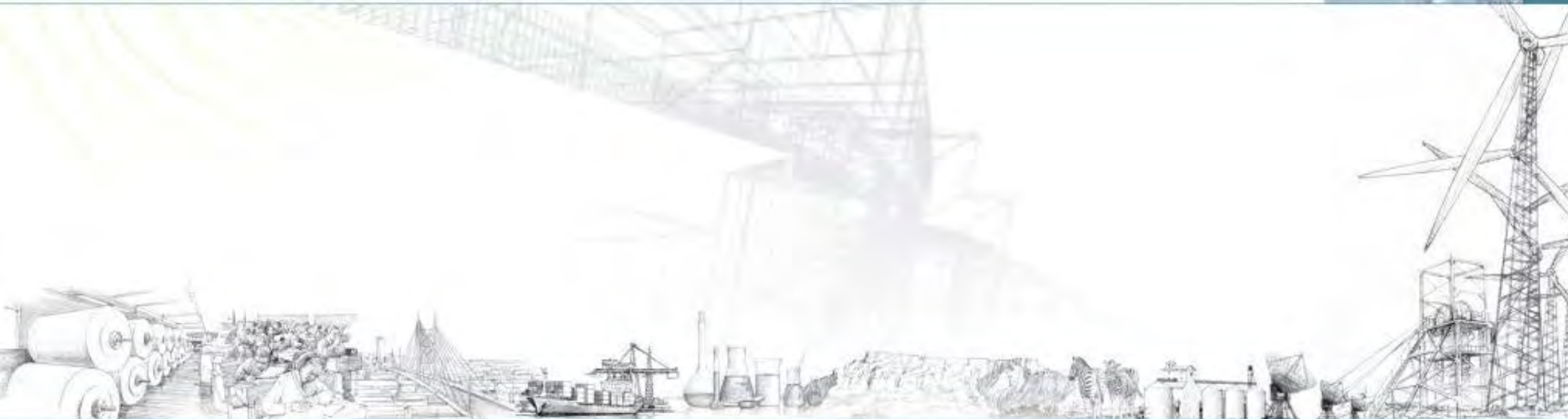


IDC Presentation By Kgampi Bapela



IDC in the South African Development Finance Institution landscape



The Role of DFIs

DFIs' positioning within the financial system

Greater importance on social and developmental objectives

Greater importance on financial objectives

Government / NGOs

- Non-commercial focus
- Fiscal transfers and grants
- Development objectives (social)

DFIs

- Commercial and development focus
- Sharing risk
- Internally generated funds, government funds, loans

Commercial Financiers

- High commercial focus
- Private sector capital
- Financial objectives
- Known risks

DFIs should not compete with other institutions, but should instead encourage cooperation to achieve its goals

