



Industrial Development Corporation

Your partner in development finance

Financing the agro-processing and agriculture value chain

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Positioning of Development Finance Institutions (DFIs) in South Africa's financial landscape



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Greater importance on social and developmental objectives

Greater importance on financial objectives

Government / NGOs

- Non-commercial focus
- Fiscal transfers and grants
- Development objectives (social)

Development finance Institutions (DFIs)

- Commercial and development focus
- Sharing risk
- Internally generated funds, government funds, loans

Commercial financiers

- Private sector capital
- Financial objectives
- Known risks

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

Overview of IDC



Industrial Development Corporation

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- **Established:** 1940
- **Type of organisation:** Development finance institution (DFI)
- **Ownership:** State-owned company, 100% owned by the SA government
- **Funding status:** Fund operations and growth from investments, pay dividends and income tax
- **Main business area:** Providing funding for entrepreneurs and projects contributing to industrialisation
- **Geographic activities:** South Africa and the rest of Africa
- **Products:** Customised financial products 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



Operational footprint:

- Head Office - Johannesburg
- More than 20 Regional and Satellite offices

Summary of IDC's main activities

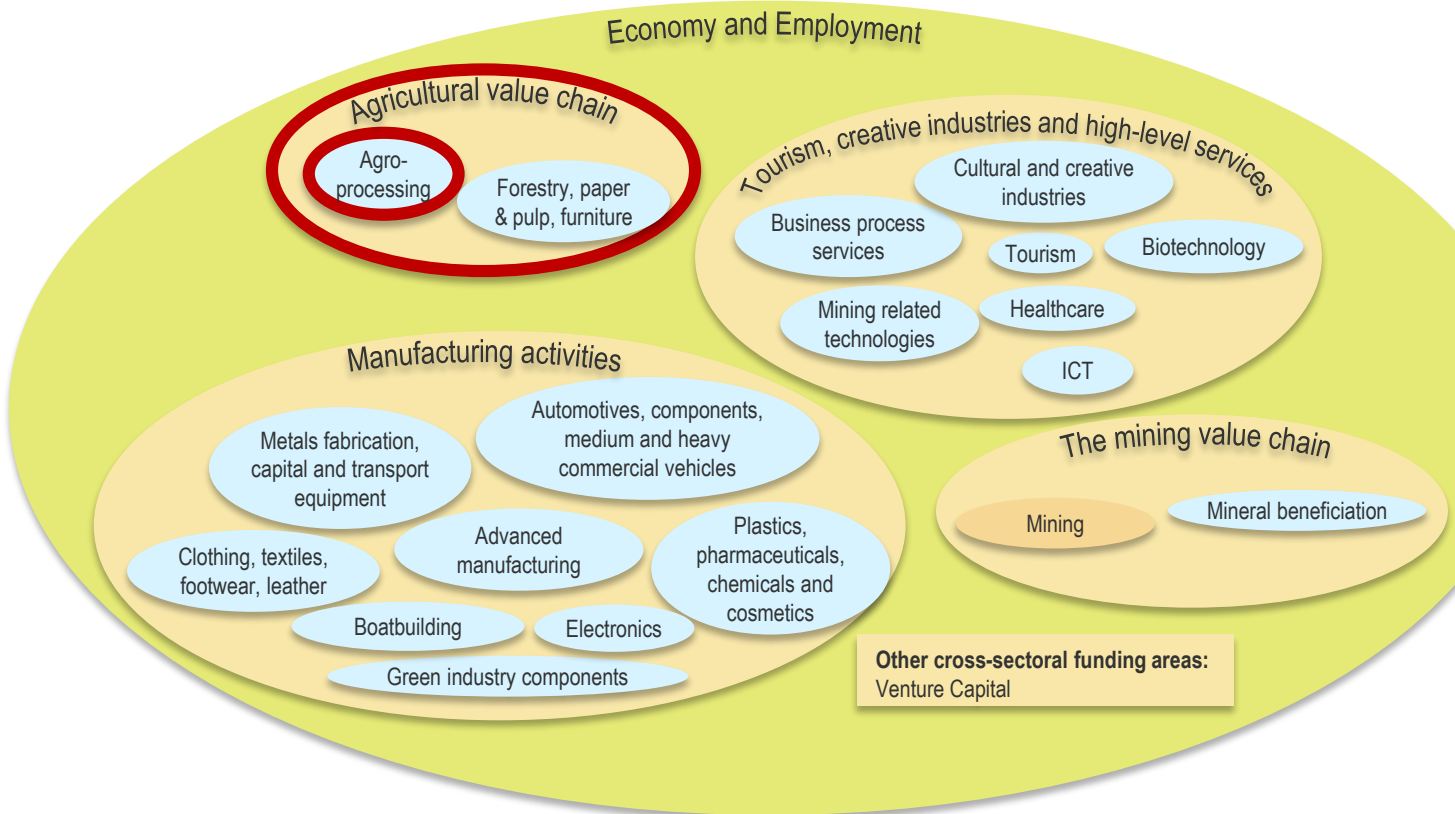


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- IDC's main activity is the provision of industrial finance to businesses throughout the business lifecycle in various sectors aligned with industrial policy priorities as well as developing projects in these industries.
- In addition, it is involved in other activities such as research, policy inputs and fund management for government departments; non-financial support for business; and capacity building for other DFIs.

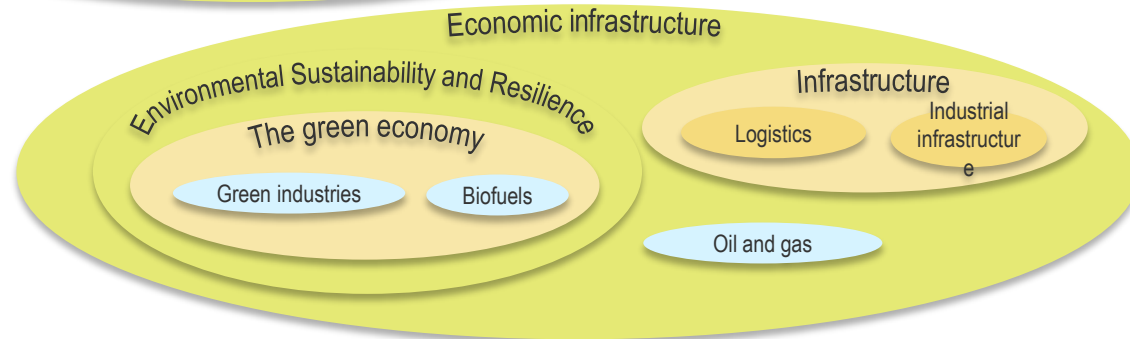
Activities	Customers	Business lifecycle	Sectoral involvement	Funding products	Regional involvement
