The IDC is a state-owned development finance institution primarily mandated to provide funding for the development of industry in South Africa and the rest of Africa.

INDUSTRIES THAT WE FUND

- Agro-processing and Agriculture
- Basic Chemicals and Chemical Products
- Mining, Basic Metals and Metal Products
- Industrial Infrastructure
- New Industries
- Tourism, ICT and Media
- Other Manufacturing Industries Including Clothing and Textiles
IDC continues to play a meaningful role in developing industry and contributing to the transformation of South Africa’s economic landscape while remaining financially sustainable.

**PERFORMANCE HIGHLIGHTS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs approved and saved</td>
<td>20,881</td>
<td>37%</td>
</tr>
<tr>
<td>Total funding disbursed</td>
<td>R11.0 billion</td>
<td>3%</td>
</tr>
<tr>
<td>Total transactions approved</td>
<td>175</td>
<td></td>
</tr>
<tr>
<td>175 transactions approved</td>
<td>R15.3 billion</td>
<td>6%</td>
</tr>
<tr>
<td>Total assets</td>
<td>R129.8 billion</td>
<td>7%</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>R2.2 billion</td>
<td>887%</td>
</tr>
<tr>
<td>2017 results presentation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated report</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refers to Limited Assurance</td>
<td></td>
<td>LA</td>
</tr>
<tr>
<td>Increase Industrial Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintain Financial Sustainability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilisation of Resources</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ADDITIONAL ONLINE INFORMATION**

- Group Structure
- Carbon Footprint
- Human Capital
- Information Technology
- Procurement
- Special Funding Schemes
- Memberships
- Customer Relationship Management
- King III Checklist
- GRI Table

**REPORTING PACK**

This Integrated Report forms part of a suite of reports. This report, other documents in this year’s suite, and previous years’ reports are available online at [www.idc.co.za](http://www.idc.co.za)
Minister Ebrahim Patel

Industrial funding is a key instrument to reignite growth and to shift our economy onto a new inclusive growth path. The funding strategy has to adjust to both structural and cyclical trends in an economy.

Technological innovations, developments in the political economy (local and global) and demographic factors will reshape the South African economy over the next decades in profound ways:

• The greater use of robotics, artificial intelligence and data-based networks in more economic and social applications will disrupt economies, markets and jobs.
• Economic populism in developed country markets may result in changes to trade, investment and migration policies that affect the economic integration project.
• Pressures to address high levels of ownership concentration in the economy, inequality in the society and joblessness will require structural changes to the economy to ensure a fairer, more inclusive and broader-based growth model.
• Sharp levels of urbanisation and inward migration to South Africa and a large youth demographic that is not being tapped sufficiently with job and entrepreneurial opportunities, will place pressure on infrastructure, labour markets and social policies.

These developments come on top of contemporary or cyclical factors: changes in the commodity demand cycle, a domestic economy that has gone into recession, a sovereign ratings downgrade to sub-investment level by some agencies, serious concerns about governance within public enterprises and in procurement systems, slow global and continental growth.

They place greater value on smart governance to manage these new and older challenges - and sometimes contradictory forces and outcomes - to the benefit of South Africans as a whole and we should identify what we can do (for example skills retraining, R&D investments, job-rich industrialisation).

To achieve national economic goals require that we build on our advantages: location on a continent with huge potential, leveraging more from our position as Africa’s largest industrial base, a strong and sophisticated financial market, a technical and professional skills base that is expanding, valuable deposits of natural resources that can be a source of new industrialisation, pockets of industrial innovation, advanced infrastructure in many parts of the country, a youthful population that can be a source of energy and enterprise, growing cities and urban densities that can benefit the economy, among many strengths.

The Industrial Development Corporation presents its annual report and releases its financial statements in this context.

The report records a number of gains that the IDC has made: increasing its approval of new projects and the expected jobs impact and expanding transformation through higher levels of funding for black industrialists and youth and women-empowered companies. It also increased its net profit last year.

The report points to significant headwinds and challenges in the economic environment that impacted on the IDC, resulting in slower levels of disbursements as companies postpone investment decisions, weaker approval levels for manufacturing (including the labour-intensive agro-processing and clothing & textiles sectors) and limited progress to achieve the corporate investment targets set for the IDC.

A new “national deal” to get back to investment grade and to address the needs of our people requires a roadmap consisting of four crucial elements:

• Developing a credible growth story that places emphasis on sectors and market-opportunities with high growth and job-creation potential, attracts investment and ensures effective implementation of the State’s nine-point plan.
• Transforming the economy to make it more inclusive, bringing black South Africans, young people, the rural poor and the urban unemployed into the economy with speeded-up actions against high levels of economic concentration, inequality, social exclusion and joblessness.
• Ensuring integrity in governance and decision-making, manage our fiscal policies responsibly and sustainably, to inspire confidence among our people.
• Deepening domestic economic partnerships, with greater efforts to pursue a social compact between government, business and labour that focusses on jobs, investment and transformation.

The IDC can play a key role, with other public agencies, to respond to this forward-looking agenda:

Growth story: through its funding for industrial development, the IDC is attracting investors to the economy and facilitating the creation of sustainable jobs. The R15.3 billion funding that IDC approved during 2017, the highest nominal level yet, is facilitating R47 billion of investment in the economy. The report provides a number of case-studies of partnerships with private sector investors and industrialists.

To assist priority sectors, government has set up a Steel Competitiveness Fund to be administered by the IDC. The R95 million that the Economic Development Department will be transferring from its budget over the next three years, will allow the IDC to make available R1.5 billion at lower interest rates to improve the ability of this industry to compete on the international stage. The Fund will be available to foundries, valve and pump manufacturers, steel fabricators and capital equipment manufacturers including black industrialists, to help the core of our manufacturing industry to survive difficult global economic conditions.

The corporate targets set for the IDC for the new financial year will require that it expands its approval and disbursement levels and focus on a greater economic growth impact to its work.

Transformation: in the past 12 months, IDC investment resulted in 20,881 jobs that will be created and saved. R10.1 billion of the funds approved were for to black-empowered companies (which refers to companies with at least 25% shareholding by black South Africans). Of this sum, R4.7 billion will benefit companies that are controlled by black industrialists. Funding to women-empowered and youth-empowered businesses also increased to R3.2 billion and R2.3 billion respectively. Transformation is both a social imperative and a source of growth as the economy is opened up to more black and youth entrepreneurs, the structure is shifted to greater local value-addition rather than export of raw materials only and more jobs are created for each billion investment committed.

Governance integrity: in executing its duties, the IDC is responsible for the approval of large sums of money and must always be subject to high levels of integrity in its decisions. The IDC has systems of corporate governance in place and to enhance transparency and accountability and has from June 2017, begun publishing details of all the investors to whom it provides industrial funding. The IDC and state-owned companies will need to further strengthen systems of governance to take account of legitimate public concerns about corruption. The IDC has focused on growing its portfolio and deepening its transformation impact whilst maintaining its financial sustainability.

The IDC’s status as a financially sound, administratively well-run institution is a result of dedicated people who focus on the task of industrial funding and good governance. I wish to thank Ms Busisiwe Mabuza and the Board of the IDC for their guidance and support to IDC’s management as well as the strong governance culture which they instil. I also thank Geoffrey Qhena, who continues to leads the Corporation through challenging times and the IDC management and staff who support him.

E Patel
Minister of Economic Development
30 June 2017
The rate of increase in world output, at 3.1% in calendar year 2016, was the weakest since the global financial crisis. Rather extraordinary geo-political developments at times dominated international headlines and affected investor and business confidence around the globe. World trade remained under pressure, impacting on the performance of many export-reliant economies. Although commodity prices recovered during the course of the year, the underlying market fundamentals have not yet supported a sustained recovery. Alongside the relatively subdued demand for most industrial resources, this continued to affect the performance of many African economies. As a key market for South Africa’s manufactured exports, Sub-Saharan Africa’s subdued growth has been of particular concern.

South Africa’s economic growth has been declining gradually for a number of years. Its gross domestic product increased by only 0.3% in calendar year 2016, the lowest rate of expansion since the 2009 recession, and the economy entered a technical recession in the second half of the reporting period. Concerns over the possible outcomes of rating agencies’ reviews of South Africa’s sovereign credit ratings also loomed large.

South Africa’s economic growth has been below potential for several years and also at considerably lower rates than those of some of our emerging market peers. As a country endowed with a wealth of natural and human resources, we can and must turn this performance around.

We at the IDC are confident that our industrial development strategies, which are based on a value chain approach, will enable us to contribute effectively towards this objective.

The agro-processing and agriculture, chemicals and pharmaceuticals, and metals and mining value chains have been prioritised, and our efforts aimed at their expansion and improved competitiveness are achieving some notable successes. While exploiting opportunities for their downstream and upstream development, with the local, regional, and/or global economies as target markets, the associated business activities funded by IDC are generating much-needed employment opportunities and preserving existing jobs, directly and indirectly.
The Board has noted the progress achieved in value chain development, and emphasised the need for a more integrated approach for greater impact, particularly with regard to competitiveness improvements, jobs-rich and inclusive development, as well as economic transformation.

Although our strategies did not deviate significantly from the previous year, the environment in which the Corporation is operating has necessitated the prioritisation of existing initiatives, such as those aimed at addressing economic inclusivity and assisting businesses in distress.

South Africans have manifested frustration with the slow pace of transformation of the economy. In this regard, the IDC’s strategies to enhance inclusivity are bearing fruit. The funding approved for Black Industrialists and black-empowered companies, as well as for women and youth entrepreneurs was substantially higher in the year under review. This is enabling their increased participation in the formal economy and in sharing the rewards of its growth.

In February 2017, the Ministers of Trade and Industry and of Economic Development reached an agreement that the National Empowerment Fund should become a wholly-owned subsidiary of the IDC. This will be an important milestone in South Africa’s quest for inclusive growth and economic transformation. A legislative process needs to be followed and we are currently in the process of obtaining all requisite approvals.

