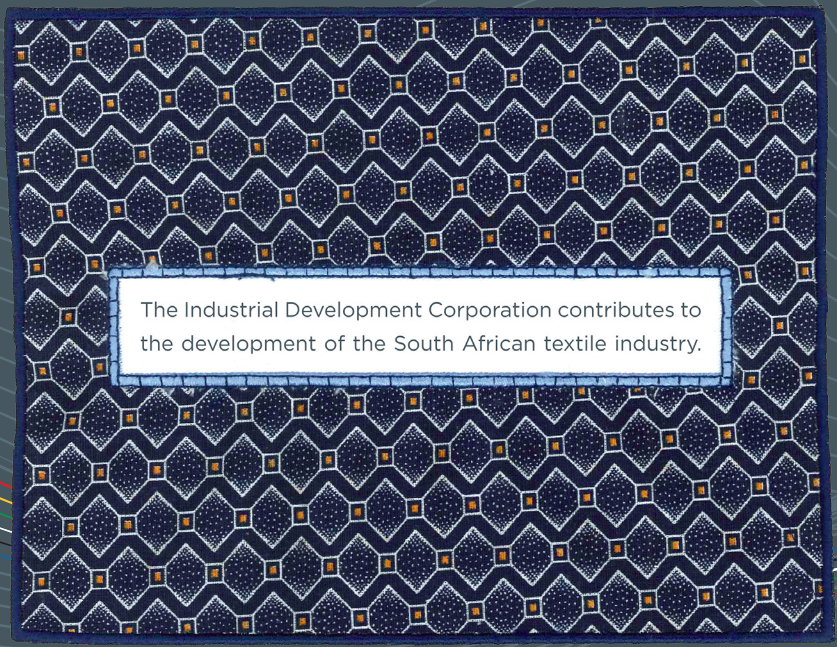


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# FINANCIAL ASSISTANCE FOR INVESTMENT

Neerasha Singh and Johnathan Leibbrandt

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WEBBER WENTZEL
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**Neerasha Singh and Johnathan Leibbrandt**

## Introduction

The plethora of financial assistance programmes provided by the South African Government may at first seem daunting. Such financial assistance programmes, when effectively and appropriately used, however, provide the necessary framework and support for both new and existing business ventures to flourish.

These financial assistance programmes endeavour to contribute to the transformation of the South African economy by broadening participation by individuals or groups formerly excluded from participation in the economy, driving industrial development and promoting trade, export and investment.

## Regulatory Framework

In 2014, the South African Department of Trade and Industry (DTI) published its sixth annual iteration of the Industrial Policy Action Plan, IPAP 2014/2015–2016/2017 (IPAP). IPAP intends to take place within the framework of continuous improvements and the scaling up of industrial development interventions provided for in the National Industrial Policy Framework (NIPF). Successive iterations of IPAP seek to scale up key interventions over a rolling three-year period, with a 10-year outlook on desired economic outcomes.

The NIPF aims to:

- facilitate diversification beyond the economy's current reliance on traditional commodities and non-tradable services, which require the promotion of value-addition, characterised particularly by the movement into non-traditional tradable goods and services that compete in export markets as well as against imports;
- ensure the long-term intensification of South Africa's industrialisation process and movement towards a knowledge economy;
- promote a labour-absorbing industrialisation path, with the emphasis being on tradable labour-absorbing goods and services and economic linkages that create employment;
- promote industrialisation, characterised by the increased participation of historically disadvantaged South Africans (HDSAs) and marginalised regions in the industrial economy; and
- contribute towards industrial development in Africa with a strong emphasis on building the continent's productive capacity and securing regional economic integration.

The National Development Plan 2030, entitled "Our future - make it work" (NDP), was adopted by the South African Cabinet on 7 September 2012, and by South Africa's ruling political party, the African National Congress, at its fifty-third National Conference in Mangaung in December 2012 (National Conference). The resolutions taken at the National Conference describe the NDP as "the overarching framework to guide and accelerate the development of South Africa to 2030 and beyond". The NDP was also described by President Zuma, as a "vision [for] the country for the next 20 years", and is said by Pravin Gordhan to "reflect the priorities underpinning" the 2014 Budget.

The NDP recognises that to transform South Africa's economy "the rate of economic growth needs to exceed 5% a year on average". To achieve this, the NDP proposes various measures, including:

- increasing exports, focusing on areas where South Africa already has endowments and comparative advantage; and reducing the cost of regulatory compliance.

The IPAP and NDP will drive the direction of the South African government's developmental policies. The DTI will be one of the primary proponents of such plans.

## The DTI

Since the first democratic elections in South Africa in 1994, the DTI has concentrated on reintegrating the country into the global economy after decades of isolation. This required new policies and the consolidation of existing ones.

Following South Africa's general elections in 1999, the DTI moved from a period of learning to focus on transformation. This involved the development of an organisational structure more suited to the economic needs of the country and the challenges of globalisation.