<ul style="list-style-type: none"> • Provision of development finance • Project development • Research and policy inputs • Fund management • Non-financial forms of business support • Capacity building 	<ul style="list-style-type: none"> • Business • Government • Other DFIs 	<ul style="list-style-type: none"> • Conceptual • Pre-feasibility • Feasibility • Product commercialisation • Establishment • Expansion • Mature 	<ul style="list-style-type: none"> • Manufacturing • Agricultural value-add • Mining and mineral beneficiation • Green industries • Industrial infrastructure • Tourism, ICT, cultural industries and other productive services 	<ul style="list-style-type: none"> • General debt • Quasi-equity • Equity • Export/import finance • Short-term trade finance • Bridging finance • Guarantees • Venture capital • Wholesale funding through intermediaries 	<ul style="list-style-type: none"> • South Africa • Rest of Africa • Global imports of South African capital equipment

IDC's sector focus aligned with the State's



IDC activities are aligned to Government's programme, driving increased economic activity in productive sectors and seeking to have a greater impact on job creation, inclusive wealth, provincial distribution of economic activity and regional development.

IDC sectoral funding activities supports relevant areas of the NDP, NGP and IPAP



- NDP focus area
- NGP focus area
- IPAP focus area

AGRO-PROCESSING AND AGRICULTURE VALUE CHAIN



Agro-processing and Agriculture Value Chain and Industry Development Goals: IDC's role



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Value chain goal

Develop jobs-rich and globally-competitive processed food, beverages, and other derived product industries that optimally utilise and develop local and/or regional resources and inputs, to supply domestic demand and, increasingly, external markets.



Industry development goals

Field crop processing value chain

Expansion of processing capacity.
Establishment of new, globally competitive businesses.
Productivity enhancements of existing processing infrastructure.
Commercial viability and sustainability.
Integration of smaller & emerging players into established segments.
Economic transformation and inclusivity.

