



Your partner in development finance

CORPORATE PLAN 2017/18 – 2021/22

Presentation to the Portfolio Committee on
Economic Development

09 May 2017

Outline of the Presentation



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1 A BRIEF OVERVIEW OF THE IDC

2 ENVIRONMENTAL SCAN

3 KEY FOCUS AREAS 2017/18 – 2021/22

4 RESOURCE REQUIREMENTS

5 FINANCIAL PROJECTIONS

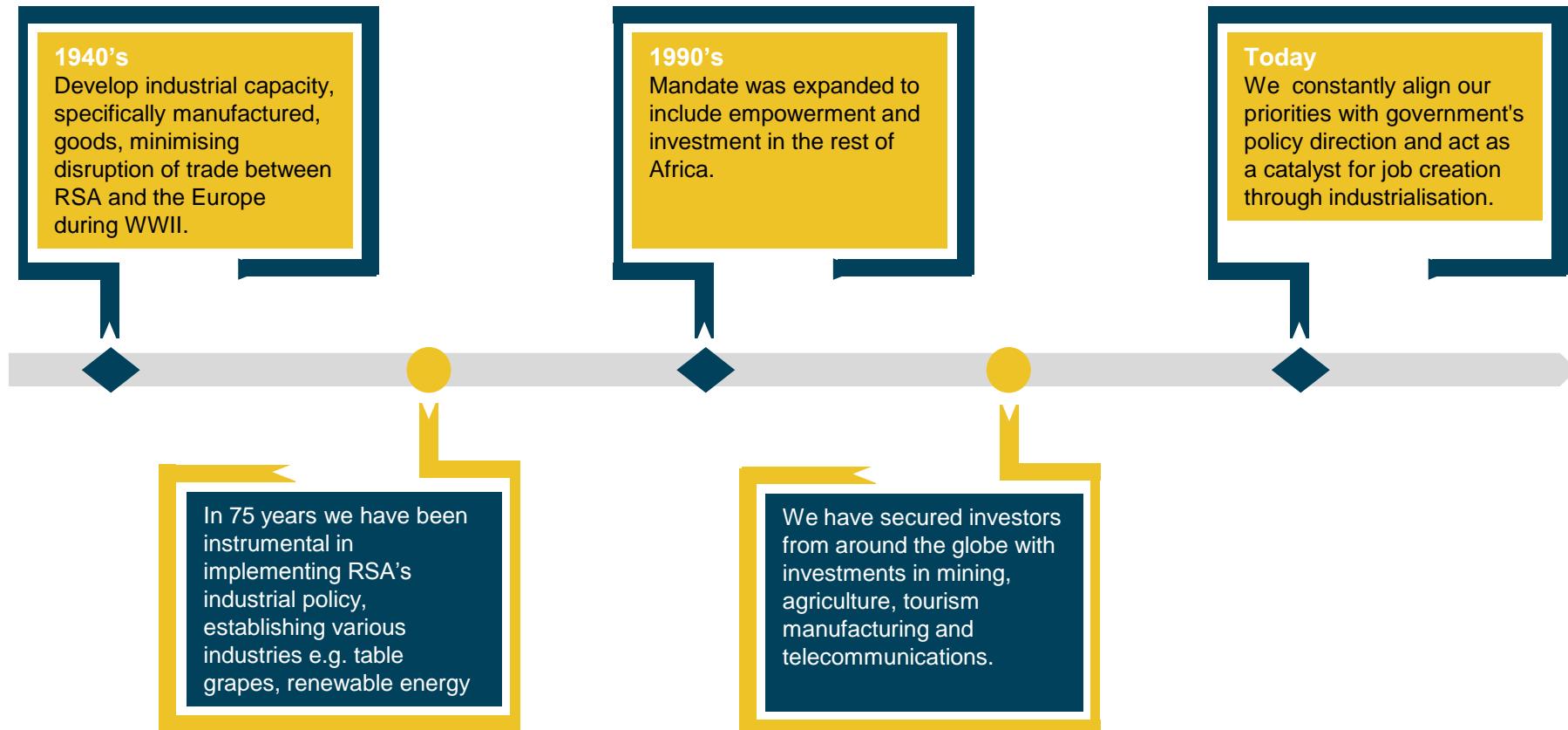
6 KEY RISKS AND MITIGATIONS

7 CONCLUDING REMARKS

Our Mandate has been responsive...

IDC's founding Act are as valid today as it was back in 1940:

“...to facilitate, promote, guide and assist in the financing of new industries and industrial undertakings and schemes for the expansion, better organisation and modernisation of, and the more efficient carrying out of, operations in existing industries and industrial undertakings, to the end that the economic requirement of the Union (South Africa) may be met, and industrial development within the Union may be planned, expedited and conducted on sound principles.”



We continue to operate as a sustainable entity, whilst advancing our development outcomes

Our strategy remains firm... aimed at taking the lead in Industrial Development

Increasing Industrial Development Impact	Ensuring Long-Term Sustainability	Human, Social, Natural and Manufactured Capital
Mandate Alignment	Financial Capital	
<ul style="list-style-type: none">• Priority sector strategies where the IDC plays a proactive role• Strengthen IDC's development objectives and strategies• Identify and develop new industries that can be drivers for growth and employment in the future• Increasing the level of empowerment, black industrialists and transformation through our investments• Support infrastructure projects that unlock industrial development• Align the IDC with the NDP, NGP, IPAP, APAP and NIP sector development objectives• Increase the number of projects under development and in implementation• Provide industrial finance to achieve sector development objectives• Increase regional industrial integration by developing value chains• Ensure that SMME's through our subsidiaries are supported effectively and efficiently	<ul style="list-style-type: none">• Plan investment returns 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 portfolio management• Implement measures to manage concentration risk in the IDC portfolio	<ul style="list-style-type: none">• Human resources<ul style="list-style-type: none">• Ensure appropriately skilled and capacitated human resources• Entrench a culture of performance and development• Stakeholders<ul style="list-style-type: none">• Improve customer service• Partner with other financiers to leverage different strengths and mandates• Increase engagement with sector players to identify opportunities• Strengthen IDC expertise to contribute to policy• Build strong communities around IDC funded projects• Natural environment<ul style="list-style-type: none">• Improve IDC's and industry's environmental sustainability• Utilisation of resources<ul style="list-style-type: none">• Enhance efficiency through continuous improvement of systems

Advance RSA's Developmental Agenda, incl. Transformation



Operate as a sustainable entity



The economic environment we are currently operating in remains challenging

- The South African economy has experienced a declining growth trend in recent years with the weakness fairly broad-based across all sectors of the economy. The current downgrades might prolong recovery.
- The unemployment rate in South Africa fell to 26.5% in the last three months of 2016 after reaching a mid-year high of 27.1%.
- The agricultural sector was severely affected by the worst drought on record, while weak global demand and lower commodity prices impacted adversely on the mining sector.
- Subdued domestic demand and difficult operating conditions took their toll on the manufacturing sector, with its output expanding at a very modest pace.
- The services sectors, in general, also recorded rather subdued rates of growth.