The DTI offers a variety of services to those interested in establishing or conducting business in South Africa. These services include providing information on:

- how to conduct a business in the country;
- the requirements for establishing a business; and
- the forms a business can take.

In addition, the DTI runs a number of incentive schemes aimed at achieving its stated goals, either through its own initiatives or through affiliated organisations.

The DTI's strategic objectives are to:

- facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation;
- build mutually beneficial regional and global relations to advance South Africa´s trade, industrial policy and economic development objectives;
- facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth;
- create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner; and
- promote a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.

Financial assistance for investment in South Africa is supported by the DTI's core themes of:

- broadening participation;
- industrial development; and
- trade, export and investment.

## Broadening Participation

### Black Business Supplier Development Programme

The DTI's Black Business Supplier Development Programme (BBSDP) is a cost-sharing grant that endeavours to make black-owned small enterprises part of the mainstream economy and create employment by assisting them to improve their competitiveness and sustainability. The BBSDP provides grants to a maximum of ZAR 1 million:

- ZAR 800 000 for tools, machinery and equipment on a 50:50 cost-sharing basis; and
- ZAR 200 000 for business development and training interventions per eligible enterprise to improve their corporate governance, management, marketing, productivity and use of modern technology on an 80:20 cost-sharing basis.

### Co-operative development

The DTI's Co-operative Incentive Scheme (CIS) is a 100% grant for registered primary co-operatives (a primary co-operative consists of five or more members). The objective of the CIS is to improve the viability and competitiveness of co-operative enterprises by lowering their cost of doing business through an incentive that supports Broad-Based Black Economic Empowerment (B-BBEE).

### National Empowerment Fund

The National Empowerment Fund (NEF) promotes savings and investments among HDSAs through its retail division and funds economic empowerment and black business through its investments division. The NEF's vision is to become the leading provider of innovative transformation solutions for an economically inclusive South Africa.

### Empowerment of women

The DTI's Isivande Women's Fund (IWF) is a fund exclusively aimed at accelerating women's economic empowerment by providing more affordable, usable and responsive finance. The IWF targets 50% plus one share women-owned and managed enterprises that have been in existence and operating for at least six months with a loan range of ZAR 30 000 to ZAR 2 million.

## Industrial development

Industrial development will be discussed with reference to small, micro and medium enterprises (SMMEs), and sector-specific financial assistance.

### Small, micro and medium enterprises

#### Incubation Support Programme

The DTI initiated the Incubation Support Programme (ISP) to develop incubators and create successful enterprises with the potential to revitalise communities and strengthen local and national economies. In continuing to strengthen economic development through broadening participation in the economy, the ISP aims to ensure that SMMEs graduate into the mainstream economy through the support provided by the incubators. The ISP is one of the support measures to encourage partnerships in which big business assists SMMEs with skills transfer, enterprise development, supplier development and marketing opportunities. The ISP offers a cost-sharing support of 50:50 for large businesses and a cost-sharing of 40:60 for SMMEs. The grant approval is capped at a maximum of ZAR 10 million (VAT inclusive) per financial year over a three-year period and is subject to the availability of funds.

#### Small Enterprise Development Agency

The Small Enterprise Development Agency (SEDA) is a Government agency set up to render non-financial support services to SMMEs through its national network of local branch offices in partnership with other SMME role players. SEDA is mandated to, among other things, design, implement and strengthen SMME development support programmes, promote a service delivery network that increases the contribution of small enterprises to the South African economy and to enable SMMEs to compete successfully domestically and internationally. SEDA's programmes include counselling, advice and technical support, skills training, tender advice, access to technology and finance and a mentorship programme. SEDA's Technology Programme focuses on technology business incubation, including the transfer of technology and provision of technology support services to SMMEs. In 2014, SEDA announced that approximately 67% of the small businesses that it assisted had increased their turnover, while 40% increased the number of their employees.

#### Small Enterprise Finance Agency

The Small Enterprise Finance Agency (SEFA), through its various regional offices, endeavours to foster the establishment, survival and growth of SMMEs and contribute towards poverty alleviation and job creation by providing loans directly to SMMEs, and wholesale lending products. In pursuit of its stated goals, SEFA approved ZAR 1.1 billion in loan facilities for small business development through various loan programmes during the fiscal year 2013/2014. This represents a 142% increase on the 2012/2013 fiscal year.

SEFA's direct lending products range from ZAR 50 000 to a maximum of ZAR 5 million, and include:

- co-operatives;
- bridging loans;
- term loans; and
- structured finance,

whereas wholesale lending products, which, depending on the size of the enterprise, can go up to ZAR 5 million, include:

- a credit guarantee scheme;
- land reform empowerment facility; and
- equity investments.

