



*Industrial Development Corporation*

***Your partner in development finance***

# Financing project development in Africa

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# The IDC: Corporate profile

- Established in **1940**, the IDC is a self-financing, State-owned **development finance institution**
- The **vision** of the IDC is to be the primary source of **commercially sustainable industrial development** and innovation to the benefit of **South Africa and the rest of the African continent**
- Provides financing to **entrepreneurs** engaged in competitive industries and enterprises based on **sound business principles**
- **Pays income tax** at corporate rates and **dividends** to the shareholder
- **Aims to maximise developmental and financial returns** within an acceptable **risk profile**



The IDC's Head Office in Sandton (Johannesburg)

# Leadership in Development strategy

The IDC's *Leadership in Development* strategy pursues job creation and equitable development as its prime objectives

**Job creation** is the overarching objective, with other core developmental objectives including:

- Development of new entrepreneurs
- Regional development
  - Rural areas
  - Underdeveloped Provinces
  - Previous townships
  - Targeted development regions
- Small and medium sized enterprises
- Black economic empowerment
- Social transformation
- Exports and beneficiation



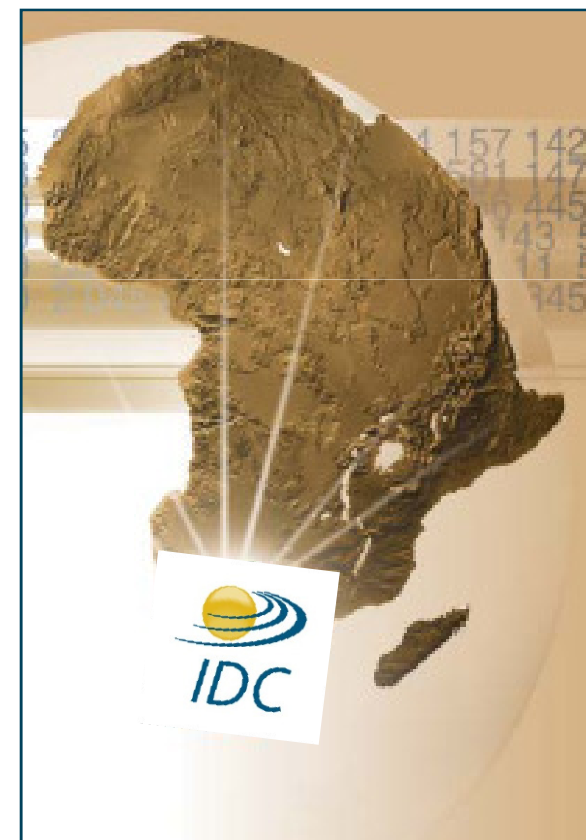
Furthermore, the IDC acts in support of Government's African strategies/ NEPAD and therefore also has the following objective:

- **Industrial development in Africa**

# The IDC: Actively supporting Africa's revival

The SA Government is committed to **support economic development throughout Africa, to underpin the African Renaissance vision encapsulated in NEPAD. As such, the IDC's core strategies for the continent is to:**

- Leverage **private sector investment** for economic development throughout the continent
- Play a major role in the **development of industrial capacity**
- Strengthen South Africa's constructive role in **regional economic development**
- Leverage **foreign direct investment** by bringing in foreign partners using international networks
- Transfer **experience and expertise** to African DFIs
- Promote supply of **goods & services** from SA
- Establish **credit lines** for financially sustainable regionally-oriented financial intermediaries
- Support **NEPAD** and regional spatial development initiatives (SDIs)







# Financial instruments

- IDC offers a **wide array of financial instruments**, including :
  - Equity
  - Quasi-equity
  - Commercial debt
  - Wholesale finance
  - Guarantees
  - Export and import finance
- These may be provided singly or in combination



**Flexible deal structuring**



# Financing criteria

- **Greenfield projects, expansions & rehabilitations**
- **Relatively sizeable projects**
- **Profitability & sustainability within a reasonable time frame**
- **Developmental impact (jobs, value addition, exports)**
- **Fixed assets and the fixed portion of growth in working capital requirements**
- **Reasonable financial contribution from owners**
- **Security**
- **Environmental standards**