Horticulture-based products value chain

Commercial sustainability of existing segments.
Introduction of new crops.
Value addition where pertinent.
Enhanced global competitiveness to protect current participation in global markets and increase exports further.
Import replacement.
Economic transformation and inclusivity.

Meat and dairy products value chain

Expansion and diversification of processed meat & dairy products industries.
Production of high value add products.
Improved competitiveness for sustainability.
Integration of smaller & emerging players into established segments.
Export market penetration.
Import replacement.

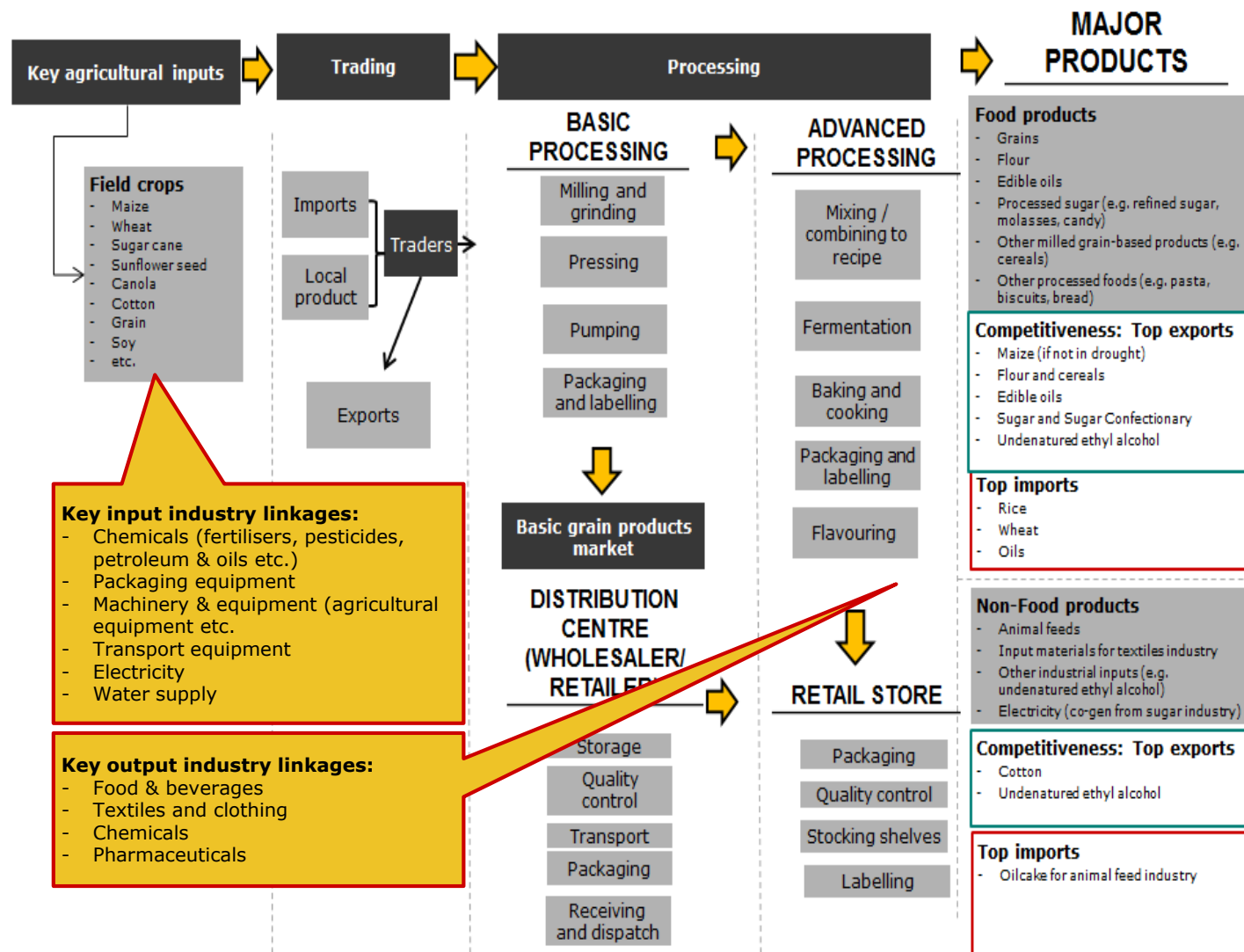
Fish and seafood products value chain

Development, expansion and diversification of fish and seafood production on a sustainable basis.
Value addition to levels determined by the end-market.
Export market development.
Import replacement.