## Sector-specific financial assistance

### Aquaculture Development and Enhancement Programme

The DTI's Aquaculture Development and Enhancement Programme (ADEP) is an incentive programme available to South African-registered entities engaged in primary, secondary and ancillary aquaculture activities in both marine and freshwater. The grant is provided directly to approved applicants for new, upgrading or expansion projects.

The programme offers a reimbursable cost-sharing grant of up to a maximum of ZAR 40 million qualifying costs in machinery and equipment, bulk infrastructure, owned land and/or buildings, leasehold improvements and competitiveness improvement activities

### Business Process Outsourcing & Off-shoring incentive programme

The DTI's Business Process Outsourcing & Off-shoring (BPO&O) incentive programme aims to attract investment and create employment in South Africa through off-shoring activities by providing a base incentive as a tax exempt grant paid over three years for each offshore job created and maintained. A graduated bonus incentive is paid as follows:

- 20% bonus for more than 400 but less than 800 offshore jobs paid once in a year in which the target is reached; and
- 30% bonus for more than 800 offshore jobs paid once in the year in which the target is reached.

### Clothing and Textile Competitiveness Improvement Programme

The DTI's Clothing and Textile Competitiveness Improvement Programme (CTCIP) aims to develop, among other areas, the manufacturing capacity of the clothing and textile industry in South Africa with the aim of enabling the industry to effectively supply its customers and to compete on a global scale. Such competitiveness encompasses issues of cost, quality, flexibility, reliability, adaptability and the capability to innovate.

### Manufacturing Competitiveness Enhancement Programme

The Manufacturing Competitiveness Enhancement Programme (MCEP), a key action programme of IPAP, provides enhanced manufacturing support aimed at encouraging manufacturers to upgrade their production facilities in a manner that sustains employment and maximises value-addition in the short to medium term.

The MCEP comprises two sub-programmes, the Production Incentive and the Industrial Financing Loan Facilities, which are managed by DTI and the Industrial Development Corporation (IDC) respectively.

### Production Incentive

The DTI's Production Incentive is the largest component of the MCEP (80% by Rand value). Calculation of MCEP credits for the Production Incentive for each enterprise will be up to 25% of the manufacturing value added. Applicants may apply their MCEP credits to a combination of any of the following five sub-components of the Production Incentive:

- Capital Investment grant;
- Green Technology and Resource Efficiency Improvement grant;
- Enterprise-Level Competitiveness Improvement grant;
- Feasibility Studies grant; and
- Cluster Interventions grant.

### Industrial financing and loan facilities

The DTI's industrial financing and loan facilities comprise two components, specifically pre- and post-dispatch *Working Capital Facility* and the *Industrial Policy Niche Projects Fund*.

The Working Capital Facility offers a working capital facility up to a maximum of ZAR 50 million for a period of up to four years, at a preferential fixed interest rate of 4%.

The Industrial Policy Niche Projects Fund supports projects identified by the DTI sector desks, and the IDC's Strategic Business Units focus on new areas with the potential for job creation, diversification of manufacturing output and contribution to exports that would otherwise not be candidates for commercial or IDC funding. Such projects may be eligible for an MECP grant that may be structured as part of the borrower's equity contribution.

### Support Programme for Industrial Innovation

The DTI's Support Programme for Industrial Innovation (SPII) is aimed at industrialists or entrepreneurs wanting to develop South African-based products or processes that represent a significant technological advantage over existing products.

The stated vision and mission of SPII is to promote technology development and commercialisation in South Africa.

In order to qualify for assistance under the SPII:

- the development should represent a significant advance in technology;
- the development and subsequent production must take place within South Africa;
- intellectual property must reside in South African-registered companies;
- participating businesses should be South African-registered enterprises;
- Government-funded institutions (eg the Council for Scientific and Industrial Research) do not directly qualify for support but may participate as subcontractor(s); and
- there must be no simultaneous applications from the same company.

The Product Process Development (PPD) Scheme is aimed at supporting small, very small and micro enterprises whose total assets (excluding fixed property) are below ZAR 5 million, have turnovers of less than ZAR 13 million and who have less than 50 employees. If the enterprise is majority controlled, wholly owned or whose significant shareholders are large and/or medium companies then the applicant will only qualify for support under either the Matching or Partnership Scheme. Support under the PPD Scheme is provided in the form of a non-repayable grant of between 50% and 85% (depending on the shareholding by B-BBEE persons or entities, women and persons with disabilities) of the qualifying costs incurred during the technical development stage with a maximum grant amount of ZAR 2 million per project.

The Matching Scheme, aimed at SMMEs, supports product/process development, provides financial assistance in the form of a taxable non-repayable grant of between 50% and 75% (depending on the shareholding by B-BBEE persons or entities, women and persons with disabilities) of qualifying costs incurred in pre-competitive development activity associated with a specific development project up to a maximum grant amount of ZAR 5 million. Financial assistance under the Matching Scheme is also provided to large companies on a 50% matching basis.