Key performance indicators for the South African economy

Variable (% change or % of GDP)	2013	2014	2015	2016
<i>Real GDP growth and its components:</i>				
Household consumption expenditure	2.0	0.7	1.7	0.8
Government consumption expenditure	3.1	1.1	0.5	2.0
Gross fixed capital formation (GFCF)	7.2	1.7	2.3	-3.9
Exports	3.6	3.2	3.9	-0.1
Imports	5.0	-0.5	5.4	-3.7
GDP	2.5	1.7	1.3	0.3
Consumer price inflation	5.7	6.1	4.6	6.4
Current account balance (% of GDP)	-5.9	-5.3	-4.4	-3.3
GFCF as % of GDP	20.4	20.6	20.4	19.6

Source: IDC, compiled from SARB data, IDC forecasts

The IDC operates and has to continue to play a counter-cyclical role in all these sectors

Economic growth is expected to modestly improve over the medium term

- Faster rates of expansion in advanced economies in some emerging markets, such as India, may lift global growth to 3.4% (2016: 3.1%)
- Although an upward trend in commodity prices is expected, especially in the short-term, underlying market fundamentals remain generally unsatisfactory.
- Recent developments in the US pose substantial downside risks to global growth and may lead to geo-political tensions. Moreover, higher interest rates in the US and further dollar strength would impact negatively on prices.
- The UK's withdrawal from the European Union attracts additional uncertainty.

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- Despite recent downgrades, South Africa's GDP is expected to expand in real terms in 2017. Although economic growth is likely to remain subdued in 2018, a gradual recovery is projected to ensue in subsequent years.
 - Better demand conditions in key external markets and higher commodity prices, supported by relative rand weakness, should bring about a reasonably good export performance over the next couple of years.
 - Higher inflation expectations may result in further interest rate hikes, maintaining pressure on spending by households and investment by businesses.
 - Overall fixed investment activity is likely to remain weak in the short-term due to spare production capacity and low business confidence in most sectors of the economy, and lower spending by SOEs in real terms.

We anticipated the Ratings Downgrade and its impact on the IDC:

Positive

1. Price performance of listed shares could improve as a result of weaker rand and commodity prices.
2. Export focused business partners are likely to benefit from a weaker exchange rate.
3. There could also be investment opportunities for import replacement.

Negative

1. Disbursements
 2. Inflation rate – cost of doing business
 3. Borrowing costs
 4. Impairments and write-offs
 5. Job losses – due to businesses reducing level of activity
 6. Raising debt will be more challenging with foreign lenders reducing exposure to the country.
 7. Dividend paying unlisted entities could also struggle to make distribution impacting IDC's cash position and profitability.
 8. More restructuring transactions could be presented for approval thereby impacting collections negatively.
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Overall this could result in a greater demand for distressed funding

All these trends have been factored into our plans, thus translating into the following SWOT analysis

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- New proactive strategy to effect industrial and developmental impact
- Knowledge and networks
- Industry research capacity and capability
- Strong corporate governance
- Effective and efficient processes
- Reputation as an effective organization
- Programme to improve corporate performance being implemented
- Strong financial position

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- NDP, NGP, NIP, IPAP, APAP, Phakisa to drive growth & employment
- Shift in geopolitical environment with potential to disrupt global trade & investment flows
- Countercyclical investment to improve competitiveness
- Export market penetration due to currency weakness
- Closer cooperation with other SOEs
- Greater role for Black Industrialists, Youth and Women
- New industries and technologies

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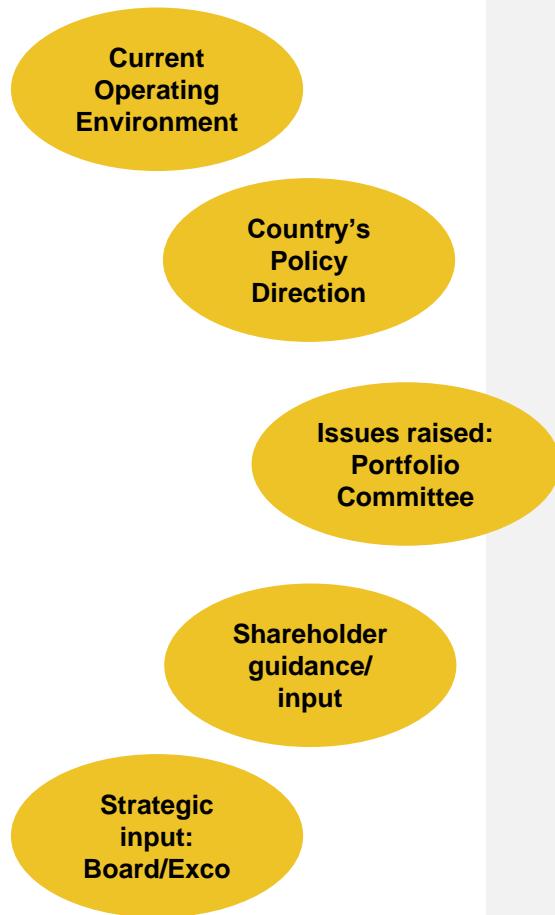
- Balance sheet small relative to GDP
- Impairments ratio remains high
- Portfolio concentration in resource sectors; Counterparty concentration
- Dividend income declining
- Difficulty turning around underperforming investments
- Largest portion of income from small number of investments
- Gearing increasing, impacting on ability to raise further debt

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- Existing clients facing difficult trading conditions
- Potential decline in the probability of new projects materializing
- Rising unemployment rate means IDC needs to further increase its impact
- Downgrade in credit ratings will impact IDC's ability to raise low-cost funding and its ability to support its clients.