The South African DFI Landscape

Core mandates of South Africa's national DFIs

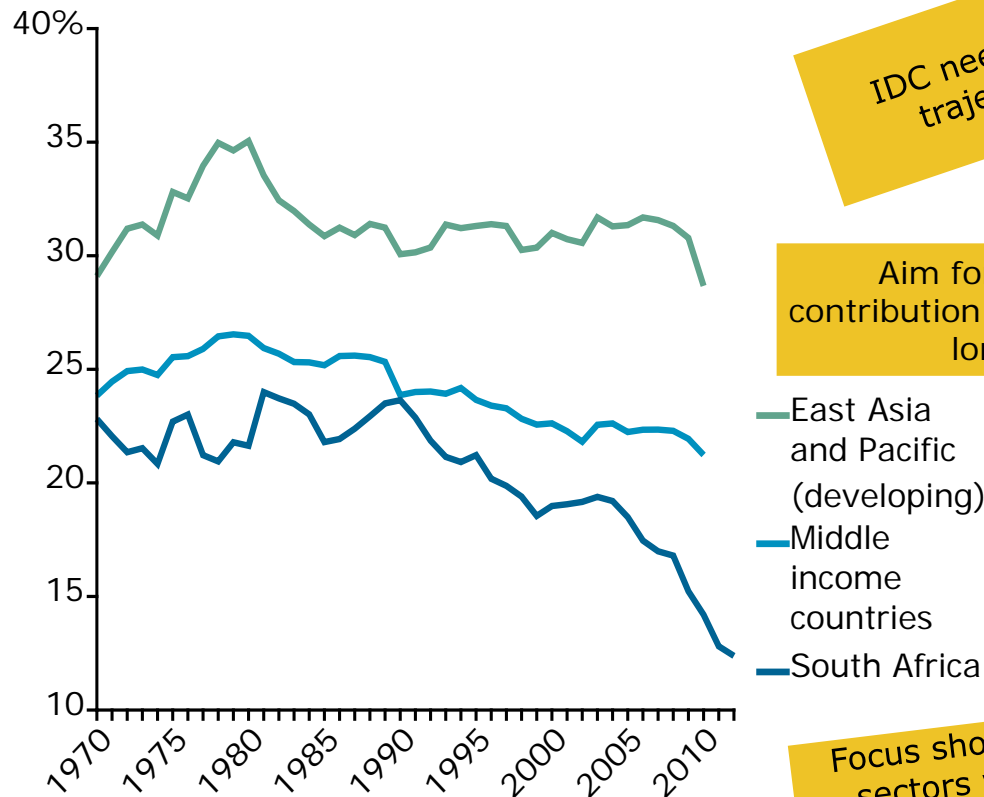
| Core Mandate | DFI |
|--|---|
| Industrial development | <ul style="list-style-type: none">Industrial Development Corporation (IDC), est. 1940 |
| Infrastructure development | <ul style="list-style-type: none">Development Bank of Southern Africa (DBSA), est. 1983 |
| Agriculture, land reform and rural development | <ul style="list-style-type: none">Land and Agricultural Development Bank (Land Bank), est. 1912Independent Development Trust (IDT), est. 1990 |
| Black economic empowerment | <ul style="list-style-type: none">National Empowerment Fund (NEF), est. 1998 |
| SMME development | <ul style="list-style-type: none">Small Enterprise Finance Agency (sefa), est. 2012Small Enterprise Development Agency (seda), est. 2004 |
| Housing development | <ul style="list-style-type: none">Rural Housing Loan Fund (RHLF), est. 1996National Housing Finance Corporation (NHFC), est. 1996National Urban Reconstruction and Housing Agency (NURCHA), est. 1995 |
| Youth development | <ul style="list-style-type: none">National Youth Development Agency (NYDA), est. 2009 |

In addition to national DFIs, there are also a number of provincial DFIs/investment promotion agencies including Ithala Development Finance Corporation (KwaZulu-Natal), Eastern Cape Development Corporation, North West Development Corporation, Free State Development Corporation, Limpopo Economic Development Agency.

Manufacturing's contribution to SA GDP is below that of developing countries

MANUFACTURING CONTRIBUTION TO GDP

Share of GDP



IDC needs to turn this trajectory around

Aim for a balanced contribution in the medium to long term

Focus should be on sub-sectors where SA has competitive and comparative advantage

- Manufacturing sector in SA saw its **share of GDP declining** quite sharply over time if compared to the trend observed in identified developing regions
- SA has experienced growth in GDP due to the rapid growth of the **financial and retail sectors**, thus **reducing** manufacturing's contribution.
- Performance of **individual manufacturing sub-sectors varied widely** and most face strong **foreign competition** in local and external markets, among other challenges

Despite its positive benefits to economic development, the manufacturing sector's contribution to the SA GDP declined sharply from 20.9% in 1994 to 11.6% in 2013

- IDC is expected to be all things to all people and is stretched in its ability to deliver.
- IDC has too many competing objectives and needs to identify areas for focus.
- Our investment portfolio needs to be focussed so that we do not invest in areas which do not contribute to industrial development.
- We need to integrate our developmental outcomes e.g. Jobs, black industrialists and community development into our funding operations.
- We know that our people are critical and we need to use them competently to get the desired impact.
- We need to optimise our processes and systems to be efficient and effective in our delivery.