# Role in project development

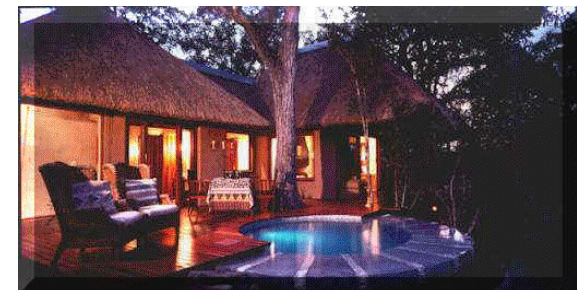
- Co-sponsors **feasibility studies**
- Identifies project **opportunities**
- **Provides and arranges funding** (e.g. export and import finance, equity and loan funding)
- Identifies suitable international and local DFIs, commercial and merchant banks and companies and export credit agencies as potential participants
- IDC acts as a **financial adviser** in partnership with other financial institutions
- **Shares project risk** with the sponsors and financial partners
- Identifies strong **operating partners**
- Off-take and supply agreements





## Role in project development (cont.)

- **Assists with the early negotiations of project agreements** to improve and ensure their bankability and shorten the funding schedule
- **Structures appropriate limited recourse funding packages** by allocating project risk to the appropriate stakeholders
- **Assists with implementation** via steering committee
- **Serves on board of directors**
- **IDC does not seek shareholding control or management participation**



## ***IDC's involvement in some of Southern Africa's recent major projects***

- The IDC's first cross-border co-funding approval outside SA was its involvement in the establishment of the **Mozambique Aluminium Smelter (Mozal)** on the outskirts of Maputo, with BHP Billiton and Mitsubishi Corporation as partners.
- The IDC is also involved in establishing another **aluminium smelter** as an anchor project for the **Coega Industrial Development Zone (IDZ)** in the Eastern Cape province
- The IDC played a major role in restructuring the SA steel industry, unbundling **ISCOR** in separate mining and steel companies
- The IDC is participating in the feasibility study of a **nuclear power project (Pebble Bed Nuclear Reactor)** in South Africa
- IDC is likely to participate in the establishment of a **world-class integrated mineral sands mining, mineral processing and beneficiation operation** in southern Mozambique
- The IDC obtained approval from its Board for a 10% equity stake in the **Kolwezi Tailings Project** in the Democratic Republic of Congo (DRC), with the International Finance Corporation taking a 7.5% equity stake
- The IDC is likely to participate in major **hydro-power projects** in the continent (e.g. **Inga in DRC**)
- IDC is involved in a major **cement project in Nigeria**

## ***IDC's involvement in some of Southern Africa's recent major projects***

- ***The IDC is proud to be associated with the **Oscar-winning Tsotsi** film (Best Foreign-Language Film)***
- ***The IDC-financed feature film, **Hotel Rwanda**, received three Golden Globe nominations and three Academy Award (Oscar) nominations***
- ***The IDC pioneered and supported Black Economic Empowerment (BEE) through numerous transactions, both of an expansionary and acquisition nature:***
  - ***Pharmaceutical industry***
  - ***Mining sector***
  - ***Loan finance provided to a number of black controlled consortia to take up shareholding in the first two cellular operators in South Africa***
  - ***Tourism sector***
  - ***Insurance sector***
  - ***Etc.***

## ***IDC's involvement in some of Southern Africa's recent major projects***

### **SASOL**

- Due to the strategic importance of a domestic source of fuel, it was decided in the early fifties that the IDC, with funds provided by government, would establish Sasol, the first ever oil from coal project in the world.
- Sasol's capacity was doubled in 1960 and the oil crisis of 1973 gave rise to the establishment of two additional larger plants at Secunda.
- Sasol is today a global player, active in over 20 countries on 6 continents, with a turnover of almost R70 billion (USD 11.7 billion).

### **RICHARDS BAY MINERALS**

- In the late seventies Richards Bay Minerals, to the north of Richards Bay, started with the production of heavy minerals for the export market.
- This was done in cooperation with Union Corporation and Quebec Iron & Titanium, while Richards Bay Minerals was eventually taken over by Rio Tinto and Billiton.



## ***IDC's involvement in some of Southern Africa's recent major projects***

### **FOSKOR**

- The quest for self-sufficiency was also the basis for the decision to develop low-grade sources of phosphate at Foskor in Phalaborwa, to be used by a domestic fertiliser industry for the benefit of agriculture.
- Complex technical problems were overcome after a break-through of international importance to effectively produce phosphate from pyroxinite. The phosphate produced replaced imported phosphate rock from Morocco.