Forestry sector

Inclusivity through community participation.

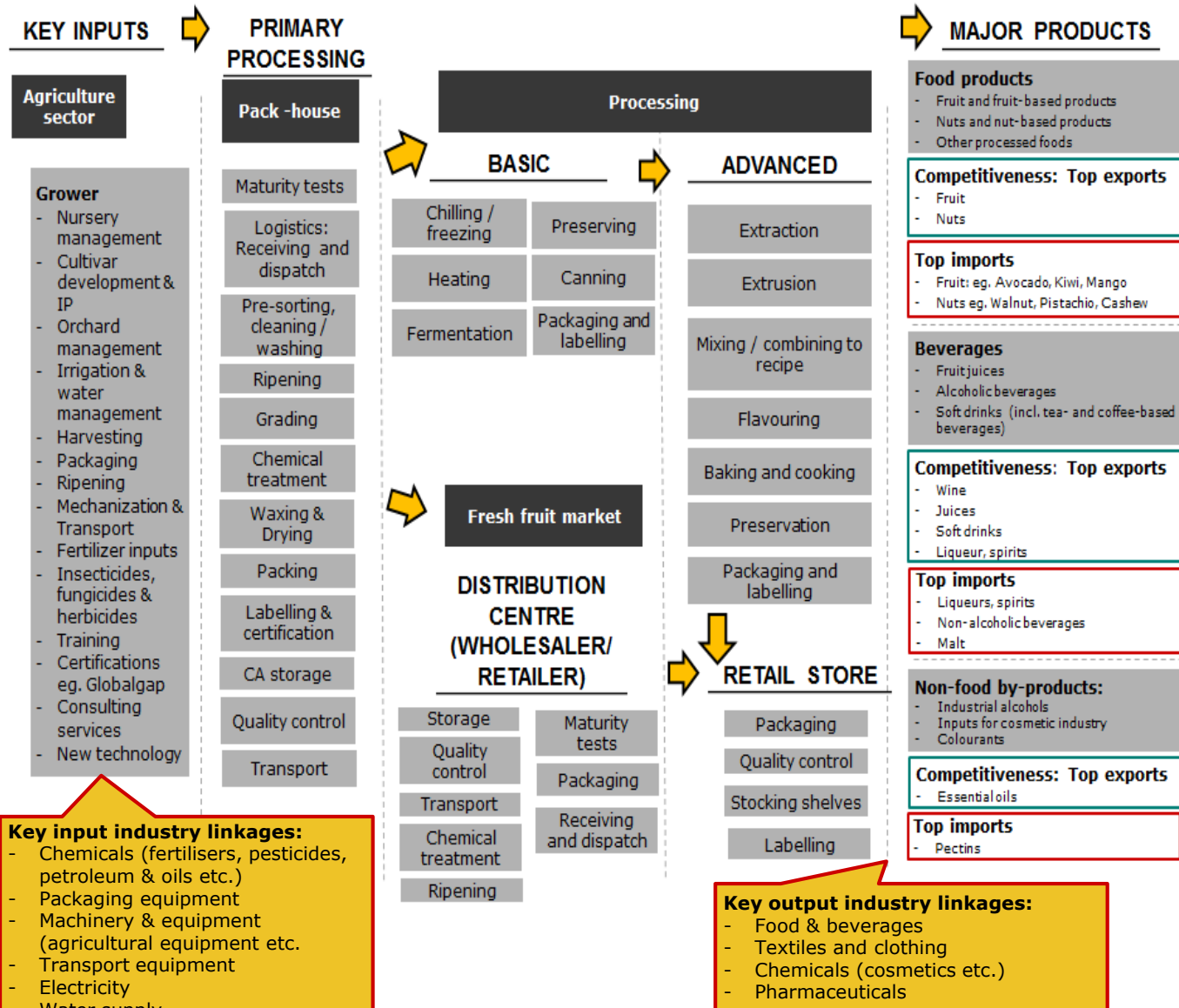
Field Crop Processing Value Chain: Overview of segment, linkages and development opportunities



SA has a well developed and diversified field food crop farming and processing sector, but it faces various challenges. The VC presents opportunities to:

- Increase production capacity to meet local demand; raise exports of high quality products.
- Grow downstream investment in food processing .
- Promote and support the development of smallholder producers, especially through: technical support for small/emerging farmers; infrastructure investment (e.g. silos, irrigation); supporting ownership transfer of primary agriculture and processing; fomenting strategic partnerships between producers and intermediaries/wholesalers.
- Encourage R&D into higher yielding, more resilient and higher quality plant material.
- Support improved preservation and packing technologies.
- Improve efficiencies and lower input costs to enhance and sustain competitiveness.
- Develop local feed supply capacity.

