Industrial Development Corporation

Your partner in development finance

Corporate *Profile*

The primary driving force of commercially sustainable industrial development and innovation in South Africa and the rest of the African continent.

Leader in industrial development and job creation

Since 1940, the Industrial Development Corporation (IDC), South Africa's largest development finance institution, has helped to build the industrial capacity that fuels the country's economic growth by funding viable businesses.

For more than 75 years we have been instrumental in implementing South Africa's industrial policy, establishing some of the industries that have since become cornerstones of the country's manufacturing sector. Apart from large industrial projects, we have also been instrumental in the establishment of other industries such as fabricated metals, agro-industries, clothing and textiles.

Although our priorities evolved in line with the policy direction over the years, we remain committed to our objective of developing the country's industrial capacity and, in doing so play a major role in job creation.

Our vision

To be the primary driving force of commercially sustainable industrial development and innovation to the benefit of South Africa and the rest of the African continent.

Our mission

The Industrial Development Corporation is a national development institution whose primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens. The IDC achieves this by promoting entrepreneurship through the building of competitive industries and enterprises based on sound business principles.

What we do

Through partnership, the IDC provides funding in support of industrial capacity development.

We do this by:

- Pro-actively identifying and funding high-impact projects
- Leading the creation of viable new industries
- Using our diverse industry expertise to drive growth in priority sectors
- Taking up higher-risk funding in early-stage and high-impact projects

The primary outcome of the IDC's activities:

To facilitate the creation of sustainable direct and indirect jobs

Additional outcomes include:

Facilitating sustainable direct and indirect jobs

- Improving regional equity, including the development of South African rural areas, poorer provinces and industrialisation in the rest of Africa
- Promoting entrepreneurial development and growing the SME sector
- Environmentally sustainable growth
- Growing sectoral diversity and increased localisation of production
- Transformational impact on communities and growing black industrialists

Additional services

IDC's business support programme offers non-financial support to entrepreneurs. The support is available during pre and post approval stages, including assistance to distressed clients.

What we offer you

The IDC offers funding across its mandated sectors under the following Strategic Business Units:

Agro-processing and Agriculture SBU

The SBU focuses on investment opportunities in livestock processing, selected field crop processing, integrated horticulture, aquaculture with focus on mariculture and forestry development. The key is to ensure food security and the creation of employment by putting South Africa's natural resources to productive use.

Automotive and Transport Equipment SBU

The unit focuses on the opportunities that exist in established automotive and transport equipment and components manufacturing sub sectors. The key is to create sustainable industries with goals of increasing local production of vehicles and components that feed into global supply chains, thereby improving the country's international competitiveness. Focus areas for the SBU are passenger and commercial vehicles, automotive components, shipbuilding and ship repair, rail components and infrastructure as well as medium and heavy vehicles, buses and trucks.

Basic Metal and Mining SBU

The unit focuses on building capacity in the beneficiation and local value addition activities that not only drive exports but also help lower input cost to make downstream and upstream industries more competitive. Focus is on the metal products, mining, steel and metals industries.

Basic and Speciality Chemicals SBU

The unit is uniquely positioned to provide development finance and support to the long-term sustainability of the chemical value chain. The SBU funds investigations into smart technologies, environmentally friendly chemicals and new materials that could provide unique market opportunities, as well as identifying opportunities for new consumer products production capacity or localisation.

Chemicals Products and Pharmaceuticals SBU

The key focus of this SBU is to establish new manufacturing capabilities in agro-chemicals, build a vibrant competitive local pharmaceuticals and chemical products industry as well as improve the competitiveness of the country's plastic products sector.

Clothing and Textiles SBU

The unit pursues opportunities in cashmere, mohair and the cotton value chains with the aim of assisting in the development of a flax industry cluster. The SBU's primary focus is to develop new opportunities, niche industry sub-sectors and improve the sustainability of existing enterprises in traditional textiles. The secondary focus is to recover and sustain capacity of clothing, footwear, yarn and toweling in an attempt to protect this vital job creating sector.

Heavy Manufacturing SBU

The unit is a reflection of the prioritisation of transformative action by the IDC to further industrialise South Africa and create jobs. The primary focus is on cement, lime, clay, ceramic and stone products, sawmilling and wood products, pulp and paper products, rubber glass and ceramic products, and other non-metallic products and non-metallic recycling.

