Industrial Development Corporation

Your partner in development finance

National Development Banks: Improving domestic public resource mobilisation

(focusing on South Africa's IDC)

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National Development Banks (NDBs):
Role, positioning and objectives

- Development finance may be broadly defined as the provision of financing to market segments (projects, sectors, population segments) not well served by the financial system
- NDBs operate in the space between state development assistance / fiscal funding with limited cost recovery and private financing of bankable business opportunities:

← Greater emphasis on and importance of social and developmental objectives

Greater emphasis on and importance of financial objectives →

Government / NGOs	NDBs	Commercial Financiers
• Non-commercial focus • Fiscal transfers and grants • Development objectives (social)	• Commercial and development focus • Sharing risk • Internally generated funds, government funds, loans	• High commercial focus • Private sector capital • Financial objectives • Known risks

**NDBs should not compete with other institutions,
but should instead encourage cooperation to achieve their goals**

South Africa's NDB landscape:
Wide range of institutions focusing on different areas

South Africa (SA) has 11* NDBs. With the exception of the Land Bank (1912), IDC (1940), DBSA (1983) and IDT (1990), other national DFIs were established in a democratic SA (post-1994).

Core mandate	NDB
Industrial development	• Industrial Development Corporation (IDC), est. 1940
Infrastructure development	• Development Bank of Southern Africa (DBSA), est. 1983
Agriculture, land reform and rural development	• Land and Agricultural Development Bank (Land Bank), est. 1912 • Independent Development Trust (IDT), est. 1990
Black economic empowerment	• National Empowerment Fund (NEF), est. 1998
SMME development	• Small Enterprise Finance Agency (sefa), est. 2012 • Small Enterprise Development Agency (seda), est. 2004
Housing development	• Rural Housing Loan Fund (RHLF), est. 1996 • National Housing Finance Corporation (NHFC), est. 1996 • National Urban Reconstruction and Housing Agency (NURCHA), est. 1995
Youth development	• National Youth Development Agency (NYDA), est. 2009

* Including Seda, which does not provide funding, and IDT, which provides funding for social development

South Africa's NDB landscape: NDBs in the National Development Plan Vision 2030 (NDP)

- **NDBs are part of the overall financial armoury of the state …**
  - Partner with the private sector in lowering risk;
  - Take a long-term perspective towards investment;
  - Promote government's development objectives;
  - NDBs in the industrial, infrastructure, agricultural and housing sectors are central to the plan to raise growth and employment;
- **Development finance can play a crucial role in promoting industrial policy.**
- **Government, in partnership with the private sector, must identify areas to nurture and support; develop sensible instruments to support those areas; and implement them competently.**
- **NDBs must operate efficiently and have sound balance sheets so that they can sustainably meet their development mandates.**
- **NDBs must contribute to the transformation of the economy.**
- **Attention needs to be given to the range of NDBs to maximise their developmental impact.**
- **Improve coordination between NDBs, relevant agencies, public and private sectors.**

South Africa's NDB landscape:
The Industrial Development Corporation (IDC)

- **Established:** 1940
- **Type of organisation:** Development Finance Institution (DFI) or NDB
- **Ownership:** State owned company, 100% owned by the SA government
- **Total assets:** ZAR129.8 billion ($9.3 bn) (FY ending 31 March 2017 - group)
- **Capital and reserves**: R88.1 billion ($6.3 bn) (FY 2017 - group)
- **Net group profit for the year*:*** R2.2 billion ($157 million) (FY 2017 - group)
- **Debt-equity ratio:** 34.5% (FY 2017)
- **Credit rating:** Baa3 (Moody's) in line with SA 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
- **Stage of investment:** Project identification and development, feasibility, commercialisation, expansion, modernisation
- **Number of employees:** 839 (March 2017)

Operational footprint:

- Head Office - Johannesburg
- 24 regional and satellite offices (SA)
- Investments in 18 African countries