### **SAPPI & SAICCOR**

- In partnership with British and Italian firms Courtaulds and Snia Viscosa, Saiccor (South African Industrial Cellulose Corporation) was set up in 1950 to process wood and produce raw materials for the production of rayon.
- Equity was taken up in Sappi in 1951 for the establishment of a kraft and wrapping paper mill. Sappi is currently the world's largest producer of coated fine paper. Saiccor was expanded more than once and it was eventually taken over by Sappi.

## *IDC's involvement in some of Southern Africa's recent major projects*

### **ALUSAF (BHP BILLITON)**

- A decision was taken in 1967 to establish Alusaf at Richards Bay, with the support of Rand Mines, Alusuisse from Switzerland and the Industrial Finance Corporation.
- Alusaf produces aluminium from imported alumina, and subsequent expansions were possible due to low energy cost as production in other countries became unviable.
- Alusaf was eventually acquired by Gencor, which became Billiton and later BHP Billiton.

# Financing of infrastructure projects

- The IDC's **Public-Private Partnerships Strategic Business Unit** (PPP SBU) provides debt and/or equity funding for key infrastructure projects in sectors such as:
  - Power
  - Water
  - Telecommunications
  - Information technology
  - Transportation
- Some of the **major projects currently in the portfolio** include:
  - Facilitated the transfer of the majority stake in the Cohora Bassa hydro-electric power project to the Mozambican government.
  - Gautrain project (funding for Bombela consortium)
  - Broadband Infracore (Pty) Ltd (SA Telecommunications infrastructure provider)
  - Internet based control and communications equipment at all entrance points in D.R. Congo
  - Pebble Bed Modular Reactor (PBMR)



Cahora Bassa Dam: Mozambique

# Typical Project Risks and Mitigation

## **Completion & development cost overrun:**

- *Completion guarantees by quality sponsors until financial completion*
- *Experienced EPCM contractor*
- *Experienced Owners Team*

## **Raw materials and energy:**

- *Long term contracts from reliable suppliers*

## **Production & operating:**

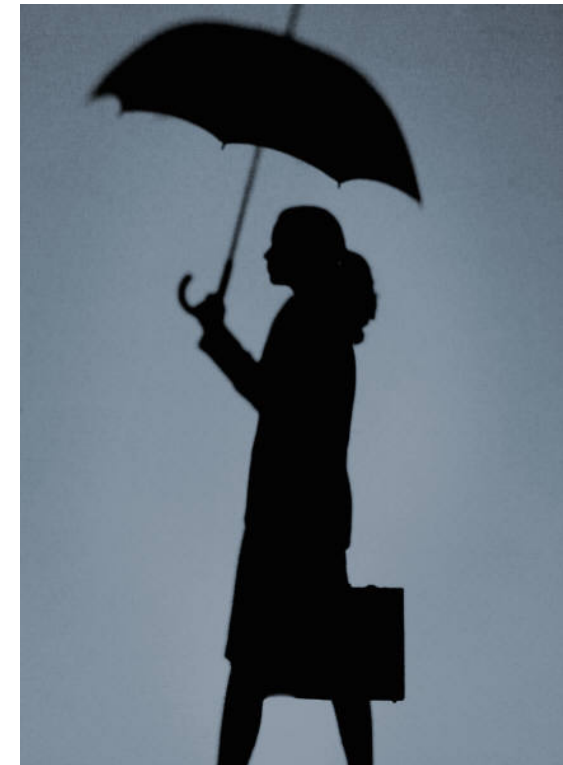
- *Experienced technical partners*
- *Training of local workforce & skills transfer*

## **Logistics:**

- *Infrastructure built by project sponsors*
- *Water & telecommunications supplied by Government*

## **Marketing & sales:**

- *Long term off-take agreements*





# Typical Project Risks and Mitigation

## **Contractual arrangements:**

- *Legislative framework important*
- *Adopted to the host country's legal framework*