The Partnership Scheme supports large-scale innovation and product/process development by providing a conditionally repayable grant of 50% of the qualifying cost incurred during development activity with a minimum grant amount of ZAR 10 million per project, repayable on successful commercialisation of the project (ie repayable in the form of a levy, paid bi-annually, on the projected value of sales over a specific number of years).

### Technology and Human Resources for Industry Programme

The DTI's Technology and Human Resources for Industry Programme (THRIP) is a flagship research and development programme funded by the DTI and administered by the National Research Foundation. THRIP aims to develop the competitiveness of the South African industry by, among other things:

- supporting scientific research and technological development; and
- encouraging collaboration between higher educational institutions and industry.

The focus of THRIP is on projects that encourage and facilitate scientific research and technology development. All funded projects must include human resource development, but the choice of the technological focus of a project is left to the industrial participants and their partners.

### Industrial Development Corporation of South Africa

The IDC, a State-owned financial institution, exists as part of the DTI's overall strategy. The IDC's approach is guided by Government policy, primarily by way of the New Growth Path (NGP), IPAP and NDP. It offers a range of financing services to assist small-, medium- and large-scale industries to establish manufacturing concerns in South Africa and the Southern African region. The IDC funds start-up and existing businesses up to a maximum of ZAR 1 billion.

The IDC's stated mission is to contribute to the generation of balanced, sustainable economic growth in Africa thereby promoting the economic prosperity of all citizens.

By developing industrial capacity the IDC achieves specific outcomes. The most important of these is to facilitate sustainable direct and indirect employment through the companies that it funds.

In addition, IDC funding promotes regional development and integration, economic empowerment of communities and growing black industrialists. The IDC is committed to promoting environmentally sustainable growth and increasing sectoral diversity to boost the local production of goods. The IDC also plays an important role, directly and through its SEFA subsidiary, in promoting entrepreneurial development and growing the SMME sector.

The IDC achieves its objectives by:

- proactively identifying and funding high-impact and labour-intensive projects;
- leading the creation of viable new industries;
- using its diverse industry expertise to drive growth in priority sectors; and
- taking up higher-risk funding projects.

The IDC's financial participation is usually by way of loan finance, but other facilities (eg leased buildings, suspensive sale and plant leases) are also available. The IDC could consider the provision of ordinary and preference share capital in certain cases.

The general financing facilities are available to assist small- and medium-sized industries in the growth phase of development. The IDC makes use of a number of finance instruments and methods, including equity, quasi-equity, commercial debt, wholesale finance, bridging finance, share warehousing, short-term trade finance and venture capital.

The IDC consists of divisions, with each division composed of strategic business units (SBUs) to ensure an industry-specific focus. The following are some of the most important SBUs:

#### Africa

- Tourism
- Infrastructure
- Manufacturing
- Franchising
- Mining
- Financial services
- Transport, logistics and storage
- Healthcare
- ICT
- Agriculture and agri-processing
- Energy

The Africa SBU is responsible for business-development activities such as marketing IDC products, identifying suitable financing and investment opportunities throughout Africa and managing relationships with clients and stakeholders on the continent. To this end, the IDC has established working relationships with development finance institutions and regional forums in 34 African countries. Financing totalling nearly ZAR 16 billion was approved during the past 10 years for projects in the rest of Africa.

The IDC has developed a broad strategy for the rest of Africa. The main thrust of the strategy entails two approaches:

- a sector-based approach (informed by the NGP and IPAP); and
- a country/region-based approach (considering, among others, NGP and IPAP, South Africa's foreign policy and trade priorities and pan-African initiatives).

The Africa SBU promotes development-related projects in the following sectors of interest:

- agro-processing;
- forestry and related products;
- healthcare;
- industrial infrastructure (including telecommunications, energy, water & sanitation and transport);
- information and communication technology;
- manufacturing (in general);
- mining and beneficiation; and
- tourism (primarily hotel and resort development).

It provides financial support through equity, quasi-equity, commercial debt, export finance, guarantees, wholesale finance and arranging lines of credit (to regional and local African direct foreign investors). In addition to financial support, the Africa SBU provides investment guidance and assists in regional policy formulation.

### Agro-Industries

This Agro-Industries SBU is aimed at entrepreneurs who wish to expand and develop their businesses in a wide range of food and non-food production activities in the agricultural value chain.

Funding can be structured through an array of instruments including debt/equity, quasi-equity, guarantees, trade finance and bridging finance. The Agro-Industries SBU does have a preference for loan funding, but will consider equity where there is a strategic reason to do so. In respect of new or existing South African companies operating within the agro-industries sector, two key factors will be taken into account when assessing funding applications:

- the project facilitates the creation of new industrial capacity and new jobs; and
- the funding request must be for at least ZAR 1 million.

