

IDC's contribution towards the Economic Reconstruction and Recovery Plan

Briefing to Portfolio Committee on Trade, Industry and Competition
3 March 2021





IDC Delegation

- Ms Busi Mabuza (IDC Chairperson of the Board)
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Introductory remarks

- Economic conditions globally are the worst since the Great Depression of the 1930s.
 - Relief and other support measures from fiscal and monetary authorities worldwide have been substantial and relatively swift, limiting the short- to medium-term damage of the crisis to a significant extent.
 - Economic activity in sub-Saharan Africa is anticipated to remain muted for some time, with several countries finding themselves in considerable debt distress.
 - The South African economy is recovering from the collapse experienced in Q2 2020, but its growth trajectory is likely to be muted for a number of years.
- The Economic Reconstruction and Recovery Plan (ERRP) clearly articulates priority interventions that, if timeously and fully implemented, will support a faster expansion momentum and raise the economy's long-term growth potential.
- The IDC's role will be critical in catalysing and sustaining the recovery of productive sectors, while ensuring that their expansion is sustainable and inclusive.



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- 1** Overview of the economic environment
- 2 IDC's contribution to the economic reconstruction and recovery
→ Sectoral contribution, economic inclusion & regional development impact
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World economy: Recovery from recession set to be prolonged

World economic activity unlikely to return to 2019 levels until 2022

Gradual recovery in global growth supported by EMs, led by China

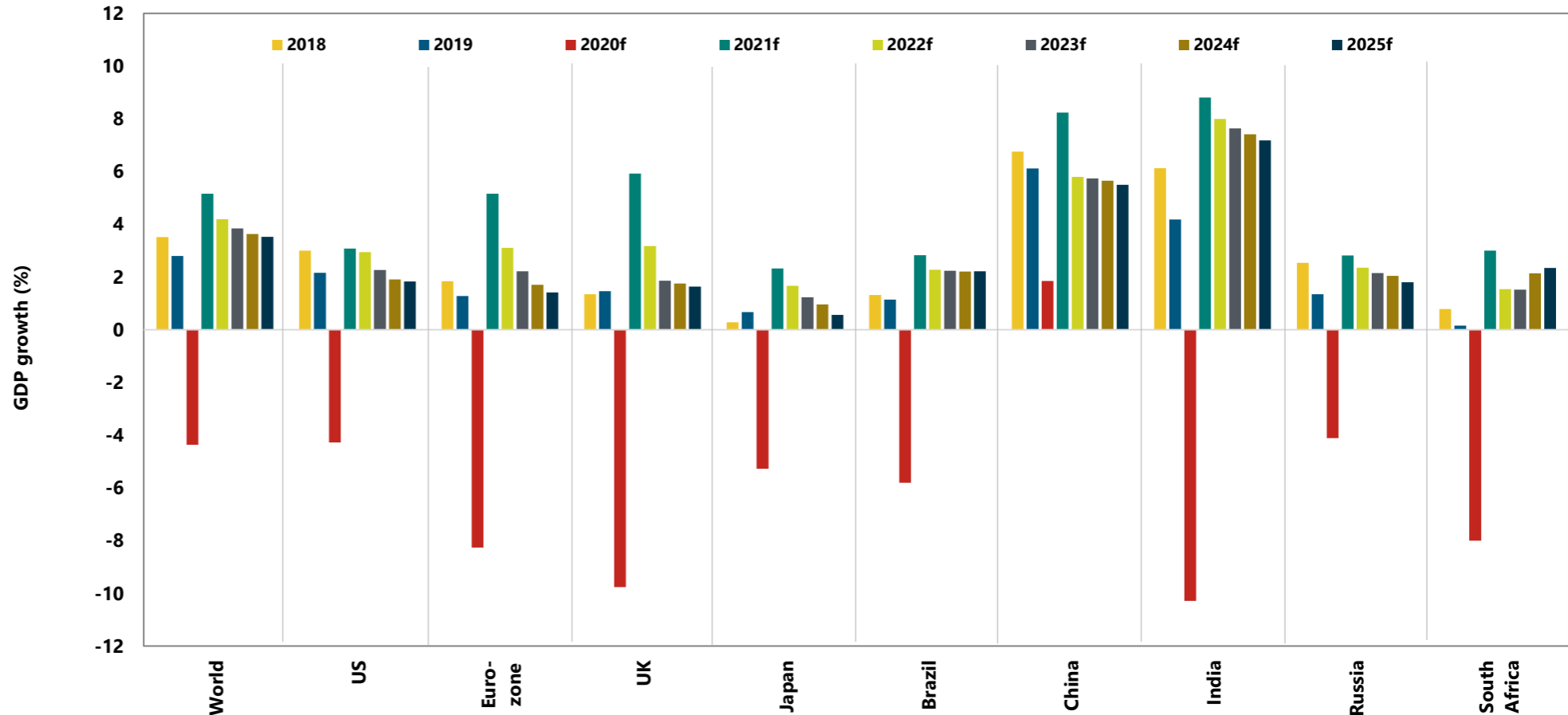
World trade and FDI flows expected to improve from 2020's very low levels

Muted outlook for world growth should contain commodity price recoveries, supporting low inflation environment

Global growth, especially over the short-term, is premised on continued fiscal and other support measures.

Structural reforms are required to support the medium to longer-term recovery process.