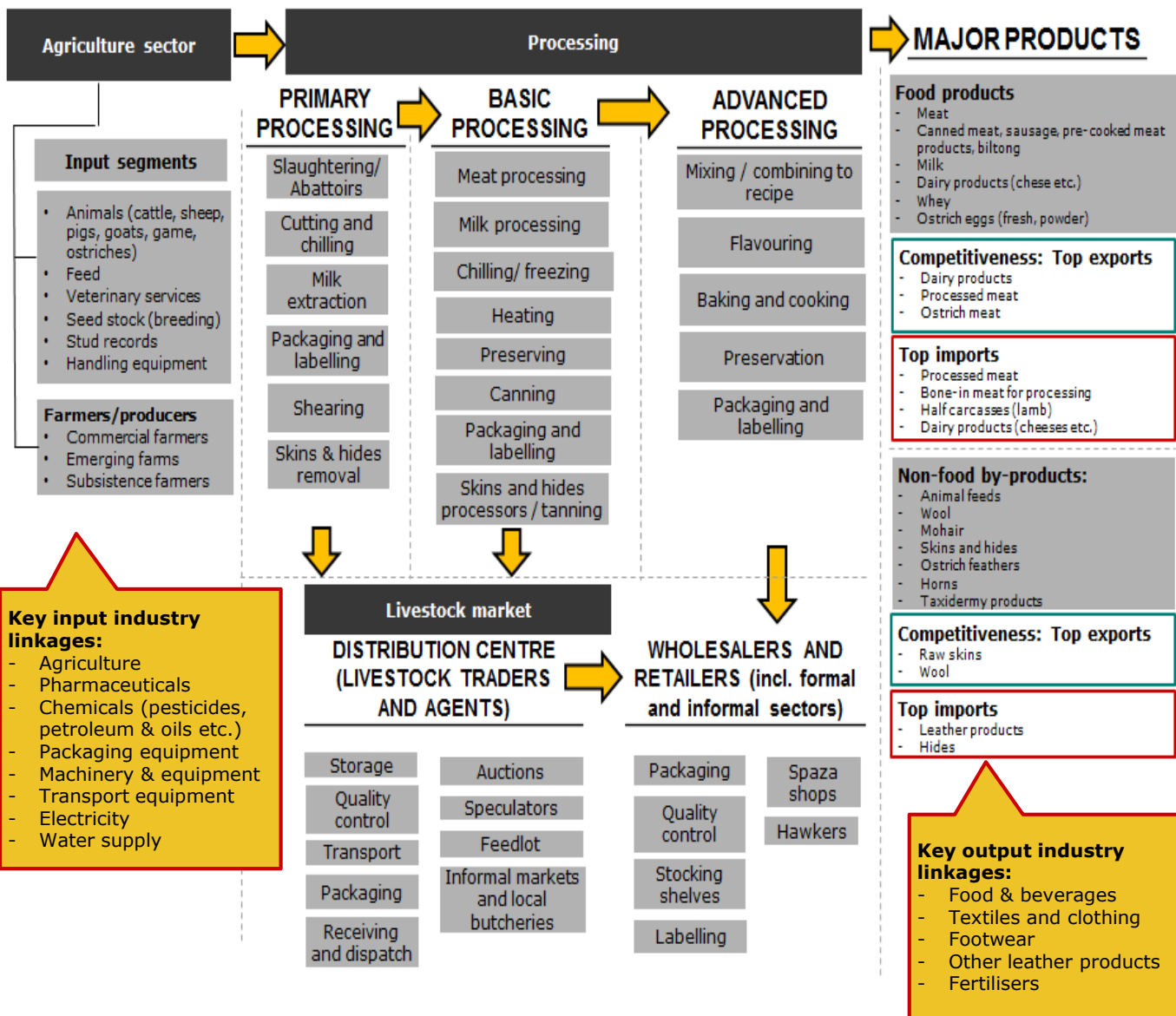
Horticulture-based Products Value Chain: Overview of segment, linkages and development opportunities



The IDC has supported the development and diversification of SA's horticulture value chain over the years, introducing several new segments. Opportunities exist to:

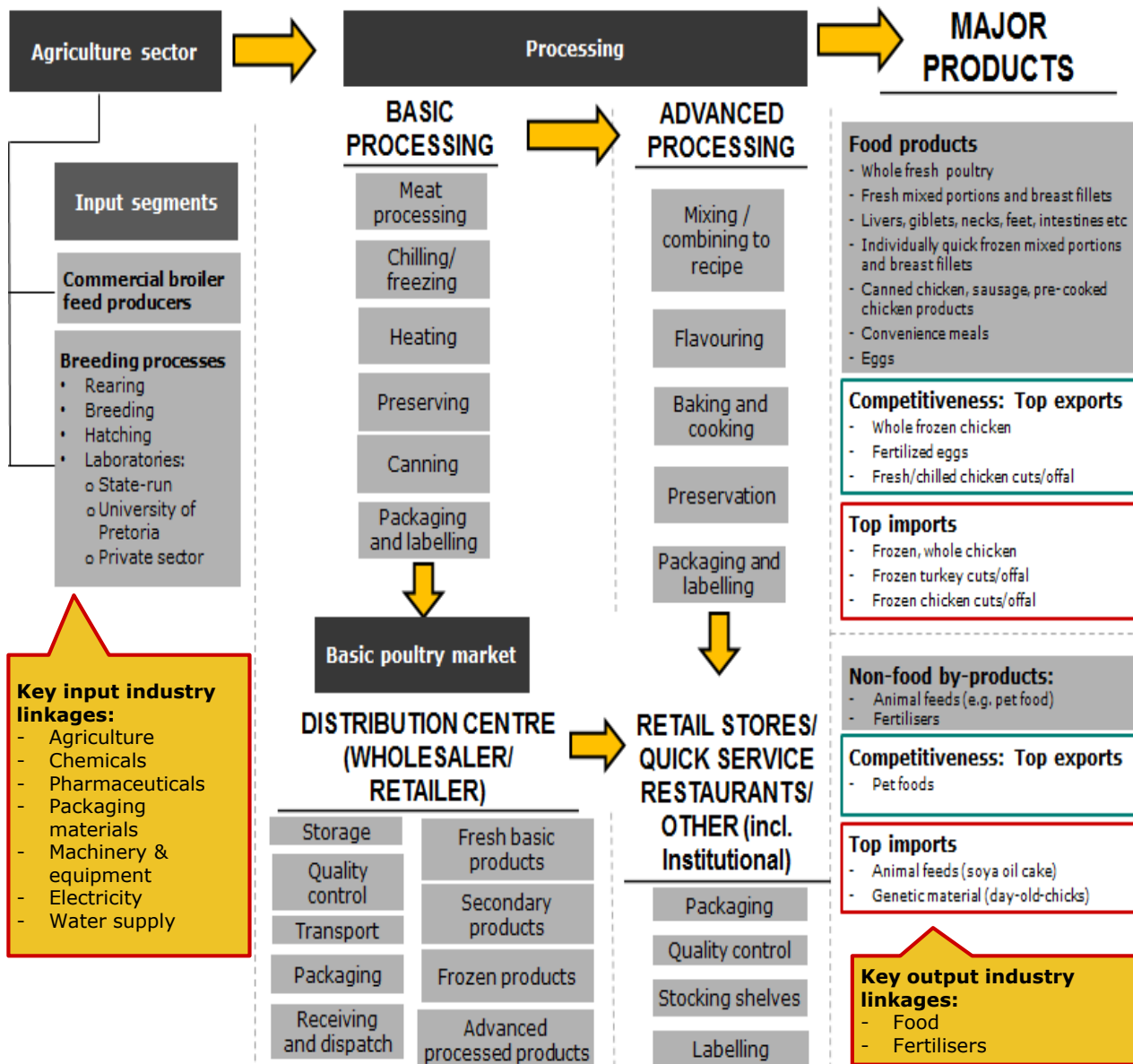
- Create new processing capacity with new crops or by establishing crops in new areas.
- Utilise spare processing capacity by initiating primary production.
- Encourage the utilisation of under-utilised community land by setting-up projects with business partners.
- Promote and support the development of smallholder producers by providing funding and technical support to assist them in raising yields and quality (and thus access to processing facilities/pack-houses; supporting ownership transfer of primary agriculture and processing; fomenting strategic partnerships between producers and intermediaries/wholesalers.
- Support the retention of superior genetic material (IP protection) by assisting local R&D companies.
- Support improved preservation and packing technologies.
- Improve efficiencies and lower input costs to enhance and sustain competitiveness.