New or existing companies operating in the agro-industries sector in the rest of Africa are required to show that:

- the project facilitates the development of new industrial capacity;
- the project is of direct benefit to South Africa in the form of, among other things, exports of South African capital goods and/or South African shareholding; and
- the size of the project (total funding requirement) must be at least:
  - ZAR 5 million for members of the Southern African Customs Union (SACU);
  - USD 3 million for countries in the Southern African Development Community (SADC); and
  - USD 10 million for countries outside SADC.

A range of competitive interest rates apply. Security may be required, the form and nature of which will relate to the This Agro-Industries SBU does not fund:

- any tobacco and tobacco products;
- biofuels (this falls under the Green Industries SBU);
- hard liquor, including any drink with an alcohol content of more than 12% of the volume;
- primary agricultural projects/applications (these will be referred to the Land Bank);
- pure acquisition transactions;
- pure land-based transactions/acquisitions;
- pure overdraft facilities;
- refinancing of existing activities; and
- wholesale trade and retail activities.

The minimum financing requirements are similar to those required by most SBUs in the IDC umbrella, including:

- compliance with international environmental standards; and
- a financial contribution by shareholders/owners, though the contribution of HDSAs may be lowered under special circumstances.

### Chemicals and Allied Industries

The focus of the Chemicals and Allied Industries SBU is in supporting and promoting entrepreneurship and industrial development in a number of chemical industry sub-sectors from large industrial upstream and basic chemicals to cosmetics and detergents as well as glass, plastic and rubber products to fine and speciality chemicals and ceramic, stone and concrete products.

The Chemicals and Allied Industries SBU is interested in funding scoping, pre-feasibility and feasibility studies for projects that have the potential to develop new industries, or to lead to the expansion of existing ventures. It also supports projects that are geared towards replacing the need to import materials into South Africa.

The types of finance involved include debt/equity, quasi-equity, guarantees, bridging finance and venture capital. Financing is in respect of a fixed portion of the growth in working capital requirements or supporting technological upgrades to improve competitiveness.

### Forestry and Wood Products

The Forestry and Wood Products SBU finances projects and investments in forestry, pulp and paper, furniture, renewable energy and sawmilling and related industries as well as those involved in biomass, energy efficiency and renewable energy. Its focus is on financing fixed assets and a fixed portion of growth in working capital requirements of greenfields projects, expansions and rehabilitations and other relatively sizeable projects.

The Forestry and Woods Products SBU favours projects that exhibit sustainable economic merit and demonstrate significant development impact, specifically job creation, the creation of exports, value addition, empowerment and rural development.

### Green Industries

The Green Industries SBU focuses on projects intended to enhance the environment and support the reduction, avoidance and adaptation of carbon emissions. The specific sub-sector focus areas are non-fuel based green energy (eg renewable energy), energy efficiency and demand side management, emission and pollution management, fuel-based green energy (eg waste to energy and co-generation) and biofuels (mainly bio-ethanol).

The Green Industries SBU considers funding for:

- fixed assets and working capital;
- greenfields, expansions and rehabilitations;
- projects that exhibit sustainable economic merit;
- projects with significant developmental impact (particularly sustainable job creation, exports, value addition, empowerment and rural development); and
- relatively sizeable projects.

## Healthcare

The Healthcare SBU aims to support both new and expansion projects in the health field, from the establishment of hospitals and clinics to the manufacture of medical devices and surgical equipment.

The sub-sectors in the healthcare value chain in which the Healthcare SBU focuses are:

- building of hospitals;
- manufacturing of pharmaceuticals, medicinal chemicals and botanical products;
- manufacturing of equipment (including dental supplies, medical devices and technology, medical and surgical equipment and optical equipment);
- setting up of clinics; and
- supporting of buy-ins or takeovers by B-BBEE partners.
- In addition to the IDC's minimum requirements, the Healthcare SBU has the following loan criteria:
- compliance with international environmental standards;
- exposure may not exceed that of the owners of the business;
- reasonable contribution from owners (33% of total assets for going concerns and 40% for start-ups, depending on the industry norms and risk profile); and
- security, the form and nature of which will relate to the specific circumstances.

Furthermore, a project funded by the Healthcare SBU must be aligned with the public healthcare sector as well as National Health Insurance objectives.

## Information and Communication Technology

The Information and Communication Technology (ICT) SBU supports new businesses or the expansion of existing businesses whose activities rely heavily on ICT, specifically information technology, mining-related technologies, telecommunications, e-waste, advanced electrical and electronic manufacturing and business process services.

The funding criteria for this SBU are:

- a minimum loan amount of ZAR 1 million;
- a minimum equity amount of ZAR 5 million at a minimum real after-tax internal rate of return (IRR) and percentage of upside portion;
- confirmation of all third-party funding and the draw-down schedule;
- contribution from the project promoters;
- interest rates according to the project's risk-return profile;
- projects that deliver products for commercial exploitation in South Africa and the rest of the world;
- provision of security;
- raising and commitment fees;
- recoupment on a pro rata pari passu (equal footing) basis with other investors; and
- the right to share in any rights, such as intellectual property rights, in proportion to the investment.