GDP growth for selected countries/regions: 2018 to 2024



Source: IDC, compiled using IMF WEO (October) data



South African economy: Subdued growth outlook after the worst recession on record

SA economy in a deep recession in 2020 – GDP expected to decline by 8.5% (IDC) – followed by a modest recovery

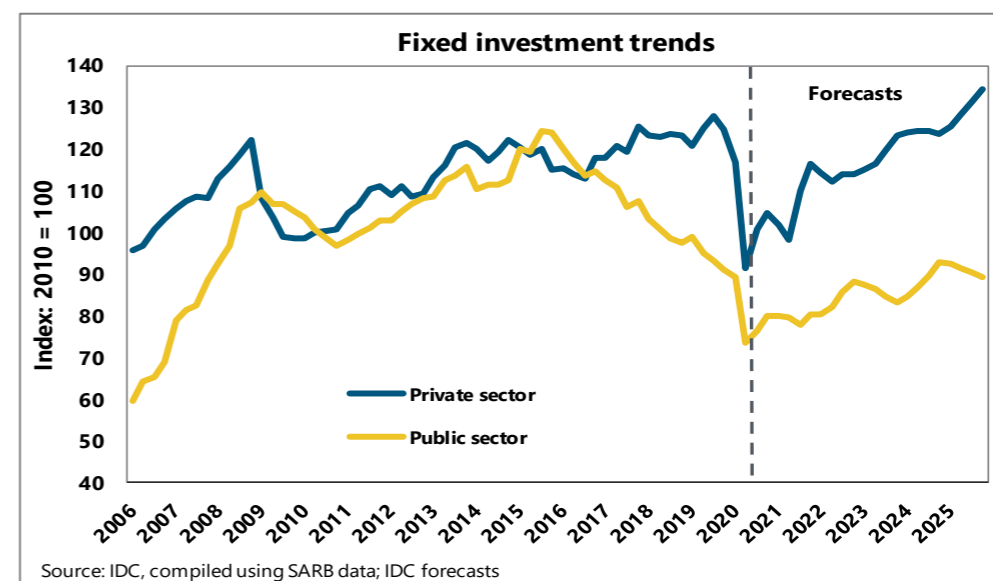
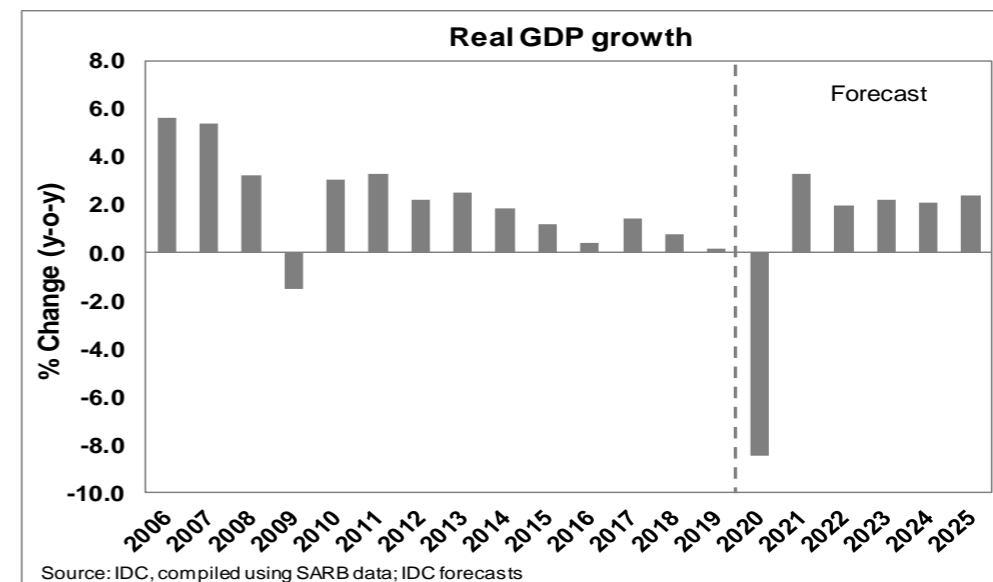
Operating environment worsened considerably, affecting almost all sectors

Business, investor and consumer sentiment will remain weak for an extended period

Perturbing trajectory of fiscal metrics and slow pace of structural reform risking further sovereign rating downgrades

Expansionary fixed investment only likely to start recovering once there are clearer signs of sustained normalisation of consumption and production domestically as well as globally.

Export performance to remain sub-par in ST due to weak global demand. Recovery expected to be gradual.





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The primary mandate of the IDC is the development of industrial capacity - anchored in IDC founding Act, 1940

IDC's founding Act is 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."



Achieved through identifying **sector development opportunities** aligned with policy objectives from the relevant government policies primarily the **NDP, NGP and IPAP**



Funding, project development and other activities to optimise **value chain** opportunities



Facilitating sustainable direct and indirect **employment**



Supporting the **transformational impact** of communities and development of black industrialists, women and youth



Improving **regional equity**, including the development of South African rural areas, underdeveloped provinces and economic development in the rest of Africa



