



Financing and investing for sustained industrial development and growth

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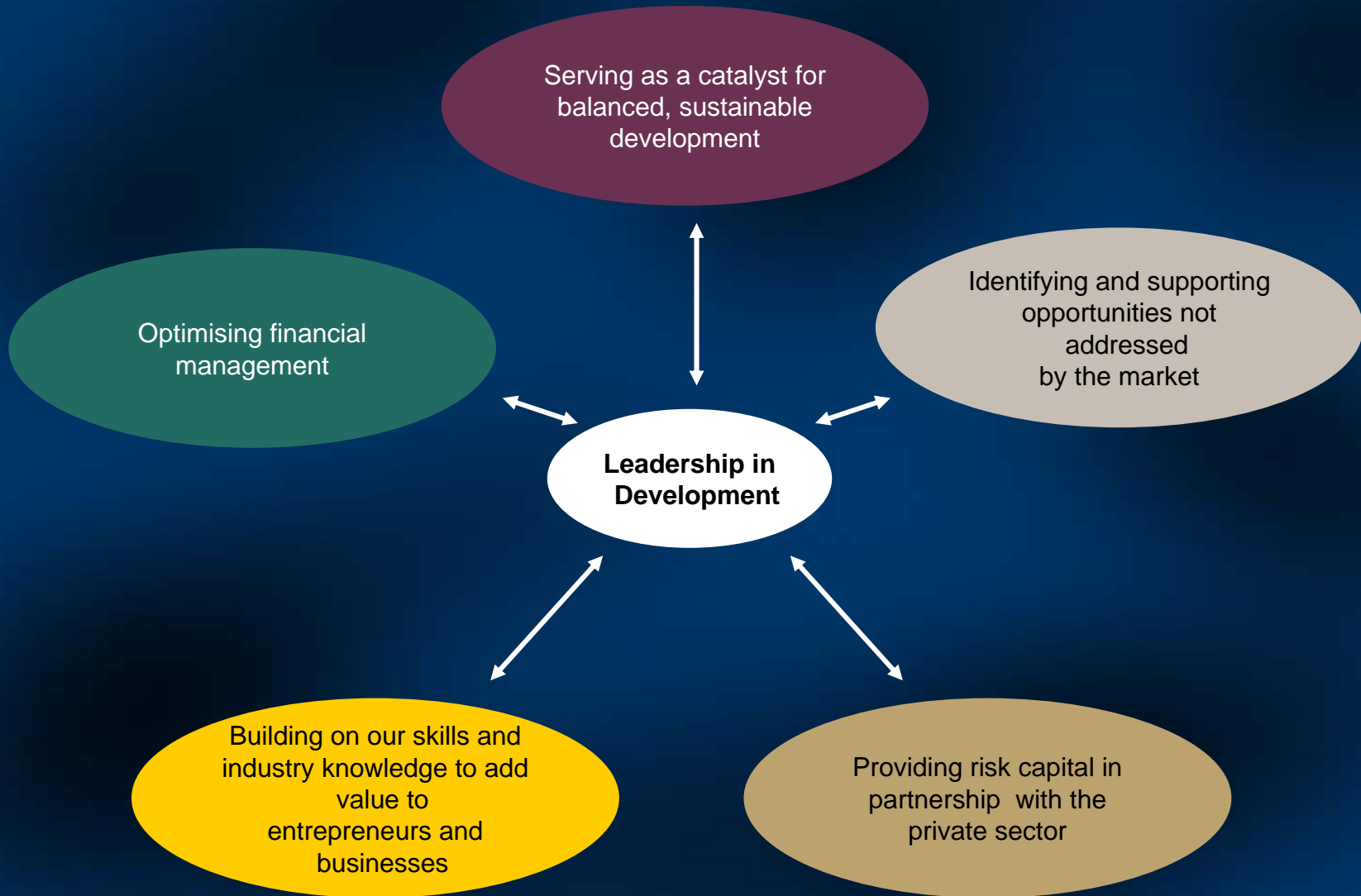


