



Industrial Development Corporation

Your partner in development finance

Preliminary Proposal for the Establishment of a Natural Products Fund

IDC Business Unit Involvement



Your partner in development finance



Metals Value Chain

- Basic Metals and Mining
- Machinery and Equipment
- Automotive and Transport Equipment



Chemicals Value Chain

- Basic and Specialty Chemicals
- Chemical Products and Pharmaceuticals

Special High Impact Sectors

- Clothing & Textiles
- Media & Motion Pictures



Agro Value Chain

- Agro-processing and Agriculture

Enablers

- Industrial Infrastructure
- **New Industries**



High Impact Sectors

- Heavy Manufacturing
- Light Manufacturing & Tourism

Value Chains are earmarked for special attention including proactive project development, whilst High Impact Sectors are exclusively reactive

Why are Natural Products?



Industrial Development Corporation
Your partner in development finance

- South Africa is the **third most biological diverse country in the world** in terms of species richness and uniqueness. The natural products sector includes any product produced from biological ingredients of indigenous or non-indigenous plant species.
- These products are typically found in the food, beverage, pharmaceutical and cosmetics industries and can take the form of ingredients or finished products

The biodiversity economy sector is an ideal development sector as it:

- realises the economic value of indigenous biological resources;
- facilitates rural economic development;
- has very high value added potential;
- has a high potential to earn foreign currency; and
- enables the development of new products and markets.

Our goal is to develop a vibrant and vertically integrated SA Inc natural products Industry using indigenous and naturalized flora to produce differentiated food ingredients, nutraceuticals, cosmetics and pharmaceuticals

How IDC Currently Supports SME's in this sector



Your partner in development finance

IDC Unit/Dept/Fund

Support provided

1

IDC Business Units

Funding is available from R1million upwards to all businesses from the New Industries, Chemicals and Pharmaceuticals and Agro-processing and Agriculture SBU's

2

Technology Venture Capital

The purpose of the TVC Fund is to provide funding and business support to small companies at early stages of commercialisation (not development) of innovative products, processes and technologies across all sectors which have the potential to make a significant developmental impact on the South African economy.

3

Developmental Impact Support

The DIS team has provided grant funding to some SMEs in the natural products space who are in their early stages of development and where there is community involvement. The team aims to help marginalized communities participate in the more formalised mainstream economy. DIS has provided grant support to Everpix, Muthi Futhi and others that process indigenous plants

4

Business Support

IDC Business Support can assist entrepreneurs in developing their proposals to a state that is fundable, and includes mentoring and training.

The Support of Natural Products is Aligned to IDC's mandate and Government Strategies

IDC

- The New Industries Business Unit prioritized the Natural Products potentially yield substantial developmental outcomes such as rural job creation in a reasonable timeframe.
- The Agro-Processing and Agriculture SBU has prioritized horticulture in its business plan amongst other areas. The extraction of high value additives and nutraceuticals (which includes natural ingredients) as primary or secondary products are highlighted under the Horticultural Value Chain
- The Chemicals and Pharmaceuticals SBU has highlighted “natural and organic” ingredients in its Value Chain development strategy.
- The Development Impact Support Department has funded several natural products businesses. Their interest lies in the potential for rural community involvement in natural products, e.g. out-grower schemes and community projects

Government

- Nationally, Natural Products has been identified as an area of opportunity in several strategies and policies
- The Department of Environmental Affairs (DEA) has established a National Biodiversity Economy Strategy.
 - This aims to develop and improve the bioprospecting industry to create a sustainable, inclusive and commercially viable sector adding 10 000 new jobs and contributing R1.7 billion to GDP at 10% p.a. by 2030.
 - One of the objectives of this strategy is to improve the access to finance for entrepreneurs in this sector
- The biotrade sector is also impacted by the policies and strategies of the Department of Science and Technology (DST), in particular its Bio-economy Strategy and its bill for the “Protection, Development and Management of Indigenous Knowledge Systems”
- The dti has an impact on the biotrade sector through its current Industry Policy Action Plan.