Promoting **entrepreneurial development** and growing the **SME** sector



Promoting environmentally **sustainable** growth



Growing **sector diversity** and increased localised production



Where we play: critical sectors to drive economic recovery

Priority Sectors



Metal beneficiation and mining



Agro-processing and agriculture



Energy



Clothing and textiles



Industrial Infrastructure



Tourism, ICT and media



Upstream and downstream chemicals



Healthcare services



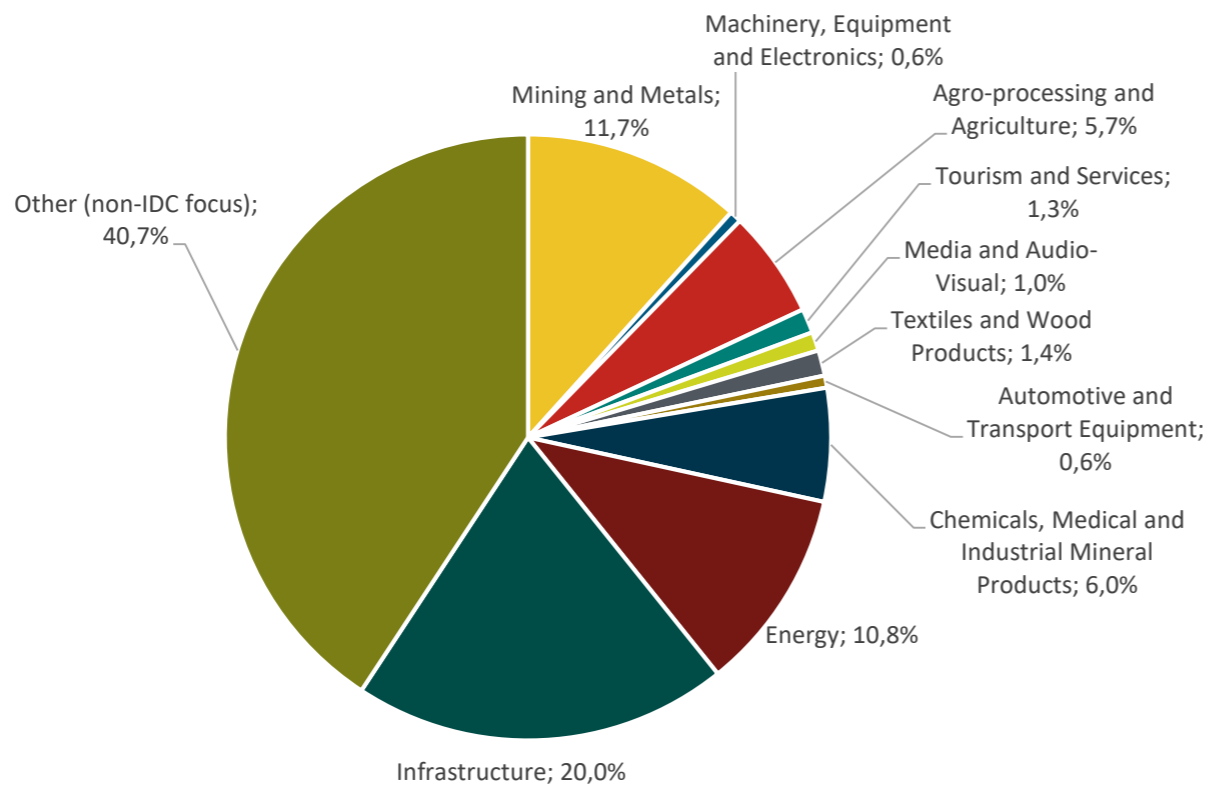
Other manufacturing industries



New industries with potential to develop into significant opportunities for the country

Current IDC sectors account for 59% of all fixed investment activity in the SA economy

Relative contributions to overall GFCF in the SA economy according to IDC SBU classified sectors over the period 2015 to 2019 (% share of GFCF)



Source: IDC, compiled using Quantec data

Non-IDC focus sectors include:

- General government, finance & insurance, business services, civil engineering
- Combined, these sectors accounted for 40.7% of GFCF over the reference period

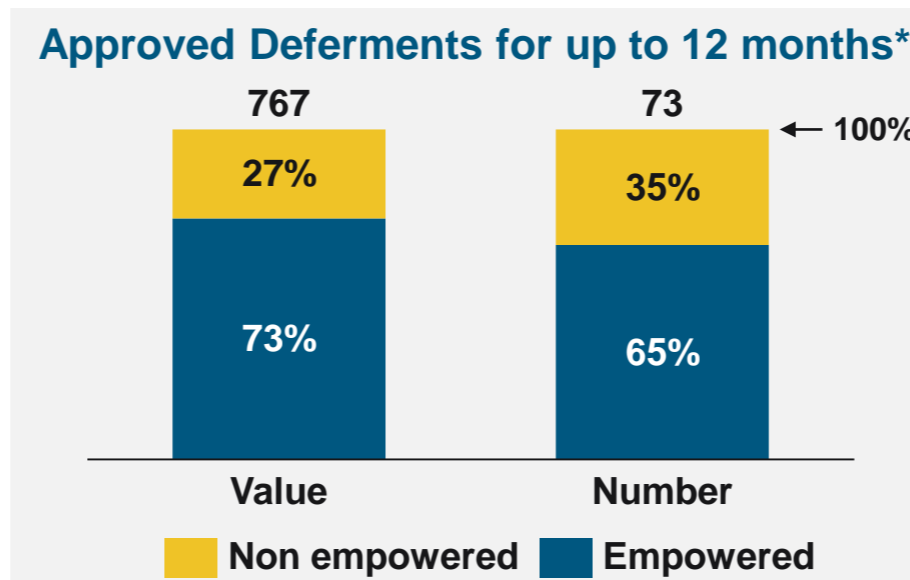
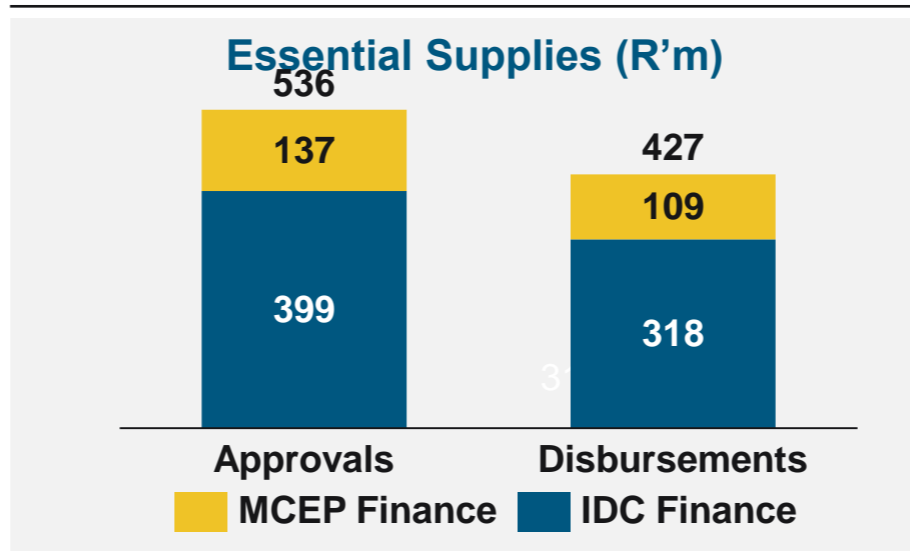