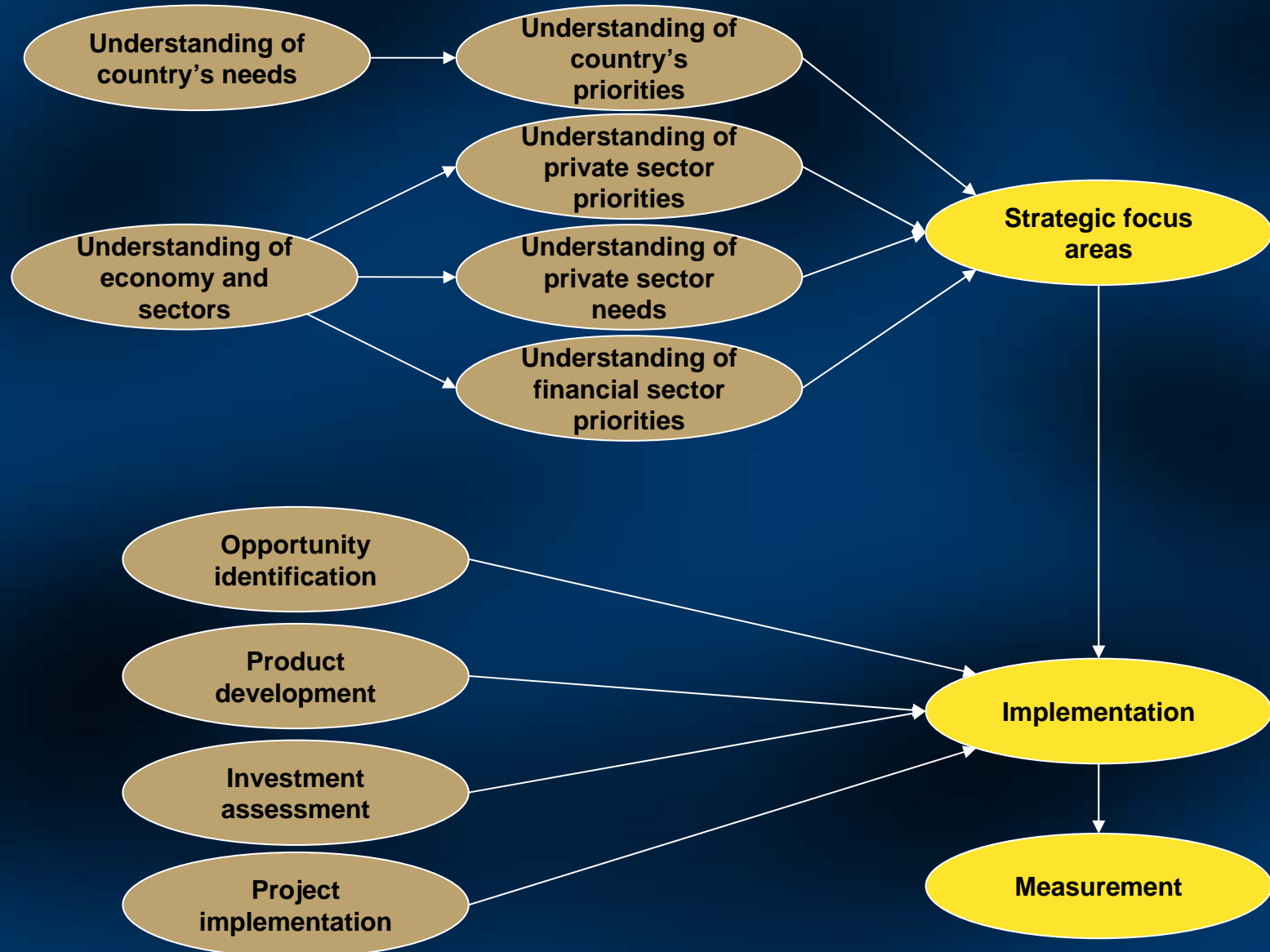
- **Self-financing** state-owned development finance institution (Act No 22 of 1940)
- Provides financing to **entrepreneurs** engaged in **competitive industries**
- Follows **normal company policy and procedures** in its operations
- Pays **income tax** at corporate rates and **dividends** to its shareholder
- **Independent Board of Directors**
- Reports on a fully consolidated basis, with its **Annual Report** freely available to the public



Role of Development Finance Institutions

- ***Taking a developmental rather than financial maximisation approach***
- ***Identification, development and financing of projects leading to national objectives being met***
- ***Encouraging private sector development***
- ***Providing financial products not readily available eg. equity, long-term finance, venture capital, etc.***
- ***To provide finance when markets are tight***
- ***Taking and managing a higher risk profile***
- ***Playing a catalytic role***
- ***Providing additionality***





Assessing new areas for development

Once possible areas of intervention have been identified, these need to be screened in order to decide whether to make them focus areas.

A series of questions are used by IDC to guide in this:

- *Is it within our mandate?*
- *Is there a market gap?*
- *Is there a viable market?*
 - *Is the market large enough to justify entering it or developing custom approaches in addressing the failures?*
 - *Is the market potentially sustainable from development and financial perspectives?*
- *Are IDC's competitive advantages applicable?*
- *Is it aligned with IDC's corporate objectives and strategy?*

Adapting to a changing environment

1940s

- World War 2 – Shortage of industrial goods
- South African economy largely based on agricultural production and gold mining

- IDC established to provide financing for industrial undertakings – at this stage only in the manufacturing industry

- Food processing
- Textiles

1950s & 1960s

- South Africa facing threat of isolation from the rest of the world

- Securing energy resources for South Africa a priority
- Increasing natural resource beneficiation

- Petroleum
- Fertilizers
- Wood processing
- Chemical beneficiation
- Mining and minerals

1970s & 1980s

- Decentralisation policy by government
- Increasing isolation
- Self sufficiency
- Balance of payments

- Import replacement
- More resource intensive industries established – mainly to bolster export earnings in non-gold sectors
- Initiation of high-tech industries
- Agriculture explored as a foreign exchange earner
- Industrial real estate development

- Resource beneficiation
- Micro-electronics

Adapting to a changing environment

1990s

- Change in government
- South Africa introduced to a globalising world
- Addressing the disparities created by apartheid

- Moves to encourage regional integration
- Black economic empowerment
- Export promotion
- Services related industries
- Investments elsewhere in Africa

- Tourism
- ICT

2000s

- Unemployment
- Diversification of economy
- Reducing inequalities
- Industrial policy
- Growing financial sector liquidity

- Job creation
- Developing rural areas and other previously underdeveloped regions
- Downstream industries
- Entrepreneurial development
- Sector strategies

- Healthcare
- Education
- Financial services
- Transport

The IDC's *Leadership in Development* strategy pursues job creation and equitable development as its prime objectives

Job creation is the IDC's overarching objective, with other core developmental objectives including:

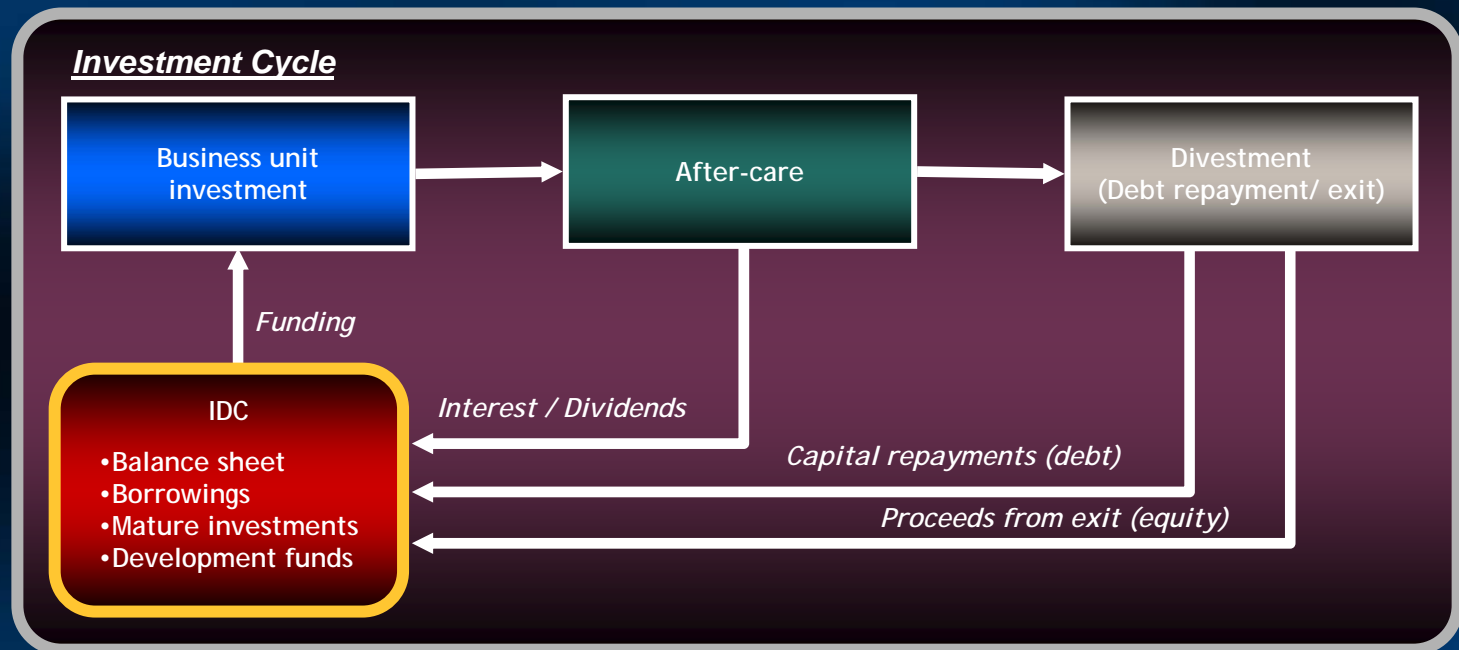
- ***Development of new entrepreneurs***
- ***Regional development***
 - ***Rural areas***
 - ***Underdeveloped Provinces***
 - ***Previous townships***
 - ***Targeted development regions***
- ***Small and medium enterprises***
- ***Black economic empowerment***
- ***Social transformation***
- ***Exports***

Furthermore, the IDC acts in support of Government's African strategies/NEPAD and therefore also has the following objective:

- ***Industrial development in Africa***

Core financial objectives

- **Self-funding through:**
 - *internal profitability (retained earnings)*
 - *divestments from mature assets*
 - *borrowings in international markets*
 - *domestic bond market*
- **Remaining financially independent**
- **Continue paying tax & dividends**



- *Assistance is provided for development of new projects, expansions or rehabilitation of existing projects and acquisitions*
- *Projects must exhibit economic merit (i.e. profitable)*
- *IDC finances fixed assets, working capital and equity requirements*
- *Reasonable contribution expected from promoter/s*
- *R1 million minimum*
- *Security*
- *Environmental compliance*



- *IDC offers a wide array of financial instruments, including :*
 - *Equity*
 - *Quasi-equity*
 - *Commercial debt*
 - *Wholesale & bridging finance*
 - *Share warehousing*
 - *Guarantees*
 - *Export/import finance*
 - *Short-term trade finance*
 - *Wholesale venture capital*
- *These may be provided singly or in combination*



Flexible Deal Structuring



- *In delivering on its mandate, the IDC has had to extend its role from being solely a provider of finance:*
 - *Project development*
 - *Sector development*
 - *Policy development support*
 - *Entrepreneurial development*
 - *Community and employee/worker group development*
 - *Unlocking value in the public sector*

Differentiation: Finance

- Consider an investment's **expected financial sustainability** rather than historical financial sustainability
- Viability of investment studied **in detail**
- More flexibility in structuring products to suit **client's needs**
- Would **restructure** finance if a client is experiencing difficulty

Differentiation: Other

- Development of **sectoral strategies**
- **Allocating funds** towards targeted sectors
- **Training** of entrepreneurs
- **Business support** to entrepreneurs
- **Expanding IDC's reach** into rural areas
- **Support** for community groups
- Encouraging investments to address certain goals through incentives
- Proactively **identifying and co-developing** high impact investments
- **Strengthening relationships** with key players – including other development institutions, govt., industry associations, banks, etc.

Role in project development

- *Identifies project opportunities*
- *Co-sponsors feasibility studies*
- *Provides and arranges funding (e.g. export and import finance, equity and loan funding)*
- *Identifies suitable international and local DFIs, commercial and merchant banks and companies and export credit agencies as potential participants*
- *IDC acts as a financial adviser in partnership with other financial institutions*
- *Shares project risk with the sponsors and financial partners*
- *Identifies strong operating partners*
- *Off-take and supply agreements*



Mozambique Aluminium Smelter (MOZAL)

Role in project development (cont.)

- *Assists with the early negotiations of project agreements to improve and ensure their bankability and shorten the funding schedule*
- *Structures appropriate limited recourse funding packages by allocating project risk to the appropriate stakeholders*
- *Assists with implementation via steering committee*
- *Serves on board of directors*
- *IDC does not seek shareholding control or management participation*



Project development: challenges

- **Economic merit is the prime consideration** - the project's cashflows must be able to repay the funding obligations
- IDC's equity investments are intended to be **"temporary"**
- **Co-investment ("hurt capital")** required from owners
- **Critical investment criteria** (substantial value addition; management; sustainable competitive advantage; commercialised; market delivery; niche product/adequate market share; exit potential; developmental)
- Projects have **long lead times**, especially when involvement begins at early idea phase
- **Co-operation/negotiations** between various parties or stakeholders are often difficult and protracted (e.g., project promoter(s), operator(s), BEE party(ies), potential funders, landlords, technology partners, etc.)
- Projects require **strong operating, technical, marketing partners**, and with the **financial ability** to cater for contingencies