Financial sustainability is imperative for the IDC to continue delivering on its mandate in the long run. In the current difficult economic environment, which not only affects the performance of our existing portfolio, but also tends to raise the risks associated with new funding applications, we are monitoring trends in key financial indicators such as impairment levels very closely, and are taking the necessary pre-emptive actions. The performance of our subsidiaries is also crucial in this regard, hence the emphasis on closer oversight and strategic decision-making on future support so as to achieve the required return on investment.

We also embarked on certain new initiatives during the year, including an assessment of our leadership’s competencies vis-à-vis the strategic requirements. The process started with the executive team and will be followed next year by our senior managers and their possible successors. The aim is to enhance the IDC’s leadership capabilities and ensure continuity by building leadership bench strength.

**SOLID GOVERNANCE**

The trust of our stakeholders is of paramount importance. We believe that we have earned and maintained their trust over the years, but do not take it for granted.

Our robust governance system, which is based on best practice globally, has played a major role in this regard. Sound corporate governance is vital for the IDC’s success and, accordingly, the Board and management are committed to applying the principles and processes deemed necessary to ensure that good governance is practised in all of its dealings and other day-to-day operations.

Taking into consideration changing circumstances and the feedback received from stakeholders, we reviewed the Board Charter during the year. The emphasis was on avoiding and/or managing directors’ conflicts of interest, decision-making by consensus and voting mechanisms in instances where consensus is not possible, improved transparency, and refining the role of each Board Committee. The Directors’ Rotation Policy was altered to limit the participation of individual directors on the Board to a maximum of three terms of three years each.

We approved changes to the Directors’ Conflict of Interest Policy, which now prohibits directors from doing business with the IDC. On matters in which directors are regarded as being conflicted and in line with the requirements of the Public Finance Management Act (PFMA), it ensures that they are not provided with the respective Board documentation or participate in the relevant deliberations so as to safeguard objective decision-making.

In keeping with high levels of transparency, the Corporation is identifying appropriate forms of disclosing transactions, including those involving politically exposed persons.

In addition, and complementing the messaging already effected through our website and media releases, the IDC is making increased use of public announcement platforms, such as the Johannesburg Securities Exchange SENS system, for timely communication of important matters.

**ACKNOWLEDGEMENTS**

On behalf of the Board, I congratulate the Chief Executive Officer, Mr Geofffrey Qhena, his executive team, as well as the management and staff of the IDC for achieving admirable outcomes during a challenging year.

We thank Mr Brian Molefe, who retired during the year under review, for his contributions to the Board’s deliberations.

Our gratitude is also extended to the Minister of Economic Development, Mr Ebrahim Patel, the Economic Development Department under the leadership of Acting Director General Mr Malcolm Simpson, and to the members of the Portfolio Committee for Economic Development and the Select Committee on Economic and Business Development, for the invaluable guidance and support provided to the IDC in executing its important developmental mandate.

BA Mabuza
Board Chairperson
28 June 2017
VISION
To be the primary driving force of commercially sustainable industrial development and innovation for the benefit of South Africa and the rest of Africa.

MISSION
The Industrial Development Corporation is a national development finance institution whose primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens. The IDC achieves this by promoting entrepreneurship through the building of competitive industries and enterprises based on sound business principles.

OUR VALUES
Our day-to-day activities and business conduct are guided by our values

- PARTNERSHIP
- PROFESSIONALISM
- PASSION

OUR STRATEGY
INCREASE INDUSTRIAL DEVELOPMENT
- Be proactive and strategic in developing priority industries
- Align our funding activities with government’s economic, industrial and infrastructure policies
- Integrate industries across the continent
- Address the needs of SMMEs particularly through sefa

MAINTAIN FINANCIAL SUSTAINABILITY
- Manage concentration risk in our portfolio
- Diversify income sources in our portfolio
- Improve portfolio management

HUMAN, SOCIAL, AND NATURAL CAPITAL
HUMAN CAPITAL
- Enhance skills and capacity
- Entrench a culture of performance and development

STAKEHOLDERS
- Improve customer service
- Leverage other financiers
- Identify industry development opportunities through broader sectoral engagement
- Develop Black Industrialists and increase funding to women and youth entrepreneurs
- Contribute to policy development
- Build strong communities around IDC-funded projects

NATURAL ENVIRONMENT
- Improve IDC’s and industry’s environmental sustainability

UTILISATION OF RESOURCES
- Enhance efficiencies

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
The IDC has a local presence in all of South Africa’s nine provinces. Business activities in the rest of Africa are serviced from our head office in Sandton, South Africa.

Regional Offices
Satellite Offices
Head Office

Regional Offices

Satellite Offices

Head Office

Funding approved for the five years from 2013 to 2017
Jobs expected to be created and saved for the five years from 2013 to 2017

<table>
<thead>
<tr>
<th>Province</th>
<th>Total Exposure at Cost</th>
<th>Jobs Created</th>
<th>Total Exposure at Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Cape</td>
<td>R15.1 bn</td>
<td>5 890</td>
<td>R12.3 bn</td>
</tr>
<tr>
<td>North West</td>
<td>R12.0 bn</td>
<td>9 664</td>
<td>R6.4 bn</td>
</tr>
<tr>
<td>Limpopo</td>
<td>R9.3 bn</td>
<td>15 790</td>
<td>R9.2 bn</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>R3.2 bn</td>
<td>7 065</td>
<td>R3.2 bn</td>
</tr>
<tr>
<td>Gauteng</td>
<td>R18.5 bn</td>
<td>25 607</td>
<td>R18.2 bn</td>
</tr>
<tr>
<td>Free State</td>
<td>R0.6 bn</td>
<td>1 075</td>
<td>R0.6 bn</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>R5.7 bn</td>
<td>14 059</td>
<td>R3.7 bn</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>R5.3 bn</td>
<td>8 050</td>
<td>R4.2 bn</td>
</tr>
<tr>
<td>Western Cape</td>
<td>R6.7 bn</td>
<td>11 806</td>
<td>R4.6 bn</td>
</tr>
<tr>
<td>Outside South Africa</td>
<td>R2.6 bn</td>
<td>17 countries</td>
<td>R10.3 bn</td>
</tr>
</tbody>
</table>

Total exposure refers to the amount of loans and equity funding outstanding.
## OUR BUSINESS MODEL

### OUR RESOURCES

<table>
<thead>
<tr>
<th>CAPITAL</th>
<th>HOW THE RESOURCE IS USED TO ENABLE OUR BUSINESS MODEL</th>
</tr>
</thead>
</table>
| **FINANCIAL CAPITAL**    | • Dividends and capital profits from equity investments  
                            • Interest and capital repayments from loans provided  
                            • Borrowings  
                            • Funds managed on behalf of others  
                            • Extending new loans  
                            • Making new equity investments  
                            • Repaying borrowings  
                            • Covering operating expenses  
                            • Subsidising interest rates |
| **SOCIAL CAPITAL**       | • Network of entrepreneurs, clients and project partners  
                            • Government ties  
                            • Other funders and development partners  
                            • Sourcing transactions  
                            • Developing and co-invest in projects  
                            • Providing inputs to policy formulation  
                            • Leveraging our balance sheet to increase impact |
| **HUMAN CAPITAL**        | • Our employees  
                            • Assessing funding applications  
                            • Monitoring and managing our portfolio and all other aspects of our business |
| **INTELLECTUAL CAPITAL** | • Industry-specific and macro-economic research  
                            • Knowledge gained through our industry experience  
                            • Due-diligence, project development, credit-granting, and post-investment processes  
                            • Crafting strategies for the development of industries  
                            • Providing inputs to policy formulation  
                            • Allows us to identify and manage risk in the businesses that we fund |
| **MANUFACTURED CAPITAL** | • IT infrastructure and systems  
                            • Country-wide infrastructure  
                            • Improving our processes  
                            • Connecting with our stakeholders |

Note on natural capital: Although our own utilisation of natural resources is not material, it is important for industries that we develop and a key input for most of our clients.

### SUPPORT ACTIVITIES

<table>
<thead>
<tr>
<th>CATEGORY ACTIVITIES</th>
<th>ACTIVITIES DIRECTLY RELATED TO PROVISION OF FUNDING</th>
</tr>
</thead>
</table>
| Activities directly supporting the funding aspects of our business | • Assessing the viability of business plans  
                                                                          • Providing funding to potentially viable businesses  
                                                                          • Developing and funding industrial projects  
                                                                          • Sourcing partners for industrial projects |
| Activities supporting the development impact of our business | • Providing non-financial support to entrepreneurs  
                                                                          • Developing and managing specialised funding products to address specific development outcomes  
                                                                          • Undertaking industry and economic research  
                                                                          • Participating in government and private sector industry and economic development initiatives |
| Activities directly supporting the funding aspects of our business | • Sourcing and managing loans and other funds at the lowest possible cost to pass on these benefits to our clients  
                                                                          • Managing our portfolio of loans and investments to ensure that we collect payments, interest and dividends and exit from mature investments |
| Cross-cutting supporting activities | • Financial management  
                                                                          • Human capital management  
                                                                          • Information technology  
                                                                          • Strategy and continuous improvement  
                                                                          • Governance, compliance and legal  
                                                                          • Risk management  
                                                                          • Corporate affairs and marketing  
                                                                          • Procurement |

Icons represent areas of the IDC’s strategy that address the specific aspect. See page 6.
DEVELOPMENT OUTCOMES

INVESTMENT GENERATED

INVESTMENT FACILITATED
5 years: 2013-2017
R200 bn

JOBS CREATED AND SAVED

DIRECT AND INDIRECT JOBS IMPACT
5 years: 2013-2017
DIRECT
INDIRECT
TOTAL
99,006
245,000
344,006

INDUSTRY SECTORS SUPPORTED

SECTORAL DISTRIBUTION OF FUNDING APPROVALS
5 years: 2013-2017
51% Manufacturing
20% Electricity generation
18% Mining
9% Services
2% Agriculture

DEVELOPING RURAL AREAS

NUMBER OF DIRECT JOBS CREATED/SAVED IN RURAL AREAS
5 years: 2013-2017
32,155

ECONOMIC TRANSFORMATION

CUMULATIVE VALUE OF FUNDING FOR BLACK ECONOMIC EMPOWERMENT
R15 bn
BLACK-EMPOWERED
R16 bn
BLACK-OWNED
R4 bn
YOUTH-EMPOWERED
R8 bn
WOMEN-EMPOWERED