At the onset of the pandemic we moved to support Government's health response & also protect industrial capacity

IDC COVID Interventions

- COVID-19 Essential Supplies Fund [R800 million]**
 - To fund companies providing essential supplies to address the COVID Pandemic
 - R500 million of these fund are IDC balance Sheet Funds
 - R300 million DTIC MCEP Funds
- COVID Distressed Fund [R2.5 Billion]**
 - To fund businesses that are or will become distressed as a result of the COVID -19 disaster
 - R300 million of these funds are ring fenced for the Small Industrial Finance Distressed Fund which is aimed at providing support for small businesses
 - Companies need to evidence long-term sustainability - economic merit.
- MCEP Economic Distress Programme [R300 million]**
 - The objective of the Fund is to assist companies in distress through the provision of debt funding at concessionary pricing of 0% for the first 18 months, thereafter at a fixed rate of 2,5% per annum.

Performance*



Key Messages

- With approved funding going to companies producing amongst others:
 - Sanitisers
 - Disinfectants
 - Tissue products
 - Rapid test kits
 - Surgical masks
 - Packaging for medical products
- Approximately R767m of debt service foregone for BPs where covid-19 related deferrals of up to 12 months to both BEE and non-BEE BPs have been approved
- R161 m has been approved towards Covid Distressed Funding
- The MCEP Economic Distress programme has been recently approved – there are no approvals towards this fund yet
- Overall IDC continued to provide funding support (albeit lower activity than previous periods – R3,4 bn approvals, R4 bn disbursement and 3 075 jobs)

*Progress as at 22/02/2020



IDC programmes in support of economic reconstruction and recovery

The Plan for Economic Recovery announced by the President is premised on transformative, inclusive, green, digital & sustainable recovery i.e.:

- achieve sufficient, secure and reliable energy supply within two years;
- create and support over 800,000 work opportunities in the immediate term to respond to job losses;
- unlock more than R1 trillion in infrastructure investment over the next 4 years;
- reduce data costs for every South African and expand broadband access to low-income households;
- reverse the decline of the local manufacturing sector and promote reindustrialisation through deeper levels of localisation and exports;
- resuscitate vulnerable sectors such as tourism, which have been hard hit by the pandemic

To this end, the IDC in terms of its Mandate has very clear, distinct areas on which to make its contribution:

- i. Industrialisation, especially localisation of manufacturing.
- ii. Energy security. We are already working on a substantive pipeline of projects.
- iii. Infrastructure development, especially economic infrastructure such as ICT, Transportation Logistics,
- iv. Agriculture, Agroprocessing and Food security.
- v. Regional / Continental development
- vi. Provincial and District development, focusing on the SME Sector and Special Industrial Zones.

Underpinned by sustainable economic inclusion programme

Outlook for sectors/industries covered by IDC operations:

Although most sectors remain challenged others present opportunities

LEGEND	Neutral
Positive	Marginally negative
Marginally positive	Negative

development finance

IDC value chains / sectors	5-year outlook
Mining and Metals	Yellow to Green
Infrastructure	Red to Green
Energy	Yellow to Green
Machinery, Equipment and Electronics	Red to Yellow
Automotive and Transport Equipment	Red to Green
Chemicals, Medical and Industrial Mineral Products	Red to Green
Textiles and Wood products	Red to Yellow
Tourism and services	Red to Green
Media and Audiovisual	Red to Green
Agro-processing and Agriculture	Green

Opportunities

- Numerous financing/co-investment and transformational opportunities likely to emerge in areas as diverse as:
 - Renewable energy generation and the localisation of related components' manufacturing;
 - Green economy opportunities such as fuel cells, battery storage and waste beneficiation/recycling;
 - Agriculture and agro-processing;
 - Water infrastructure;
 - Telecommunications sector development;
 - Digital economy and other 4IR opportunities;
 - Increased integration of SA manufactured products in global supply chains; and, among others,
 - Advancing regional economic integration.
 - Localisation - although dependent on public sector coordination