Industrial Infrastructure SBU

The SBU acts as the initiator and enabler of key industrial infrastructure that will support the country's industrialisation drive. The unit identifies various business units and value chains that are faced with industrial capacity and infrastructure constraints and facilitates infrastructure investments to help them achieve their goals. The units' focus areas are logistics, energy, Telecoms Broadband, health and water infrastructure.

Light Manufacturing and Tourism SBU

The unit identifies industrial output to facilitate rapid and prudent investments in activities that can contribute to the creation of new light manufacturing and tourism capacity, which can contribute to job creation, sustainable niche businesses and localisation.

Machinery and Capital Equipment SBU

The SBU supports industrial activity in the production and fabrication of machinery and capital equipment by financing the expansion of projects, improving competitiveness and facilitating market access. The focus is on building capacity in beneficiation and local value addition activities that not only drive exports but also help lower input costs to make downstream and upstream industries more competitive.

Media and Motion Pictures SBU

The SBU focuses on funding motion pictures, digital cinemas in townships, broadcasting for the development of black industrialists, developing the animation hub and animation films. The unit not only invests in the production of content, but also in the services and infrastructure that support productions in this highly significant industry.

New Industries Unit

The SBU develops new or emerging industries or technologies that could become sizable, relevant industries with the potential to stimulate future jobs-rich industrialisation. The unit is involved in early-stage sector and technology development therefore central to the initiation, creation and development of the industries and value chains.

Rest of Africa SBU

The unit identifies, assesses and facilitates investment opportunities for the IDC in the rest of Africa to support the growth of South Africa's industrial base and economy. It develops regional suppliers for South African industries, thereby building long-term, sustainable supply chains across the continent that generate jobs. Key focus areas are agriculture, manufacturing, tourism, minerals and mining, petroleum and energy, transport and other related infrastructure.

DEVELOPMENT FUNDS DEPARTMENT (DFD)

DFD's primary objectives are:

To conceptualise, negotiate, establish, administer and monitor IDC's ring fenced and third party funds together with relevant fund owners and Strategic Business Units ("SBUs").

a. Collaboration with SBUs on the application of investment funds to qualifying clients
b. Performing pre and post investment activities in respect of third party funds (currently CTCP and TVC).
c. Impact assessment and reporting on achievement of fund objectives.

The funds currently managed by the Investment Funds cluster, available to SBUs when structuring transactions, include:

- Gro-E Youth Scheme;
- Manufacturing Competitiveness Enhancement Programme ("MCEP");
  - Working Capital Facility;
  - Plant and Equipment Facility.
- UIF II;
- AFD Green Energy Fund;
- Youth Pipeline Development Programme;
- EIB SME and MIDCAPS Fund;
- Downstream Steel Industry Competitiveness Fund;
- Clothing and Textile Competitiveness Programme; and
- Technology Venture Capital Fund

Funding provided to deserving projects/ enterprises is supported by a business support programme aimed at providing pre- and post-investment assistance based on the needs evaluated.

1. GRO-E YOUTH SCHEME

Objective:

Encourage youth entrepreneurship and employment creation, thereby expanding South African production capacity.

Qualifying Criteria:

- Available to South Africans and permanent residents up to and inclusive of the age of 35 years at the time of final approval;
- Youth shareholding should be at least 26%;
- Youth operational involvement in the business;
- Applicant can be a start-up or expansion within South Africa;
- Cost per job of up to R750 000 for the duration of funding – calculated using total project cost;
- Applicant to meet the BBBEE requirements of the IDC – level 4 or have a plan to achieve this within 24 months; and
- Own contribution will be determined by the financial capacity of the entrepreneur and the cash flow profile of the business.

Instruments and Pricing:

- Equity, quasi equity and loans;
- Minimum of R1 million and Maximum of R50 million per transaction;
- Pricing to apply as follows:
  - More than 26% Youth Owned - Prime less 2%; Equity – 6% RATIRR; and
  - More than 50% Youth Owned - Prime less 3%; Equity – 5% RATIRR.

