

## Briefing note:

### IDC results give hope – should it be better resourced?

Over the past quarter the Industrial Development Corporation (IDC) released its annual results for the 2016/7 financial year. It posted strong results, and its focus on finance for the industrial sector of the economy, black industrialists and job creation ensures that it plays an important and transformative role in the economy. The IDC, as the largest Development Finance Institution (DFI) in South Africa, is playing a counter-cyclical role during this period of slow growth in South Africa. Its lending has more than doubled in real terms over the past decade. Still, relative to the GDP it remains far smaller than its peers in similar economies, which points to the scope for growth.

Key results include:

- The IDC approved transactions of R15,3 billion.
- It dispersed R11 billion to businesses.
- It expected to create (or save) over 20 000 jobs as a result of this finance, based on previous tracking of the impact of its lending to particular sectors.
- Of the R15,3 billion approved, R7,7 billion was for manufacturing operations.
- Of the R15,3 billion approved, R4,7 was for black owned manufacturing firms/black industrialists.
- The IDC generated a surplus of R2,2 billion, which will contribute to its sustainability and be used for financing in future years.
- Its assets grew by 7% over the year, to reach a total value of R129,8 billion.

These are good results that make a significant impact on the South African economy with the IDC approvals equal to 1% of South Africa's GDP. This contribution has grown steadily since the mid-2000s, growing from about 0,2% of GDP to 1% today. Given the current period of low growth, this level of this contribution can make the difference between recession and growth. It provides a stimulus in a key sector of the economy – manufacturing – and contributes to employment creation.

How does the IDC compare to DFIs of other countries? The ratio of lending by these institutions to GDP provides a better indicator as a comparator than a dollar (or converted rand) amount, as the economies have significantly different scales. For developed countries that have a history of strong DFIs such as Germany and Japan it is 14% and 3% respectively. For BNDES, the Brazilian DFI, it is 11%; the China Development Bank is 12%; and South Korea's Korean Development Bank (KDB) is 16%.

Compared to the lending of the South African banking sector, the IDC is also a small player. But while the IDC has increased its lending, there has recently been a slowdown in credit extension by the South African banks. Credit extension has declined from 8,37% growth in April 2017 to 7,81% in July 2017. In a recent article in Business Report, FirstRand Chief Executive Officer Johan Burger stated that “Credit extension is going to be low for the next two to three years, unless we see some real recovery in economic growth,” and that all four of the major South African banks having slowed lending since 2015.<sup>1</sup>

In sum, the IDC is making a significant contribution to a countercyclical response to the downturn and to strengthening industrialisation. In this context, new options should be explored to significantly increase its resourcing.

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<sup>1</sup>Renee Bonorchis. *South African bank lending seen flat lining as economy stutters*. Business Report. 7 September 2017. Renee Bonorchis. *South African banks are reining in loans*. Bloomberg. 7 September 2017.