Bio-economy Indaba 2018

Shaping a future-fit investment
Bioprospecting Industry

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IDC
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Overview of IDC

- **Established:** 1940
- **Type of organisation:** Development Finance Institution (DFI)
- **Ownership:** State owned company, 100% owned by the SA government
- **Total assets:** R129.8 billion (31 March 2017 - group)
- **Total liabilities:** R41.5 billion (31 March 2017 - group)
- **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:** 850 (December 2016)

Operational Footprint:
- Head Office - Sandton
- 20 Regional and Satellite offices
IDC Focus Areas

- Metals Value Chain
  - Basic Metals and Mining
  - Machinery and Equipment
  - Automotive and Transport Equipment

- Chemicals Value Chain
  - Basic and Specialty Chemicals
  - Chemical Products and Pharmaceuticals

- Agro Value Chain
  - Agro-processing and Agriculture

- High Impact Sectors
  - Heavy Manufacturing
  - Light Manufacturing & Tourism

- Special High Impact Sectors
  - Clothing & Textiles
  - Media & Motion Pictures

- Enablers
  - Industrial Infrastructure
  - New Industries

Value Chains are earmarked for special attention including proactive project development, whilst High Impact Sectors are exclusively reactive.
IDC’s Funding Model

**OUR FUNDING MODEL**

**THE IDC IS FUNDED THROUGH:**
- Internal profits
- Divestment of mature investments
- Borrowing in domestic and international markets

We use these to provide funding to businesses in the form of loans and equity investments.

- **LOAN FUNDING**
  - Interest payments
  - Capital repayments

- **EQUITY FUNDING**
  - Dividend receipts
  - Capital growth and realisation

Proceeds from this funding are used to repay borrowings, cover our costs and grow our balance sheet to re-invest in future businesses.
### What Key Focus Areas or Corporate objectives is the Division contributing towards?

- Facilitate investment in SA in New Industries
- Lead Industrial capacity development delivering outcomes in the medium to long term (BI, women, youth, jobs)
- Provide IDC Funding across the prioritised value chain and at all stages of business/ project development
- Implement new industry value chain strategies
- Influence and facilitate the development of enabling environments for the four focus areas
- Enable IDC to gear up for 4IR including developing a strategy for investments in 4IR in the broader economy
- Use new products and funding approaches including third-party funds and lines of credit

### What are the SBU’s Strategic Outputs that effect the focus areas and objectives

<table>
<thead>
<tr>
<th>Strategic Output/Plan</th>
<th>Measure of Success</th>
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<tbody>
<tr>
<td>Achieve the localisation and domestication of <strong>Clean Energy Solutions</strong>, the local adoption thereof and ultimately the export thereof</td>
<td>1000’s of direct and indirect jobs created across the value chain</td>
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<td>SMME creation</td>
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<td>Local manufacturing / import replacement</td>
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<td>Rural electrification</td>
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<td>A greener environment</td>
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<td>High value exports (R billions)</td>
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<td>South Africa fully exploiting the opportunities presented by the fusion of physical, digital and biological technologies, a.k.a. 4th Industrial Revolution or Industry 4.0 (“4IR”)</td>
<td>Globally competitive local industries</td>
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<td>Companies that are world leaders in specific areas of 4IR</td>
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<td>1000’s of high-skilled jobs created</td>
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<td>Export earnings</td>
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<td>The next Sasol?</td>
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<td>A vibrant and vertically integrated SA Inc <strong>Natural Products industry</strong> using indigenous and naturalised flora to produce differentiated food ingredients, nutraceuticals, cosmetics and pharmaceuticals</td>
<td>1000’s of rural jobs created across the value chain</td>
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<td>SMME creation – including women empowerment</td>
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<td>Value added exports</td>
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<td>Establishment of the full <strong>Gas Beneficiation</strong> value chain around Klydon Gas, a globally unique and competitive SA-developed gas separation technology for supply to local &amp; global markets</td>
<td>1000’s of jobs created across the value chain</td>
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<td>The next Sasol?</td>
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IDC’s Interest in Natural Products Industry

• The sector has potential to:

  • Create new businesses and employment.
    – According to the DEA, the value chain segments with the highest potential for generating new jobs include wild harvesting, cultivation and bio-trade. Biotrade has a high multiplier effect of nearly 10 times.