  Discounted equity pricing only applicable for the youth equity portion
- First draw must occur within 1 year from approval of funding by the IDC or pricing reverts to normal IDC pricing; and
- Standard IDC fees apply.

2. MANUFACTURING COMPETITIVENESS ENHANCEMENT PROGRAMME (MCEP)

Objective:

To assist manufacturing companies with working capital.

Qualifying Criteria:

- Only available for working capital requirements;
- Start-ups only considered for Black Industrialists' businesses;;
- Only applicable to manufacturers under Standard Industrial Classification Code 3;
- Applicant may not contemplate workforce reductions during the term of the facility;
- Applicant required to achieve BBBEE Level 4 within 24 months;
- MCEP funds are blended at a leverage level of at least 20% funding from IDC; and
- Pre and post Business Development provided at a maximum of R3 million per applicant.

Instruments and Pricing:

- Limited to R50 million per applicant;
- Priced at a fixed rate of 4%;
- Maximum term is 48 months, including moratorium;
- First drawdown must occur within 6 months from approval date; and
- No fees apply.

3. Plant and Equipment Facility

Objective:

To provide finance to Black Industrialists for the acquisition of plant and equipment.

Qualifying Criteria:

- Only applicable to Black Industrialists' businesses;
- Only available for plant and equipment requirements;
- Applicable to start–up businesses, expansions and expansionary acquisitions;
- Applicant may not contemplate workforce reductions during the term of the facility;
- Only applicable to manufacturers under Standard Industrial Classification Code 3;
- Applicant will be required to achieve BBBEE Level 4 within 24 months;
- MCEP funds are blended at a leverage level of at least 20% funding from IDC; and
- Pre and post Business Development will be provided at a maximum of R3 million per applicant.

Instruments and Pricing

- Limited to R50 million per applicant;
- Priced at a fixed rate of 4%;
- Maximum term is 84 months, including moratorium;
- First drawdown must occur within 12 months from approval date; and
- No fees apply.

4. UIF II

Objective:

To contribute towards sustainable job creation and retention by supporting job creating transactions while providing concessionary funding.

Qualifying Criteria:

- Applicant can be a start-up and existing businesses whose applications are geared to saving and/or creating jobs;
- Cost per job of up to R600 000 for the duration of funding – calculated using total project cost (total funding requirements of the project from all sources (i.e. the IDC, promoters, other funders, etc.) divided by the number of permanent jobs to be created and/or saved;
- UIF II funds are blended at a leverage level of at least 30% financing from normal IDC risk-priced funding (i.e. excludes off-balance sheet and other IDC concessionary funding);
- Applicants need to demonstrate that they are in compliance with the UIF regulations (i.e. existing businesses to demonstrate that all its employees are registered with UIF as well as that monthly and annual contributions are up to date prior to the loan being disbursed) and all successful applicants to provide confirmation of compliance (letter of good standing) to IDC on an annual basis during the funding period;
- No double dipping; i.e. transactions previously funded utilizing UIF funds (whether it be for job creation or job saving) cannot be considered for funding again to save jobs under the UIF II; and
- Transactions in distress (job saving) must not be paying dividends to its shareholders for the period of the loan.

Instruments and Pricing

- Loans;
- Limited to R50 million per transaction. Furthermore, a counterparty limit of R200 million applies;
- Pricing is currently within the range from 8.64% to 10.94%. Discounts from maximum pricing is based on the client's developmental scores, BI status and job efficiency at the time of the application (i.e. UIF II maximum pricing + Development Incentive (DI): BI + DI: development score + DI: job efficiency). The UIF rate is to be fixed for a period of 7 years and thereafter IDC's normal risk-based pricing will apply, should the loan facility be longer than this period;
- First drawdown must occur within 7 months from approval date; and
- Standard IDC fees apply.

5. AFD GREEN ENERGY FUND

Objective:

To provide finance to renewable energy and energy efficiency projects of smaller scale and manufacturing of Green products in South Africa.

Qualifying Criteria:

Renewable Energy (RE):

  - Solar and biomass; and
  - Other technologies are considered on a case by case basis.

Energy Efficiency (EE):

  - A maximum of 200% increase in production capacity is allowed for expansion projects; and
  - Greenfield operations are considered on a case by case basis.