With this we needed to change focus and prioritise and also be clear on how we will implement this prioritisation.

As the IDC, we have had strong impact to date, but there is opportunity to go even further

KEY ACHIEVEMENTS OVER RECENT YEARS

- Funding **approvals** over the last three years at R40 billion were **39% higher than the previous three years**
- Funding **disbursements increased by 87%** to R36 billion over the same period
- Direct **jobs facilitated in SA increased** to 88 000 from 83 000 – a 6% increase
- Extremely **strong balance sheet** (debt/equity ratio of only 20% compared to acceptable gearing of 40%)
- Continued to play an important role in **developing industrial capacity of industries** such as renewable energy, automotive components, steel, pharmaceuticals, film, agro-processing, and others



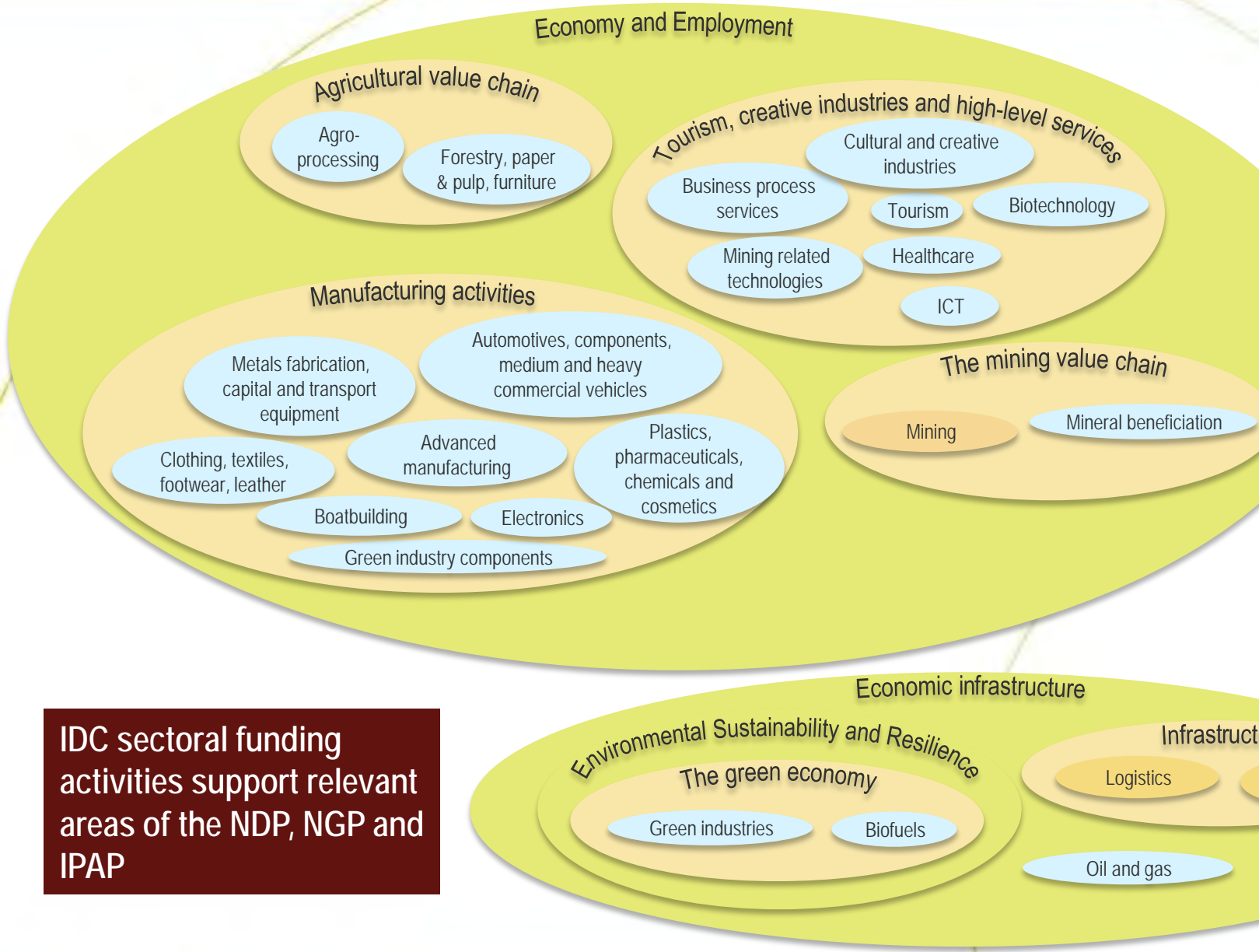
However, we can achieve even greater ambitions: Industry transforming investments on a sustainable basis with even greater development impact