Project development: challenges

- *Creation of **shareholder value***
- ***Over-paying for an investment can never be corrected (hurdle rate)***
- ***Fair deal***
- ***The best structuring cannot rectify a bad deal***
- ***Good corporate governance is not negotiable***
- ***Financial investors' strategic vision for the business **must be aligned** with that of operational management***
- ***Main reasons for **business failures** (management lacks passion and/or required skills; capacity to take the product to the market; market sentiment turned negative; cash flow management; excessive gearing)***

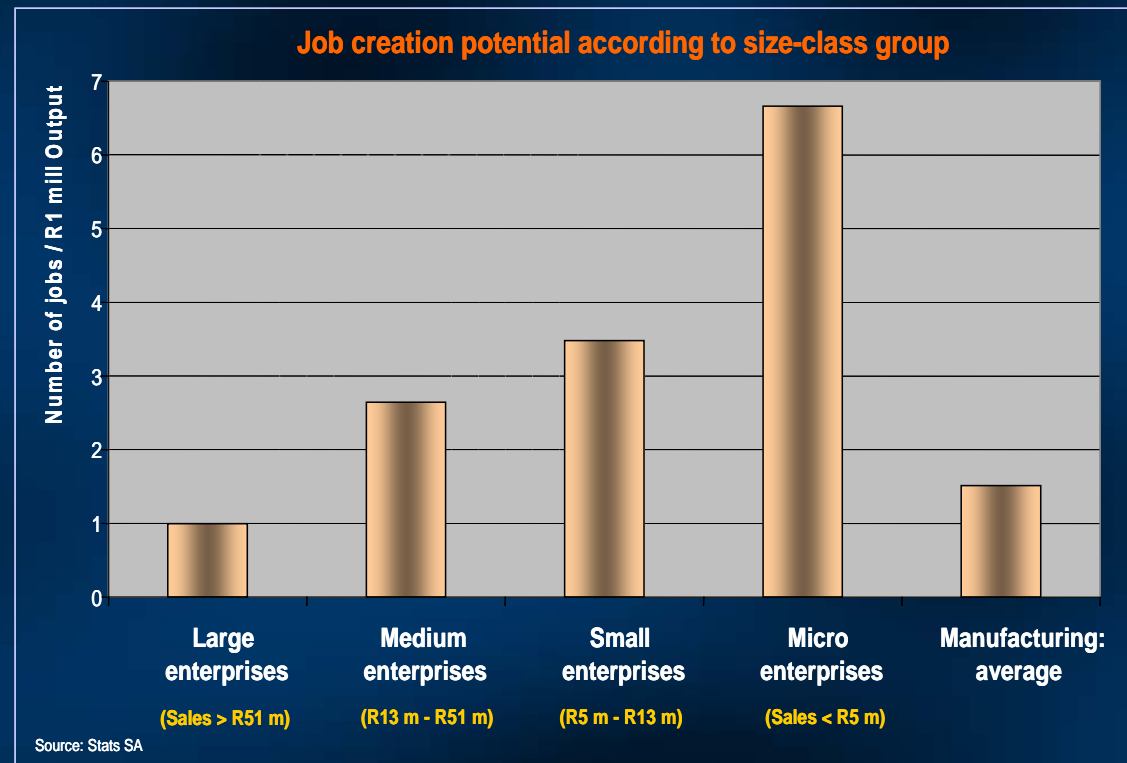
IDC as an investor on the African continent: challenges/risks:

- ***Limited domestic markets***
- ***High domestic interest rates and short term financing leads to a dependency on foreign capital***
- ***Domestic currency devaluation risks***
- ***Need to generate hard currency to repay foreign loans***
- ***Strategic investments needed (provide critical mass and unblock value chains)***
- ***Relatively underdeveloped financial sector in some countries***
- ***Often underdeveloped infrastructure***
- ***Political stability***
- ***Transparent regulatory environments***
- ***Protection of property rights and other legal challenges***
- ***Lack of equity and the need for flexible funding structures***
- ***Limited support in project preparation***



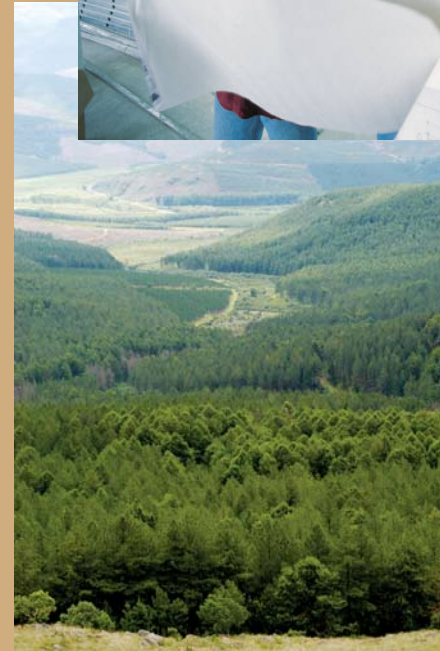
Role of SMEs in the SA economy

- **Key challenges faced by SMEs:**
 - **Access to finance**
 - **Little or no entrepreneurial experience**
 - **Lack of management skills (incl. technical, financial and marketing)**
 - **Limited support networks**
 - **Limited track record**
 - **Low security**
 - **Low survival rate of new businesses**



Various approaches geared towards developing small and medium-sized enterprises (SMEs):