The new IDC Corporate Plan therefore entails a deliberate focus on the following key areas:

INPUTS



KEY FOCUS AREAS

1. Response to Current Operating Environment
2. *Project Evolve* Implementation
3. Financial Sustainability
4. Subsidiaries Management
5. Organisational Culture and Capabilities
6. Governance and Regulatory Matters

IDC CORPORATE PLAN IN A NUTSHELL

Focus area	Description	Financial Implications	Development Outcomes
1 Response to Current Operating Environment	<ul style="list-style-type: none"> Support to companies in distress Supporting sectors with immediate impact on job creation Sector specific interventions for sectors significantly affected by operating environment 	Over 5 years to March 2022 <ul style="list-style-type: none"> Baseline scenario <ul style="list-style-type: none"> Disburse R97 billion Maintain an average cost-to-income ratio (including dividends from all investments) of 22% Debt/equity ratio to reach 59% by the end of the period Impairments ratio not rising above 19.3% and ending the period at 18.2% Sell R16 billion worth of equity investments Achieve R6.0 billion of profits (excl. gains on equity disposals) Target scenario <ul style="list-style-type: none"> Disburse R123 billion Maintain an average cost-to-income ratio (including dividends from all investments) of 22% Debt/equity ratio to reach 59% by the end of the period Impairments ratio not rising above 19.5% and ending the period at 18.7% Sell R29 billion worth of equity investments Achieve R3.1 billion of profits (excl. gains on equity disposals) 	 <p>Industrial Development Corporation Your partner in development finance</p>
2 <i>Project Evolve</i> Implementation	<ul style="list-style-type: none"> Value chains/priority sectors strategies & key initiatives/projects Development Impact 		Over 3 years to March 2020 <ul style="list-style-type: none"> Baseline scenario <ul style="list-style-type: none"> Create and save 84 714 direct jobs Provide R15.9 billion in funding to black industrialists, R3.1 billion of this to black women Fund women-empowered businesses to the value of R6.2 billion Assist youth-empowered businesses with R4.0 billion in funding Target scenario <ul style="list-style-type: none"> Create and save 104 298 direct jobs Provide R23.5 billion in funding to black industrialists, R3.1 billion of this to black women Fund women-empowered businesses to the value of R7.8 billion Assist youth-empowered businesses with R5.2 billion in funding
3 Financial Sustainability	<ul style="list-style-type: none"> Improve collections, manage impairments, more appropriate pricing, strengthen planning, optimise portfolio, more optimal products, and increased leveraging of outside funds 		
4 Subsidiaries Management	<ul style="list-style-type: none"> More proactive engagements, monitoring and reporting, deploying IDC resources and services, formal management performance reviews 		
5 Organisational Culture and Capabilities	<ul style="list-style-type: none"> Build the appropriate internal environment and more focussed development of human capital 		
6 Governance and Regulatory Matters	<ul style="list-style-type: none"> Further improve governance by implementation of conflict of interest policies, strengthening fraud and corruption prevention strategies, risk management, and increased transparency 		

2017/18 to 2019/20 Corporate Targets: Short Term

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Perspective	Theme	Indicator	Measurement description	Weight	Level	2017/18	2018/19	2019/20
Development impact	Industrial capacity development	Funding disbursed	Total value of funding disbursed by IDC (R'm)	20%	Base	14 549	17 168	19 743
		Funding leveraged	Amount of outside total funding attracted for each rand of IDC funding. Guarantees considered as fully leveraged funding. 10% Moderator.	Moderator	Target	18 500	21 830	25 105
	Jobs	Expected direct jobs created/saved	Expected direct jobs created/saved for funding approvals with agreements signed (Number)	20%	Base	23 951	28 262	32 501
		Expected direct jobs created	Expected direct jobs created for funding approvals with agreements signed as a percentage of total jobs created/saved (%)	Mod-erator	Target	29 488	34 795	40 015
	Economic empowerment and transformation	Value of funding to Black Industrialists	Value of funding approvals with agreements signed for transactions benefiting black industrialists (R'm)	5%	Base	4 873	5 527	5 527
			Value of funding approvals with agreements signed for transactions benefiting black woman industrialists (R'm)	Mod-erator	Target	7 383	8 037	8 037
		Value of funding women empowered businesses	Value of funding approvals with agreements signed for transactions benefiting businesses where women have more than 25% shareholding and are operationally involved in the business (R'm)	5%	Base	1 200	1 200	1 200
		Value of funding for youth empowered businesses	Value of funding approvals with agreements signed for transactions benefiting businesses where youth have more than 25% shareholding and are operationally involved in the business (R'm)	5%	Target	1 500	1 500	1 500
		Funding for localisation initiatives	Value of funding agreements signed for transactions aimed at inputs into infrastructure or other government procurement and components for motor vehicles (R'm)	5%	Base	770	770	770

2017/18 to 2019/20 Corporate Targets: Short Term

Perspective	Theme	Indicator	Measurement description	Weight	Level	2017/18	2018/19	2019/20	
Financial Sustainability	Impairments	Impairments ratio	Impairments as a percentage of the portfolio at cost (%)	10%	Base	18.4%	19.0%	19.3%	
		Level of impairments	Moderation of 10% on rating for indicator if rand value of cumulative impairments as per balance sheet exceeded (R'bn)		Moderator	Moderator	16.4%	17.0%	17.3%
	Income and profitability	Revenue	(Net interest, dividends, fees and money market income)/(Total assets)	5%	Base	3.9%	4.6%	4.4%	
					Target	4.4%	5.1%	4.9%	
	Subsidiary performance	Foskor financial performance	Foskor operating profits/losses before capital gains (R'm)	5%	Base	-216	168	251	
		Scaw financial performance	Scaw operating profits/losses before capital gains (R'm)		Target	-194	185	276	
					Base	-97	-128	116	
		sefa performance	Implementation of divestment strategy	2.5%	Target	-87	-115	128	
		sefa performance	sefa's performance against balanced scorecard	2.5%	Rating	Rating	n.a.	n.a.	
Customer/ Stakeholders	Customers	Customer Satisfaction Index	Overall customer satisfaction rating (1-10)	5%	Base	7.8	7.8	7.8	
					Target	8.5	8.5	8.5	
Internal Processes	Efficiencies	Cost to income ratio	Administration costs, excluding impairments and project costs as a percentage of net interest, dividend and fee income (excl. dividend income from Sasol, Kumba Iron Ore, BHP Billiton, South 32, Arcelor Mittal and Sappi)	5%	Base	35.7%	26.2%	26.5%	
					Target	25.7%	16.2%	16.5%	
				100%					

IDC Strategy: Project Evolve recap

In line with IDC industrial capacity development objectives IDC initiated the implementation of Project Evolve in April 2015. This is aimed to prioritise industries where IDC should focus its proactive industry development activities to increase its impact.

Future activities focused on sectors where we can achieve specific game changing impact

- **Value chains:** (Chemicals and Pharmaceuticals; Metals and Mining; Agro-processing and Agriculture);
- **High impact sectors:** high volume of opportunities with minimal effort, resulting in high impact return on effort;
- Assist in the financing of **new industries**;
- **Industrial Infrastructure** underpinning the success of Value chain & New Industries activities.