Natural Products Strategy



Your partner in development finance

1

Deal Sourcing

- Focused collaboration stakeholders to proactively mine their pipeline for funding opportunities especially those with programmes in place
- Ad hoc deal sourcing if required licenses are in place

2

Funding Solution Development

- Develop third part managed fund or programme that considers the specific needs of the industry
- Collaborate with other funders

Focus area

3

Value Chain Development

- Focus on the development of value chains prioritizing BioPanza species but not excluding other species

4

Create an Enabling Environment

- Escalate engagements with the DEA and other stakeholders to debottleneck the regulatory requirements

IDC involvement in Natural Products

IDC Involvement in Natural Products

Companies funded

- About 4 years ago IDC identified the natural products industry as a priority industry to develop.
- However, it soon became clear that there are substantial barriers (Including regulatory, financial, business development challenges) in commercialising natural products that need to be addressed to achieve production locally and to access export markets.

Company Name	Product	Challenges Experienced
1	Essential Oils	Business required funding to prove sustainable supply of rose geranium to secure an overseas off-take agreement. Business plan required further development. Entrepreneur did not understand the drivers of financial viability (e.g. economic units) of the business. Proposed business model unsustainable
2	Moringa fortified foods	Funding required to scale up production of moringa fortified foods. Business support was required to improve business plan and to capacitate entrepreneur. The application is currently undergoing pre-investment business support. Issues around certification of Moringa
3	Moringa and bulbine	The company required funding to expand its bulbine extract production operations to include moringa. Full due diligence was conducted on the application after which the applicant rejected the deal due as cost of funding too high. Client was subsequently funded by was funded by DIS

There are significant challenges along the value chain

Value Chain	Primary material cultivation	Component extraction	Formulation and Production	Packaging & Branding	Local retail and Export
Challenges	<ul style="list-style-type: none"> Permits Sustainable raw material supply Data on yields and concentration (to determine optimal location for projects) Inferior quality Compliance (e.g. organic certification) 	<ul style="list-style-type: none"> Permits Fragmented production Lack of agro-processing facilities Lack of accredited testing facilities Inferior quality Certification, INCI names,, other compliance Lack of funding 	<ul style="list-style-type: none"> Permits Lack of knowledge of International certification/ compliance Lack of co-ordination Insufficient organic certified contract manufacturers Lack of funding 	<ul style="list-style-type: none"> Costs and expertise in brand development Lack of funding 	<ul style="list-style-type: none"> Market pull limited due to inability to guarantee sufficient volumes at required quality Significant non-tariff barriers Formulators not familiar with international regulatory compliance Lack of funding
Resources	<ul style="list-style-type: none"> - ARC - CSIR - DLDR DAFF - Universities - Bioprospecting Forum ABioSA 	<ul style="list-style-type: none"> BIDC/ CSIR/ MRC - Universities -Le-Sel Research Business incubators e.g. Egolibio, Biopark, Innovation Hub, Phytotrade ABioSA UNIDO 	<ul style="list-style-type: none"> BIDC/ CSIR/ MRC - Universities -Le-Sel Research Business incubators e.g. Egolibio, Biopark, Innovatoin Hub, Phytotrade ABioSA 	<ul style="list-style-type: none"> BIDC/ CSIR/ MRC - Universities -Le-Sel Research ABioSA 	<ul style="list-style-type: none"> IDC (funding) DTI SEOBI ABioSA SIPPO (last mile to international markets)

Although resources exist to support SME's they are fragmented and uncoordinated

Profile of SME's in Natural Products Sector



- Small family owned businesses or one man bands
- Many operating for more than 10 years but still relatively marginal
- Turnover R3m to R30m
- Not much transformation in ownership however involvement in community projects

-
- Enterprises trying to advance, but struggling to grow with limited funding
 - Turnover R500k to R3m
 - One sees more BEE participation in this group. Without grants/soft loans to overcome regulatory hurdles, this group will never advance
 - The minimum order quantities put working capital strain on companies e.g. packaging, as well as paying communities when procuring raw material

-
- Majority of SMEs in this category
 - Turnover R50K to R1 million
 - Require a lot of hand-holding to capacitate them on various aspects of their business, including:
 - quality of their products.
 - regulatory hurdles for some of our plants to access international markets
 - This is the group where there is the most BEE participation