FINANCIAL OUTCOMES

2017
TOTAL ASSETS
R130 bn
NET PROFIT AFTER TAX
R8 bn

INFORM INDUSTRIAL POLICY

INDUSTRIAL POLICY RELATED OUTPUTS (2017)
• Industry research completed on, inter alia, automotive components, fertilisers, energy storage, yellow metal, medical devices, and nanotechnology
• Participation in Agriculture, Land Reform and Rural Development Operation Phakisa
• Contribution to the Steel Industry Task Team
• Participation in Poultry Industry Task Team

OUTPUTS

FUNDING PROVIDED

CUMULATIVE VALUE APPROVED
5 years: 2013-2017
R68 bn

DISBURSEMENTS
5 years: 2013-2017
R59 bn

TRANSACTIONS APPROVED

NUMBER OF APPROVALS
5 years: 2013-2017
1,001

EMPLOYEES TRAINED

TRAINING COST AS A % OF STAFF COST
2017
2.0%

FUNDING RAISED

VALUE OF BORROWINGS RAISED
5 years: 2013-2017
R44 bn

See overleaf for our Key Risks
## KEY RISKS

<table>
<thead>
<tr>
<th>RISK</th>
<th>RISK MITIGANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MACRO-ECONOMIC CONDITIONS</strong>&lt;br&gt;Macro-economic conditions impacting the IDC’s business, including weak domestic and/or export demand and overall fixed investment activity, as well as potential downgrades to South Africa’s credit rating.</td>
<td>This risk is monitored through regular analysis of economic, political and legal events and assessment of potential implications with resultant interventions.</td>
</tr>
<tr>
<td><strong>CREDIT RATINGS DOWNGRADES</strong>&lt;br&gt;Potential credit ratings downgrades on SA’s sovereign and IDC’s credit rating.</td>
<td>The IDC’s rating is to a large extent determined by the sovereign rating. Interventions are introduced to manage some of the impact of ratings downgrades. Regular scenario planning, contingency funding and liquidity plans are in place.</td>
</tr>
<tr>
<td><strong>CARBON TAXES PAID BY IDC’S SUBSIDIARIES AND ASSOCIATES</strong>&lt;br&gt;The high impact of the cost of carbon taxes payable by IDC subsidiaries and associates on its financial sustainability.</td>
<td>Carbon Tax Management Strategy for the IDC as well as at material subsidiaries and associates.</td>
</tr>
<tr>
<td><strong>WATER SECURITY IMPACTING IDC CLIENTS/INVESTMENTS</strong>&lt;br&gt;Non-availability of water.</td>
<td>Special drought relief funding introduced in conjunction with the Land Bank to clients affected by the unavailability of water.</td>
</tr>
<tr>
<td><strong>DEBT AND EQUITY PRICING</strong>&lt;br&gt;Inadequate/inappropriate debt and equity pricing of facilities provided to IDC clients impacting negatively on IDC’s financial sustainability.</td>
<td>Development and implementation of robust pricing models for equity and debt transactions. Monitoring and enhancement of our sources of funding.</td>
</tr>
<tr>
<td><strong>COMMODITY MARKETS RISK</strong>&lt;br&gt;A slump in commodity prices and volume demand can have a negative effect on IDC portfolio and financial sustainability.</td>
<td>Continuous portfolio monitoring and management. Monitoring of exposure to commodities.</td>
</tr>
<tr>
<td><strong>PROACTIVE NEW BUSINESS GENERATION</strong>&lt;br&gt;The inability to proactively source new business.</td>
<td>Continuous training and execution of proactive industry development strategies. Targeted and regular engagement with our existing and potential business partners or stakeholders.</td>
</tr>
<tr>
<td><strong>CREDIT RISK</strong>&lt;br&gt;Non-payment by the IDC’s business partners and non-recoverability of investments.</td>
<td>This is managed through quarterly Investment Monitoring Committee meetings, which ensure that appropriate intervention strategies are in place to monitor the risk. A well-defined Credit and Investment Policy, together with an approved delegation of authority policy, is in place for the approval of transactions.</td>
</tr>
<tr>
<td><strong>WINNING ORGANISATIONAL CULTURE</strong>&lt;br&gt;Culture, behaviour, values and change in mind-set not being aligned to deliver on mandate and strategy.</td>
<td>This is mitigated by implementing a culture transformation initiative, conducting cultural awareness sessions and ongoing employee engagement. An approved process of achieving the desired culture, behaviour and values is monitored by executive management and the Board.</td>
</tr>
<tr>
<td><strong>HUMAN CAPITAL CAPACITY</strong>&lt;br&gt;Not having adequate human capital resources to deliver on the IDC’s strategy.</td>
<td>The risk is mitigated by retention strategies, i.e. competitive remuneration and total reward offering. Focusing on employee education and training as well as study assistance packages for personal development.</td>
</tr>
<tr>
<td><strong>STAKEHOLDER EXPECTATIONS RISK</strong>&lt;br&gt;The IDC not responding to stakeholder needs.</td>
<td>Execution of the Stakeholder Engagement Strategy. Regular and formalised engagement with key stakeholders.</td>
</tr>
<tr>
<td><strong>SUBSIDIARY DELIVERY AND PERFORMANCE RISK</strong>&lt;br&gt;The viability of subsidiaries and their ability to deliver effectively.</td>
<td>Board representation on key subsidiaries. Subsidiaries’ performance is monitored on an ongoing basis by both the IDC and the Board.</td>
</tr>
<tr>
<td>RISK</td>
<td>RISK MITIGANTS</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>BUSINESS CONTINUITY RISK</td>
<td>Adverse events that impact the organisation’s ability to operate/resume operations following a major business disruption.</td>
</tr>
<tr>
<td></td>
<td>The introduction of Black Industrialist preferential pricing schemes and business support. Active participation and representation on the Black Industrialists programme through the dti.</td>
</tr>
<tr>
<td>HIGHLY VOLATILE LISTED SHARE PORTFOLIO</td>
<td>The value of IDC’s listed investments declining.</td>
</tr>
<tr>
<td></td>
<td>The introduction of corrective relevant actions to manage the risk as well as a long-term diversification strategy to reduce the volatility of the portfolio.</td>
</tr>
<tr>
<td>INDUSTRIAL ACTION</td>
<td>Labour market volatility at investee companies.</td>
</tr>
<tr>
<td></td>
<td>This risk is mitigated principally by labour relations training for staff at investee companies and active workplace forums. Compliance with labour regulations by our investee companies.</td>
</tr>
<tr>
<td>IT SECURITY RISK</td>
<td>Unauthorised access to electronic information could lead to information being compromised.</td>
</tr>
<tr>
<td></td>
<td>Firewalls and antivirus software are amongst the mitigants for this risk. Regular testing of our systems to prevent access by unauthorised users.</td>
</tr>
<tr>
<td>NON-COMPLIANCE WITH HEALTH AND SAFETY</td>
<td>Non-compliance with health and safety regulations of clients.</td>
</tr>
<tr>
<td>REGULATIONS OF IDC INVESTEES COMPANIES</td>
<td>Environmental health and safety audits at inception and during the life of the investment.</td>
</tr>
<tr>
<td>AND BUSINESS PARTNERS</td>
<td>Competition law compliance training for relevant units.</td>
</tr>
<tr>
<td></td>
<td>Legal due-diligence is conducted on all transactions prior to approval.</td>
</tr>
<tr>
<td>COMPETITION ACT ISSUES</td>
<td>Prohibited practices: The abuse of dominance, horizontal agreements, vertical agreements as well as behaviour resulting in the lessening of competition in the market. Merger control: notification of notifiable transactions to competition authorities.</td>
</tr>
<tr>
<td></td>
<td>Competition law compliance training for relevant units.</td>
</tr>
<tr>
<td></td>
<td>Legal due-diligence is conducted on all transactions prior to approval.</td>
</tr>
<tr>
<td>BUSINESS CONTINUITY RISK</td>
<td>Adverse events that impact the organisation’s ability to operate/resume operations following a major business disruption.</td>
</tr>
<tr>
<td></td>
<td>This risk is allayed by having the necessary business continuity plans in place and by ongoing disaster recovery plan testing.</td>
</tr>
<tr>
<td>LEGAL AND REGULATORY COMPLIANCE RESULTING</td>
<td>The IDC not meeting its legal and regulatory requirements across the various industries and countries of operation.</td>
</tr>
<tr>
<td>IN FINES (LOCAL AND FOREIGN)</td>
<td>Some of the key controls in place to mitigate this risk include the Legal department’s systems and monitoring procedures as well as a compliance manual and policies. An independent and adequately resourced Compliance department is in place.</td>
</tr>
<tr>
<td>ETHICAL CONDUCT AND BEHAVIOUR</td>
<td>Consists of all forms of internally and externally conducted theft or fraudulent activities including unethical business practices and behaviour.</td>
</tr>
<tr>
<td></td>
<td>This risk is alleviated by internal controls, fraud and ethics awareness training as well as the activities of the Governance and Ethics Committee, amongst others. All incidences of fraud and unethical behaviour are investigated independently.</td>
</tr>
<tr>
<td>THE MATURITY OF THE IDC’S RISK MANAGEMENT</td>
<td>A lack of a well-defined and fit-for-purpose risk management strategy by the IDC.</td>
</tr>
<tr>
<td>ARCHITECTURE</td>
<td>This risk is mitigated by having Board-approved risk governance structures and committees, a combined assurance approach to the management of risk. A “three lines of defence” risk management framework is in place with independent Internal Audit, Risk Management and Compliance departments.</td>
</tr>
<tr>
<td>ELECTRICITY SUPPLY</td>
<td>The risk presented to the IDC’s investments as a result of unreliable electricity supply.</td>
</tr>
<tr>
<td></td>
<td>This risk is mitigated by offering Green Energy Efficiency Funding to our intensive energy users. Active participation and funding of renewable energy transactions are maintained.</td>
</tr>
</tbody>
</table>

- **High risk**
- **Medium risk**
- **Low risk**
MAKING TRADE-OFFS

In an environment where various forms of capital are scarce there are many competing needs from multiple stakeholders. To create value for our shareholder, trade-offs are made. This requires us to proactively make tough decisions to allocate resources effectively to the strategic focus areas that will deliver the most value in the long term.