## **Political:**

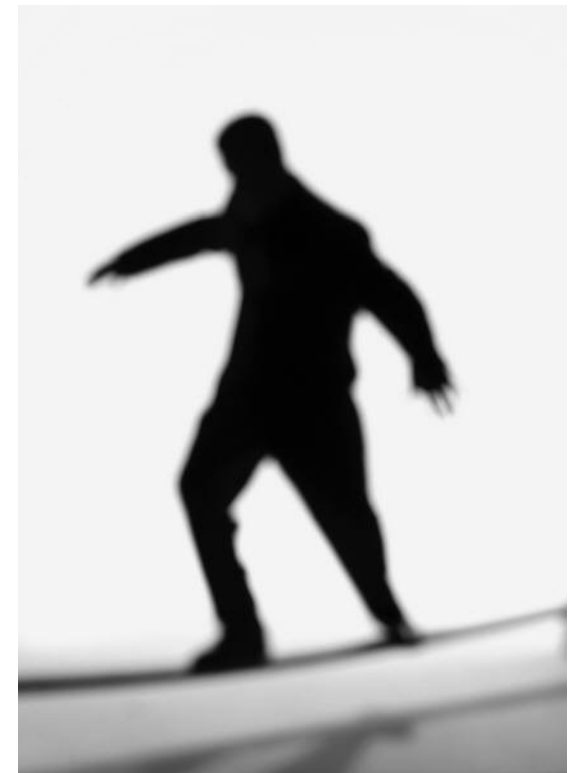
- *Government involvement*
- *Involvement of Development Finance Institutions, Export Credit Agencies & MIGA*

## **Environmental:**

- *Environmental Impact Assessment*
- *World Bank standards*
- *Technology - Environmentally friendly*

## **Financial & Macroeconomic:**

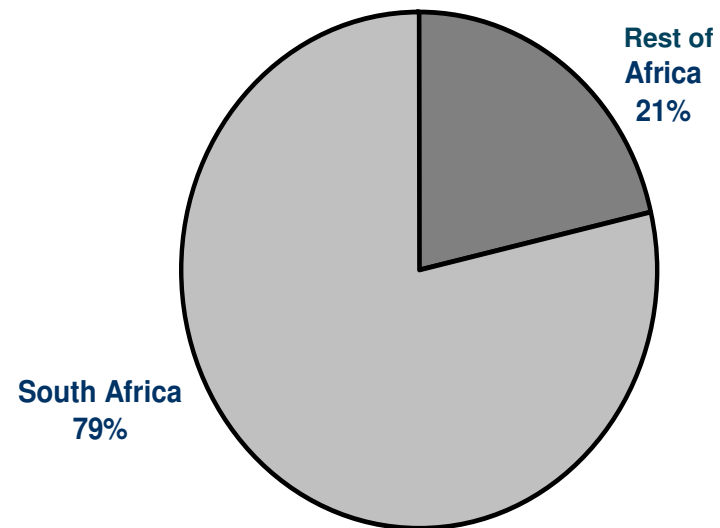
- *Escrow accounts*
- *Stability of tax regime*



# African portfolio (outside SA)

- Over **80 projects** under implementation or consideration in **25 African countries** (excl. SA)
- More than 30 purely export finance applications approved or under consideration
- Over **USD 1 billion approved to date** for African projects outside of South Africa
- Financing in **African countries** other than South Africa represented **21%** of the total **value of approvals** in the past 5 financial years