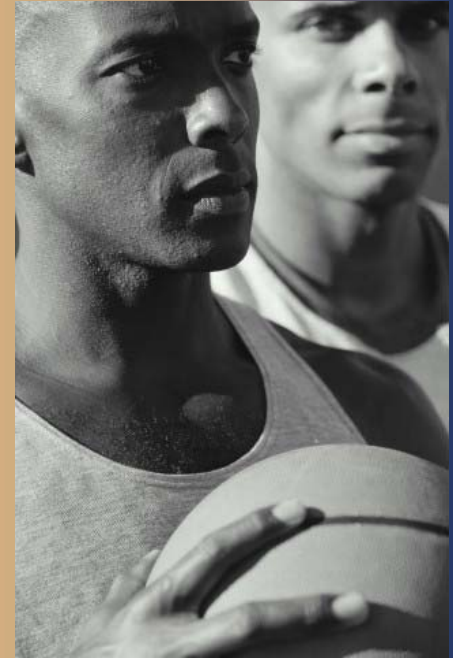
- *Basing investment decision primarily on future potential* (rather than solely on history or security)
- *Franchising* (providing finance to franchisor and franchisee)
- *Risk Capital Facility* (targets high development, high risk needs)
- *Non-financial forms of business support* (entrepreneurial skills development; research assistance)



Entrepreneur development assistance includes:

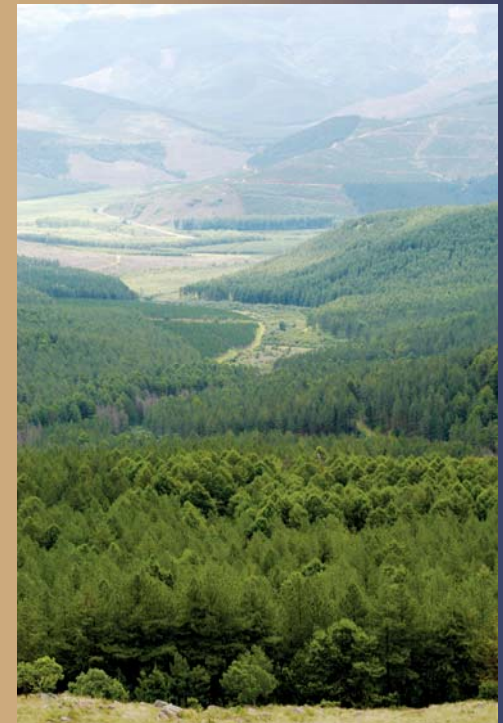
- ***Providing greater pre-investment support for high potential / high impact investments***
- ***Closer monitoring of clients***
- ***Providing technical support post investment***
- ***Providing generic training and systems to support new entrepreneurs***
- ***Focused training to meet needs of specific entrepreneurs***

- *IDC, as a major South African DFI, remains fundamental to the national agenda to realise BEE objectives*
- *IDC has developed critical skills and experience in financing BEE*
- *IDC's focus is shifting towards expansionary and broad-based BEE*
- *New capacity creation, management involvement and entrepreneurial development as well as ownership*



Approach to provincial & local development

- *Unlocking investment potential to address inequitable regional socio-economic development*
- *Exploiting comparative advantage in sectors*
- *Addressing market gaps*
- *IDC in discussion with provincial development corporations to address capacity building*
- *Capacity building for third-tier government through development agencies: serve as a support and resource facility to fulfill IDC's developmental role through the establishment of agencies*



Approach to provincial & local development

A number of agencies have begun delivering on projects:

Nkonkobe instrumental in initiating and facilitating revival of Kat River citrus project financed by IDC

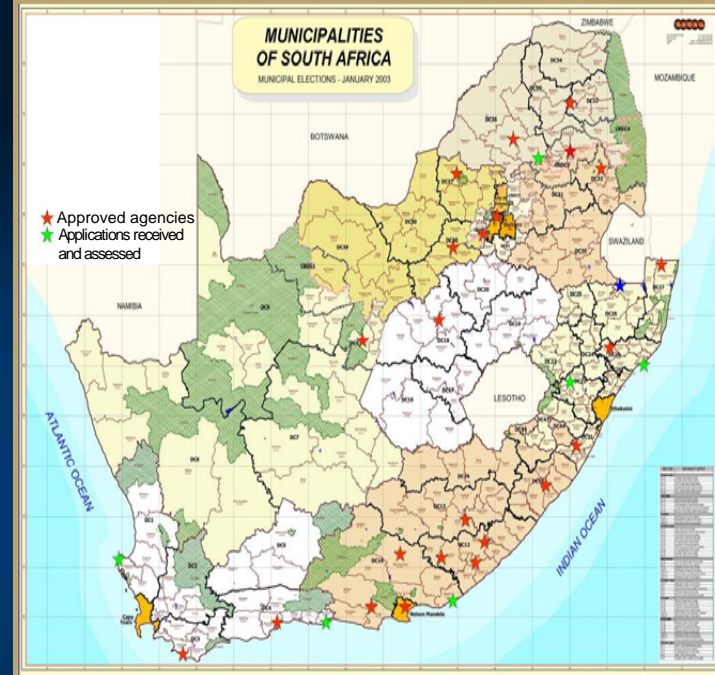
Blue Crane Boschberg Mountain Development;
Flower project;
Vegetable seed project;
Airport project;
Fruit project;
Pomegranates project;
Potential hydro-electric PPP.

Buffalo City 3 property development bids facilitated

Ilembe Amatikula Fisheries
KZN Growth Fund
3 Gijima funded projects, 5 under review
Hibiscus Beachfront plan approved

Mandela Bay Govan Mbeki Avenue upgrade
Donkin Reserve
UDZ tax incentive facilitation
Cleaning and security
ICC project to be submitted to IDC

NCEDA 6 projects submitted to IDC





IDC's involvement in some of Southern Africa's recent major projects

- *The IDC's first cross-border co-funding approval was its involvement in the establishment of the **Mozambique Aluminium Smelter (Mozal)** on the outskirts of Maputo, with BHP Billiton and Mitsubishi Corporation as partners.*
- *The IDC is also involved in establishing another **aluminium smelter** as an anchor project for the **Coega Industrial Development Zone (IDZ)** in the Eastern Cape province*
- *The IDC played a major role in **restructuring the SA steel industry**, unbundling ISCOR in separate mining and steel companies*
- *The IDC is participating in the feasibility study of a **nuclear power project (Pebble Bed Nuclear Reactor)** in South Africa*
- *IDC is likely to participate in the establishment of a world-class integrated **mineral sands mining, mineral processing and beneficiation** operation in southern Mozambique*
- *The IDC obtained approval from its Board for a 10% equity stake in the **Kolwezi Tailings Project** in the Democratic Republic of Congo (DRC), with the International Finance Corporation taking a 7.5% equity stake*
- *The IDC is likely to participate in major **hydro-power projects** in the continent (e.g. Inga in DRC)*
- *IDC is involved in a **major cement project** in Nigeria*