- AFD funds are blended at a leverage level of at most 50% funding from IDC; and
- No refinancing.

Instruments and Pricing:

- Total investment cost not higher that 25% of the Facility (ca R250 million per project);
- Normal risk pricing with a cap of Prime + 1.6% or an equivalent fixed rate;
- Minimum investment period of 3 years;
- Maximum payback based on energy savings of 8 years; and
- Standard IDC fees apply.

6. YOUTH PIPELINE DEVELOPMENT PROGRAMME

Objective:

To improve the readiness of potential applicants and thereby increase their probability for IDC consideration.

Qualifying Criteria:

- Available to youth-owned businesses (irrespective of whether it qualifies for Gro-E Youth or not);
- Application must meet IDC sector and funding limits;
- Applicant can be start-up or expansion;
- Pre-BA assistance:
    - Proposal must pass a readiness assessment and in-principle go-ahead from sector SBU Head;
    - To bring an application to bankable stage, including detailed marketing studies, mentoring, technical assessments, sourcing and negotiating with suitable suppliers, costing of products, QS costings, EIAs etc); and
    - Up to 6% of potential investment amount up to a maximum of R500 000.
- Post approval assistance:
    - Pre implementation – for assistance required in meeting/ clearing of CPs (must be specific and be supported by cost estimates, with clear milestones with regards to objectives and skills transfer);
    - Implementation – for in depth mentoring and coaching as well as any other business support required for up to 2 years; and
    - Up to 40% of the investment amount or a maximum of R1.5 million.
- Interventions provided during pre-BA and pre-implementation stages must not take more than 6 months to be completed.

Instruments and Pricing:

- Loans and grants (50:50);
- Prime; repayable after IDC's normal debt, subordinated in terms of cash-flow and security; and
- No fees apply.

7. EIB SME AND MIDCAPS FUND

Objective:

To assist SMEs and MIDCAP companies to access loan financing for CAPEX, medium and long term working capital.

Qualifying Criteria:

- Application must meet IDC and EIB mandated sectors;
- Available to SME and MIDCAP companies. MIDCAP means companies that have up to 3000 employees (full time equivalent);
- Funding provided for CAPEX and medium to long term working capital;
- Final Beneficiary (company) and project location must be South African. ;
- Total cost of a project must not exceed EUR 25 million;
- Only eligible to Autonomous Enterprises, where the enterprise does not hold 25% or more of the capital or voting rights in one or more other enterprises and no enterprise has a stake of 25% or more of its capital or voting rights;
- Exempted Investors may hold up to 50% of the capital or voting rights but do not exercise a dominant influence. Exempted Investors are public investment corporations, venture capital companies and business angels, universities, non-profit research centers, institutional investors including regional development funds, autonomous local authorities with an annual budget of less than EUR10 million and fewer than 5 thousand inhabitants;
- EIB approval required before drawn down of the Funds' facility; and
- Drawdown conditions apply.

Instruments and Pricing:

- Loans;
- Maximum of EUR12,5 million per transaction;
- Normal IDC Risk pricing (before DST) less 3%; and
- Minimum loan term is 2 years.

8. DOWNSTREAM STEEL INDUSTRY COMPETITIVENESS FUND

TARGETED SECTORS

The Fund will selectively target manufacturing firms in the steel-intensive downstream sectors. These are the type of firms that would fall within the downstream sectors of the IDC's Metals Value Chain Division. It is proposed that the following downstream steel sectors should qualify under the Fund:

- Foundry industries;
- Fabrication sectors (focused on pressure vessels, pipes and pipe fittings sub-sectors; structural steel and any fabrication work in support of steel intensive designated sectors/products);
- Parts and component manufacturers of steel-intensive products;
- Valve and pump manufacturers;
- Machining plants;
- Capital equipment industries particularly steel intensive rail and rolling stock components; and
- Any other steel-intensive business.

EXCLUSIONS

The Fund will exclude the following upstream steel sub-sectors, as well as sub-sectors where there are already substantial government support / incentive programmes in place:

- Integrated steel mills
- Component manufacturers that qualifies for other incentives
- Large multinational OEMs and assemblers and their subsidiaries that already benefit from a specific government support programme, e.g. Automotive Production and Development Programme (APDP).