Regional distribution of IDC approvals, by rand value: 2003-2007



# IDC involvement in Africa: Footprint as at December 2008

## NIGERIA

- Telecoms

## CAPE VERDE

- Hotel & Accommodation

## GHANA

- Hotels & Accommodation
- ICT

## TOGO

- Financial services

## GABON

- ICT

## CONGO (Brazzaville)

- Transport

## NAMIBIA

- Agric. / agro-processing
- Mining

## BOTSWANA

- Hotel & Accommodation
- Restaurant

## EQUATORIAL GUINEA

- Transport

## CAMEROON

- Hotel & Accommodation

## MALAWI

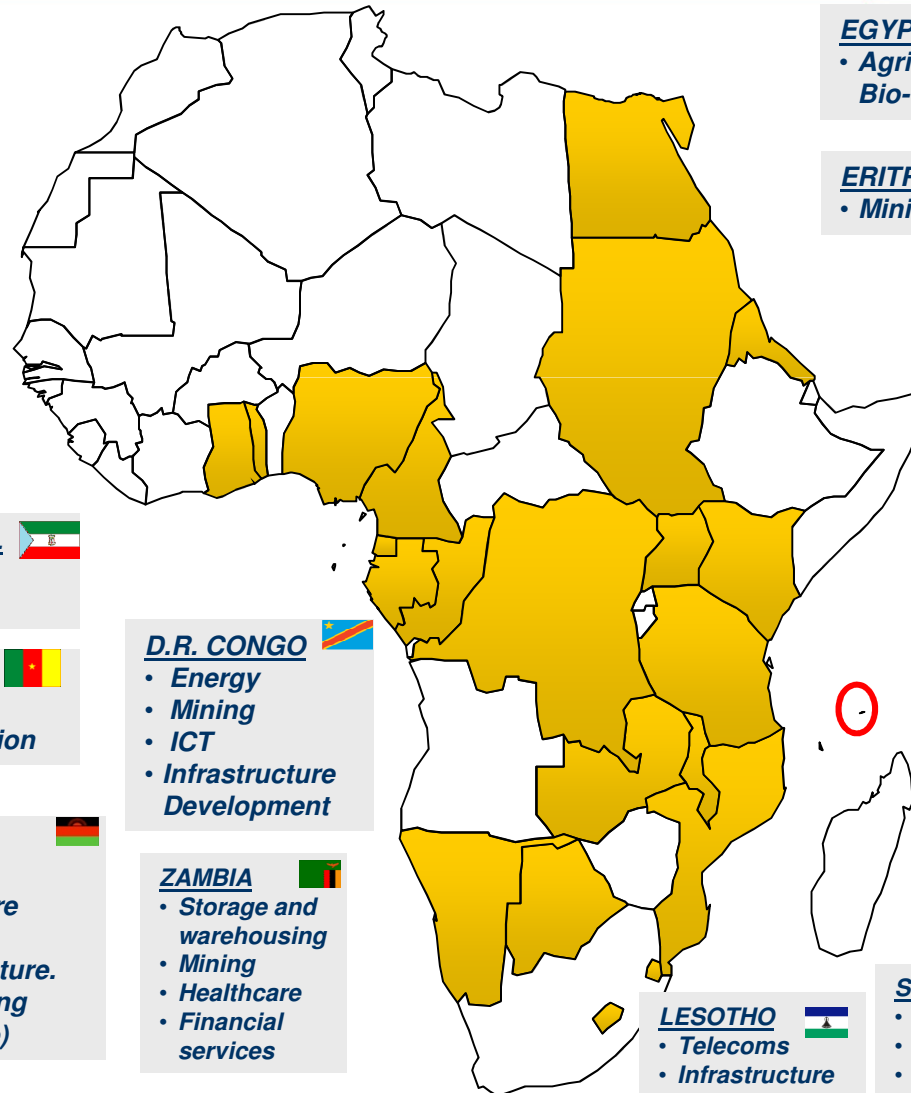
- Food and Agriculture
- Retail infrastructure.
- Franchising (Tool Hire)

## D.R. CONGO

- Energy
- Mining
- ICT
- Infrastructure Development

## ZAMBIA

- Storage and warehousing
- Mining
- Healthcare
- Financial services



## EGYPT

- Agriculture/ Bio-fuels

## SUDAN

- Infrastructure (Water)

## KENYA

- Sugar

## ERITREA

- Mining

## UGANDA

- Hotels & Accommodation

## TANZANIA

- Manufacturing (Plastic bags)

## SEYCHELLES

- Hotels & Accommodation

## COMOROS

- Transport

## MAURITIUS

- Air transport

## MOZAMBIQUE

- Mining
- Hotels and Accommodation
- Manufacturing (Textiles)
- Agro-processing
- Wood processing
- Energy
- Ind. Infrastructure
- Transport infra.
- Storage and warehousing