Also: **endorsed by President** in latest State of the Nation Address

*"[Our Development Finance Institutions'] **impact on development is not sufficiently broad-based and their investment programmes are not well coordinated. The institutions will be repositioned in the next five years to become real engines of socioeconomic development**"*

-State of the Nation Address, June 2014

As a part of the State, IDC strategy draws from Government's Programme



IDC activities are aligned to Government's programme, driving increased economic activity in productive sectors and seeking to have a greater impact on job creation, inclusive wealth, provincial distribution of economic activity and regional development.

IDC sectoral funding activities support relevant areas of the NDP, NGP and IPAP

IDC's strategy: Leadership in Industrial Development

Increasing Industrial Development Impact

- Strengthen sector development objectives and strategies
- Align IDC with the sector objectives of NGP and IPAP
- Increased project development and implementation
- Provide industrial finance to further achievement of sector development objectives
- Increase regional industrial integration through the development of value chains
- Ensure effective and efficiently operating sefa

Ensuring Long-Term Sustainability

Financial Capital

- Plan investment return and risk profile to ensure sufficient growth to replace existing cash generators
- Structure investments to increase direct equity returns
- Manage risk through appropriate investments, pricing and management of the portfolio

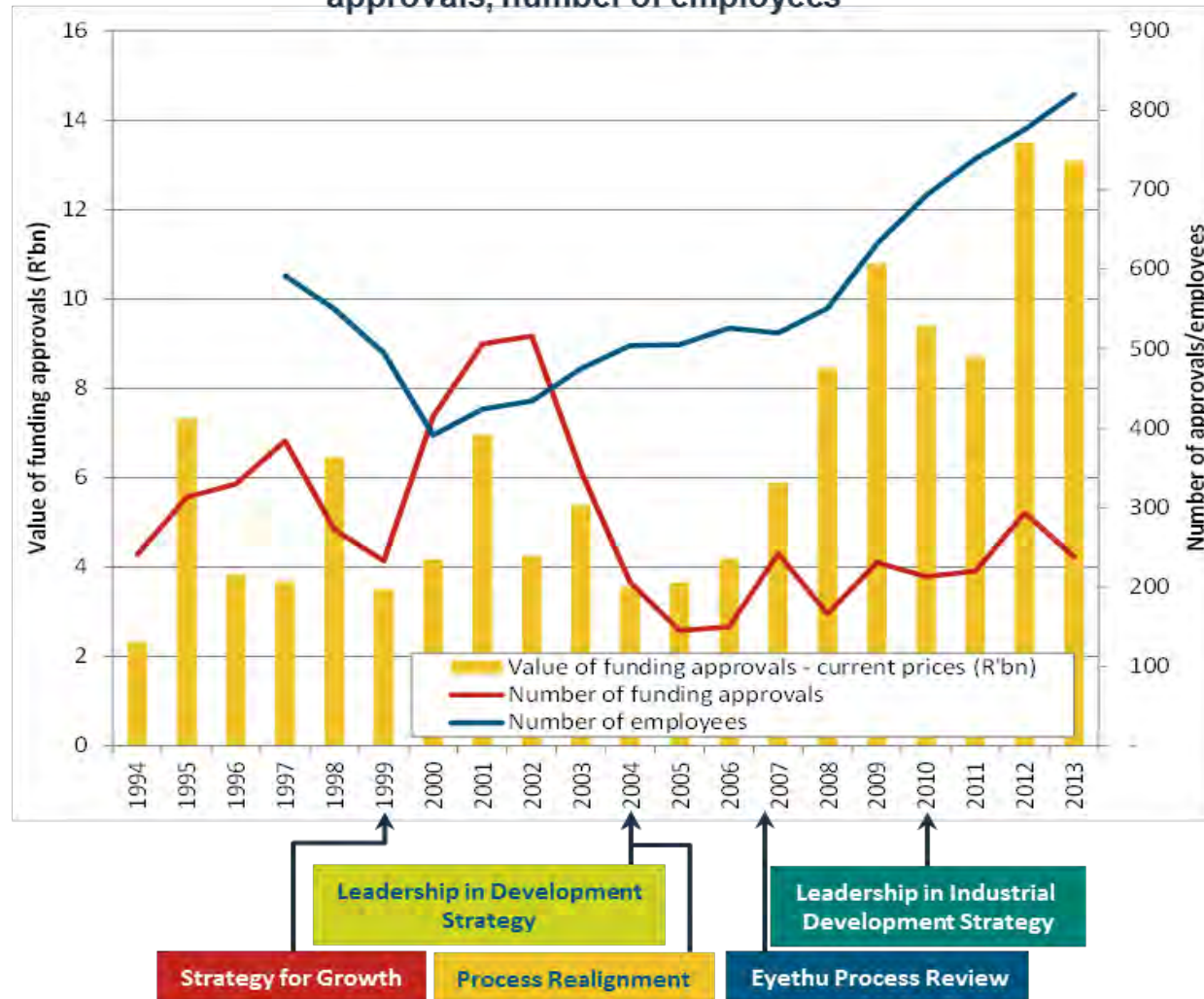
Human, Social, Natural and Manufactured Capital