The primary trade-offs that are made and the respective rationales are presented below.

<table>
<thead>
<tr>
<th>Trade-off</th>
<th>Strategic focus area</th>
<th>Material matter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade-off between short-term goals and long-term industrial development</strong></td>
<td>Increase Industrial Development</td>
<td>Financial Sustainability</td>
</tr>
<tr>
<td>Project Evolve requires the IDC to be more proactive in the development of industries and the associated value chains. The IDC endeavours to optimise resources between achieving short-term goals and investing in activities that will have an impact in the long term.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Trade-off between developmental and financial returns**

The cost of the IDC’s funding can be excessive for some clients, which affects IDC’s developmental impact. This necessitates a customised pricing model that takes into account the potential development impact of a transaction and foregoes higher financial returns.

In addition, the IDC deliberately assists businesses that are facing challenges to ensure their long-term sustainability. The focus on development targets and those industries where the economy needs to be competitive can result in lower levels of recoveries and losses if the interventions to improve businesses fail to have the desired effect.

**Trade-off between capital- and labour-intensive industries**

The IDC is targeting job creation to alleviate unemployment. It needs to balance investment in more capital-intensive industries that do not create many direct jobs, but have the potential to unlock downstream economic activity and increase competitiveness. This will result in investment in downstream businesses that create jobs, often at a lower cost, but that do not always have a catalytic impact on industrial or value chain development.

SELECTED PERFORMANCE INDICATORS

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018 projected</th>
<th>Base</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Development impact</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of funding disbursed (R’bn)</td>
<td>14.5</td>
<td>18.5</td>
<td></td>
</tr>
<tr>
<td>Total value of funding approved – with agreement signed (R’bn)</td>
<td>13.4</td>
<td>178</td>
<td></td>
</tr>
<tr>
<td>Funding to Black Industrialists – value of funding with an agreement signed (R’bn)</td>
<td>4.9</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>Funding to women-empowered businesses – value of funding with an agreement signed (R’bn)</td>
<td>1.2</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Funding to youth-empowered businesses – value of funding with an agreement signed (R’bn)</td>
<td>0.8</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Funding in support of government localisation initiatives – value of funding with an agreement signed (R’bn)</td>
<td>4.4</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>Expected direct jobs created and saved – at signature of agreement (number)</td>
<td>23 951</td>
<td>29 488</td>
<td></td>
</tr>
<tr>
<td><strong>Financial and efficiency indicators</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairments as a percentage of the portfolio at cost (%)</td>
<td>18.4</td>
<td>16.4</td>
<td></td>
</tr>
<tr>
<td>Net interest, dividends, fees and money market income as a percentage of total assets (%)</td>
<td>3.9</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td>Growth in reserves (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yield on LT government bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yield on LT government bonds + 2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subsidiaries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>sefa – Performance rating (Rating between 1-5)</td>
<td>3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Scaw – Operating profits/(losses) (R’m)</td>
<td>(97)</td>
<td>(87)</td>
<td></td>
</tr>
<tr>
<td>Foskor – Operating profits/(losses) (R’m)</td>
<td>(216)</td>
<td>(194)</td>
<td></td>
</tr>
</tbody>
</table>
**OUR STRATEGY**

The IDC’s strategy is focused on the need to maximise development impact through jobs-rich industrialisation and competitiveness improvements, achieving other development outcomes, and ensuring the long-term sustainability of the Corporation by addressing specific issues related to financial capital, our human capital, stakeholders, the natural environment and by increasing the efficient use of resources.

Our strategy development is a continuous process with a formal annual review. These reviews take into account changes in the operating environment and are guided by robust discussions by the Board, executive management as well as other senior management. Strategies targeting specific industries and functional areas are developed with inputs from experts in their respective fields throughout the Corporation.

Details of the pillars of our strategy and how they address different aspects of our business model can be seen on page 6 of this report.

**PROJECT EVOLVE**

To enhance certain aspects of our strategy, as from April 2015, we implemented a project to prioritise industries so as to ensure that we increase our effectiveness and maximise our impact on the economy. The selection of these priority industries was based on assessments of South Africa’s current and long-term growth potential, our ability to make a meaningful impact, and their alignment to government priorities. Three value chains were identified where our proactive support could make the largest impact on direct and indirect job creation through increased competitiveness, the development of downstream industries and higher levels of exports – especially into markets in the rest of Africa.

In addition, we are assuming a greater role in proactively nurturing and developing industries that might not currently play a significant part in the South African economy, but have the potential for growth in the future. New sectors that derive their strength from innovation, science and technology are particularly important. Another priority area aims to address the negative impact that the infrastructure backlog has on the development of industry. We are targeting infrastructure projects that can unlock industrial development.

Projects in the rest of Africa are supported where they benefit South African industry through procurements from local businesses, local ownership, or forming part of a regional value chain.

Project Evolve also identified opportunities to increase the IDC’s operational efficiencies and effectiveness.

<table>
<thead>
<tr>
<th>Indicator Base</th>
<th>Target</th>
<th>Actual</th>
<th>Base</th>
<th>Actual</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of funding disbursed (R’bn)</td>
<td>11.0</td>
<td>14.5</td>
<td>11.0</td>
<td>11.9</td>
<td>11.4</td>
</tr>
<tr>
<td>Total value of funding approved – with agreement signed (R’bn)</td>
<td>16.5</td>
<td>13.4</td>
<td>17.8</td>
<td>13.7</td>
<td>10.8</td>
</tr>
<tr>
<td>Funding to Black Industrialists – value of funding with an agreement signed (R’bn)</td>
<td>4.9</td>
<td>4.9</td>
<td>4.9</td>
<td>2.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Funding to women-empowered businesses – value of funding with an agreement signed (R’bn)</td>
<td>3.3</td>
<td>1.2</td>
<td>3.3</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Funding to youth-empowered businesses – value of funding with an agreement signed (R’bn)</td>
<td>1.7</td>
<td>0.8</td>
<td>1.7</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Funding in support of government localisation initiatives – value of funding with an agreement signed (R’bn)</td>
<td>4.8</td>
<td>4.4</td>
<td>4.8</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Expected direct jobs created and saved – at signature of agreement (number)</td>
<td>20 000</td>
<td>23</td>
<td>951</td>
<td>20 000</td>
<td>18 010</td>
</tr>
</tbody>
</table>

**Financial and efficiency indicators**

<table>
<thead>
<tr>
<th>Indicator Base</th>
<th>Target</th>
<th>Actual</th>
<th>Base</th>
<th>Actual</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairments as a percentage of the portfolio at cost (%)</td>
<td>18.4</td>
<td>16.4</td>
<td>16.7</td>
<td>17.9</td>
<td>15.5</td>
</tr>
<tr>
<td>Net interest, dividends, fees and money market income as a percentage of total assets (%)</td>
<td>3.9</td>
<td>4.4</td>
<td>4.1</td>
<td>4.7</td>
<td>4.8</td>
</tr>
</tbody>
</table>

**Subsidiaries**

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Performance rating (Rating between 1-5)</th>
<th>Actual</th>
<th>Base</th>
<th>Actual</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>sefa</td>
<td>3.2</td>
<td>![](137</td>
<td>542</td>
<td>17)</td>
<td>![](137</td>
</tr>
<tr>
<td>Scaw</td>
<td>(787)</td>
<td>3.1</td>
<td>![](137</td>
<td>542</td>
<td>17)</td>
</tr>
<tr>
<td>Foskor</td>
<td>(902)</td>
<td>3.1</td>
<td>![](137</td>
<td>542</td>
<td>17)</td>
</tr>
</tbody>
</table>
PRINCIPAL OBJECTIVE AND DEVELOPMENT OUTCOMES

The funding that we provide to businesses is directed at increasing investment in industrial sectors. Our investments are aimed at expanding capacity in productive sectors, enhancing value addition to raw materials, improving the competitiveness of industries, increasing exports and import replacement, and integrating value chains across borders.

It is through these investments and the resulting enhancements to industry, that development outcomes that deal with the socio-economic issues facing the country are addressed.

PRINCIPAL OBJECTIVE

• Lead industrial capacity development

DEVELOPMENT OUTCOMES

• Facilitation of decent sustainable direct and indirect jobs
• Development of Black Industrialists and support for women and youth entrepreneurs
• Increased development in poorer areas and higher integration of regional economies
• Promotion of entrepreneurship and small and medium enterprise (SME) growth
• Advancement of environmentally sustainable growth
• Increased sector diversity and localised production
• Support for the transformation of communities

OPERATIONAL STRUCTURE

The Corporation consists of 11 divisions, each headed by a Divisional Executive reporting to the Chief Executive Officer (CEO).

Four of these divisions are directly involved in transactions, performing due-diligences on businesses applying for funding and developing projects. These divisions consist of individual units focusing on specific value chains and industries, with applications and projects pertaining to a specific industry being handled in the relevant unit. This approach allows the units to specialise and build industry expertise.

These operational units are supported by four divisions that provide support in terms of:
• The legal aspects of transactions
• Assisting with business turnarounds

• Strategy formulation
• Supporting targeted groups of entrepreneurs
• Assessing internal and external risks.

Other corporate support functions such as ensuring compliance, providing secretarial services, IT services, risk management and others are also performed in these divisions.

Three divisions provide administration and support functions related to finance and funding, corporate affairs and human capital, with the internal audit function reporting operationally to the CEO.

Our funding for Fair Price Furnishers, with its 100% black ownership, supported the company to increase its capacity. Fair Price Furnishers manufactures a range of furniture products for low-to-middle-income groups. IDC’s funding enabled the company to purchase plant and equipment to expand its operation in Brits, North West. The funding created 183 jobs.
**MATERIAL MATTERS**

**INTRODUCTION**
Our definition of materiality with regard to integrated reporting and the process followed for determining material issues, are based on the published guidelines of the IIRC. These take into account our strategic intent and operating context as a state-owned enterprise (SOE), as well as the guidelines of the International Federation of Accountants (IFAC) and the Global Reporting Initiative (GRI).