Select example of IDC's response: Energy

Mixed outcomes to date, solid opportunity for growth

Background

Global: Energy demand continues to grow

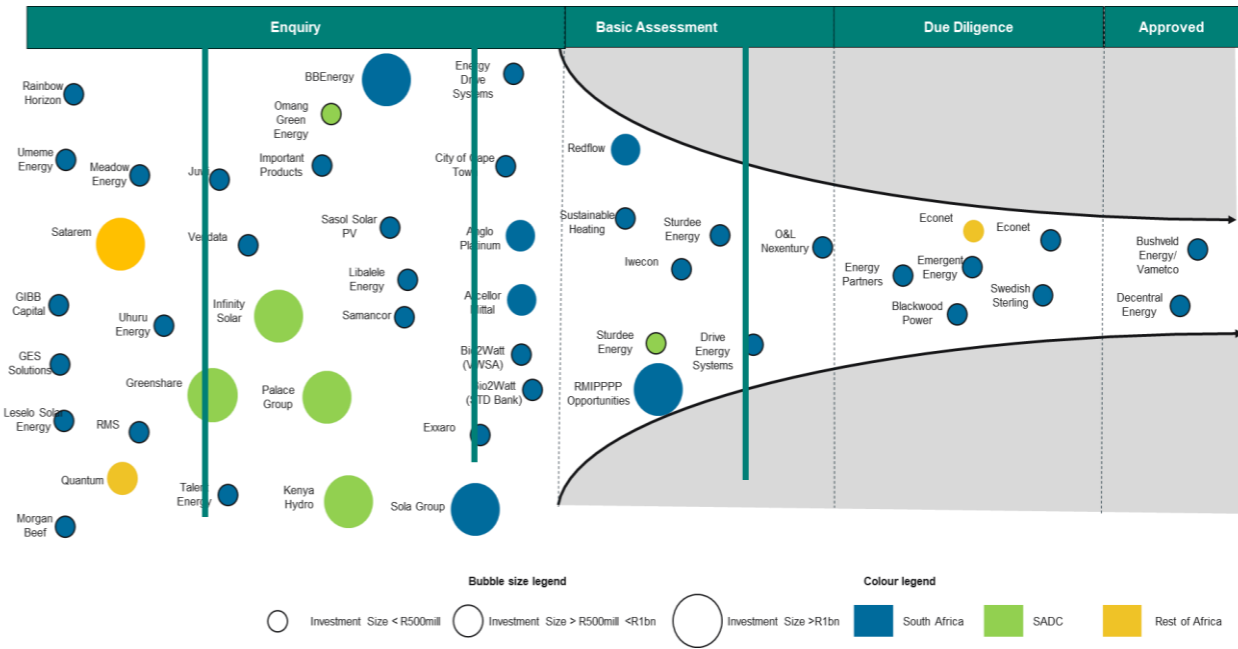
SA biggest electricity contributor in SADC

- under-performing
- high coal dependence

Transition to **renewable** energy
De-carbonization of the economy

there is a need for certainty to grow the industry as significant opportunity exists in private and public sector

Solid & growing pipeline of impactful projects/deals



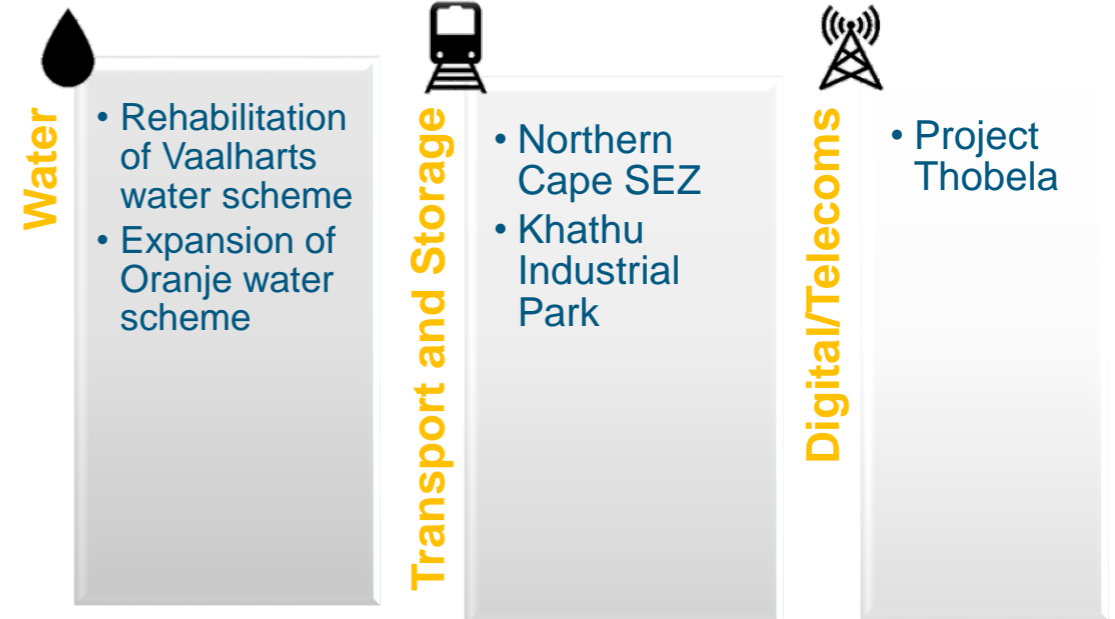
- Focus is on full value chain development to maximise local beneficiation and value-addition:
 - Development of energy storage (battery) value chains
 - Beneficiation opportunities
 - Support projects aiming to develop domestic gas resources & local content
 - Catalysing adoption of cleaner energy generation/efficiency technologies across sectors / industries for cost reduction, efficiency improvement and profitability
 - Funding support to black empowered, Women and Youth to ensure inclusive development / transformation

Select example of IDC's response: Infrastructure

Supporting an Infrastructure led growth post Covid

Investment South Africa (ISA)

- **IDC is an active participant in ISA**
- **Membership in the ISA Technical Working groups**
 - Water and Sanitation
 - Agriculture
 - Transport and Storage
 - Digital
 - Energy
- **To date IDC has partnered with KfW, Afd and NDB for which the IDC manages funds on the external lender's behalf. These funds are mainly for funding water and energy projects.**



- IDC has partnered with the DBSA on the rehabilitation of the Vaalharts water irrigation scheme
- This project brings together **infrastructure, agro-processing**, and will address **provision of services** for the human settlements in the area.



Select example of IDC's response: Agri and Agro-Processing

Innovation, growth and opportunity



The sector is performing well...