### Media and Motion Pictures

The Media and Motion Pictures SBU aims to develop, grow and invest in the economy's media sector and focuses on projects intended to enhance the motion picture value chain.

The Media and Motion Pictures SBU funds the production of local music, feature films, television shows and documentaries at the beginning of the value chain and develops broadcasters (both television and radio) and cinemas to enhance the local distribution and consumption of local productions. Moreover, it funds alternative distribution systems for feature films and music using new technology.

This Media and Motion Pictures SBU's funding is structured utilising a wide range of instruments. Funding can be structured utilising the following:

- bridging finance;
- debt/equity;
- guarantees;
- quasi-equity;
- trade finance; and
- venture capital.

### Metal, Transport and Machinery Products

The Metal, Transport and Machinery Products SBU has an industry focus on ferrous and non-ferrous fabricated metal-based manufacturing businesses and operates in the following focus areas: fabricated metal, capital and transport equipment, automotive assembly (including medium and heavy commercial vehicles, buses and taxies) and components, advanced manufacturing and renewable and energy-saving components.

Preference is given to financing fixed assets and the fixed portion of growth in working capital requirements relating to projects/businesses which have a significant developmental impact (eg rural development, empowerment, job creation, township development and value addition).

Funding can be structured utilising a variety of instruments, including;

- bridging finance;
- debt/equity;
- guarantees;
- quasi-equity;
- trade finance; and
- venture capital.

The minimum financing amount is ZAR 1 million and the minimum equity amount is ZAR 10 million. Requirements include security, compliance with international environmental standards, and a reasonable financial contribution from owners (generally 33% of total assets for going concerns or 40% for start-ups, depending on the industry norms and risk profile of the particular business).

### Mining and Minerals Beneficiation

The Mining and Minerals Beneficiation SBU offers finance and, where relevant, technical assistance to a range of mining-related enterprises, from emerging mining houses to jewellery manufacturing. The Mining and Minerals Beneficiation SBU favours operations that have a significant development component. Financing is focused on four areas:

- allowing HDSAs to acquire mining assets;
- establishing or expanding jewellery manufacturing activities;
- establishing or expanding junior mining houses and mining-related activities such as contract mining; and
- providing financial and technical assistance for the development of mining, beneficiation and metals projects in South Africa and the rest of the continent.

## Gold Loan Scheme

The Gold Loan Scheme, funded by the IDC, was announced on 30 September 2014 to provide working capital loans to gold jewellery manufacturers at a fixed interest rate of 3%. The Gold Loan Scheme intends to stimulate the local South African jewellery market, which is predominately served by foreign manufacturers..

The Gold Loan Scheme is available to businesses that have, among other factors, economic merit, require between 4kg and 10kg of gold, and have business manufacturing activities taking place in South Africa.

## Strategic High-Impact Projects and Logistics

The Strategic High-Impact Projects and Logistics SBU focuses on strategic, high-impact projects across sectors which enable the development of a sector/industry from the primary through to the tertiary stage. These projects include industrial infrastructure, logistics infrastructure including road, rail and ports as well as coal and gas-fired power projects across the African continent. This SBU provides:

- funding for infrastructural projects that are linked to industrial projects;
- funding for high-impact logistics projects that are linked to industrial development and improving trade logistics on a large scale; and
- lines of credit to other African development finance institutions and local financial institutions to promote the development objectives of the IDC.

Projects are evaluated in terms of commercial, development and economic impact.

## Textiles and Clothing

The Textiles and Clothing SBU focuses on stimulating development and global competitiveness in the African textile, clothing, leather and footwear industries.

While the SBU considers every business proposal on its own merit, its stated preference is:

- financing fixed assets and the fixed portion of growth in working capital requirements;
- supporting projects and/or businesses that have a high developmental impact such as rural development, empowerment, job creation, township development and value addition; and
- supplying distress funding for troubled companies that have clear turnaround plans.

The Textiles and Clothing SBU funds new and existing companies within the textiles and clothing sector in amounts between ZAR 1 million and ZAR 1 billion. The Textiles and Clothing SBU offers a wide range of funding structuring, including short-, medium- and long-term loans as well as payment holidays. Funding is also available by means of the following instruments:

- bridging finance;
- debt/equity;
- guarantees;
- quasi-equity;
- trade finance; and
- venture capital.

The Textiles and Clothing SBU also requires that the applicant seeking funding has relevant bargaining council compliance and also requires that the applicant furnishes security and makes a material contribution (generally 35% of total assets for going concerns and 45 to 50% for start-ups, depending on the industry norms and risks involved).

## Tourism

The Tourism SBU focuses on loans for development in the tourism industry, primarily in accommodation. It has a stated objective of diversifying into other categories such as business and adventure tourism, niche sports markets and supporting township tourism developments.

In providing funding, the Tourism SBU regards economic viability of the project as the overriding criterion. It assesses the sustainability of the project, with a minimum 40% owners' contribution.