Our executive management is responsible for managing the material issues in a structured way and ensures that the list remains current and relevant. The Board Audit Committee (BAC) validates the list of material issues.

**OUR DEFINITION OF MATERIALITY**
We consider a matter to be material if it supports our strategic goals as a state-owned development finance institution and has the potential to substantially affect our ability to create and sustain value in the short, medium and long term.

**CREATING VALUE**
As a key implementer of relevant government policies, we support our shareholder, the State, through its shareholder representative, the Minister of Economic Development, in achieving our mandate and delivering on our goals.

**OUR MATERIALITY DETERMINATION PROCESS**
A range of external and internal influences is taken into account, and a matter is considered to be relevant if it is deemed worthy to the appropriate stakeholders, if it links to significant risks confronting the IDC, or if it lies at the heart of our strategies. Issues that could substantially impact our ability to create financial value and deliver development returns over time are also considered to be material.

In addition to stakeholder consultations and engagements, we conduct research into industry best practice and the reporting themes and practices of our contemporaries. The process ends with a validation of the outcomes and confirmation of compliance with the requirements of the relevant frameworks.

We rely on existing, ongoing engagement mechanisms with stakeholders to gather feedback for our integrated report content.

The 11 material issues identified in 2013 were merged into five during 2015. These were revisited during the year under review to test their continued relevance. A revised list of seven material issues emerged from this process and these are introduced in this report.

**STRATEGY**
Strategic priorities for the year are identified during Board strategy and business planning sessions. The strategic imperatives rest on our strategic pillars.

**KEY RISKS**
Top risks are identified and evaluated in terms of magnitude and likelihood. Issues that could substantially affect value creation are identified and linked to strategy, governance, performance and prospects. Our risk management process and key risks are outlined on pages 10, 11 and 64 of this report.

**STAKEHOLDERS**
Key to the process of determining our material issues is an in-depth understanding of our stakeholders and the information they require to evaluate our performance.

The issues identified by stakeholders are prioritised on the basis of their significance in terms of our economic, environmental and social impacts. The issues with the highest priority are the material issues, which we judge necessary to report.

**STAKEHOLDER ENGAGEMENT OBJECTIVES**
Our Stakeholder Engagement Policy recognises the following objectives:
- To identify, focus on and deepen stakeholder relationships
- To create a better understanding of stakeholder needs, leading to positive stakeholder perceptions
- To influence the social, economic and environmental policy framework within which the IDC operates to enable industrial development
- To increase engagement with sector players for better coordination of opportunities and programmes
- To improve our understanding of customer needs, leading to enhanced customer experience
- To improve communication channels
- To interact with stakeholders, to anticipate changes and challenges in the environment in which the Corporation operates, thereby optimising opportunities and minimising risk
- To entrench the IDC brand
- To enhance the delivery of our strategic objectives and projects.

**MATERIALITY FILTER**
Issues emerging from three elements, namely our stakeholders, our strategy, and the key risks faced by our organisation, are evaluated in terms of probability and potential impact on our ability to create value.

**STAKEHOLDER UNIVERSE**
Our stakeholders are ranked in terms of two parameters: our potential impact on the stakeholder, and the stakeholder’s influence on the IDC. Where stakeholders rank high in both these areas, there is a high level of interdependence between us and the stakeholder. These stakeholders are therefore considered the most important and their requirements are prioritised.

The stakeholders with the highest levels of influence and dependence are government structures involved with industrial policy and economic development, lenders, our employees, and our clients and project partners as shown in the top right sector in the figure on page 17. Government exerts a strong influence on our strategic direction as it determines the country’s broader policy direction and, in some instances, set policy which directly impacts on us. As a key implementer of some of these policies, the IDC also has a large impact on these government structures.
This is because the success of these policies – and by implication their performance, and government’s ability to deliver on its goals – are dependent on our performance in these areas. We also rely on government to create an enabling environment that is conducive to investment and economic growth to help facilitate our role as a Development Finance Institution (DFI) involved in industrial development.

We depend on other domestic and foreign financial institutions to raise capital required for our investment activities. Simultaneously, we have a high impact on these lenders as they depend on us to honour our financial commitments to them.

Without our human capital we cannot mobilise financial capital. We rely on our people in all aspects of our operations. Our people’s fortunes are also closely tied to those of the Corporation as they rely on the IDC to remunerate them fairly, ensure that their skills remain relevant and provide them with opportunities to develop and grow.

We rely on project partners and clients for the implementation and successful running of projects to ensure that we can achieve our goal of industrial capacity development and the development outcomes we pursue.

Project partners rely on us for funding and long-term support to ensure the success of projects.

The second tier of stakeholders are those that rank “high” on one of the axes in the diagram and “medium” on the other axis. These include potential IDC clients, communities around IDC-funded projects, IDC subsidiaries, provincial government, and regulators, including National Treasury.

Top risks and strategic priorities are mapped to the material issues of stakeholders and the most significant issues that emerge from the three perspectives are clustered.

**EVALUATION AND PRIORITISATION OF MATERIAL MATTERS**

Material matters are identified by reviewing Board submissions, quarterly reports to the shareholder, our operating environment, risk management processes and findings, and stakeholder issues. Our material issues were prioritised by assessing the impact of delivering on our strategy and risk metrics in the context of our strategy.

We respond by:
- Assessing the impact on risk tolerance and risk appetite
- Actioning activities to manage material matters
- Evaluating scenarios.

We report outcomes to the Board and stakeholders and we review and monitor our performance on these issues.

### Stakeholder prioritisation

- **High**
  - Rating agencies
  - Regulators
  - Government departments not mentioned elsewhere in the table with an interest in the sectors that IDC funds
  - National Treasury
  - Mature listed investments where IDC has a low shareholding
  - Department of Small Business Development (sefa)
  - Economic Development Department (EDD)
  - The Department of Trade and Industry (the dti)
  - Portfolio Committee on Economic Development and Select Committee on Economic and Business Development
  - Employees
  - Strategic project partners
  - Lenders (bondholders, commercial banks, DFIs, PIC, UIF)
  - Existing and potential clients

- **Medium**
  - Media
  - Government departments not mentioned elsewhere in the table
  - Banks and other financial services providers
  - Governments of African countries other than South Africa
  - Business associations
  - Organised labour
  - SOEs
  - The unemployed
  - Broader communities around IDC-funded projects
  - IDC’s subsidiaries
  - Provincial governments

- **Low**
  - Former employees
  - Potential employees
  - Higher education institutions
  - Activist bodies
  - Suppliers

