



25 MAY 2017 – MEDIA RELEASE

**ESTABLISHMENT OF A R1,5 BILLION (OVER THREE YEARS) DOWNSTREAM STEEL
INDUSTRY COMPETITIVENESS FUND THROUGH AN INTEREST RATE SUBSIDY**

1 BACKGROUND

The country's downstream industries in the metals and engineering sectors, particularly small to medium sized enterprises (with up to 50 employees) are under serious pressure due to a number of structural factors, which have undermined the sector's competitiveness. This has resulted in a number of firm closures and concomitant job losses. According to SEIFSA, the sector lost 25 000 jobs in the last year representing the closure of almost 500 small to medium companies.

This represents a loss in employment of more than 6% in a sector which employed 400 000 people. The sector is quite diverse consisting of a number of sub-sectors such as foundries, fabricators and component manufacturers each with their own sub-industries and market environments. Structural factors such as a lack of fixed investment in modern plant and equipment, under-investment in skills and R&D appear to be common elements in the industry's decline across sub-sectors. The current cyclical downturn characterised by weak export demand and stiff import competition in a domestic environment of rising costs has only served to accelerate the sector's challenges.

The government has responded with a number of targeted initiatives to address some of the structural problems that the sector face. These include the National Tooling Initiative, the National Foundry Technology Network, the designation of inputs into state procurement, as well as the Black Industrialist Scheme to accelerate the ownership transformation of the sector. Building on this Government is setting up a Fund to assist the sector to be placed on a sounder footing. In this regard, the Fund seeks to make a timely intervention in the form of a targeted downstream steel fund.

2 PURPOSE OF THE FUND

The fund is called the "Downstream Steel Industry Competitiveness Fund" (The Fund). The key purpose of the Fund is to assist qualifying enterprises in the downstream steel sectors to improve their competitiveness and assist companies. The Fund will be applied to finance the following initiatives, which directly address competitiveness issues:

- Modernisation of plant machinery and equipment;
- Upgrade of plant machinery and equipment to meet quality assurance requirements;
- Capacity expansion of existing plants;
- Process improvements for cost efficiencies and productivity and assist with plant optimisation;
- Working capital requirements or revolving facility;
- Assist firms to achieve appropriate industry quality certification and standards including environmental standards;
- Establishment of start-up enterprises; and
- Development and testing of prototypes, as well as the testing and certification of new products (for example by SABS or international certification where appropriate)

However, the pilot plants will be excluded due to the generally large capital requirements. Start-up enterprises and early stage technologies and prototypes will be considered on a case by case basis provided there is a clear demonstration of developmental returns.

3 SIZE OF THE FUND

The IDC will receive the R95million in the form of grant funding from EDD which will flow as follows over the period:

- R30 million in the first year (2017/18);
- R30 million in the second year (2018/19); and
- R35 million in the third year (2019/20).

The IDC will leverage the total R95 million allocation over 3 years, to create a substantial R1,5 billion Fund, in the form of an interest rate subsidy to normal IDC risk pricing, aimed at improving downstream competitiveness for qualifying firms in the Metals and Engineering sub-sectors.

4 TARGETED SECTORS

The Fund will selectively target manufacturing firms in the steel-intensive downstream sectors. These are the type of firms that would fall within the downstream sectors of the IDC's Metals Value Chain Division. It is proposed that the following downstream steel sectors should qualify under the Fund:

- Foundry industries;
- Fabrication sectors (focused on pressure vessels, pipes and pipe fittings sub-sectors; structural steel and any fabrication work in support of steel intensive designated sectors/products);
- Parts and component manufacturers of steel-intensive products;
- Valve and pump manufacturers;
- Machining plants;
- Capital equipment industries particularly steel intensive rail and rolling stock components; and
- Any other steel-intensive business.

The Fund will exclude the following upstream steel sub-sectors, as well as sub-sectors where there are already substantial government support / incentive programmes in place:

- Integrated steel mills
- Component manufacturers that qualifies for other incentives
- Large multinational OEMs and assemblers and their subsidiaries that already benefit from a specific government support programme, e.g. Automotive Production and Development Programme (APDP).

5 QUALIFYING FIRM SIZE

The Fund will mainly target very small, small and medium enterprises, as defined in the National Small Business Amendment Bill. However, large enterprises up to a maximum annual turnover of R450m will be considered, depending on developmental returns.