IDC's involvement in some of Southern Africa's recent major projects

- *The IDC is proud to be associated with the Oscar-winning **Tsotsi** film (Best Foreign-Language Film)*
- *The IDC-financed feature film, **Hotel Rwanda**, received three Golden Globe nominations and three Academy Award (Oscar) nominations*
- *The IDC **pioneered and supported Black Economic Empowerment (BEE)** through numerous transactions, both of an expansionary and acquisition nature:*
 - *Pharmaceutical industry*
 - *Mining sector*
 - *Loan finance provided to a number of black controlled consortia to take up shareholding in the first two cellular operators in South Africa*
 - *Tourism sector*
 - *Insurance sector*
 - *Etc.*

- *New Agricultural crop*
- *Agricultural diversification*
- *Value addition into new non-food value chain*
- *Participation of emerging farmers in whole value chain*
- *Import replacement*
- *2,536 jobs to be created in KZN*
- *Supporting environmental sustainability requirements of automotives*



Kenaf growing

Winterton, KZN

- 600 ha - commercial farmers = 800 jobs
- 400 ha - emerging farmers = 1,600 jobs

Fibre production

Winterton, KZN

- Sustainable Fibre Solutions (Pty) Ltd
- 75 jobs
- IDC invested R40m
- IDC warehouse shares for Winterton Communities (4)

Automotive (bio-composite) component production

Pinetown - KZN

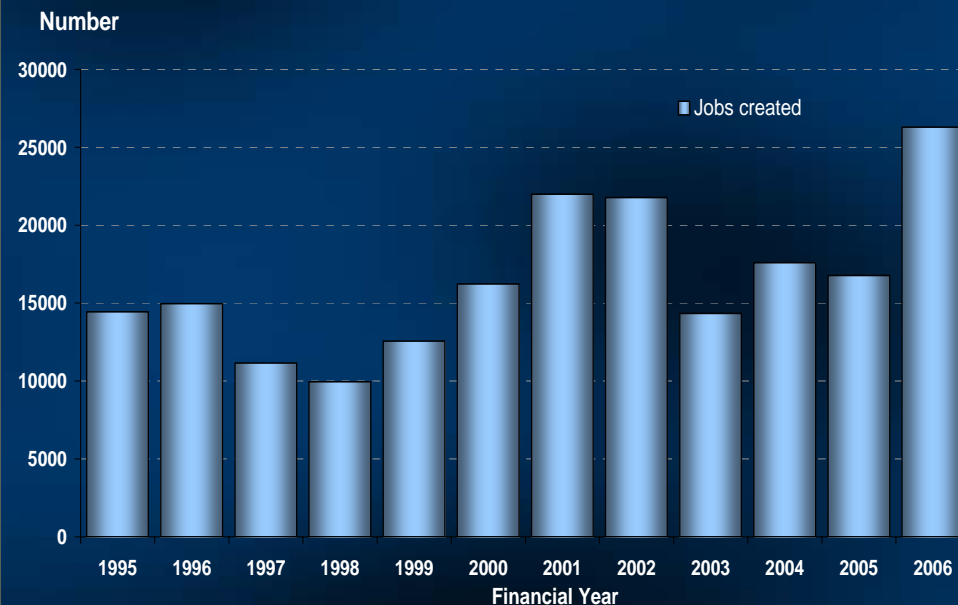
- Brits Automotive Systems (Pty) Ltd
- IDC invested R15m
- IDC warehouse shares for Winterton Communities (4)
- Offtakes from automotive manufacturers

Operating partners: Seardel who has taken up shareholding in both processing companies

IDC funding & jobs created

- **A total of R60 billion in 4100 transactions approved over the twelve-year period from July 1994 to March 2006. This is estimated to have facilitated R183 billion worth of investments.**
- **Approximately 198 000 direct jobs were created as a result of IDC financing since 1994. If indirect jobs are included, some 600 000 jobs may have been created as a result of IDC financing activities during these 12 years.**