**IDC’s impact on the stakeholder (interest)**
## Stakeholder Engagement

The table below summarises our engagements with key stakeholders, their expectations from us, and our responses to their concerns.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>How we engage with them</th>
<th>What matters to them</th>
<th>How we respond to matters</th>
<th>The impact of our actions</th>
<th>Link to material issues</th>
</tr>
</thead>
</table>
| Employees    | • Combination of face-to-face, written, electronic and print communication  
• Employee engagement surveys and focus group meetings  
• Quarterly CEO engagement sessions  
• Divisional Executive feedback sessions  
• Regular line manager meetings  
• Team effectiveness sessions | • Making a difference  
• Transparent communication  
• Information on IDC’s strategy and their role in its implementation  
• Work/life balance and a conducive working environment  
• Market-related remuneration and benefits  
• Personal development and career advancement | • Regular employee information sharing sessions  
• Annual Star Awards to recognise top performers  
• Market-related employee benefits, rewards and recognition  
• Learning and development opportunities  
• Leadership assessments  
• Regular performance assessments | • Defined culture, vision and transformation journey, focusing on customer-centricity  
• Improved employee engagement  
• Talent management through improved skills and capacitation  
• Certification as a Top Employer | • Customer expectations  
• Governance regulation and risk management  
• Human capital  
• Financial sustainability |
| Economic Development Department | • Ongoing and an annual strategic meeting with Minister of EDD and IDC Board  
• Ongoing and quarterly meetings with the Director-General and other officials  
• Meetings between IDC employees and EDD officials | • Increased levels of industrial financing, especially for women, youth and Black Industrialists  
• Job creation through beneficiation, regional development and labour-rich sectors of the economy  
• Proactively identifying investment opportunities across value chains  
• Assistance in policy research and coordination of projects (including PICC)  
• Compliance to Public Finance Management Act (PFMA) and good governance  
• Alignment to National Growth Path (NGP), Industrial Policy Action Plan (IPAP) and National Development Plan (NDP) | • Increased marketing to women, youth and Black Industrialists through CEO regional roadshows and Youth conference  
• Funding for local suppliers to the government infrastructure programme  
• Support for PICC and collaboration with government on its Strategic Integrated Projects (SIP 5 & 8)  
• Proactively identifying funding opportunities  
• Contributing to the formulation and implementation of policies | • Increased levels of industrial financing  
• Increased impact on development outcomes  
• Balancing proactive funding, whilst keeping funding competitive  
• Managing the IDC’s balance sheet for responsible lending  
• Improved understanding of the IDC’s mandate and subsequent impact | • Industrial development  
• Socio-economic development  
• Financial sustainability  
• Partners |
| Potential and existing clients/project partners | • Various media platforms including print, radio, TV and online (email, website)  
• Meetings, interactions through sectoral/industry bodies  
• Written correspondence such as information mailers and financial statements  
• Annual and interim customer surveys  
• Client site visits to showcase the IDC’s impact  
• Media briefings and press releases | • A clear and easy to understand application process  
• Upfront communication of the application/information requirements  
• Prompt responses to queries/requests/service issues  
• Timely and effective evaluation of funding applications  
• Regular updates and communication on the application process | • Monitoring client performance  
• Organisation-wide customer-centricity training  
• Customer service excellence employee recognition  
• Streamlining application processes  
• Dedicated email address to report service issues  
• Secondments, participation in Annual General Meetings (AGMs), Board representivity | • Simplified and streamlined application process  
• Increased focus on turnaround times  
• Improved customer service  
• Improved levels of communication  
• Strengthened influencer role  
• Proactive industry development  
• Opinion pieces by industry experts | • Customer expectations  
• Industrial development  
• Socio-economic development  
• Financial sustainability |
<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>How we engage with them</th>
<th>What matters to them</th>
<th>How we respond to matters</th>
<th>The impact of our actions</th>
<th>Link to material issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>National, Provincial and Local Government</td>
<td>• Meetings with relevant portfolio and select committees&lt;br&gt;• Meetings between IDC employees and government officials&lt;br&gt;• Stakeholder perception survey&lt;br&gt;• Interviews with industry experts</td>
<td>• Development of rural areas and townships&lt;br&gt;• Broad-based black economic empowerment&lt;br&gt;• Opportunities for women, youth and Black Industrialists&lt;br&gt;• Development of SMMEs&lt;br&gt;• Assistance with projects related to industrial development</td>
<td>• Proactively identifying projects in poor provinces and townships&lt;br&gt;• Expansionary Black Economic Empowerment (BEE)&lt;br&gt;• Skills development initiatives for youth and women cooperatives&lt;br&gt;• Leveraging relationships with provincial, local and rural development bodies</td>
<td>• Local economic and rural development&lt;br&gt;• Increased job creation&lt;br&gt;• Expanding industrialisation to less-industrialised regions&lt;br&gt;• Improved accuracy of reporting on IDC</td>
<td>• Socio economic development&lt;br&gt;• Industrial development&lt;br&gt;• Partners&lt;br&gt;• Financial sustainability</td>
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<td>Commercial Banks, DFIs and Rating Agencies</td>
<td>• Due-diligences&lt;br&gt;• Annual ratings review&lt;br&gt;• Stakeholder perception survey&lt;br&gt;• Interviews with industry experts</td>
<td>• Good governance&lt;br&gt;• Financial sustainability and liquidity&lt;br&gt;• Satisfactory levels of debt&lt;br&gt;• Viable strategy</td>
<td>• Compliance to systems and procedures&lt;br&gt;• Prudent management of IDC finances&lt;br&gt;• Instilling a culture of governance and ethics amongst employees&lt;br&gt;• Transparent presentation of financial results</td>
<td>• Financial sustainability, enabling IDC to honour its financial commitments&lt;br&gt;• Strong governance structures</td>
<td>• Governance regulation and risk management&lt;br&gt;• Financial sustainability&lt;br&gt;• Partners</td>
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<td>Broader community impacted by IDC-funded projects</td>
<td>• Meetings with community leaders and traditional authorities&lt;br&gt;• Local Economic Development (LED) Forums&lt;br&gt;• Meetings with the Department of Rural Development and Land Reform&lt;br&gt;• Stakeholder perception survey&lt;br&gt;• CEO regional roadshows&lt;br&gt;• Various media platforms, segmented for specific target audiences</td>
<td>• Sustainable socio-economic development&lt;br&gt;• Responsible utilisation of community land and other assets&lt;br&gt;• Community participation&lt;br&gt;• Assistance in forming, registering and managing community trusts and cooperatives&lt;br&gt;• Corporate Social Investment initiatives&lt;br&gt;• Empowering local people&lt;br&gt;• Transformation&lt;br&gt;• Factual and transparent information&lt;br&gt;• Timeous feedback</td>
<td>• Undertaking LED initiatives&lt;br&gt;• Appointment of specialists and consultants&lt;br&gt;• Establishing and registering community trusts and providing relevant training&lt;br&gt;• Compiling socio-economic needs assessments&lt;br&gt;• Community engagements&lt;br&gt;• Showcasing IDC’s impact through client case studies on regional and national media platforms</td>
<td>• Job creation&lt;br&gt;• Township development&lt;br&gt;• Productive utilisation of community land and other assets&lt;br&gt;• Improved skills and increased community participation&lt;br&gt;• Successful CSI initiatives&lt;br&gt;• Empowered local people&lt;br&gt;• Progress towards transformation of the rural economy&lt;br&gt;• Enhanced reputation&lt;br&gt;• Improved understanding of IDC’s mandate and impact</td>
<td>• Socio-economic development&lt;br&gt;• Financial sustainability&lt;br&gt;• Partners&lt;br&gt;• Governance, regulation and risk management&lt;br&gt;• Industrial development</td>
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MATERIAL MATTERS (continued)

MATERIAL ISSUES
Based on the above analysis, it has become clear that except for some details of what is expected from the IDC, the expectations of stakeholders have not changed significantly over the past number of years. Our material issues remain very similar to the previous year, with the issues relating to partnerships expanded:

- Industrial development
- Socio-economic development
- Customer expectations
- Human capital
- Partners
- Governance, regulation and risk management
- Financial sustainability.

CONTEXTUALISATION OF MATERIAL MATTERS

Industrial development
We execute our mandate of industrial development in accordance with relevant legislation and government policy. As a main implementing agent of government policies such as the New Growth Path, the Industrial Policy Action Plan, and the National Development Plan, we make every effort to intensify our investment activities in those sectors in which we are active.

Socio-economic development
As a DFI, our funding directly influences certain socio-economic development outcomes and assists with South Africa achieving its Sustainable Development Goals and the transition to a low carbon economy. We participate in relevant forums and platforms to assist with this.

Customer expectations
Our clients expect to be provided with customised products and services, and to deal with knowledgeable and professional staff. We therefore continuously revise our products and simplify processes in order to improve the fit of products with customer needs, respond to requests timely, and improve communication.

The IDC conducts annual customer satisfaction surveys amongst its existing clients to keep abreast of needs and expectations. The findings enable the Corporation to have a full view and understanding of the customer experience through the application and after-care journey. One of the conclusions of the survey is that respondents rate the IDC’s “overall service experience” as 7.9 on a scale of 1-10, which is an indicator of the customer’s overall satisfaction level with regard to the IDC’s service delivery.* More details and conclusions from the survey can be found on the IDC online website.

Human capital
The Corporation fosters a high-performance culture with an emphasis on change and innovation. Transformation and diversity are cornerstones of our human capital strategy. We endeavour to offer appropriate rewards and recognition, work satisfaction, and a good working environment. Whilst we strive to attract and retain appropriately qualified, skilled and experienced employees, our employees expect commitment to mandate, a stable and predictable work environment and an engaged and supportive leadership.

Partners
Our project partners, associates, subsidiaries and other business partners expect us to remain financially stable, operationally independent and to employ transparent processes and uphold governance principles. Successful collaboration calls for investments in time and effort to sustain relationships. The IDC plays a critical role in the structuring of projects to crowd-in private capital.

Governance, regulation and risk management
Our Board of Directors leads ethically and effectively. We subscribe to the principles of good governance as provided for in the King III Report. Transparency is of the utmost importance and we strive to maintain effective governance at all times, including in our dealings with stakeholders. We comply with the provisions of the PFMA and the Treasury Regulations as are applicable to schedule 2 entities. Systems and processes are regularly updated and we keep and update registers relating to conflicts of interest, risk management and fraud prevention.

Financial sustainability
As a financially sustainable SOE, we use our balance sheet and the ability to leverage on equity to achieve our objectives. Since our primary objective is developmental return, we make choices based on various factors including risks, the capital structure and financing structures.

* The following clients are excluded from the survey: international clients, clients undergoing legal action as well as those who are undergoing restructuring. Some of these clients are however included in the short-term quarterly survey.

Links between material matters and strategic pillars

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CASE STUDY

OILTANKING MOGS SALDANHA

We are partnering with project oil company, Oiltanking MOGS Saldanha (OTMS), to fund the construction of the first phase of an open access commercial crude oil blending and storage terminal adjacent to the Port of Saldanha in the Western Cape.

Direct Jobs

720

OTMS was formed by a German-based company, Oiltanking GmbH, and a B-BBEE company, MOGS. MOGS was established in 2007 and focuses on providing various products and services to the mining, oil and gas services industries in South Africa, other African countries, and the Middle East. It is 51% owned by Royal Bafokeng Holdings and 49% by the PIC.

The OTMS project is a new entrant into the local crude oil storage industry. We are providing a plant and equipment loan for the first construction phase, which includes building eight crude oil storage tanks with a capacity of 1.1 million barrels each and the full infrastructure development for Phase 2, which includes building an additional four storage tanks.

The project will create 70 permanent jobs as well as 650 annualised construction jobs. Additional benefits include the use of local cement and steel and using skilled labour from a talent pool created by projects previously funded by the IDC.

Saldanha Bay is a deep sea port which allows very large crude carriers to transfer crude oil. Infrastructure at the port is currently underutilised, making it an ideal location for the trans-shipment of crude oil.