Challenging IDC to be a **proactive industry developer**
- taking greater ownership & leadership for developing the most important parts of the sector/industry to drive desired outcomes.

Proactive industry developer



Key focus areas within priority Value Chains

Metals and Mining	Chemicals and Pharmaceuticals	Agro-processing and Agriculture
Mining <ul style="list-style-type: none"> ◦ Increase minerals energy security ◦ Development of 21st Century Mines ◦ Mining of inputs for the downstream metal sector 	Basic and Speciality Chemicals <ul style="list-style-type: none"> ◦ Fertilisers import replacement and increased local value add ◦ Increased gas usage as an energy source ◦ Increased liquid fuels energy security ◦ Increase local production of green and other new chemicals ◦ Local manufacture of consumer goods inputs 	Implement strategies for <ul style="list-style-type: none"> ◦ Investments in primary agriculture to support inputs into processing value chain ◦ Defend positions of dominance ◦ Build positions of dominance ◦ Develop sectors where there is competitive advantage ◦ Develop regional and continental competitiveness in areas of South Africa's competitive disadvantage ◦ Support government policy
Basic Metals <ul style="list-style-type: none"> ◦ Increase supply of competitively priced basic metals to downstream industries 	Chemical Products and Pharmaceuticals <ul style="list-style-type: none"> ◦ Local manufacture of consumer goods ◦ Competitiveness improvements for the plastics industry ◦ Production of radio-pharmaceuticals for nuclear imaging ◦ New capacity for targeted products for priority diseases 	
Machinery & Equipment <ul style="list-style-type: none"> ◦ Production of equipment for the power-generation sector ◦ Production of equipment for the mining & construction industries 		
Automotive & Transport Equipment <ul style="list-style-type: none"> ◦ Increase locally produced and assembled cars ◦ Increase locally produced rolling stock 		

Specific projects have been identified across the Value Chains

Key projects/initiatives for 2017/18 - 2021/22 across the Value Chains

Metals and Mining	Chemicals and Pharmaceuticals	Agro-processing and Agriculture
<ul style="list-style-type: none"> • Local car assembly • Production of aluminium automotive body sheet • Aluminium rod • Coal projects to develop Waterberg coal fields • Steel mini-mills • Cable manufacturing • Gas cylinder manufacturing • Forged train wheels • Multi-OEM vehicle assembly plant project • Migrate mini-bus assembler from semi-knock down assembled to completely knock down • Uranium mining • Chrome smelter • Iron briquettes to replace scrap in mini-mills • Manufacture of cables for control and instrumentation applications • Copper cables • Expansion of mining equipment manufacturing capacity • Manufacturing of conveyor belts • Manufacturing of port handling equipment. 	<ul style="list-style-type: none"> • Foskor competitiveness improvements • Further phosphate rock beneficiation • Establishing a potash recovery facility in a neighbouring country • Development of phosphate resources outside SA • Establishment of a urea manufacturing facility • Development of local natural gas resources • Establishment of a liquid natural gas terminal • Complete implementation of liquefied petroleum gas storage facility • Construction of new crude oil refinery • Conversion of refinery • Local crude oil storage facility • Microalgae production plant • Beneficiation of cobalt, nickel, copper and lithium into specialty chemicals • Beneficiation of magnetite into chemicals • Contract manufacturing of personal care products • Active pharmaceutical ingredients manufacturing • Radio-isotopes for medical imaging • Telemedicine project • Traditional medicine • Conversion of waste plastic into chemicals • Plastic packaging • Vaccine production 	<ul style="list-style-type: none"> • Dried fruit in the Northern Cape • Ester oil manufacturing • Development of agricultural projects that can feed into the local beverage industry e.g barley, hops and malted products as well as fruit for carbonated fruit juices • Almond industry development • Pineapple value-adding complex • Industrial hemp fibres • Poultry value chain development • Rural cattle commercialisation project • Game related production activities (game, crocodile products – lean meats, skins for textiles and leather industries). • Catfish farming and processing project Operation Phakisa – Agriculture, Land Reform and Rural Development

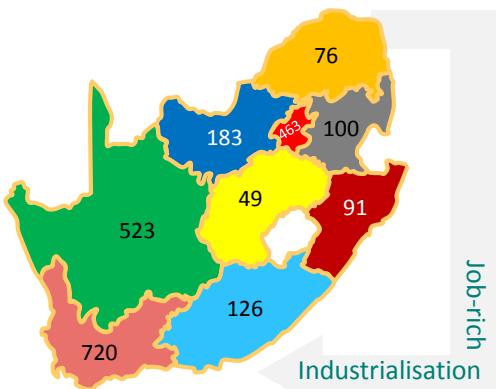
The IDC is also implementing strategies for industrial infrastructure, clothing and textiles, and the media and motion pictures industries

Industrial Infrastructure	Clothing and Textiles	Media and Motion Pictures
<ul style="list-style-type: none">◦ Electricity generation◦ Water◦ Logistics◦ Telecommunication infrastructure	<ul style="list-style-type: none">◦ Natural fibres<ul style="list-style-type: none">- Wool and mohair- Bamboo- Hemp◦ Fashion designers◦ Poly-viscose and cotton spinning◦ Cotton spinning◦ Industry sustainability<ul style="list-style-type: none">- IDC clients- Industry competitiveness◦ Export promotion and import replacement	<ul style="list-style-type: none">◦ Funding for micro, low, and medium budget films◦ Animation films and hub◦ Broadcasting◦ Supporting film infrastructure

IDC's long-term strategy for 2017/18 onwards is not deviating significantly from the previous year but the environment in which the organisation operates necessitates some new initiatives and prioritisation of existing initiatives to ensure that the Corporation delivers effectively on its mandate.