- The sector has been resilient to the COVID-19 pandemic
- Several well performing strategic value chains including Horticulture, Animal Protein Field crops and forestry
- Wide variety of participants ranging from large listed players to emerging farmers
- Significant innovation improves climate resilience and broadens opportunities investments with shorter payback periods
- Potential opportunity to fill market gap created by Landbank challenges

...And IDC Plans to take advantage of opportunities in the sector



Initiatives

Large expansionary transactions (established businesses)
- Considerations for facilitating BEE

Development of Communal land development with technical, operating partners and / or financial partners.

- Partnerships with Govt, mainly DALRRD, to develop funding programmes (incl. co-funding and/or managing funds (grants/ concessionary) on behalf of the department to be used in funding high development transactions and projects

Partnerships with Corporates to develop and provide off takes for emerging farmers

Invest in and develop innovative Agri opportunities including:

- Hydroponics
- Cannabis
- Synthetic protein
- Insect protein
- Biorefineries

Tourism Response

Deep distress across the sector

Sector impacted by:

- Global travel restrictions,
- Global and local recession
- Massive job losses
- Digital communication – reduced need to travel

....Department of Tourism has launched a 3 phase recovery plan

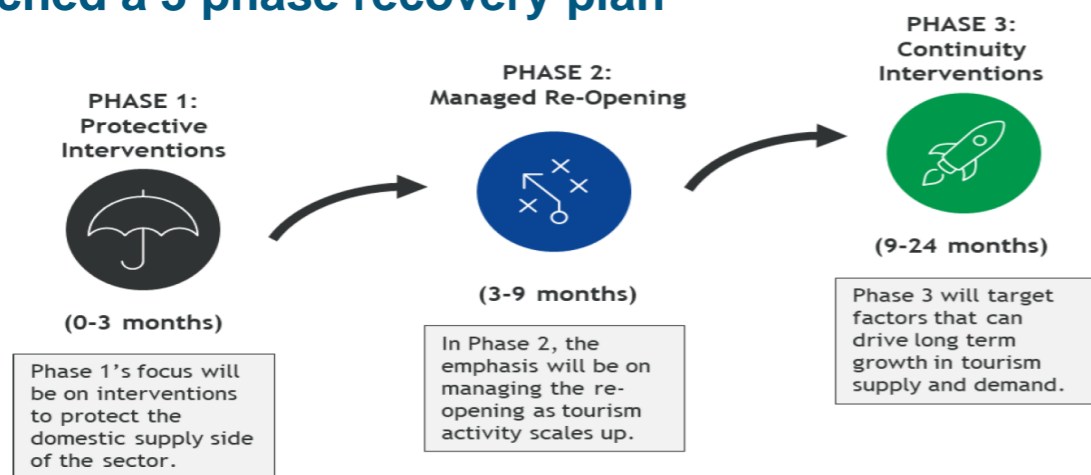


Figure 2: Recovery phases

↓ Total May 2020 income 98% y-o-y
↓ Occupancy (June) 18.1 % 2020 57.9% (2019)
% Hotels Open (June 2020) 30%
↓ Potential revenue reduction in 2020 R147 bn (R80.2 bn in foreign receipts)

	Aug 2018	Aug 2019	Jan 2021
Total Exposure	R5.1bn	R4.8bn	R4.9 bn*
No. of BPs	61	55	40
% Arrears	18.4%	30.8%	40%

Investment Interventions in tourism sector include...

- 1 Capital and interest deferments amounting to c.a. R18m have been approved; there are further deferments under consideration
- 2 Support low investment attraction projects e.g. adventure tourism, to stimulate domestic demand
- 3 Careful consideration of new investments of hotel room supply until market recovers
- 4 Reassess current commitments where IDC funds have not been disbursed
- 5 Ringfenced R150million of Covid Distress Funding for Tourism applications\ . Fund has 0% interest for moratorium period, normal Fund interest rate thereafter

* ca. R1.9bn in RSA and ca. R3.0bn in ROA

Focused development impact interventions will form the foundation for sustained development impact

Alignment to NDP

- Sustainability – ensuring alignment to a sustainability strategy (including the circular economy, renewable energy, water and biodiesel)
- IDC alignment with the SDGs and Principles for Responsible Banking will allow access to a deeper pool of funding partners
- IDC's partnership strategy aligns strongly with SDG 17 promotes partnerships as a means through which to achieve the goals,

Transformation

Transformation of the supply base through enterprise creation or Original Equipment Manufacturer (OEM) transformation
Community and Empowerment Trusts study commissioned to identify best practice models for regional, empowerment and community trusts
Black ownership driven through partnership with technical and offtake (corporates) and financial (including NEF and sefa) partners

SME Connect

Import replacement – value chain review to identify opportunities for local manufacture or service provision
Create economies of scale through shared assets and collective procurement
Access – create shared access for industry to a credible database of transformed suppliers with a good track record



THE GLOBAL GOALS
For Sustainable Development

IDC has a catalytic role to play in connecting value chains and leveraging partnerships to supplement own capacity to implement best proactive models and create sustained development impact



Systematic planning and integration of business priorities to achieve regional development & transformation impact: Example of Northern Cape LOCALSATION, SEZs,