The minimum loan amount is ZAR 1 million. Security, which may include the registration of bonds over fixed and movable assets and a pledge of personal suretyships, is required.
The commercial debt requirements are as follows:

- a five- to 10-year term;
- market-related interest rate; and
- negotiable "grace periods" including a moratorium on capital repayments and capitalisation of interest.

### Venture Capital

The Venture Capital SBU provides equity funding to start-up technology-focused businesses. Its mandate is to enable the development of technology-rich South African intellectual property and its translation into market-ready products followed by their commercialisation. The intellectual property to be funded must be globally unique as well as science-based.

Funding is between ZAR 1 million and ZAR 40 million per project, with a maximum of ZAR 15 million allowed in the first round. In return for the funding, the SBU requires a minority equity stake of between 25% and 50%, determined by its valuation of the business.

The SBU has a number of other criteria that an investment application must meet:

- the intellectual property must be owned by the company;
- the development of the intellectual property must be done in-house;
- the intellectual property should preferably be patentable (if it is not patentable, it should provide some form of sustainable competitive advantage to the business);
- the management team must include people with all the key competencies required to make a success of the business (if this is not the case, then clear plans need to be in place to bring them on board at the appropriate time);
- the key founding shareholders should be involved in the business on a full-time basis; and
- the business should display good prospects of being economically viable.

As of 31 March 2014, the Venture Capital SBU has invested over ZAR 700 million into 35 technology-focused start-up businesses in a variety of industries, including medical devices, ICT, electronics and specialist engineering.

The terms of the funding include:

- that the funding is in the form of equity (ordinary shares and shareholder loans);
- that the funding does not have a defined investment period;
- there should be prospects of exit opportunities within a reasonable time frame;
- a return in excess of a 30% real after-tax IRR should be likely;
- the right to exit all or a portion of its share of the investment to a mutually agreed upon B-BBEE party;
- the right to board representation; and
- the right to attend monthly management meetings with the objective of providing strategic support, guidance and advice where necessary.

## Trade, Export and Investment

### The DTI

Concessions and facilities are available to exporters through the DTI, which is South Africa's principal instrument of export promotion. The DTI also offers advice to industrialists and manufacturers on all aspects of foreign trade promotion as well as a vast number of incentive initiatives. The DTI's financial incentives are designed to assist exporters to break into new markets abroad and expand existing markets and include the following programmes/schemes.

## Automotive Production and Development Programme

The Automotive Production and Development Programme (APDP) has four key elements including:

- moderate import tariffs from 2012, pegged at 25% for completely built-up vehicles and at 20% for components used by vehicle manufacturers;
- a local volume assembly allowance allowing manufacturers with plant volumes of 50 000 units a year or more to import 20% of their components duty free (reducing to 18% in 2015);
- a production incentive, from 2013, in the form of a duty credit aimed at raising production; and
- the Automotive Investment Scheme (AIS), which replaces the Productive Assets Allowance Scheme which formed part of the Motor Industry Development Programme. The object of the AIS is to increase plant production volumes, sustain employment and strengthen the automotive value chain. The AIS has been introduced in the form of a taxable cash grant of up to 30% of the value of qualifying investment in productive assets. The People-carrier Automotive Incentive Scheme (PAIS) is a sub-component of the AIS and provides a cash grant of between 20% and 35% of the value of qualifying investment in productive assets approved by the DTI.

The APDP has the long-term goal of doubling vehicle production to 1.2 million by 2020. The programme is available to motor vehicle assemblers and component manufacturers and exporters. It enables local vehicle and component manufacturers to increase production runs and encourages rationalisation of the number of models manufactured by way of exports and complementing import of vehicles and components.

## Capital Projects Feasibility Programme

The DTI's Capital Projects Feasibility Programme (CPFP) is a cost-sharing grant that contributes to the cost of feasibility studies likely to lead to projects that will increase local exports and stimulate the market for South African capital goods and services. The grant is capped at ZAR 8 million to a maximum of 50% of the total costs of the feasibility study for projects outside Africa and 55% of the total costs of the feasibility study for projects in Africa.

## Critical Infrastructure Programme

The DTI's Critical Infrastructure Programme (CIP) is a cost-sharing grant for projects designed to improve critical infrastructure in South Africa. The grant covers qualifying development costs from a minimum of 10% to a maximum of 30% towards the total development costs of qualifying infrastructure. The cash grant is capped to a maximum of 30% and at ZAR 30 million of the development cost of qualifying infrastructure. It is made available to approved eligible enterprises upon the completion of the infrastructure project concerned.

## Export Marketing and Investment Assistance Scheme

The DTI's Export Marketing and Investment Assistance Scheme (EMIA), run in conjunction with the Trade and Investment South Africa Agency (TISA), aims to partially compensate exporters for costs incurred in developing export markets and to attract new foreign direct investment into South Africa.