New approvals demonstrate IDC's commitment to regional spread

Pia Solar SA (Pty) Ltd	Fairprice Furnitures (Pty) Ltd	Wagienience (Pty) Ltd	2 TEN HOTEL
<p>Provide solar energy solutions</p>  <p>BASIC METALS & MINING Province: Northern Cape Value: R40M No. of Jobs: 523</p>	<p>Manufacture of furniture</p>  <p>LIGHT MANUFAC. & TOURISM Province: North West Value: R15.6M No. of Jobs: 183</p>	<p>Manufacture of an innovative leakless valve for use in toilet</p>  <p>NEW INDUSTRIES Province: Gauteng Value: R20M No. of Jobs: 463</p>	<p>Hotel/Tourism</p>  <p>LIGHT MANUFAC. & TOURISM Province: Limpopo Value: R58M No. of Jobs: 76</p>



Oiltanking MOGS Saldahna (RF) (Pty) Ltd
Crude oil blending and storage terminal


Rietfontein Agri Partners Pty Ltd
Agriculture - crop production on previously unutilised land

Nulatex SA Condoms
Manufacture of condoms

Nkomati Anthracite Mine (Pty) Ltd
Re-opening of an anthracite mine

Transmission Worx (Pty) Ltd
Installation of an electrical transmission line

Since our last update to the Portfolio Committee, IDC has made significant progress on a number of transactions (1/2)



K9 Petfoods approached IDC to provide investment funding towards the expansion of its operations within the manufacture of pet food. The business (est. 1996) currently manufactures frozen pet food (inclusive of treats) from its leased premises in Killarney Gardens; however an opportunity to exclusively manufacture wet pet food (i.e. chunks in gravy) for Woolworths has been secured.

Update

- Plant installation and process commissioning is 90% completed. Pouch packaging facility is in production and is manufacturing saleable product which were delivered to Woolworths on the 24th of March 2017, for distribution to retail outlets in April 2017.
- 2nd Phase incorporating the retortable tubs, plates, steam and condensate as well as food safety compliance is currently in progress.

Klydon PET / Molybdos

Klydon PET produces the isotope oxygen-18, which is used as a radiotracer for the manufacture of the Active Pharmaceutical Ingredient (API) FDG, which is used in PET scanners for the detection and diagnosis of cancer. Klydon PET will use world leading technology for isotope production developed in South Africa by Klydon (Pty) Ltd (another IDC client). Oxygen-18 is very difficult to manufacture and there is a continuing worldwide supply shortage.

Update

- Detailed design of the plant (outlay, equipment, etc.) has been finalised
- Compressors have been selected and design finalised with suppliers
- Busy with draw request to IDC, in order to pay a deposit when ordering the compressors, as these have a long lead time
- Plant to be completed and commissioned during 2018
- MCC approval to be sought once plant has been commissioned in 2018.



Since our last update to the Portfolio Committee, IDC has made significant progress on a number of transactions (2/2)



Sunrise Energy is constructing an LPG Import Terminal in Saldanha Bay, Western Cape, South Africa, with the facility scheduled for commissioning by 2nd quarter of 2017. The facility will address LPG supply shortages in the region and will transform the energy mix in the Western Cape and further afield, allowing for less dependence on electricity, specifically for thermal applications in households, the commercial and small industrial sectors.

Update

- Construction activities 99.9 % completed
- Cleaning of site and occupational readiness preparations underway
- Hot Commissioning commenced
- First throughput shipment for Terminal is scheduled for 18 May 2017 (Terminal becomes operational)
- Strong commercial interest has been expressed for use of Terminal
- Project executed within budget and on time.

CapeRay has successfully developed a breakthrough product: a single device that can acquire both x-ray and automated ultrasound of the breast at the same time.

Technology and product development are complete and limited clinical trials of around 70 patients have taken place at the Lung Institute and Groote Schuur hospital. A large trial of over 4 000 women is due to take place at 2 Military Hospital during 2016.



Update

- The Development of the technology is complete
- The machine was sent to MET Labs in Baltimore (USA) in July 2016 for electrical and electromagnetic (EMC) testing (a requirement for the approval of the CE certification)
- Management was recently notified that the machine has passed all the EMC tests and that the electrical testing started early April 2017
- As a result of the delays experienced with the EMC / Electrical testing, approval for CE Certification and other requirements the clinical trial at 2 Military hospital has not started yet
- UCT has recently approved an equity investment in Caperay Medical and is now the second largest shareholder.

Transformation remains central to the execution of our plans

	External initiatives				Internal initiatives
Objectives	Broaden transformation of industry in all facets of B-BBEE	Broaden participation in economic benefits of industrial development	Growth of businesses with Black ownership	Increase participation of individuals in the country's industrial development	Ensure internal transformation
Focus areas	B-BBEE Codes of Good Practice	Inclusive wealth	Black-empowered businesses	Black Industrialists	B-BBEE Codes of Good Practice
Strategies	<ul style="list-style-type: none"> Driving broad-based transformation at our business partners through the Codes of Good Practice. IDC as a B-BBEE facilitator. 	<ul style="list-style-type: none"> Funding communities to take a stake in projects (start-ups, expansions,). Funding workers to take a stake in companies Increasing empowerment of Black women, youth and disabled. 	<ul style="list-style-type: none"> Funding businesses with Black shareholding (start-ups, expansions). 	<ul style="list-style-type: none"> Supporting Black industrialists to build new capacity <ul style="list-style-type: none"> - Start-up - Expansions Expansionary acquisitions by Black Industrialists Supporting existing Black industrialists to grow their businesses through acquisitions Support potential Black Industrialists to acquire businesses. 	<ul style="list-style-type: none"> Manage all elements of IDC's own B-BBEE rating level <ul style="list-style-type: none"> - Management control - Skills development - Enterprise and supplier development - Socio-economic development

IDC is working towards the creation of an equitable society as envisaged by the Constitution by focusing on the role that it can play through implementing its mandate of industrial development and through internal transformation

B-BBEE Facilitator Status granted to the IDC on 13 September 2016 is set to assist with Transformation...



Especially in the following circumstances:

Early stage projects and venture capital

- IDC might be a large or majority shareholder since equity finance is required for these types of ventures.
- If these projects have a low B-BBEE rating, it jeopardises their chances of forming part of government supply chains (especially important for localisation projects), obtaining licenses, or attracting private sector finance through the Enterprise Development (ED) component of companies.

Distressed clients

- When restructuring facilities for distressed clients, IDC might take up equity positions to ensure the survival of the company.
- Finding additional shareholders might be difficult and not necessarily in their best interests given the distressed nature of these businesses.

B-BBEE/ Black Industrialist acquisitions

- The Black shareholders may not be able to raise the applicable equity finance, and IDC shareholding may assist in keeping the B-BBEE rating at the required majority levels again so as to enhance the position of the company and contribute to its success.