Total number of jobs created: July 1994 to March 2006

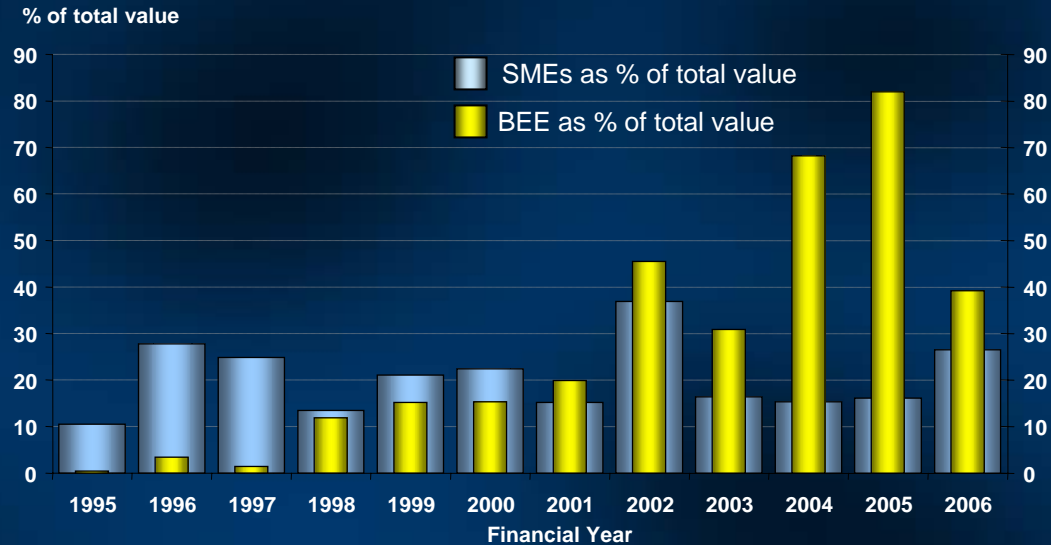


IDC funding of SMEs & BEE

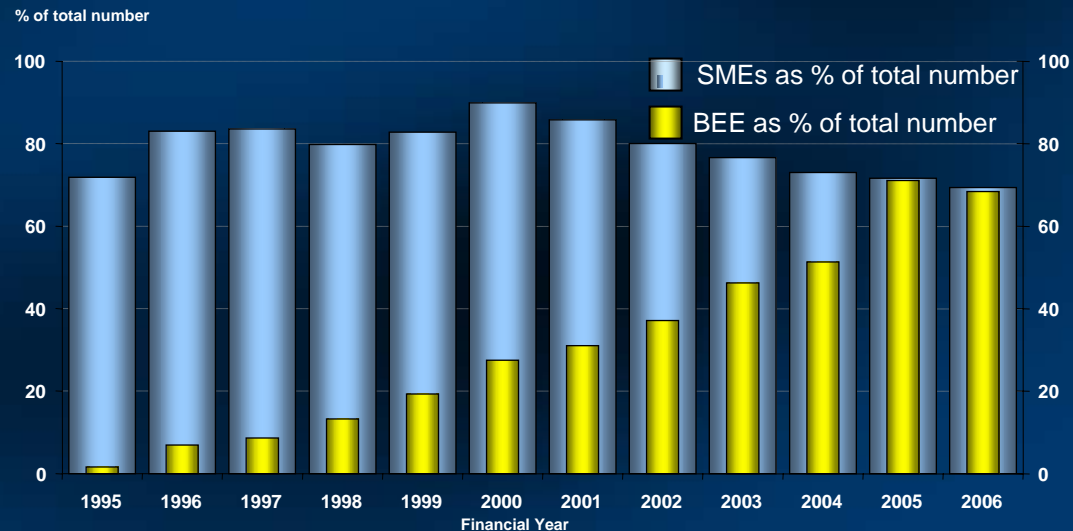
In financial year 2005/06 ...

- **R4.2 billion in net new financing approved in 150 transactions**
- **Estimated to facilitate more than R12.8 billion in total investment**
- **About 69% of the total number of approvals pertained to small and medium-sized enterprises**
- **R370 million in approvals will directly benefit townships**

SMEs and BEE as a % of total value of approvals



SME and BEE as % of total number of approvals





IDC funding per province

IDC approvals by provinces: July 1996 to Mar 2006



- *IDC's initial rating by Moody's in 2003: Baa2*
- *Upgraded to Baa1 in 2005*
- *IDC's rating until recently in line with South Africa's sovereign rating, but currently at A2, i.e. 2 notches above the sovereign rating*

	Moody's	S&P
	Aaa	AAA
	Aa2	AA
	A1	A+
	A2	A
	A3	A-
	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
	Ba1	BB+
	Ba2	BB
	Ba3	BB-
	B1	B+
	B2	B
	B3	B-
	Caa1	CCC
	Caa2	CC

↑ decreasing risk

↑ Investment grade



IDC's successes are built on strong pillars



*Economic
merit of
deals*



*Due-
diligence
processes*



*Sector and
business
understanding*



*Development
focus*



*Skills
base*

Towards accelerated & shared growth

- **The IDC is aligning itself fully with national initiatives, including the Accelerated and Shared Growth Initiative of South Africa (Asgi-SA):**
 - **Undivided focus on employment creation, with annual job creation targets more than doubling over the next five years**
 - **Contribute significantly to targeted investment activity through :**
 - ✓ **Strategic sector development**
 - ✓ **Increases in capital allocation for high impact sectors over next five years**
 - ✓ **project conceptualization and development**
 - ✓ **provision of financial assistance and other forms of business support to SMEs in order to ensure their long-term sustainability**
 - ✓ **A specific focus on less developed regions**
 - ✓ **Expand IDC's reach/presence**



Towards accelerated & shared growth

- Targeting **sectors** that have strong growth and development potential and promoting the development of **strong economic clusters**
- Identifying and financing **sustainable and viable projects in economic nodes**
- Focusing on **previously neglected areas**
- Consulting and collaborating with **national, provincial, and local governments**, development institutions as well as other key role players in developmental endeavours



- *DFIs are critical for supporting accelerated, balanced and sustainable economic development*
- *National priorities, the competitive environment and client needs change over time*
- *Need to clearly identify objectives and contribution to national development priorities*
- *DFIs must strive to satisfy client needs*
- *Positioning in the market is key to avoid undue competition*
- *DFIs need to clearly understand their strengths and weaknesses and competitive advantages*
- *If initiatives are not viable – there is no sustainable development*