Immediate Interventions

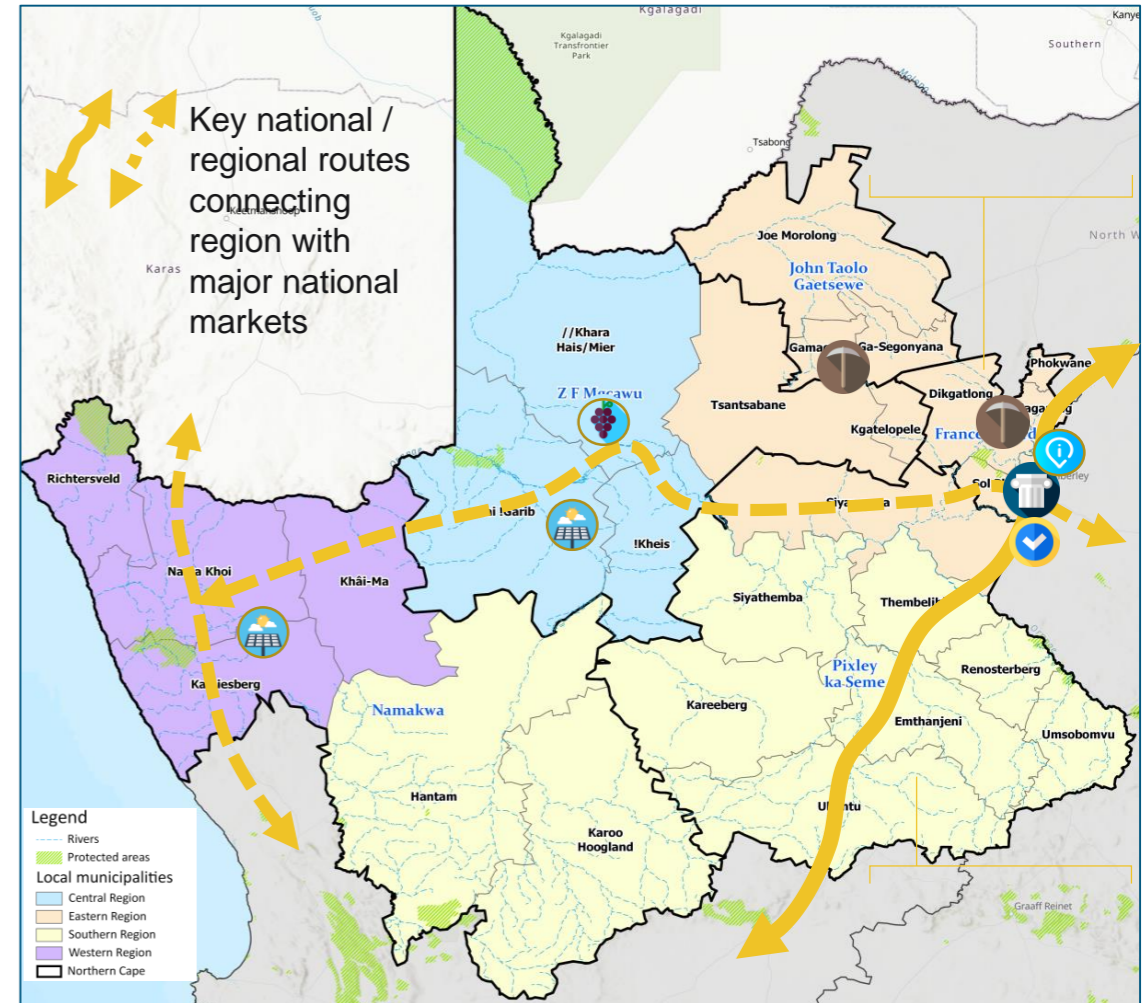
- Mining investments
- Renewable energy investments (including BEE and community trusts)
- Masterplans (steel and agro-processing)
- Scope green hydrogen economy opportunities
- SME Connect: Black Mountain Mine and Assmang pilot
- Industrial park development (e.g. Namakwa SEZ)
- Partnership engagement with Impact Catalyst (Anglo, Exxaro, Aurecon, CSIR and World Vision development consortium)



Proposed Namakwa SEZ

Medium to long term interventions

- Integrated mining, agricultural and infrastructure developments
- Co-ordinated regional enterprise and supplier development programmes (across value chains)
- Localisation and beneficiation opportunities
- Regional integrated specialist sector development zones
- Create hydrogen economy - diversify SA fuel dependence and export capacity



Existing IDC Activities	Horticulture (grapes)	Green Energy : Solar
	Mining	Green Energy : Wind

Continental strategy

The implementation of the AfCFTA has the potential to:

- Open new markets for various countries in the continent.
- Result in better access to raw materials and intermediate inputs.
- Increase opportunities for value-adding economic activities, expand industrial capacity,
- Enhance the region's positioning in world markets and participation in global value chains.

Limited resources → more focussed IDC approach

- | | |
|---|---|
| 1 | Targeted Investment approach: Geographies and sectors |
| 2 | Trade and export market development (into other African markets) |
| 3 | Partnerships: Co-funding, co-monitoring and risk sharing as a delivery model |








Focus on specific countries on the basis of links with priority sectors and value chains (VCs), such as:

- **Agriculture and agro-processing VCs:** soybean; rice; cocoa
- **Mining and metals VCs:** copper and cobalt; other battery minerals (graphite, lithium, nickel); tin
- **Chemicals, medical and industrial mineral products VCs:** gas; liquefied fuels, incl. refineries, storage & pipelines; fertilisers; green chemicals (lithium, vanadium, cobalt, graphite, zirconium, bio-fuels)
- **Automotive and other transport equipment VCs**
- **Clothing, textiles, leather and footwear VCs**
- **Infrastructure and energy:** power generation & transmission; transport & logistics (roads, rail, ports, warehousing/storage facilities); telecommunications; water (purification & treatment, storage, transportation & bulk services)