- Human resources
 - Ensure appropriately skilled and capacitated human resources
- Stakeholders
 - Improve customer service
 - Build partnerships with other financiers to leverage off different strengths and mandates
 - Increase engagement with sector players to identify opportunities
 - Strengthen IDC expertise to shape and influence policy
 - Develop black industrialists
 - Build strong communities around projects that IDC fund
- Natural environment
 - Reduce IDC's negative environmental impact
 - Reduce industry's negative environmental impact
- Utilisation of resources
 - Improve efficiencies through improved systems and processes

Bolded areas are areas impacted by *Project Evolve*

Previous corporate alignment projects have failed to help us achieve our potential

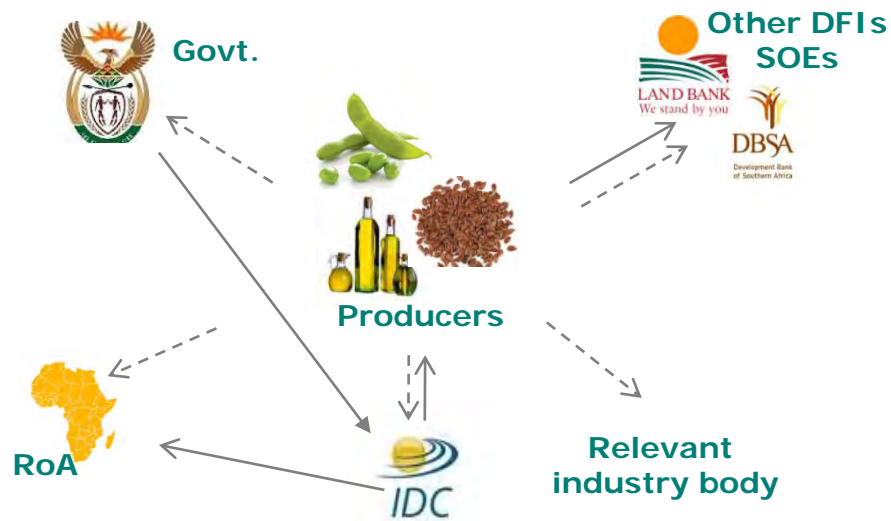
Value (current prices) and number of funding approvals, number of employees



This implies the need to position IDC at the centre of developing SA's most important industries