INVESTMENT CRITERIA

Firms that apply for funding should meet the following investment criteria:

- **Local Manufacturers including Black Industrialists*** - This relates to the current IDC policy on Black Industrialist (definition below;
- **Levels of Beneficiation*:** This relates to level of beneficiation of the feedstock to final product;
- **Net Country Increase in Volume (tons/annum)***: This relates to an increase in the net volume of production in South Africa as result of the project funded;
- **Economic Merit:** All businesses which apply to the Fund will be evaluated in accordance with IDC due diligence processes and criteria for economic viability;
- **Sustainability**: The application must show that the firm at the application stage or the budget period of the Fund will be sustainable or have a sustainable turnaround plan in

terms of its application of the funds. Key areas include, financial, marketing, technical and environmental perspective;

- **Regional focus**: Only South African based firms may apply to the Fund. The Fund may not apply to their foreign operations;
- **Export:** Enterprises with the ability or potential to export or enterprises that have to compete with imports, will be encouraged;
- **Jobs*:** Enterprises that create net additional employment will be prioritised, particularly opportunities with greater labour intensity. Saved jobs will also be considered;
- **Type of Enterprises:** Start-ups, expansions;
- **Due Diligence –** Firms will be subjected to the normal IDC due diligence procedures;
- **Compliance** – Applicants must comply with South African legislation and should behave in a socially responsible manner;
- **BEE Requirement** – the Fund will apply standard IDC BEE requirements, where the company must achieve BBBEE Level 4 within 24 months after approval of an application;
- **Maximum Investment Size** –the Fund offers a maximum of R75 million (as a guideline) per applicant. Should additional funding be required, IDC can provide it at normal interest rates, subject to its normal terms and criteria;
- **Type of Funding Instrument** – the fund will only apply to debt (or quasi debt) instruments;
- **Pricing** – IDC risk based pricing less a **discount of 1,5% for large and medium companies (Turnover of more than R123,5million)** and **2% for very small and small companies (Turnover of less than R123,5 million)** as defined in the National Small Business Amendment Bill will apply; and
- **Maximum Term** – 5 years including any moratorium periods. Thereafter, revert to normal IDC pricing if longer than the five years.

9. Clothing and Textiles Competitiveness Programme (CTCP)

The CTCP is a programme of the Department of Trade and Industry ('the dti') to stabilise employment and to improve overall competitiveness in the clothing, textiles, footwear, leather and leather goods manufacturing industries.

The CTCP is aimed at structurally changing the clothing, textiles, footwear, leather & leather goods manufacturing industries by providing funding assistance to invest in competitiveness improvement interventions.

The Guidelines (and the supporting Quick Guides) for the CTCP are published on the CTCP website (www.ctcp.co.za) and provide details on the available schemes, as amended from time to time.

The CTCP consists of the following two schemes

10. The Production Incentive Programme (PIP)

The PIP aims to help the industry upgrade its processes, products and people. This is expected to move the industry up the value chain to activities that are far more sustainable than competing against "sweatshop" labour practices and pervasive government subsidisation in other developing countries. The PIP is meant to encourage and support upgrading and competitiveness improvement programmes in the sector.

The PIP consists of an Upgrade Grant Facility, which is meant to focus on competitiveness improvement. The PIP is a market neutral incentive offered to the subsectors listed below, resulting in an incentive benefit equal to 7.5% for the year based on a company's Manufacturing Value Addition (MVA).

The PIP is available to the following (collectively referred to as the "the sector"):

- Clothing manufacturers;
- Textile manufacturers;
- Cut, Make and Trim (CMT) operators;
- Footwear manufacturers;
- Leather goods manufacturers;
- Leather processors (Specifically for Leather Goods and Footwear industries) and
- Design Houses (Provided the design house partners with one or more CMT's).

11. The Competitiveness Incentive Programme (CIP)

The CIP aims, through the cluster approach, to create a group of globally competitive companies in the qualifying sectors that would ensure a sustainable business environment able to retain and grow employment levels in South Africa. The CIP aims to build and improve capacity and competitiveness in manufacturers and designers through related value chains to effectively supply their customers locally and internationally.