Addressing barriers to entry for Black Industrialists

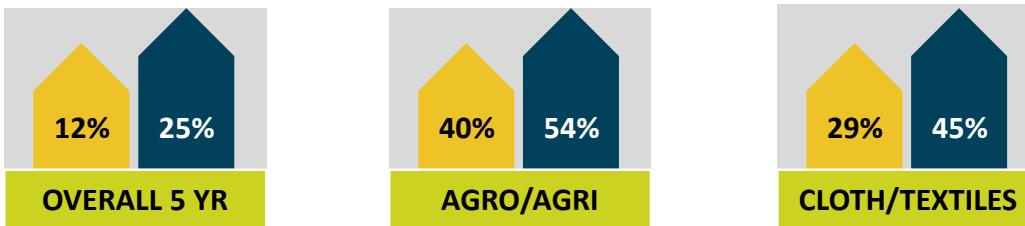
- Entering the manufacturing space can be extremely expensive and prohibitive to Black Entrepreneurs due to the high setup costs.
- IDC will consider taking an equity position, generally to relinquish such to the black entrepreneur at exit.
- IDC will not dilute Black ownership in the enterprise and therefore would support the company to meet the requirements of majority ownership and/or control over the business.

As per *Project Evolve*'s design, value chains will receive the largest portion of the capital allocation

Budgeted funding approvals per industry (R'm): period 2017/18 – 2021/22

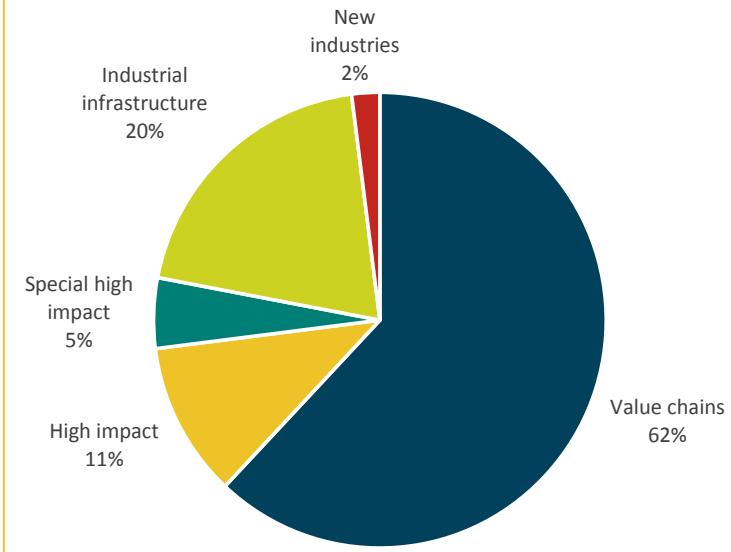
Industry	Base approvals	Target approvals
Value chain – Metals and mining	31 927	40 072
Value chain – Chemicals and pharmaceuticals	19 267	25 502
Value chain – Agro-processing and agriculture	9 511	12 032
New industries	2 342	3 183
Industrial infrastructure	19 072	25 038
Special high impact – Clothing and textiles	3 146	4 103
Special high impact – Media and motion pictures	1 370	1 773
High impact industries	10 618	13 274
Total	97 252	124 977

% Increase in Capital Allocation over 5 year period:



Given the need to support more labour intensive sectors, the allocation for industrial infrastructure was reduced by 6% under the base and limited to a 7% increase under the target scenario.

Expected approvals by Project Evolve industry grouping:



These changes should result in IDC's direct impact on job creation and the relative cost per job improving over the forecast period while ensuring that the Corporation can still play a catalytic role in industry development and the indirect jobs related to this.

We are equally prioritising our Financial Sustainability

Given the negative impact that the recent economic developments have had on IDC's financial performance, much greater emphasis is being put on the Corporation's sustainability

- 1 **Improve collections**
Increased attention on following-up on collections from clients
- 2 **Manage large impairments**
Proactive interventions in companies with large impairments
- 3 **Improve capacity for planning and scenario management**
Additional and more accurate models to facilitate financial planning
- 4 **Implement more appropriate pricing models**
Ensuring that the pricing of IDC's facilities is appropriate for the risk that it is taking and the development impact of these transactions
- 5 **Optimize IDC's portfolio**
Continue implementing a project whereby IDC will divest from a portion of its concentrated listed portfolio and re-invest the proceeds in a more balanced portfolio
- 6 **Implement optimal funding products**
Review of IDC's funding products to improve their relevance and appropriateness
- 7 **Leverage from other funding partners**
Reduce IDC's portion of funding in individual projects to crowd-in private capital; seek more opportunities to manage external funding on behalf of government or other investors and link these funds to its own capital so as to leverage more funding.

IDC Subsidiaries, though underperforming, continue to play a crucial developmental role

Scaw and Foskor are strategic entities in our value chain strategies. Their recent negative impact on IDC's financial sustainability requires increased attention to their performance by the Corporation.

Scaw

74%

Steel manufacturing and related products

- Finalise the restructuring of the Scaw group – introduction of Strategic Equity Partners (SEPs);
Offers currently being taken through IDC governance structures for approval – targeting finalisation Q3 -2017.

Foskor

59%

Phosphate mining and fertilizer production

- Improve financial and operational performance.
- Implement asset replacement programme.
- Focus on magnetite beneficiation.
- Minimise job losses.

sefa

100%

DFI for survivalist, micro, small and medium enterprise

- Improving overall financial sustainability and enhancing developmental performance;
- Strengthening critical processes and systems, primarily Due Diligence and Credit disciplines;
- Enhancing PIM efficiencies and to improve collections levels, especially in Direct Lending;
- Reviewing the current business model.

The incorporation of the National Empowerment Fund (NEF) as a subsidiary of the IDC has been approved. Strategic alignment between IDC, sefa and NEF will be prioritized in this period.

IDC will continue to enhance its role in supporting and providing oversight through:

- More proactive reporting and monitoring;
- Increased frequency of engagement and strategy formulation with boards of subsidiaries;
- Where necessary, availing IDC resources and services to the subsidiaries;
- Formal review of management and board's performance with appropriate interventions.