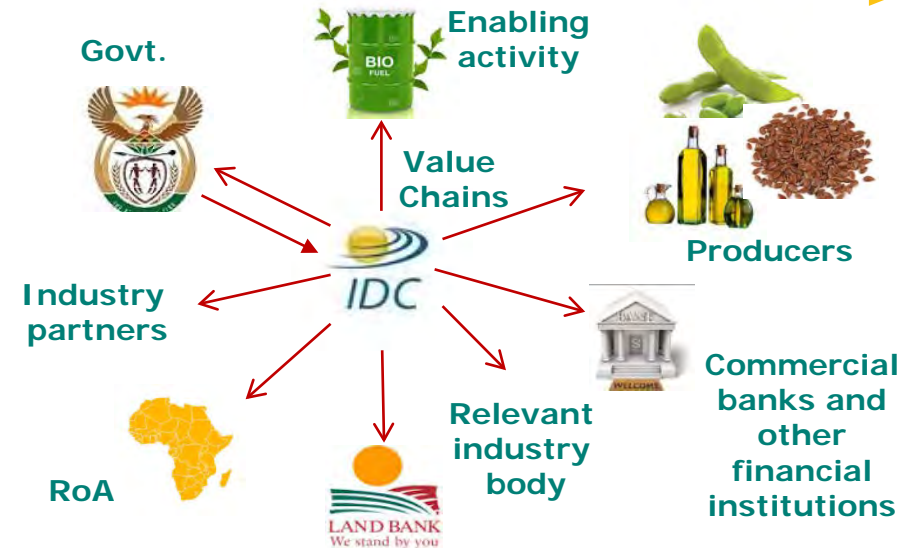
-----> Respond to activity
 -----> Drive activity

Reactive industry funder



- **Currently, we invest in industry players** across the SA economic landscape in a predominantly reactive way

Proactive industry developer



- **Now, we want to take greater leadership, forging strategic partnerships** for developing the most important parts of the productive economy

- We have to focus on and commit to driving a selection of industrial sectors at a level we have not always operated at before
- We have to make real choices about which sectors to select for this intensive leadership activity, and then adapt the way we engage with these sectors to achieve this higher impact
- We also have to decide **how to actively engage with other sectors of the economy** to drive outcomes

Approach to Industrial Infrastructure

- 1) Support specific infrastructure that unlocks or enables industrial capacity development (e.g. electricity, water, telecoms, logistics, etc.)

Approach:

1. Play a coordination role to ensure that requisite infrastructure is developed and funded
2. Support private sector or PPP industrial infrastructure
3. Invest in strategic, economy wide, large scale interventions

- **Funding instruments available:**

- Debt;
- Equity;
- Quasi-equity;
- Guarantees;
- Trade finance (export / import);
- Bridging finance;
- Venture capital

- **Structuring options:**

- Funding terms: Short, medium and long-term loans;
- Payment holidays (moratoria): Capital and / or interest repayments

Connecting with young entrepreneurs to jump-start job creation

- R1-billion scheme to fund businesses owned by young people.



Who qualifies for funding?

- Start-ups and Expansions
- Over 50% ownership by persons under 35 years of age
- Cost per job must not exceed R500 000 relative to the total funding required
- Businesses operating or expanding in South Africa;

How the scheme works

- Funding at prime less 3%.
- Min. R1-million and max. R50-million per project.
- The funding available over 5 years or until the scheme is exhausted..
- Pre- and post-investment support and mentorship
- Capital and interest payment holidays
- No prescribed minimum owner contribution

Women Entrepreneurial Fund (WEF)

- Capitalized at **R300 million** (R30 million for Business Support).
- Min. shareholding by woman/women must be at least 50%. If it is less, then min. is 25%+1 share and funding is provided only to the woman/women shareholders.
- Financing for shareholders with a collective total net asset base less than R15 million.
- Meaningful operational & management involvement by women assisted.
- Women must make up 50% or more of management . If this is not the case then this must be achieved within 2 years of approval.
- Start-ups, expansions or expansionary acquisition projects.
- Maximum asset base of target company of R80 million.

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Thank you