Meat & Dairy Products Value Chain – Red meat & dairy products: Overview of segment, linkages and development opportunities



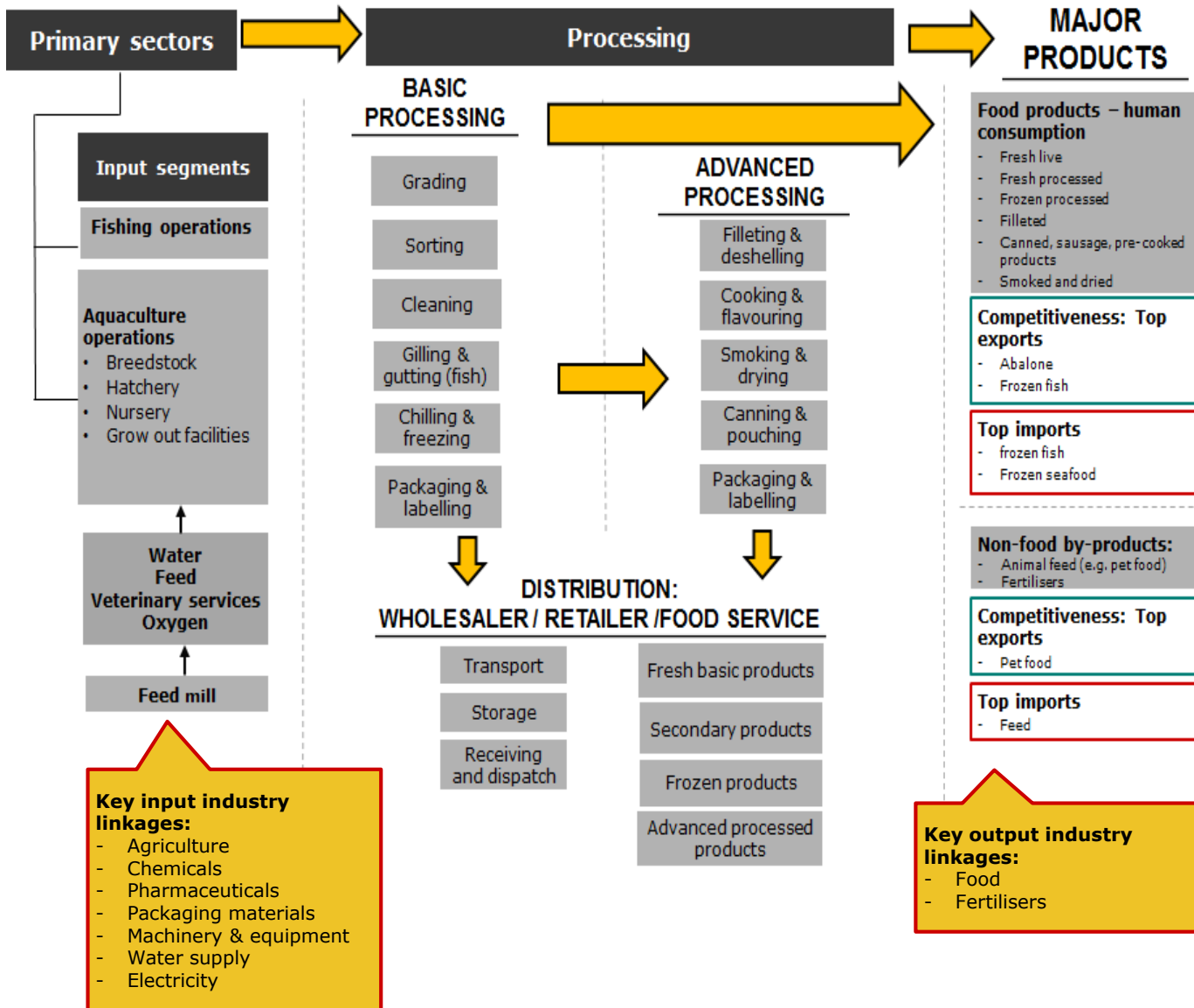
- SA's red meat products VC is facing serious challenges, including: low margins; high feed costs; rising energy costs; drought conditions; cheaper imports; shortages of technical skills; high barriers to entry; fragmented primary production by emerging producers affecting traceability systems; lack of coherent policy, outdated meat classification (favouring grain-fed beef over grass-fed); and, among others, inadequate diseases management.
- Development opportunities include:
 - Increase processing capacity post-slaughtering and introduce new technology, so as to increase value-add and improve margins.
 - Introduce new and/or improved preservation and/or packaging technologies.
 - Integrate rural cattle herds into the value chain (economic inclusion).
 - Reduce feed costs.
 - Pursue game-related production activities in the value chain, as well as new niche and broader market opportunities.
 - Replace imports.