Key Financial Implications – IDC Mini-Group

R million	Baseline	Target
Cash flows	2017/18 to 2021/22	
Advances (R'm)	96 605	122 838
External funds raised (R'm)	57 686	61 886
of which foreign borrowings	6 186	6 186
Proceeds from sale of shares	16 100	29 459
Balance sheet	end-2021/22	
Financing at market values (R'm)	173 718	184 223
Borrowings (R'm)	63 646	67 846
Debt/equity (%)	59%	59%
Impairments as % of portfolio at cost	18.2%	18.7%
Impairments as % of portfolio at market values	13.4%	13.7%
Income statement	Five years from 2017/18 to 2021/22	
Dividend income	19 341	19 330
Interest and fee income	30 773	33 523
Borrowing costs	16 089	17 897
Impairments and bad debt write-offs	19 015	24 447
Net operating income before capital realisations	5 960	3 083

Our disbursements targets require significant borrowing

Borrowing sources (R' millions)	Budgeted Borrowings for FY 2016/17	Actual Borrowings (01 April 2016 to 31 January 2017)	Budgeted Borrowings for FY 2017/18
Domestic borrowings	8 775	8 062	6 578
Public bonds	2 900	722	2 000
Bank loans	3 875	6 340	2 578
Private placements bonds	2 000	1 000	2 000
Foreign borrowings	4 098	2 558	4 385
DFI's/ Multilateral agencies	1 142	280	2 310
Bank loans and other	2 956	2 278	2 075
Total borrowings	12 873	10 620	10 963

- The IDC's debt funding requirements are determined by the demand for loan financing facilities, maturing debt and loan asset repayments.
- Unfavourable economic conditions can have an adverse effect on IDC's borrowing as follows:
 - New facilities to be concluded, being more expensive
 - Unfavourable exchange rates movements leading to increased redemptions
 - Scarce liquidity in the market resulting in reduced capacity to raise debt funding

Whilst the plan is robust, it also contains other risks accompanied by mitigation strategies

Potential slump in commodity prices:

- Frequent analysis of commodity markets
- Continuous portfolio management

Worsening macro-economic conditions:

- Interventions to deal with economic downgrade
- Annual situational/scenario analysis
- Impairment interventions and Diversification strategy

Non-availability of Water:

- Joint facilities with Land Bank
- PICC initiatives & facilities approval to affected clients

Inadequate/inappropriate debt & equity pricing of facilities:

- Adherence to the approved pricing and rating models
- Appropriate cost of funding.

High carbon taxes paid by IDC, subsidiaries and associates:

- Carbon footprint audits of IDC and key subsidiaries

Culture, behaviour, values and change in mind set misaligned to Mandate:

- Culture change and awareness initiatives.
- Consequence management.

Competition Act issues:

- 1) Prohibitive practices: e.g. abuse of dominance
- 2) Merger control: notification of notifiable transactions to competition authorities.

Insufficient participation by Black Industrialists in the economy (women and youth entrepreneurs):

- Preferential pricing given to Black Industrialists (BI's).
- Corporate target for funding Black Industrialists.
- Black Industrialist Framework in place.
- IDC participation in the DTI's Black Industrialist Forum

Inability to proactively source new business:

- Monitoring by Strategy Department and SBUs
- Proactive Industry Development Strategies.
- Project progress reports

Financial viability of and performance by material subsidiaries (sefa, Scaw, Foskor):

- IDC executives serve on the subsidiary boards
- Financial support offered when needed.
- IDC monitors subsidiaries performance.

Inadequate/inappropriate HC resources to deliver on IDC strategy:

- Knowledge management programme
- Annual remuneration survey and benchmarking.
- Training programmes for existing staff

Negative volatility in listed share portfolio:

- IDC Diversification Strategy (ongoing control)
- Analysis and monitoring of listed investments.
- IDC board sits in some listed investments.
- Financial scenario analysis and tracking share prices

Concluding Remarks

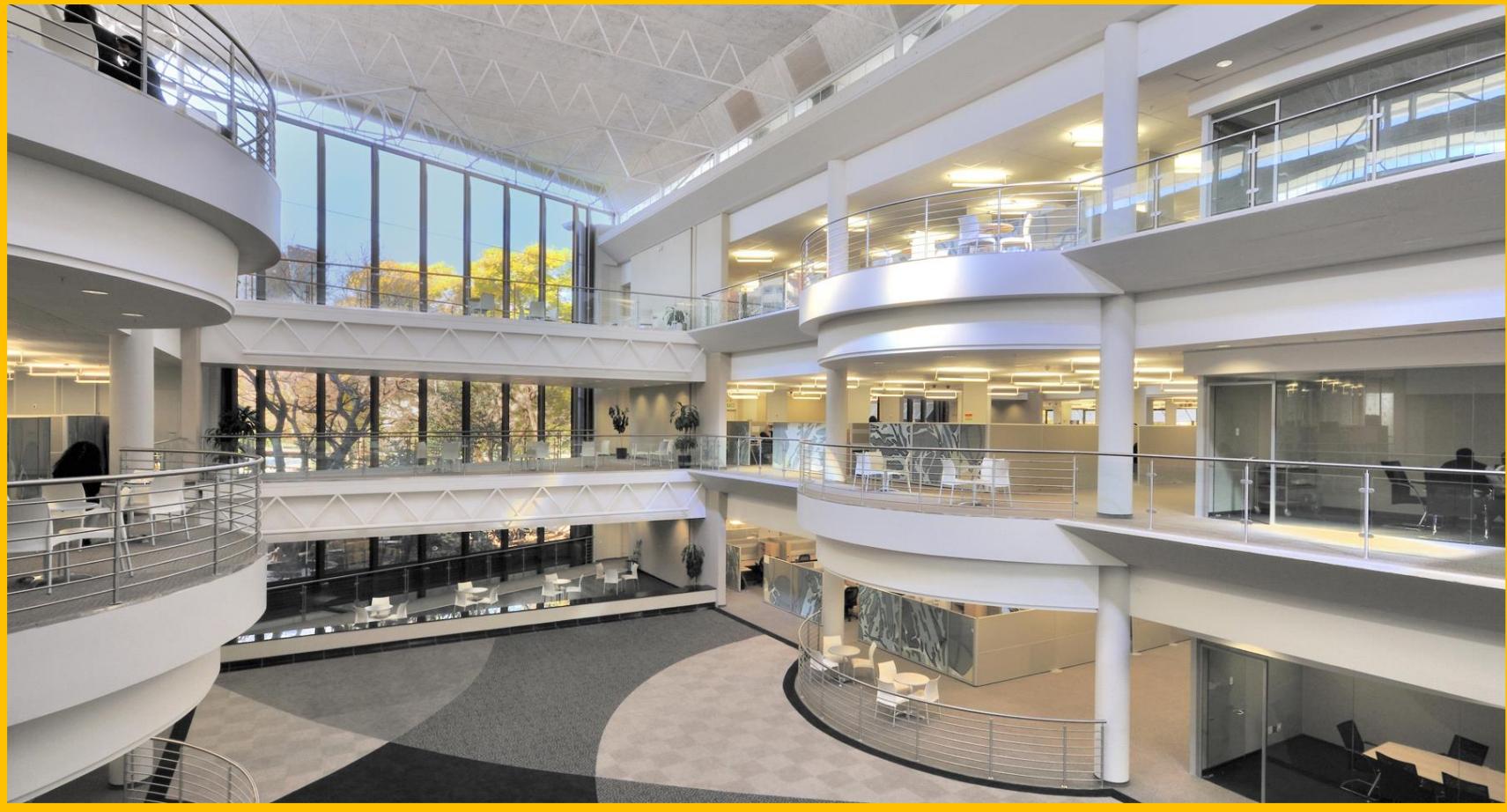
- IDC remains committed to increase its impact despite the challenging operating environment.
- The current downgrade of South Africa's sovereign credit rating might have an adverse impact on the IDC's:
 - overall financial sustainability; and
 - ability to raise low-cost funding and support its clients.
- IDC's counter-cyclical role will be more challenging yet even more important during the planning period.