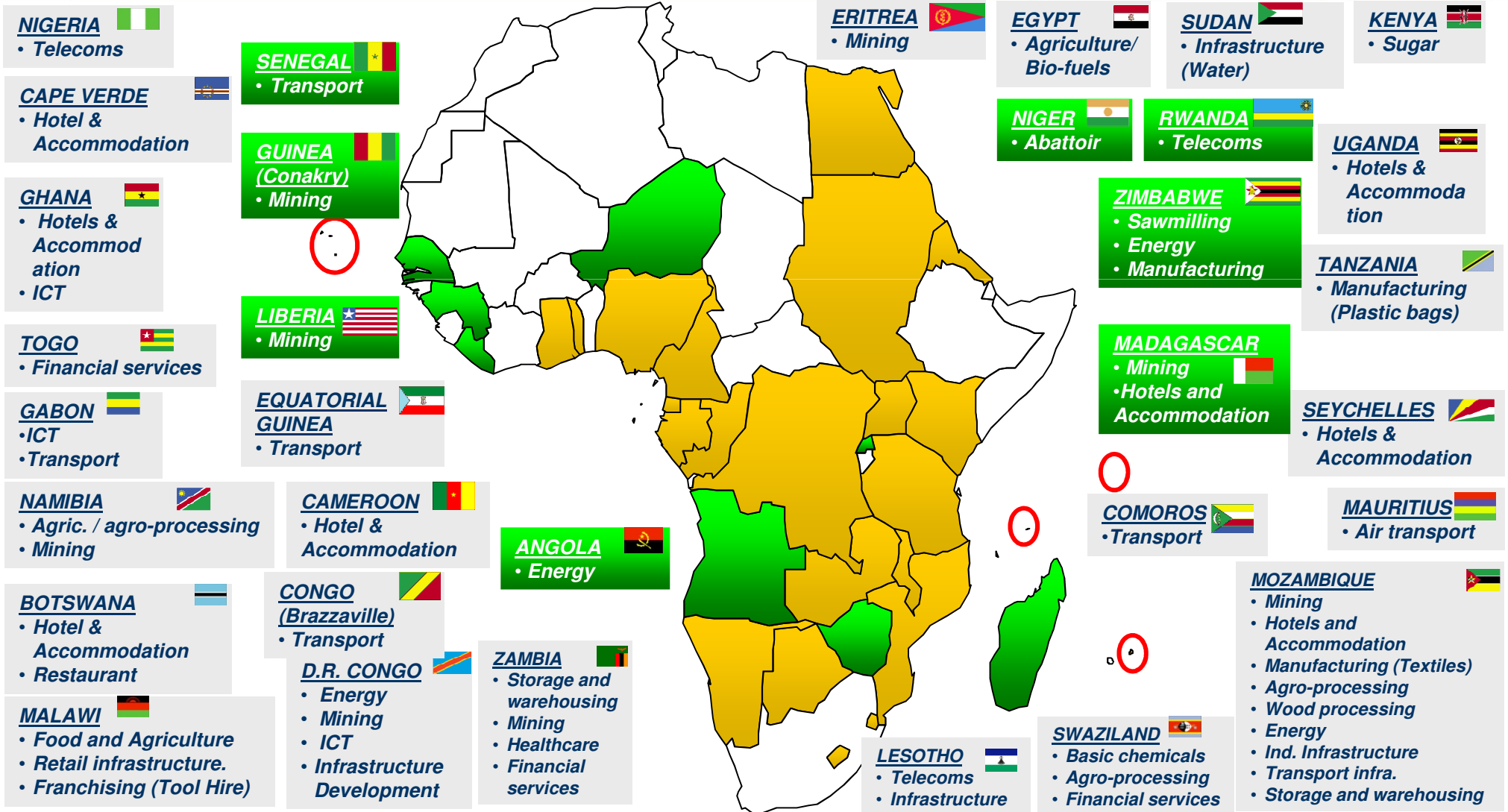
## SWAZILAND

- Basic chemicals
- Agro-processing
- Financial services

## LESOTHO

- Telecoms
- Infrastructure

# IDC involvement in Africa: Footprint incl. pipeline





## Concluding remarks

- Africa is the only global region for which a **higher economic growth** rate has been forecast for 2007 (6.2% vs 5.5% in 2006).
- Africa is attracting **progressively higher inflows** of foreign direct investment and presents **numerous investment opportunities**.
- the IDC has made great strides in raising investment levels and changing grossly exaggerated perceptions of Africa as a high-risk investment destination.
- In the spirit of NEPAD, we are placing the banner **“Africa is open for business !”** firmly on African soil.
- The IDC is **your partner of choice** in project development





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# Thank you

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