  • Contribute to increased value addition.
    – The prices of indigenous plant material (raw material) can sell for between R3 to R70 per kilogram,
    – The price per kilogram of end-products can be multiples of these prices, with products containing indigenous plant resources selling at a retail value of between 50% - 100% more than those product that do not contain these materials.
    – It is also estimated that more than 60% of indigenous plant materials are exported, thus reflecting the potential that exists to increase value addition through processing.

  • Contribute to increased exports of goods.
    – SA contributes 0.4% of global exports yet it is regarded as the 3rd most biologically diverse country in the world, thus reflecting the immense untapped potential for the sector.

The potential of this industry is aligned to IDC’s objectives
Case Study 1 – Early Stage Funding

- Funding provided to a company to establish a marula processing company with significant community involvement and ownership
- Funding granted via the Development Impact Support Unit
- Funding amount approximately R 4 million convertible grant
- Purpose of Funding
  - Working capital
  - Operational Expenditure
  - Set up community co-operatives for harvesting

- IDC Considerations
  - Developmental impact
    - 16 youth jobs in the processing plant
    - 125 community jobs in co-operatives
    - Formalization of co-operatives
  - Marketing
    - Existing local and export market for products
  - Technical
    - Proven process
  - Financial
    - Shareholding for the community
    - Financial projections indicate that the company pay back the grant in future
    - Clear credit checks and evidence of financial disciplines
Case Study 2 – Business Expansion

• Funding provided to a company producing cosmetics that contain natural products
• Funding granted via by the Chemicals and Pharmaceuticals Business Unit
• Funding amount approximately R6 million
• Purpose of Funding
  – Working capital
  – Capital for land and buildings

• IDC Considerations
  – Developmental impact – 12 new jobs created
  – Marketing
    • Steady market growth projected
    • Increasing demand for natural, ethically produced products
    • Established brand the company had invested in brand development and marketing
    • Well defined marketing strategy
    • Access to export markets
  – Technical
    • Strong management and technical team
    • Strong technical capability for R&D. Manufacturing outsourced to a certified manufacturer
  – Financial
    • Company already making good sales
    • Financial projections indicate that the company can service the loan
    • Clear credit checks and evidence of financial disciplines
New Industries Focus on Natural Products

Develop appropriate Funding Solution for the Natural Products Industry

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<th>Rationale</th>
<th>Access to funding is a challenge in this sector. The objective is to develop a funding programme/solutions that takes cognisance of the nuances in the sector by developing optimal financing mechanisms and instruments that address the funding gaps in the sector.</th>
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| **Scope of Work**                                                        | • Identify all potential finance role players and funding instruments  
• Engage with finance role players to understand their mandate and fit in the sector  
• Establish the needs of the sector  
• Design financing mechanisms and instruments that can satisfy the sector’s needs |
| **Desired Outcomes**                                                      | • A comprehensive list of all potential finance role players (both local and international) that could provide funding required by the industry. This will include direct lenders and those that can provide grant-based funding and guarantees.  
• This work package may include the development of a dedicated “Biotrade Fund” (which would include various finance role players) if the outcome of the analysis indicates that this is an appropriate funding mechanism. |
Way Forward for Natural Products at the IDC

New Industries plans and outcomes for the Natural Products industry FY2018/19 are the following:

• Focused collaboration with the relevant stakeholders to identify funding opportunities

• Focus on the development of the value chains (e.g. Honeybush) due to slightly lower regulatory barriers to entry for tea products compared to extracts

• Deal sourcing if required licenses are in place (including Moringa-related opportunities already on the Radar)

• Development of a third party managed funding programme or solution that considers the specific needs of the industry in collaboration with other funders/funds e.g. SEFA and other DFIs

• Continued engagement with DEA and other stakeholders to address industry challenges
Thank You