Even so, through the execution of this Corporate Plan, over the three years to March 2020, the IDC is planning to:

- ✓ Create and save 104 298 direct jobs;
- ✓ Provide R23.5 billion in funding to black industrialists with at least R3.1 billion of this for black women industrialists;
- ✓ Fund women-empowered businesses to the value of R7.8 billion (including female black industrialists);
- ✓ Assist youth-empowered businesses with R5.2 billion in funding; and
- ✓ Remain sustainable.

The IDC journey ahead is still ambitious and bold; the principal goal is a substantially more proactive IDC, focused on sectors that exhibit the highest potential for sustainable and jobs-rich industrial development.

THANK YOU



Overview of IDC

- **Established:** 1940 through an Act of Parliament
- **Type of organisation:** Development Finance Institution (DFI)
- **Ownership:** State owned company, 100% owned by the SA government
- **Total assets:** R121.3 billion (31 March 2016 - group)
- **Total liabilities:** R36.5 billion (31 March 2016 - group)
- **Funding status:** Fund operations and growth from investments, pay dividends and income tax
- **Credit rating:** Baa2 (Moody's) in line with sovereign rating
- **Main business area:** Providing funding for entrepreneurs and projects contributing to industrialisation
- **Geographic activities:** South Africa and the rest of Africa
- **Products:** Custom financial products above R1m to suit project's needs including debt, equity, guarantees or a combination of these
- **Small and Micro enterprise coverage:** sefa (fully owned subsidiary)
- **Stage of investment:** Project identification and development, feasibility, commercialisation, expansion, modernisation
- **Number of employees:** 839 (as at end March 2017)



- **Operational Footprint:**
- Head Office - Johannesburg
- 20 Regional and Satellite offices

IDC's Vision, Mission, Objective, Outcomes, and Values



Vision

The IDC's vision is to be the primary driving force of commercially sustainable industrial development and innovation for the benefit of South Africa and the rest of Africa

Mission

The IDC is a national development finance 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

Objective

Lead industrial capacity development

Outcomes

- Facilitation of decent sustainable direct and indirect employment
- Increase development in poorer areas and ensure higher integration of regional economies
- Promotion of entrepreneurship and small and medium enterprise (SME) growth
- Advancement of environmentally sustainable growth
- Growth in sector diversity and increase localised production
- Support for the transformation of communities
- Development of black industrialists and support for women and youth entrepreneurs

Values

Passion

Professionalism

Partnership

2017/18 to 2019/20 Corporate Targets: Long Term

Perspective	Theme	Indicator	Measurement description	Weight	Base	Target
Development Impact	Industrial capacity development	Growth in funding disbursed to investments in SA	Value of IDC funding in SA (excluding funding in the rest of Africa)	20%	Growth in manufacturing gross fixed capital formation	Growth in manufacturing gross fixed capital formation + 10%
		Growth in funding disbursed to Rest of Africa	Value of IDC funding in Rest of Africa	Moderator	Moderator applies if funding disbursed falls below 80% of 3 year historical average (-10% moderation on rating for this indicator)	7.5% increase in the percentage of disbursement into RoA
	Job creation	Growth in levels of jobs supported by IDC clients	Number of people employed at SA companies in IDC's portfolio and calculated impact on indirect jobs	15%	Growth in levels of employment in the economy	Growth in levels of employment in the economy + 7%
		Increased number of jobs created per unit of funding by IDC (reduce cost per job)	Number of jobs expected to be created, including calculated indirect jobs divided by the value of IDC's SA funding approvals (excluding funding in the rest of Africa, and jobs saved)	Moderator	Moderator applies if there are net job losses in IDC clients and calculated impact on indirect jobs (-10% moderation on rating for this indicator)	Change on the labour/capital ratio of the economy + 5%
				10%	Change on the labour/capital ratio of the economy + 15%	Moderator applies if the number of jobs created per unit of funding does not rise above three year average (-10% moderation on rating for this indicator)
	Economic empowerment	Increase in levels of empowerment in IDC's portfolio	% of number of SA companies with more than 50% black shareholding for which funding is approved	10%	Up to 2.5% increase in the value of black-owned businesses per annum	Up to 10% increase in the value of black-owned businesses per annum
				Moderator	Moderator applies if the value of IDC funding approvals to companies with more than 50% black shareholding falls below three year average (-10% moderation on rating for this indicator)	
Financial Sustainability	Strength of balance sheet	Growth rate in IDC's reserves	Value of IDC reserves	30%	Yield on long-term govt. bonds	Yield on long-term govt. bonds + 2%
Human Capital	HC sustainability	People Sustainability Index	Composite index measuring sustainability of IDC's human capital	10%	5% increase in People Sustainability Index score per annum	10% increase in People Sustainability Index score per annum

We will continue to focus on ensuring a capable organisation premised on sound governance principles



ORGANISATIONAL CULTURE & CAPABILITIES

- IDC recognizes the need for an appropriate culture and skill-set, premised on high performance, in support of its strategy implementation.
- In line with Project Evolve, issues relating to culture and capabilities will continue to enjoy full attention.
- Initiatives include:
 - **Assessment and Skills Audit** to ensure competent leadership and enhanced succession planning;
 - **More flexible remuneration practices**, specifically for critical talent for attraction and retention purposes;
 - Continuous enhancement of performance management processes.
- A new Remuneration Philosophy was already introduced in the past financial year.
- It will be further embedded to reward the achievement of both short-term and long-term objectives.

GOVERNANCE

- The governance, management and performance of state owned entities (SOC's) continues to occupy the spotlight.
- The push for sustainable and better-managed SOC's with sound corporate governance is driven from within government itself, lenders and other key stakeholders like rating agencies.
- IDC continues to have sound corporate governance, ethics and compliance framework
- As conditions change, the IDC will continuously review its corporate governance, ethics and compliance framework to ensure that it is in line with best practice.
- Work has commenced to review/enhance:
 - Conflict of interest policy for members of the Board,
 - Fraud prevention strategies,
 - The handling of transactions involving politically exposed persons; and
 - Transparency in reporting.