South Africa's NDB landscape:
IDC operates in various sectors of the economy

Agro-processing

Mining and mineral beneficiation

Machinery and equipment

Clothing and textiles

Tourism

Basic metals and metal products

Industrial infrastructure

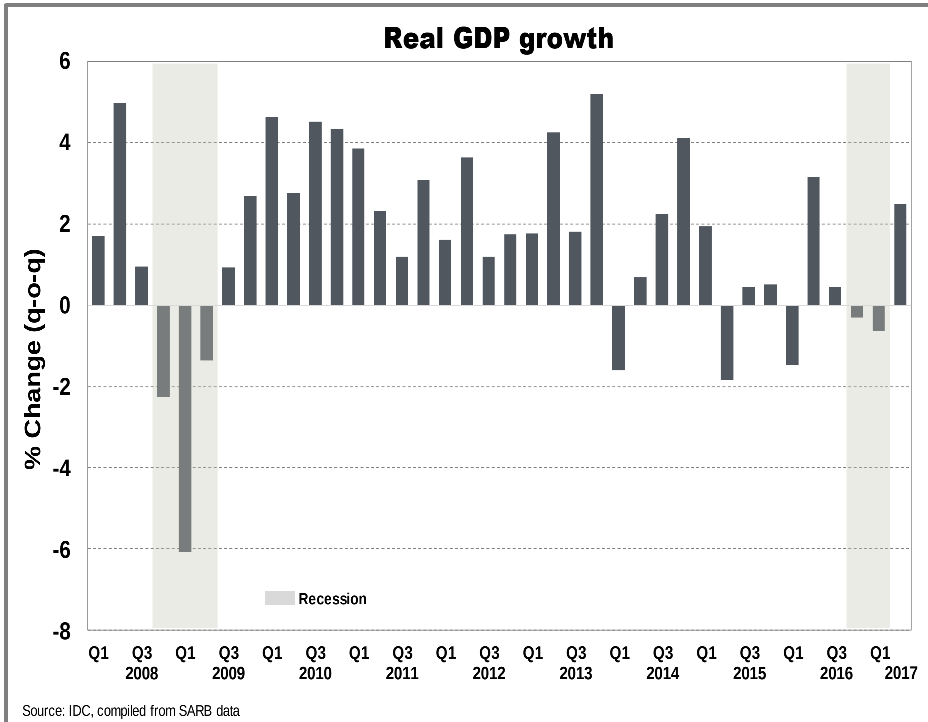
Chemical products and pharmaceuticals

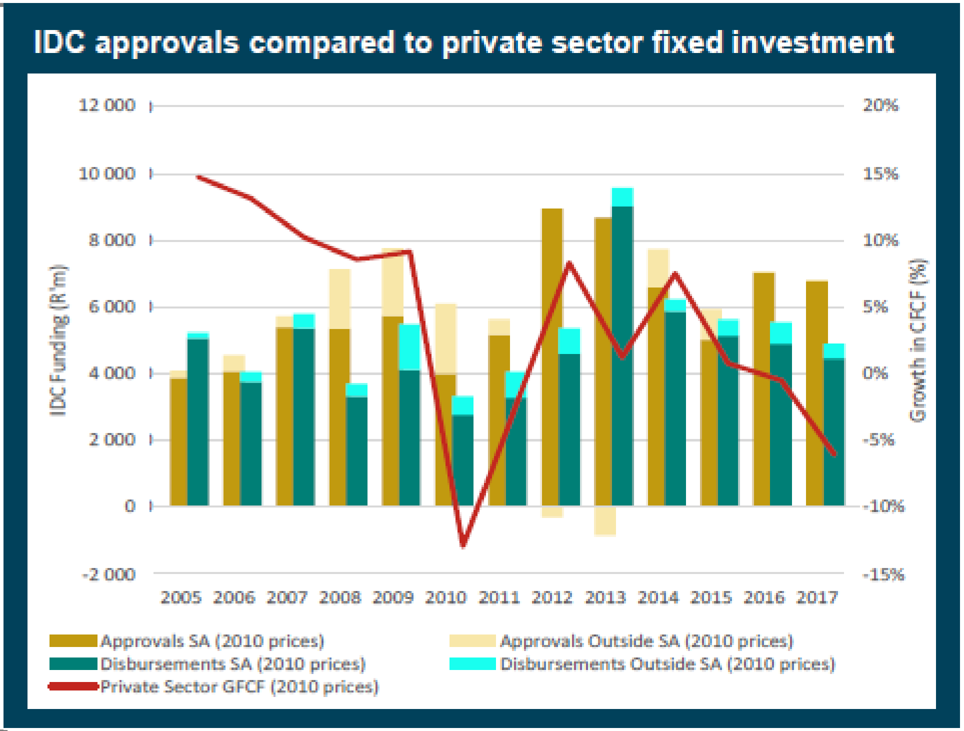
Media and motion pictures

Automotive and transport equipment

South African economy:
IDC playing a countercyclical role

- South Africa's economy was affected very negatively by the Global Financial Crisis and subsequent recession, having recorded modest to subdued growth for a number of years.
- NDBs, including IDC, have come to the fore in providing counter-cyclical support.