A number of marketing assistance schemes are operated under EMIA. The assistance schemes for individual exporters include:

- Primary Export Marketing Research & Foreign Direct Investment Research scheme;
- Individual Inward-bound Mission scheme;
- Individual Exhibitions and In-store Promotions scheme; and
- Sector-Specific Assistance schemes.

For groups of exporters, the assistance schemes include:

- National Pavilions scheme;
- Outward Selling Trade Missions scheme;
- Outward Investment Recruitment Missions scheme;
- Inward-Buying Trade Mission scheme;
- Inward Investment Missions scheme; and
- Emerging Exporters scheme.

Assistance is available for official group participation and comprises a contribution to the cost of participating including airfares, accommodation and transport of products.

### Film incentive schemes

The DTI offers a package of incentives to promote its film production and post-production industry. The incentives consist of the Foreign Film and Television Production and Post-Production incentive to attract foreign-based film productions to shoot on location in South Africa and conduct post-production activities as well as the South African Film and Television Production and Co-Production incentive, which aims to assist local film producers in the production of local content.

The objective of the scheme is to encourage and attract large-budget films and television productions and post-production work that will contribute towards employment creation, enhancement of international profile and increase South Africa's creative and technical skills base.

### Sector Specific Assistance Scheme

The Sector Specific Assistance Scheme (SSAS) is a reimbursable 80:20 cost-sharing grant, with a maximum allocation of ZAR 1.5 million per project, offering financial support to export councils, joint action groups and industry associations. The Scheme comprises two sub-programmes, namely generic funding and project funding for emerging exporters. The aim of the SSAS is aligned to the DTI's overall objective, including developing new export markets and broadening the export base.

### Trade and Investment South Africa Agency (TISA)

TISA is a service delivery agency that combines trade and investment promotion. It works under the umbrella of the DTI to provide a "one-stop shop" for investors and exporters at a national level and enables the DTI to take advantage of the synergy between investment and export.

TISA comprises four business units, namely:

- Investment Promotion and Facilitation, responsible for attracting foreign direct investment as well as developing and promoting local direct investment;
- Export Promotion and Marketing, responsible for developing and implementing regional export promotion strategies based on market research and identification of export opportunities;
- Export Development and Support, designed to contribute to the positioning of South Africa as a reliable trade partner by expanding the exporter base of the country, thereby increasing the export supply and sales of South Africa; and
- Foreign Service Management, to render a full suite of corporate services to foreign economic offices to enhance the promotion of exports and investment in targeted countries, providing a substantial footprint for South African businesses to access markets globally.

### Export Credit Insurance Corporation of South Africa SOC Limited

The Export Credit Insurance Corporation of South Africa SOC Limited is a self-sustained, State-owned national export credit agency. A registered insurer, it is subject to the supervision and regulation of the Financial Services Board and underwrites bank loans, supplier credits and investments outside South Africa.

The aim is to encourage South African export trade by underwriting export credit loans and investments outside the country, in order to enable South African contractors to win capital goods and services contracts in other countries
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### Other entities

### Rebate provisions

The South African Revenue Service's rebate provisions are aimed at promoting the manufacture and export of goods. They are available to all manufacturing industries in respect of duties applicable to imported goods, raw materials and components used for export, in manufacturing and processing.

### Reduced rail rates, ocean freight rates and road transport concessions

Reduced rail rates are granted on commodities destined for territories overseas on a contract basis. If products cannot be marketed abroad at competitive prices because of normal shipping costs, exporters may make representations directly to the shipping line. Similarly, exporters may apply to their local Road Transportation Board for road transport exemptions, which are negotiated on a contract basis.

### Other organisations

Lastly, financial assistance can also be obtained from:

- Provincial Administrations and Development Corporations: industrial investment opportunities are available within the nine provinces. They are coordinated by the relevant member of the Executive Council for Economic Affairs or the Provincial Development Corporations;
- Local authorities: many of the local authorities provide special incentives, assistance and facilities to industrialists wanting to establish themselves in the area; and
- The South African Revenue Service: tax incentives include deductions and allowances under the Income Tax Act, No. 58 of 1962 (Income Tax Act), as well as benefits through double taxation agreements. Section 12I of the Income Tax Act provides a tax allowance programme based on investment in new manufacturing assets and training, provided to employees in both greenfield projects (ie new industrial projects that utilise only new and unused manufacturing assets), as well as brownfield projects (ie expansions or upgrades of existing industrial projects).

## Conclusion

South Africa is employing general and targeted measures to increase economic activity in areas where it has endowments and comparative advantage in endeavouring to secure an annual average 5% economic growth rate, broaden the participation of individuals or groups formerly excluded from participation in the mainstream economy and face the increasing challenges of globalisation.

The realisation of such goals can only be achieved by the coordinated efforts of Government and private industry. It is, however, clear that investors, both local and foreign, can gain substantially by using the financial assistance measures available to them.