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**NATIONAL ASSEMBLY**

**WRITTEN REPLY**

**PARLIAMENTARY QUESTION 2706**

**DATE OF PUBLICATION: 7 September 2018**

**Ms N K F Hlonyana (EFF) to ask the Minister of Economic Development:**

1. What (i) is the total value of loans that the Industrial Development Corporation had to write off in the past five financial years and (ii) was the value of each loan and (b) who was the recipient of each loan? NW3000E

**REPLY:**

1. The IDC publishes details of its impairments and write-offs in its Annual Reports, details of which are contained on page 76 of the 2017/18 Annual Report. For ease of reference, the information is set out below:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **2017/18** |  | **2016/17** | **2015/16** | **2014/15** | **2013/14** |
| **Write-offs per annum (net of recoveries) R’million** |  **3 025**  |  |  **1 329**  |  **2 045**  |  **1 363**  |  **520**  |

The IDC Board sets an impairment threshold of a maximum of 20% of the value (at cost) of the IDC’s investment portfolio. As of the last financial year, impairments equaled 17,4% of investments measured **at cost**, following the accounting standard used by the Corporation. However, if measured at market value, impairments equal 10,4% of the current market value of the investment portfolio.

Over the past 5 years, the highest level of impairment at cost was 18,2%, in 2014.

The function of an impairment threshold is to provide the management with the appropriate “risk appetite” that should be followed in approval of projects. :

* If the IDC had a impairment threshold target that was set too low or at zero, it would need to only lend to, or invest in, projects that are guaranteed to succeed, or which are fully covered by security for its investment. The effect of this would be that the IDC would not be able to support many viable projects that carry a degree of risk.
* If on the other hand the IDC had a risk threshold that was set too high, it is likely to invest in many more projects, however it is also likely to lose significant sums and eventually would deplete its capital base and become unsustainable.
* The current impairment level thus seeks to strike a balance and in general is less conservative than the ratios and levels that a commercial bank would apply, as is necessary for a development finance institution.
* The IDC will write off a loan or investment which has been impaired, in whole or part, where the prospects of recovery is remote, taking into consideration any security which may reduce the extent of the potential loss.
1. With respect to the loan amount and details of recipients, the IDC has advised that it does not disclose the details thereof as these were approved prior to 1 April 2017, when a client confidentiality policy was in place, regarding the companies with which it transacted. Following review, the IDC changed its policy on client confidentiality effective from 1 April 2017.

The IDC has disclosed in their 2017/18 Annual Report, that the single largest write-off is in respect of SCAW South Africa, a steel and engineering company that the IDC has a majority shareholding in during the period.

I draw attention to the following comment in the IDC’s 2017/18 Annual Report, that provides additional information:

*“The IDC mini-group recorded a R2.8 billion profit (after capital profits), the same as the previous year. Net interest, dividend and fee income increased by 35% compared to the previous year. Increases in operating costs were contained at 1.5%. The cost-to income ratio (excluding cash resource income, impairments costs, and income from mature listed investments) improved to 39% from 46% in 2017.*

*Of concern is impairments and write-offs which more than doubled from the previous year. This increase was impacted by Scaw where the introduction of strategic equity partners resulted in a significant write-off (R1.6 billion) and a R1.8 billion impairment of Foskor facilities. Higher levels of impairments resulted in the ratio for impairments as a percentage of the portfolio at cost increasing to 17.4% from 16.7% in the previous year. The interventions currently underway at these two subsidiaries, which both recorded losses higher than expected, as well as the establishment of a dedicated department to monitor and manage subsidiaries and other material investments is expected to address this issue.”*

Source: IDC Annual Report, 2017/18

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