Funding for the project is being leveraged from international DFIs, including the German Investment Corporation (DEG), a subsidiary of German Development Bank (KfW Group) and Netherlands Development Finance Company (FMO).
OUR BOARD OF DIRECTORS

BA MABUZA (53)

Chairperson of the Board
(Non-Executive Director)

BA (Mathematics and Computer Science) (Hunter College, City University of NY),
MBA (Finance and Information Systems) (Leonard Stern School of Business, NYU)
Appointed to the Board on 25 November 2011 and appointed Chairperson on 29 January 2015

Committees:
• Member of the Board Human Capital and Nominations Committee
• Member of the Board Investment Committee

MG QHENA (51)

Chief Executive Officer
(Executive Director)

BCompt (Hons) (UNISA), CAISA, SEP (Wits and Harvard),
Advanced Tax Certificate (UNISA)
Appointed to the Board on 1 April 2016

Committees:
• Member of the Board Human Capital and Nominations Committee
• Member of the Board Investment Committee

LI BETHLEHEM (49)

(Non-Executive Director)

BA (Hons) (Industrial Sociology) (Wits), Master of Arts (Wits),
Certificate in Economics and Public Finance (UNISA)
Appointed to the Board on 1 October 2008

Committees:
• Chairperson of the Board Risk and Sustainability Committee

BA DAMES (51)

(Non-Executive Director)

BSc (Hons) (UWC), MBA (Samford University)
Appointed to the Board on 25 November 2011

Committees:
• Chairperson of the Board Human Capital and Nominations Committee
• Member of the Board Risk and Sustainability Committee

RM GODSELL (64)

(Non-Executive Director)

BA (Sociology and Philosophy) (UN),
MA (Liberal Ethics) (University of Cape Town), Postgraduate studies
(Sociology and Philosophy) (Leiden University)
Appointed to the Board on 25 November 2011

Committees:
• Member of the Board Human Capital and Nominations Committee
• Member of the Board Audit Committee

A KRIEL (54)

(Non-Executive Director)

BSoc Sci (Cape Town)
Appointed to the Board on 1 April 2016

Committees:
• Member of the Board Human Capital and Nominations Committee
• Member of the Board Risk and Sustainability Committee
• Member of the Social and Ethics Committee

SM MAGWENTSHU-RENSBURG (57)

(Non-Executive Director)

BA (Management Accounting and Business Administration) (Webster University, Vienna),
MBA (Webster University, London), DPhil (Business Management) (UJ)
Appointed to the Board on 25 November 2011

Committees:
• Chairperson of the Board Investment Committee
• Member of the Board Audit Committee

NP MNXASANA (60)

(Non-Executive Director)

BCompt (Hons) (UNISA), CA(SA)
Appointed to the Board on 29 January 2015

Committees:
• Chairperson of the Board Audit Committee
• Member of the Board Risk and Sustainability Committee
OUR BOARD OF DIRECTORS

PM MTHETHWA (53)
(Non-Executive Director)
BBus Sc (Economics) (University of the North), MSc (Economics) (University of Paris), MBA (Corporate Finance) (University of Sheffield)
Appointed to the Board on 25 November 2011
Committees:
• Member of the Board Investment Committee
• Member of the Board Risk and Sustainability Committee

ND ORLEYN (61)
(Non-Executive Director)
BProc, Bluris, LLB, Certificate in Energy Law, Executive Management Programme (Kellogg Business School)
Appointed to the Board on 29 January 2015
Committees:
• Chairperson of the Social and Ethics Committee
• Member of the Board Investment Committee
• Member of the Board Human Capital and Nominations Committee

NE ZALK (48)
(Non-Executive Director)
BA (English and Private Law) (UNISA), Postgraduate Diploma in Economics (Development) (School of Oriental and African Studies), MSc (Economics) (with merit) (School of Oriental and African Studies, London University)
Appointed to the Board on 25 November 2011
Committees:
• Member of the Board Investment Committee
• Member of the Social and Ethics Committee

RESIGNED

GS GOUWS (58)
Divisional Executive: Transaction Support and Post-Investment (Alternate Director to CEO)
BCom (Law), BCom (Hons) (RAU-University of Johannesburg), CA(SA), FCMA, Advanced Management Programme (Insead)

B MOLEFE (50)
(Non-Executive Director)
Appointed to the Board on 29 January 2015.
Resigned from the Board with effect from 25 January 2017
Committees:
• Member of the Board Investment Committee
• Member of the Board Audit Committee

Gender split
07 – Female
05 – Male

Population group split
09 – Black
03 – White
The year under review was again a challenging one for the IDC. The world economy struggled to sustain its growth momentum, while activity levels in the South African economy became more subdued. The year also witnessed significant changes in the geopolitical environment, with the rise in anti-globalisation sentiments as evidenced by the United Kingdom’s intended exit from the European Union, and the shifting economic policy in the United States.

In South Africa, the weak economic growth performance was largely due to sharply lower output in the agriculture, mining and electricity sectors, with the generalised weakness spanning across most other sectors of the economy. Higher inflationary pressures, low business and consumer confidence, the impact of the drought, as well as relatively low commodity demand and prices also contributed to the difficult operating environment. Naturally, these factors negatively influenced the IDC’s activity levels and the credit quality of our portfolio.

2017 also marked the second year of the implementation of our proactive industrial development strategy, which focuses on the development of priority industries and initiatives across the country in order to increase our impact. This has meant that we take greater ownership of and leadership in the development of sectors and industries deemed critical for the growth of our economy in line with our value chain approach.

**INVESTMENT HIGHLIGHTS**

Project Evolve, while a long-term strategy, is beginning to show results as seen in the improvement of our key performance indicators.

Our strategy is underpinned by increasing industrial development impact while ensuring alignment with government’s strategic priority plans.

Despite the challenging economic environment, our proactive investment approach resulted in an improvement in our overall performance. The total value of funding approvals increased to R15.3 billion, the highest level ever.

Of this amount, 69% was to the value chains with the metals and mining value chain accounting for 56%. The chemicals and pharmaceutical value chain received 13%.

Funding approvals to the mining sector amounted to R3.9 billion (2016: R2.5 billion), representing a 25% increase and further demonstrating our counter-cyclical role in the economy. A recovery in commodity prices during the year across a range of commodities, including coal, iron ore and platinum, provided some relief to the mining sector at large.

Our funding approvals to the basic metals, metal products and mining value chain continued to counter the adverse trends experienced by these industries. Although copper and aluminium prices have rebounded strongly, the platinum price has been on a declining trend after an initial surge at the beginning of the year. For the South African mining sector at large, production volumes were lower in all but one of the main sub-sectors compared to the previous year, while export volumes also tumbled. Platinum production was 4.3% lower in 2016, while copper production (-15.6%) was sharply lower.

The automotive and transport equipment industries accounted for 11% of the total funding approved (R1.7 billion). A notable investment in this case was the approval of the R1.5 billion motor vehicle assembly plant project, a joint venture between the IDC and the Beijing Automotive Industry Holding Company (BAIC). This investment aligns with the strategic intent of the Automotive Production Development Programme, which seeks to attract new and/or expand existing investments by original equipment manufacturers and suppliers in order to achieve higher domestic production volumes, in the process contributing to much needed job creation.

This is the first investment of this scale in the South African automotive industry in 40 years. More than 2 500 jobs are expected to be created during the construction of the first phase of the project, with the permanent employment at around 800 jobs. Most importantly, the project has committed to achieving at least 60% local content on all vehicle models to be manufactured locally. Plans have also been initiated to scale up the existing South African supplier base.
The chemicals and pharmaceuticals industries received 13% (R2.1 billion) of the total funding approved. Despite a very difficult operating environment for the manufacturing sector at large, the chemicals industry managed to record a fairly solid growth performance over the past year. Throughout the year, business confidence in the industry was well above that for the manufacturing sector as a whole and ranked in second place out of all sub-sectors within manufacturing.

Approvals to the agro-processing and agriculture sectors performed below expectations. Severe drought conditions continued to impact negatively on agricultural output, leading to a general lack of investment. The food processing sector, in turn, also recorded a drop in production volumes over the past year, with fixed investment declining in response to unfavourable operating conditions. Despite the challenges faced by the sector, new jobs were created.

Numerous initiatives aimed at improving opportunities for backward and forward linkages as well as leveraging external partnerships more effectively have been identified by the IDC and will be implemented in earnest in the new year. An example is the initiative being pursued in partnership with Coca-Cola Beverage South Africa to support local emerging farmers in the grape value chain.

The delays in the signing of the power purchase agreements for the projects awarded the preferred bidder status in the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), had a negative impact on the level of our approvals and the levels of disbursements thus affecting the execution of new projects. We have, however, begun to diversify our involvement in the renewable energy sector by identifying alternative market opportunities, especially with regard to embedded generation, off-grid solutions and supporting South African developers in taking advantage of opportunities in other African markets.

As a result of the economic environment, the total funding disbursed during the year decreased marginally to R11.0 billion (2016: R11.4 billion), as clients held back on their investment plans.

We continue to strive to ensure timely investment flows into the economy in order to expedite developmental impact.

ADVANCING TRANSFORMATIVE INDUSTRIALISATION

A large part of our focus is on developing the industries of the future, particularly game-changing opportunities in response to the demands of the “Fourth Industrial Revolution”. We recognise that this is a new and fast-evolving territory, and hence continue to refine and adapt our strategies to respond appropriately to rapidly changing market conditions.

One of the key focus areas in the year under review was increasing specific development outcomes, notably the creation of jobs, funding to Black Industrialists, as well as women-, youth- and black-empowered businesses in order to support transformation objectives. Building on the previous year’s performance, I am particularly pleased to announce that we recorded significant improvements in all of these development indicators as envisaged in our Corporate targets. More specifically, we facilitated the creation of 18,206 new jobs (2016: 11,833 jobs) and saved 2,675 existing jobs (2016: 3,439), representing a 37% increase overall. Our investment in Oiltanking MOGS Saldanha, for example, is expected to contribute toward the creation of 720 construction jobs, while the Wagenienice investment will create 463 jobs.

The funding approved for youth-empowered businesses increased to R2.3 billion in 52 transactions (2016: R970 million, 19 transactions) during the year under review. This marked improvement follows the commitment by the Corporation to support youth enterprises to the value of R4.5 billion from 2016 to 2020. For example, we provided funding to Maneli Pets to buy machinery and equipment to convert the factory into an export-grade facility. The investment is expected to create 40 new jobs. In addition, the IDC’s offerings to youth were reviewed to provide greater accessibility and dedicated support. A deliberate and targeted marketing campaign culminated in our first National Youth Enterprise conference, which we hosted in October 2016.

Similarly, we recorded a significant improvement in approvals for women-empowered businesses at R3.2 billion, triple the R1.1 billion approved in 2016. Approvals to black-empowered businesses recorded a 103% increase at R10.1 billion against R4.9 billion in the previous year. Supporting black business to grow, including women and youth entrepreneurs, is viewed as a lever for the increased participation of Black Industrialists in the economy, thus contributing to its transformation.

To ensure the Corporation delivers effectively on its mandate, we continued to effect efficiency improvement measures to simplify our business processes, making them more client-centric and responsive. Consequently, the time taken from approval to first draw-down has been reduced by 55%. We have also committed to delivering on what matters to our clients on a consistent and integrated basis.

To do this we have also simplified the assessment process for non-complex transactions, empowered front line staff to make relevant decisions faster, and introduced automation platforms that enable our clients to engage IDC with greater ease.