6 INVESTMENT CRITERIA

Firms that apply for funding should meet the following investment criteria:

- **Local Manufacturers including Black Industrialists*** (This relates to the current IDC policy on Black Industrialist (definition below));
- **Levels of Beneficiation***: This relates to level of beneficiation of the feedstock to final product;
- **Net Country Increase in Volume (tons/annum)***: This relates to an increase in the net volume of production in South Africa as result of the project funded;
- **Economic Merit**: All businesses which apply to the Fund will be evaluated in accordance with IDC due diligence processes and criteria for economic viability;
- **Sustainability**: The application must show that the firm at the application stage or the budget period of the Fund will be sustainable or have a sustainable turnaround plan in terms of its application of the funds. Key areas include, financial, marketing, technical and environmental perspective;
- **Regional focus**: Only South African based firms may apply to the Fund. The Fund may not apply to their foreign operations;
- **Export**: Enterprises with the ability or potential to export or enterprises that have to compete with imports, will be encouraged;
- **Jobs***: Enterprises that create net additional employment will be prioritised, particularly opportunities with greater labour intensity. Saved jobs will also be considered;
- **Type of Enterprises**: Start-ups, expansions;
- **Due Diligence** – Firms will be subjected to the normal IDC due diligence procedures;
- **Compliance** – Applicants must comply with South African legislation and should behave in a socially responsible manner;
- **BEE Requirement** – the Fund will apply standard IDC BEE requirements, where the company must achieve BBBEE Level 4 within 24 months after approval of an application;
- **Maximum Investment Size** –the Fund offers a maximum of R75 million (as a guideline) per applicant. Should additional funding be required, IDC can provide it at normal interest rates, subject to its normal terms and criteria;
- **Type of Funding Instrument** – the fund will only apply to debt (or quasi debt) instruments;



- **Pricing** – IDC risk based pricing less a **discount of 1,5% for large and medium companies** and **2% for very small and small companies** as defined in the National Small Business Amendment Bill will apply; and
- **Maximum Term** – 5 years including any moratorium periods. Thereafter, revert to normal IDC pricing if longer than the five years.

Note *: The asterix denotes priority weighting in the evaluation of the proposal

IDC's definition of Black Industrialist: A black industrialist is defined as a black entrepreneur who creates and owns industrial capacity and provides long-term strategic and operational leadership to the business and is by definition not a portfolio or purely financial investor. The following are characteristics of a black industrialist:

- Provides strategic and operational leadership to the business;
- Has a high level of ownership (>50%) and/or exercises control over the business;
- Identifies opportunities and develops business to take advantage of these opportunities (entrepreneurial);
- Takes personal risk in the business;
- Does business in manufacturing and related sectors, with particular reference to IPAP and IDC focus areas;
- Makes a long-term commitment to the business and is not a short- to medium-term investor.

7 IMPLEMENTATION FRAMEWORK

7.1 Investment Process

Once an application meets the Fund's investment criteria, it will then be subjected to the IDC's internal approval processes as follows:

- **Basic Assessment** – a basic assessment is conducted as a first step to test the basic economic merit and reasonableness of the application against basic IDC criteria. The application is also approved or rejected for due diligence at this stage;
- **Due Diligence** – following the basic assessment, a due diligence will be conducted as per the IDC's procedures and processes usually by an IDC Team from the SBU through which the application is made;
- **Presentation to the relevant Credit Committee** – the due diligence team will compile an investment report for presentation and approval to a relevant Credit Committee within IDC based on the quantum of the funds sought;
- **Legal Agreements** – Subsequent to approval, the IDC will enter into appropriate legal agreements with the applicant clearly specifying, amongst other things, the terms, conditions and outcomes underlying the Fund (if any specific), the conditions precedent and milestones to be achieved;
- **Disbursement of Funds** – upon the applicant meeting all the conditions precedent and draw down conditions, funds will be disbursed from the Fund to the applicant; and
- **Post-investment Management** – following the disbursements of funds, the IDC will conduct the necessary post-investment monitoring of the applicant in terms of IDC procedures.

For guidelines on the requirements of a business plan or to apply online, please visit www.idc.co.za
Alternatively contact the IDC call centre on 0860 693 888 or callcentre@idc.co.za for more information.