Potential pipeline for collaboration



Country	Value Chain	Objective
 <p>DRC – Large cobalt and tin resources</p>	<ul style="list-style-type: none"> – Tin – Cobalt 	<ul style="list-style-type: none"> – To source base battery minerals for further processing in SA for export. – Source tin for the SA electronics manufacturing industry.
 <p>Tanzania – Stable investment environment – Large planned infrastructure projects. – Access to ports.</p>	<ul style="list-style-type: none"> – Graphite and Nickel – Rail – Energy – Soya 	<ul style="list-style-type: none"> – Source base battery minerals for further processing in SA for export. – Develop markets for SA rail equipment manufacturers. – Improve regional energy infrastructure to reduce SA energy exports. – Source cheaper soya beans for animal feed production in SA.
 <p>Mozambique – Large gas resources and investments</p>	<ul style="list-style-type: none"> – Gas and related industries (upstream and Downstream) – Food Production (Poultry , Dairy) 	<ul style="list-style-type: none"> – Increase the proportion of gas usage in South Africa’s domestic energy mix and develop gas resources – Large gas investments likely to increase food demand presents an opportunity for SA food companies.
 <p>Lesotho – Legislative environment in place to develop sector</p>	<ul style="list-style-type: none"> – Medical Cannabis 	<ul style="list-style-type: none"> – To ensure SA companies are part of the developing new industry.
 <p>Zambia – Significant potential in Soya production</p>	<ul style="list-style-type: none"> – Soya 	<ul style="list-style-type: none"> – Source cheaper soya beans as an input to animal feed production in SA
 <p>Namibia – Important transport corridor for SA and the region</p>	<ul style="list-style-type: none"> – Rail and Port Infrastructure 	<ul style="list-style-type: none"> – Develop markets for SA rail equipment manufacturers.
 <p>Botswana</p>	<p>Fuel Storage and pipeline</p>	<p>Develop markets for SA fuel storage and fuel pipeline construction companies</p>



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10-Year Development Impact Highlights ||

Played a catalytic role to stimulate inclusive economy since 2009 financial crisis



Industrial Capacity Development

R120 bn
Disbursements

242 404
Jobs

2 098
Business Partners

Transformation

R28.8 bn
Black Industrialists

R15.2 bn
Women Empowered

R6.2 bn
Youth Empowered

R69.4 bn
Black Emp. & Owned¹

IDC has continued to play a catalytic role in line with what is expected of DFIs in challenging economic conditions by:

- Maintaining higher levels of funding to support & stimulate investments.
- Contribution into key sectors of the economy & country's programmes – World Cup infrastructure, REIPPP, soft fruits, catalytic projects such as BAIC.
- Strong track record in championing economic transformation.
- However protracted economic conditions affecting funding activity and critical financial indicators, indicating strain on our financial strength,

Funding partnerships have also been critical in the IDC leveraging & enhancing development impact



IDC has been managing c.a. R12.3 billion across 9 funds

Most are capitalised by SA government departments.

Flanders Social Enterprise Fund is from the Government of Flanders.

TIRISANO CONSTRUCTION FUND

R1.5 billion

To provide funding support for the construction industry

GREEN TOURISM INCENTIVE PROGRAMME

R142.5 million

To support tourism enterprises to use clean energy and conserve water

FLANDERS SOCIAL ENTERPRISE FUND

R30.7 million

To Fund Social Enterprises and social economy linked activities

CLOTHING AND TEXTILES COMPETITIVENESS PROGRAMME

R3.1 billion

To fund companies in the clothing and textiles industry to develop world class manufacturing principles

MANUFACTURING COMPETITIVENESS ENHANCEMENT PROGRAMME

R1.8 billion

Concessionary working capital and plant and equipment funding for black industrialists

MCEP COVID 19 FUND

R300 million

To assist manufacturers of essential products in response to the Covid-19 pandemic

DOWNSTREAM STEEL INDUSTRY COMPETITIVENESS FUND

R300 million

To assist manufacturers of essential products in response to the Covid-19 pandemic

AGRO PROCESSING COMPETITIVENESS PROGRAMME

R300 million

To assist manufacturers of essential products in response to the Covid-19 pandemic

KHOEBO INNOVATION PROMOTION PROGRAMME

R450 million

Funding for early stage SMEs offering innovative products and processes

Overall impact

No. Companies /interventions supported

658

Jobs created / saved

99 796

Our focus is a **Financially Sustainable IDC** to drive economic reconstruction and recovery



Strengthen the **IDC's Twin Pillars** of **Financial Sustainability** and **Development Effectiveness**



Strategic Priorities

Financial Sustainability

Development Effectiveness

Organisational Capabilities

Strategic Positioning and Stakeholder Alignment

The twin pillar approach is an overarching investment philosophy that will guide IDC towards a **sustainable development finance programme**.

- It is a deliberate emphasis on **reciprocal dependency** between financial sustainability and development effectiveness as we implement our mandate.
- **By ensuring quality deal origination** in recognition that no development impact is achieved if businesses we support succumb to risks that were inherent and not mitigated.
- This goes hand-in-hand with a post-investment approach that manages risk with a view to **creating value for our clients and IDC** by building sustainable businesses.
- **With Financing partnerships/ deal syndication as a prominent strategy** for risk sharing and distribution



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In conclusion

- In a low economic growth environment, the IDC has continued to invest significantly in new industrial capacity, creating jobs and driving transformation
- The Corporation has been working with key partners, including dtic – assessing the impact of the current environment, collaborating on opportunities to mitigate the impact and developing long term interventions
- There is a clear alignment of our programmes with key focus areas in the ERRP – sector alignment and transformation objectives
- Our contribution goes beyond financing, it is supported by value add technical assistance programme to enhance reach and impact of industrial development programmes – incl. policy advisory, investment facilitation, business support, funding leverage, equitable spatial development and export support
- As the country prepares itself for recovery from the Covid-19 pandemic and the poor economic performance that was prevalent before its onset, **the IDC will play a catalytic role in recovery based on strategic partnerships and stakeholder alignment.**

Thank you