Meat & Dairy Products Value Chain – Poultry based products: Overview of segment, linkages and development opportunities



- SA's poultry industry is said to make the single largest contribution to total gross agricultural production value. It has a high developmental impact, with strong upstream & downstream linkages and multiplier effects. Consumption of poultry meat has been growing rapidly.
- The industry is, however, facing serious challenges, including: low margins; high feed costs; high energy costs; substantial & rising penetration of significantly cheaper imports; weak balance sheets of independent broiler producers; technical skills shortages; high barriers to entry; disease management.
- Development opportunities along the poultry based products VC include:
 - Augment & diversify value-adding processing capacity (convenience meals, meat deboning, pre-cooked chicken products) to improve margins.
 - Improve efficiencies and lower input costs, esp. feed costs, to enhance and sustain competitiveness.
 - Introduce new or improved preservation and packaging technologies.
 - Import replacement (e.g. mechanically deboned meat).
 - Increase exports of value-added products, whole chickens and fresh chicken cuts (especially to nearby markets).

Fish and Seafood Products Value Chain: Overview of segment, linkages and development opportunities



- SA's fish and seafood products VC presents further development opportunities, including:
 - Development of emerging/new industries.
 - Supplement supply from natural fishing resources.
 - Improve efficiencies (e.g. feed conversion ratios, growth rates) and lower input costs to improve and sustain competitiveness.
 - Further processing and value addition.
 - Development of local feed supply capacity.
- However, a number of challenges continue to constrain its potential, such as natural conditions and the availability of suitable sites; adequate infrastructure; high energy costs; high feed costs; suitability of species; disease management; local market conditions (demand and price); and, among others, skills shortages.

IDC's funding products

- Debt products:
 - ✓ *Long-term, capital/interest moratoriums, sculpted repayments*
- Mezzanine funding:
 - ✓ *Cash flow and not security linked*
- Equity instruments:
 - ✓ *For own account & share warehousing options – mainly strategic reasons*
- Other products – guarantees, trade finance, venture capital etc.
- Funding will be structured in a way that will suit the business' needs most appropriately.
Structuring options include:
 - ✓ Term of the funding: Short, medium and long-term loans are available;
 - ✓ Grace periods for repayment : Repayments can be structured to suit cash-flows and allow for periods where no payments need to be made on either capital or interest.
- Special funding schemes are available that offer more attractive terms and targets cross-sectoral issues such as job creation or development of specific sectors.
- IDC's business support programme addresses non-financial support to entrepreneurs.



**Customised
structuring of
each transaction**

IDC funding of projects



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In South Africa

- The project must preferably facilitate the creation of new industrial capacity (create jobs).
- The funding request must be for at least R1 million (for debt) .
- Risk-sharing from operating private-sector investment partners is non-negotiable.
- Equity-related funding:
 - ✓ IDC will only provide an equity-related instrument if it views it of strategic importance;
 - ✓ IDC will not take up a majority stake in a business.
- We can fund a full expansion if the equity structure at peak is around 35%.
- For start-ups we prefer an equity structure of 50% at peak. and on a case by case basis, we could consider instruments to use to assist in this regard.

Deal origination, assessment and post-investment



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Pipeline

Applications from existing/prospective businesses

Proactive identification and development of projects

Screening

Basic assessment

Pre-feasibility

Assessment and decision

Detailed due-diligence/feasibility study assessing development impact and sustainability of opportunities:

- Development outcomes
- Market for products/services
- Technical viability and competitiveness
- Financial viability
- Management
- Legal
- Environmental impact
- Etc.

Structuring of funding depending on client's needs

Approval of viable transactions at appropriate committee

Implementation and monitoring

Legal agreements

Meeting conditions

Disbursement

Ongoing monitoring of client performance after funding is disbursed

- Interventions in businesses experiencing difficulties
- Business support
 - Restructuring of facilities
 - Etc.

thank you