The CIP understands competitiveness to encompass issues of cost, quality, flexibility, reliability, adaptability and the capability to innovate. Competitiveness improvement interventions should thus include innovative activities related to people, products, processes and market development.

Competitiveness improvement should focus on achieving higher levels of productivity through industrial and/or process engineering and management activities. Interventions to promote improvement should be based on a thorough benchmarking process, wherein cluster and member performance and processes are compared to “best practise” both locally and internationally. Proposed interventions are required to address the performance gaps identified through the benchmarking analysis. Interventions can include direct shop-floor interventions emphasising the need to improve people, product and processes within the production environment as well as assistance given to the cluster as a whole to improve member’s competitiveness capabilities. Competitiveness improvement should also focus on market development in order to find and grow markets for members’ manufactured products.

The CIP offers support to Ordinary, National and Sub-national Clusters

An Ordinary Cluster is a group of at least five manufacturing companies or a combination of manufacturing and related organisations (e.g. retailers, design houses, component manufacturers) that are collaborating towards improving the competitiveness of cluster members both individually and as a cluster.

The CIP offers Ordinary Clusters a cost-sharing grant incentive of 75% of the qualifying project costs. The remaining 25% should come from the cluster participants. These incentives will not cover costs pertaining to machinery, equipment, commercial vehicles, land or buildings. Grant support for each approved partnership will be limited to a cumulative ceiling of R25 million over the period of the programme implementation.

A National Cluster is a sector or sub-sector wide development initiative coordinated by a national structure that is responsible for facilitating and managing national shared resources and projects as well as overseeing sub-national cluster projects, where applicable. Activities of a National Cluster need to focus on Skills Development, Technology Development and Research and Incubation of SME manufacturers, service providers and suppliers through Shared Resources Facilities. A Sub-national Cluster may be formed with or after a National Cluster to implement and support the strategic objectives and activities of the National Cluster.

The CIP offers National Clusters and their supporting Sub-national Clusters a cost-sharing grant of 100% of the approved qualifying expenditure for the first year. It becomes a cost sharing grant of 95% from the CIP in year 2, 90% from the CIP in year 3, 80% from the CIP in year 4 and 70% from the CIP in year 5. The balance of funding needs to be raised from cluster participants.

12. Technology Venture Capital (TVC) Programme

The purpose of the TVC Programme is to provide funding and business support to small companies at early stages of commercialisation (not development) of locally developed innovative products, processes and technologies across all sectors, which have the potential of having a significant developmental impact on the SA economy.

Fund Criteria

All transactions must meet the following investment criteria:

- **Viability and Sustainability:** The product, process and/or technology must be economically viable and financially sustainable.
- **Innovation:** The project should be a novel or incremental innovation. The product or process should not require any further development work prior to commercialisation.
- **IP Rights:** The intellectual property must be owned by the South African entity.
- **Small Company:** The Fund will only invest in small companies, as per the definition above.
- **Management:** The business should either have an experienced management team with business and commercial acumen, or demonstrate potential to develop such a team. The innovator(s) should be operationally involved in the business.
- **Market:** The project or product should have a defined target market and potential for substantial future earnings and market share. The market share should be large enough to yield a significant return on the investment.
- **Competitiveness:** The investee company should demonstrate or possess the ability to develop significant competitive advantage.
- **Sector:** The fund will be applied across all sectors.
- **Business Model:** The business should have a scalable, sound business model that shows a clear path to revenues and profitability in the medium to long term.
- **Developmental Returns:** The successful commercialisation of the business should lead to the realisation of significant developmental returns (job creation, technology development, export potential, etc), and lead to the Fund's portfolio targets being met.
- **Jurisdiction:** The company must be a South African registered company.
- **Compliance:** Investees should comply with South African legislation with regard to environmental provisions and should be socially responsible.
- **Systems:** The investee company should have a HIV/AIDS prevention plan.

How is IDC funding structured?

Funding can be structured utilising a wide array of instruments including:

- Debt
- Equity
- Quasi-equity
- Guarantees
- Trade finance
- Bridging finance
- Venture capital
- refinance fixed assets, since our aim is to expand the industrial base