IDC

THANK YOU

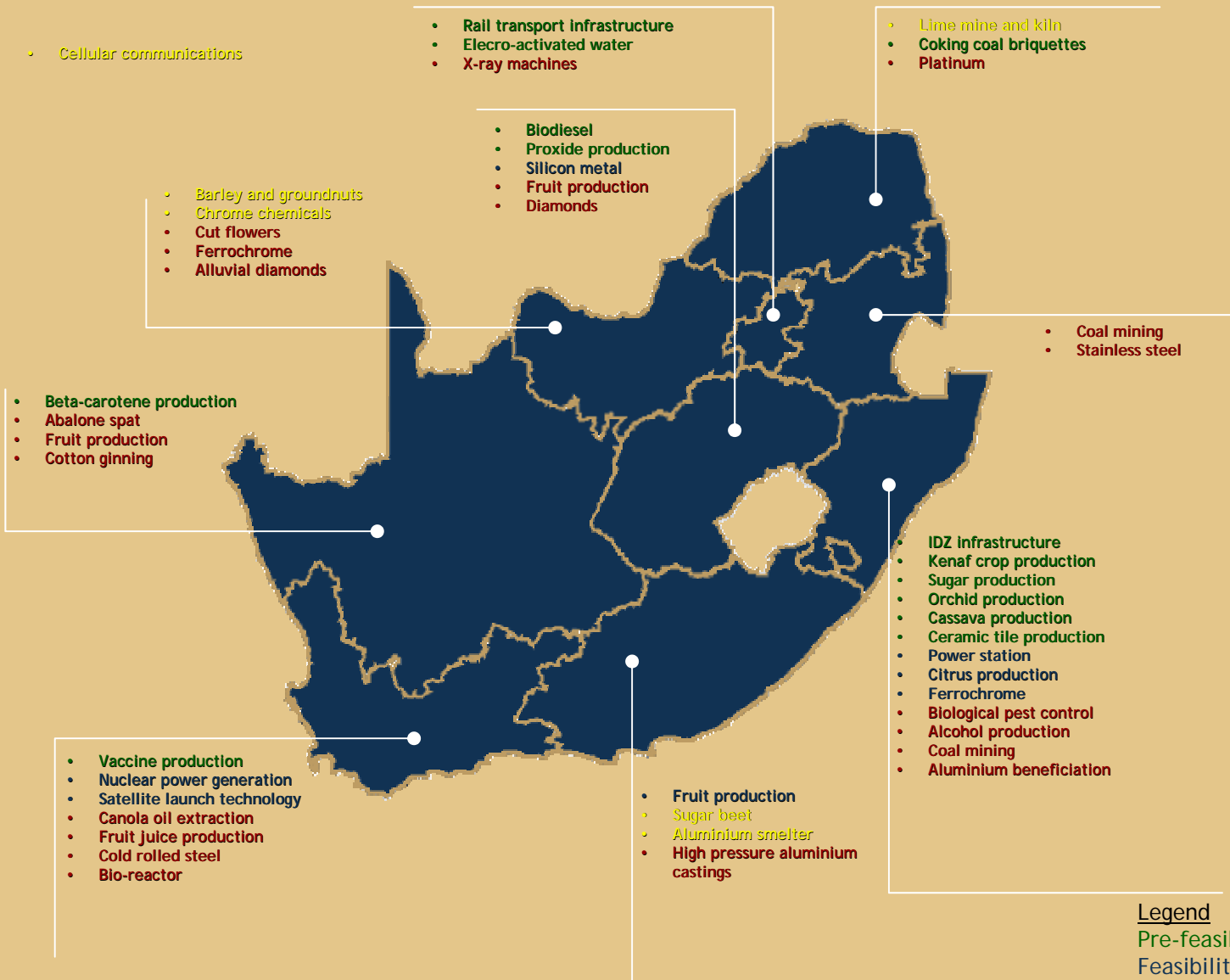
Definition

- *IDC's focus is on small- to medium-sized enterprises*
- *A business is classified as a small or medium enterprise (SME) if it fits (excluding the micro enterprise segment) any two of the following criteria:*
 - *Less than 100 employees*
 - *Less than R50 million annual turnover*
 - *Less than R30 million total assets value*





Some of IDC's projects in South Africa



Legend
Pre-feasibility
Feasibility
Pre-implementation
Implementation

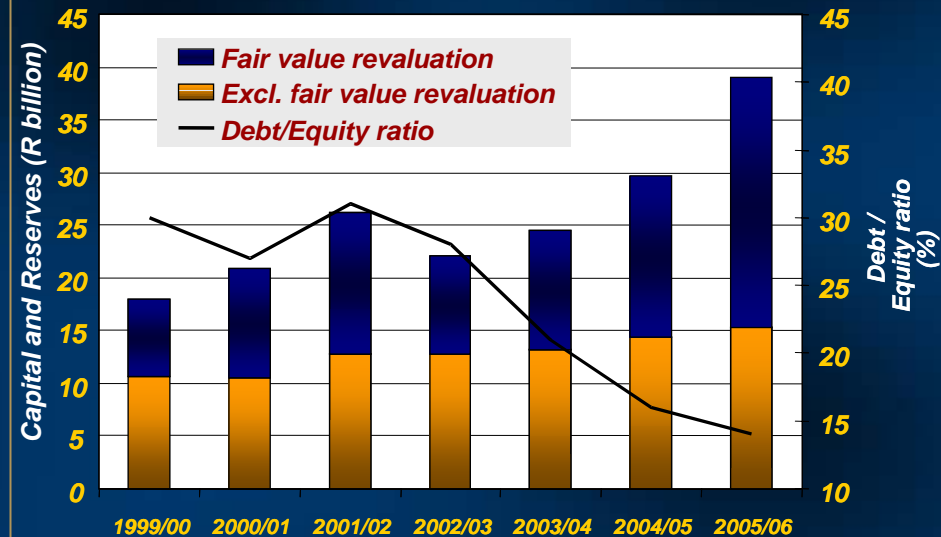


IDC's African portfolio (outside SA)



- **Current portfolio size:**
R52.5 billion at market value
(USD 7.2 billion)
- **1 400 business partners**
- **180 equity investments**
- **Major listed shareholdings:**
 - BHP Billiton 1.5%
 - Kumba 13.4%
 - Mittal Steel SA 8.8%
 - Sappi 6.5%
 - Sasol 7.9%
 - Acerinox 2.9%

Strengthened Financial Base



At approximately **R39 billion (USD 5.34 billion)**, our **capital and reserves** position is amongst the strongest in the South African financial sector

1997

- **Agriculture**
- **Mining**
- **Manufacturing**
- **Property**

Now

- **Agriculture**
- **Mining**
- **Manufacturing**
 - **Across all sectors**
- **Services - related**
 - **energy**
 - **tourism**
 - **IT**
 - **telecoms**
 - **motion pictures**
 - **healthcare & education**
 - **transport & storage**
 - **venture capital**
 - **government / corporate tenders**
 - **franchising**
 - **financial services**
 - **construction services**
- **Other**
 - **public private partnerships**
 - **development agencies**