South Africa's NDB landscape:
IDC playing a countercyclical role (continued)

- **Counter-cyclical role of its NDBs has become more challenging yet even more important in such a challenging operating environment.**
  - **Contributing towards raising fixed investment activity:**
    - Private sector start-ups, greenfield and brownfield projects (proactively & reactively);
    - Value chain development (expansion, competitiveness, regional/global integration);
    - Supporting businesses intending to take advantage of export opportunities;
    - Infrastructure projects (e.g. Renewable Energy IPP Programme).
  - **Providing funding support to businesses in distress due to:**
    - Insufficient demand due to economic downturn;
    - Facing intense competition from foreign producers through competitiveness improvements;
    - (Adverse effects when ZAR underwent excessive appreciation).

South Africa's NDB landscape: IDC playing a countercyclical role (continued)

- **Efforts made to enhance the contribution to the sustainable development and growth of the economy have benefitted from:**
  - **Enhanced collaboration with other financiers (incl. other NDBs, both local and foreign, and private financiers) in major programmes (e.g. REIPPPP).**
  - **Lowering the cost of funding for the benefit of clients - entered into funding partnerships with other state-owned companies, pursuing respective mandates (e.g. Unemployment Insurance Fund, Public Investment Corporation).**
  - **Management of 3rd party funds, which can be accessed directly, or, when combined with IDC finance, lower the cost of blended funding, such as:**
    - Agro-Processing Competitiveness Fund (associated with fine imposed by competition authorities to an SA corporate);
    - Clothing and Textiles Competitiveness Fund (state incentive scheme);
    - Downstream Steel Industry Development Fund.
  - **Pursuing localisation opportunities emanating from state procurement, national infrastructure development programmes.**
  - **Leveraging on agreements reached between competition authorities and corporates regarding mergers & acquisitions (e.g. Walmart/Massmart).**

South Africa's NDB landscape:
IDC playing a countercyclical role (continued)

- **While intensifying its efforts to ensure the sustainable development and growth of the economy, the IDC must remain financially sustainable:**
  - Regular analysis of external environment and assessment of resultant implications;
  - Ensure sufficient liquidity to meet current obligations;
  - Ensure that, for foreseeable future, IDC is able to raise sufficient funding through a combination of new debt and internally generated funds to invest in new advances into the economy;
  - Prudent risk appetite;
  - Close management of impairments;
  - While raising further debt due to leveraging space still available (relatively low debt-to-equity ratio), adhere to (internal) thresholds;
  - Adherence to covenants.
- **Downgrades of South Africa's sovereign credit ratings impact adversely, directly and/or indirectly, on NDBs such as IDC:**
  - Overall financial performance;
  - Ability to raise low-cost funding and support its clients.

Concluding remarks

- Focus areas of NDBs have evolved substantially since 1990s, largely in response to globalisation and financialisation trends, changing objectives/strategies at national level.
- NDBs have a critical role to play in economic and social development, since they can be effective instruments for facilitating access to finance.
- Through the identification, development and financing of projects, NDBs contribute to the achievement of national objectives.
- NDBs often provide financial products that are not readily available in the market (e.g. equity participation, long-term credit, seed capital etc.).
- NDBs are generally prepared to take on, as well as manage a higher risk profile.
- NDB funding generally crowds in private sector investment. It may also speed up the development process through partnerships with global players, often drawing in capital investments (FDI) and facilitating rapid access to new technologies, new business processes and external markets.
- NDBs may provide finance even when markets are tight, including distress funding.

Concluding remarks (continued)

- NDBs balance development outcomes and financial returns, as opposed to maximising financial benefit.
- Certain NDBs are able to raise funding in capital markets (domestic and/or international), reducing pressure on the fiscus.
- Access to low-cost funding is CRUCIAL, so that benefits can be passed on to client bases.
- NDBs often play an advisory role regarding national policy formulation.
- National development priorities, market environments and client needs tend to evolve over time. Therefore, NDBs need to continuously adapt and adjust if they are to respond to changing needs and development imperatives.