During the financial year, a total of R58 million funding support was provided towards social enterprise initiatives and R24 million towards education and skills development. A further R3.5 million was provided towards social enterprise initiatives and R24 million towards education and skills development. A further R3.5 million was provided towards social enterprise initiatives and R24 million towards education and skills development. A further R3.5 million was provided towards social enterprise initiatives and R24 million towards education and skills development. A further R3.5 million was provided towards social enterprise initiatives and R24 million towards education and skills development. A further R3.5 million was provided towards social enterprise initiatives and R24 million towards education and skills development.

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FINANCIAL PERFORMANCE

Despite the difficult environment we posted a group profit of R2.2 billion, a significant increase from the previous year’s profit of R2.23 billion. This was as a result of a concerted effort to closely monitor the performance of our investments which resulted in the reversal of some impairments. The impairment charge decreased from R3.7 billion to R2.1 billion in the current year with the impairment ratio improving from 16.9% in the previous year to 16.7%. Revenue improvement combined with close monitoring of operating expenditure also had a positive impact on the bottom line. The conclusion of the first phase of the Exxaro empowerment structure resulted in capital gains of R1.7 billion. The equity

During the year we approved R4.7 billion in 83 transactions for Black Industrialists, representing a 63% increase on the previous year’s approvals. This reflects a concerted effort on our part to support economic transformation in South Africa and also indicates that our targeted stakeholder efforts are bearing fruit.
accounted investments continued to perform well, recording an 73% increase in profit, driven primarily by the recent recovery in commodity prices, contributing R963 million to the profits in 2017.

Our material subsidiaries performed below expectation, with Foskor recording a loss of R902 million (2016: R568 million) largely due to a lower than forecasted phosphate price, and the stronger exchange rate which had a significant impact on revenue and profit generation. Foskor continues to implement identified performance improvements and initiatives to optimise current operations. Scaw recorded a loss of R787 million in the year under review (2016: R1 074 million). The process to conclude the restructuring of the Scaw group is being finalised and is expected to result in the introduction of Strategic Equity Partners for its main operating divisions.

The IDC balance sheet has continued to strengthen with an asset base of R129.8 billion, mainly driven by stronger commodity prices as seen in the 12% improvement in the listed portfolio as well as new approvals. The diversification of our assets remains part of our strategy to mitigate the concentration risk. The debt to equity ratio recorded a marginal increase from 36% to 37% as a result of increased borrowings to support our funding activities.

The improvement in reserves had a positive impact on the debt-to-equity ratio which is still well within our internal threshold of 60% and our statutory limit of 100%. Financial sustainability remains a critical focus area, more especially in the current operating environment.

LOOKING AHEAD

The economic recovery anticipated in 2017 may be delayed by recent developments, including the downgrades of South Africa’s sovereign credit ratings. Business and investor confidence has been negatively affected, which does not bode well for fixed investment spending. Operating conditions remain largely unsatisfactory in the manufacturing sector. Manufacturers are expected to hold back on investments in productive capacity in anticipation of an improvement in demand conditions, both domestically and in key global markets. As a result, investment activity in the sector is likely to remain subdued for some time.

We are continually evaluating how we can best fulfil our counter-cyclical role in the current environment. We expect our clients to remain under pressure in the short term, possibly resulting in an increased demand for distress funding. The ability of many businesses to raise debt in this environment is likely to be more difficult.

We intend to intensify the level of regional integration by exploring different financial ways of investing in the rest of the continent through partnerships with established financial institutions in the efforts of enhancing the value chain approach, since this is one area in which we have performed poorly in the previous years.

ACKNOWLEDGEMENTS

I am most appreciative of the enormous efforts and commitment from the management team and staff in ensuring that we increase the IDC’s role in the economy. The development outcomes of the past year are notable given the difficult market conditions.

I also wish to extend my gratitude to the Chairperson and the Board of Directors for their continued support and guidance, as well as for challenging the Corporation to do more.

A special word of thanks to the Honourable Minister of Economic Development and his team for their unwavering support and contributions in ensuring that the IDC continues to deliver on its mandate. I also express my gratitude to the Honourable Chairpersons of the Portfolio Committee on Economic Development and Select Committee on Economic and Business Development as well as the Honourable members of the committees for their continued support.

Last but not least, I would like to extend my appreciation to our clients and other stakeholders who choose us as their development finance partner.

MG Qhena
Chief Executive Officer
28 June 2017

PARTNERING WITH OTHER GOVERNMENT INSTITUTIONS

To achieve our development mandate, we partner with government and public sector entities to assist them in their areas of operation and to contribute to them achieving their economic and social development objectives. These areas of collaboration include:

- Assist with the formulation of policies and strategies in several areas, including industrial policy and action plans, and the various iterations of the Industrial Policy Action Plan
- Participate in policy and sectoral steering committees and task teams, e.g. Steel Task Team, Poultry Industry Task Team, etc.
- Identify industrial capacity development opportunities in line with national initiatives
- Coordinate infrastructural and industrial development aspects of specific national initiatives (e.g. Presidential Infrastructure Coordinating Commission (PICC))
- Co-fund specific national programmes (e.g. REIPPPP)
- Manage specific support and incentive schemes (such as the Clothing and Textiles Competitiveness Programme (CTCP), the Manufacturing Competitiveness Enhancement Programme (MCEP), the Agro-Processing Competitiveness Fund (APCF), the Industrial Policy Support Fund (IPSF), the Downstream Steel Industry Development Fund and others)
- Partner with other DFIs to co-fund projects that span different mandates
- Create funding partnerships to enhance the development benefits of interventions of state-owned companies, aligned with their respective mandates (e.g. Unemployment Insurance Fund (UIF) and the Public Investment Corporation (PIC))
CASE STUDY

AVK HOLDINGS SOUTHERN AFRICA

Our funding of AVK Holdings will assist in replacing imported machinery and equipment with locally manufactured goods.

DIRECT JOBS

49

AVK Holdings was established in 2014 and is one of the largest manufacturers and suppliers of large bore, high pressure/high temperature water control valves for the water distribution, power, and mining industry in southern Africa. AVK Valves is owned by AVK Group, a Denmark-based industrial group with a market presence of 16 years in South Africa.

The company sought a local partner to establish a manufacturing facility to ensure that 70% of its valves and actuators used in South Africa are produced locally. We funded the transaction by providing a loan facility for plant and equipment as well as a working capital and a revolving credit facility. The transaction resulted in the creation of 49 jobs.

Going forward, the water and power segments present growth opportunities and demand for inputs is expected to increase as a result of government’s infrastructure development and maintenance programme to address the current power, water and sanitation challenges.

The company will have a strong position in South Africa for both the water and industrial segments based on present market position and localisation, which is expected to reduce competition from cheaper imports.

SUPPORT FOR TVET COLLEGES AIMS TO UPSKILL YOUTH

Through its Corporate Social Investment (CSI) initiatives, the IDC is crafting a brighter future for unemployed youth, by supporting the Technical Vocational Education and Training (TVET) Colleges sector.

The TVETs are at the centre of government’s efforts to expand post-school education and training to accommodate the growing number of young people seeking education and training outside of the schooling system.

In its 2017 financial year, the IDC set aside grant funding to support projects at four TVET colleges: the Ekurhuleni East College’s Kwa-Thema Campus in Gauteng, the Port Elizabeth College’s Ohayiya Campus in the Eastern Cape, Waterberg College’s Lebowakgomo engineering campus in Limpopo and the Northern Cape Urban College’s (NCUC) Galeshewe Campus.

These colleges were specifically identified due to their strategic links to IDC-funded projects and the prospective employment opportunities for students once qualified. In addition, if scarce skills related to a specific industry are increased in underdeveloped areas, the entire community benefits.

Equipped with the necessary skills set, qualified students’ chances to find employment not only increase, but in return can create employment opportunities for others by becoming entrepreneurs.

Courses at these colleges are related to the automotive industry, basic metals and mining, and the green economy. Training is not only focused on developing skills related to current employment opportunities, but also in future, such as the partnership with NCUC to develop a fully accredited renewable energy programme.

The most successful students will be placed or indentured as apprenticeships to become qualified artisans, with industry partners.

Automotive courses offered at the Port Elizabeth College’s Ohayiya Campus in the Eastern Cape could result in students finding employment at companies such as BAIC, in partnership with the IDC.

IDC’s funding for the Founding Training Centre at the Ekurhuleni East College’s Kwa-Thema Campus in Gauteng, focusing on the artisan skills curriculum for moulders patternmakers and melters, will go a long way in equipping students to find employment at IDC clients in the metals industries.

Support for Waterberg College’s Lebowakgomo engineering campus in Limpopo will assist the college in getting their workshops accredited with the relevant SETAs to offer courses that are relevant to industry needs and prepare artisans for trade testing.

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OUR EXECUTIVE MANAGEMENT

MG QHENA (51)
Chief Executive Officer
BCompt (Hons) (UNISA), CA(SA), SEP (Wits and Harvard), Advanced Tax Certificate (UNISA)

NDLAMINI (43)
Chief Financial Officer
BCom (Accounting) (Wits), Post Graduate Diploma in Accounting (UKZN), CA(SA)

MP MAINGANYA (44)
Chief Risk Officer
BCom (Wits), BAcc (Wits), HDip Tax Law (RAU – University of Johannesburg), Adv. Cert. Banking (UI), IEDP (Wits), GEDP (GIBS), CA(SA)

RJ GAVENI (45)
Divisional Executive:
Human Capital
BAdmin (Hons) (Industrial Psychology) (UNISA), Masters in HR Management (Golden Gate University), Executive Development Programme (GIBS)

GS GOUPS (58)
Divisional Executive:
Transaction Support and Post-Investment
BCom (Law), BCom (Hons) (RAU – University of Johannesburg), CA(SA), FCMA, Advanced Management Programme (Insead)

DA JARVIS (47)
Divisional Executive:
Corporate Strategy
B5ocSci (Natal), B5ocSci (Hons) (UND), M5ocSci (Natal)

PZ LUTHULI (40)
Divisional Executive:
Corporate Affairs
BA Communications (UZ), MBA (UNISA)

P MAKWANE (51)
General Counsel and Group Company Secretary
B5uri5, LLB (UWC)