Proposed Fund Principles

- The fund should be a Regional fund (though the focus will be SA SMEs)
- The fund should be open to all entrepreneurs who would like to commercialise indigenous plants (those prioritised by BioPanza but not limited these)
- The purpose of the fund should be to provide seed capital to indigenous products based businesses. Alongside the fund, business support to be provided but by an independent organization, that will prepare a pipeline for the fund. This will decrease the cost of fund management, as quality applications would be submitted by investment-ready SMEs. The programme should aim to increase the number of economically productive natural products companies in South Africa, and thereby contribute to economic growth and international competitiveness through the exploitation of the countries rich biodiversity and rural poverty alleviation.
- The opportunity created by this fund in terms of its concessionary nature will encourage high risk, new entrepreneurs in the natural products space to develop and be sustainable in the long term
- The fund should have
 - Lower than average pricing
 - An element of business support on a grant funding basis
 - Longer facility terms to accommodate the cashflow requirements and growth of the businesses

The fund should result in Social impact: job creation, ABS compliance, community, women and youth involvement; Innovation: new products and technologies; Improved quality of products; Sustainable and certified production (which links to biodiversity management)

Proposed Fund



Your partner in development finance

Component	Purpose	Percentage of Fund
<p>Commercialisation funding</p>	<ul style="list-style-type: none"> • Financial assistance to purchase plant machinery and equipment required for commercialisation or for outsourced production • Funding of hubs or shared processing facilities to support the natural products • Provision for capital expenditure, working capital and operational costs • The latter could include the cost of setting up a distribution hub in the export market, to reduce costs and be more competitive, costs to overcome regulatory and market access/growth hurdles, such as PIFs and efficacy tests. It should also cover salary cost to appoint new staff, to improve systems and procedures and the cost to develop marketing material/social platforms/online sales, as well as training. 	<ul style="list-style-type: none"> ▪ 70% of Funding
<p>Technical Assistance Support</p>	<ul style="list-style-type: none"> ▪ Technical assistance for natural product crop development and/or bioprospecting ▪ Development and commercialization of competitive pre-processes technologies. and quality assurance e.g. setting up HACCP/GMP/GlobalGap certification and other certification to address other markets such as kosher/Halal. ▪ Laboratory tests to do claim tests, sample testing, obtain quality data sheets of raw materials and finished goods, safety and efficacy data, etc. ▪ Purchase of equipment in support of pre-commercial product and process development (lab equipment, pilot plants) ▪ Support to test and launch products into new markets ▪ Support to reduce business risk and to facilitate access to finance, such as registration of IP and Trademarks or the development of a business plan, ▪ Assistance to SME's to address ABS compliance issues and regulatory challenges and barriers and obtain the necessary permits ▪ Provision of specific business support to SME's whether financial, technical or marketing, including training ▪ Acquiring/improving systems: (cybersecurity, IT, certification, CRM – customer relationship management, financial, etc.) 	<ul style="list-style-type: none"> ▪ 30% of the funding

The fund will be made up of blended finance such that concessionary pricing can apply

Proposed Fund Characteristics

No	Characteristics	Proposal
1.	Size of the Fund	<ul style="list-style-type: none"> • R 150 million
2.	Qualifying criteria	<ul style="list-style-type: none"> • Addressing all three layers of SMEs across the value chain • Geographic focus – South Africa and the Rest of Africa • Targeted value chains – All natural products value chains prioritised by the Department of Environmental Affairs for development but not at the exclusion of others. • Transaction types – Business support organisations, Start-up companies, expansions and expansionary empowerment acquisitions.
3.	Financial Instruments	<ul style="list-style-type: none"> • Grants • Debt • Equity /Quasi Equity • Funding of minimum Phase 1: R50 000 up to R10m, • Own contribution minimum 10%
4.	Investment period	<p>The proposed investment period of the fund is 5 years with the following maximum investment tenures:</p> <ul style="list-style-type: none"> • Debt = 6 years at scheme pricing • Quasi-equity = 10 years

Potential Funders

Funder/Potential Funder

Funder/Potential Funder

Indicative Target

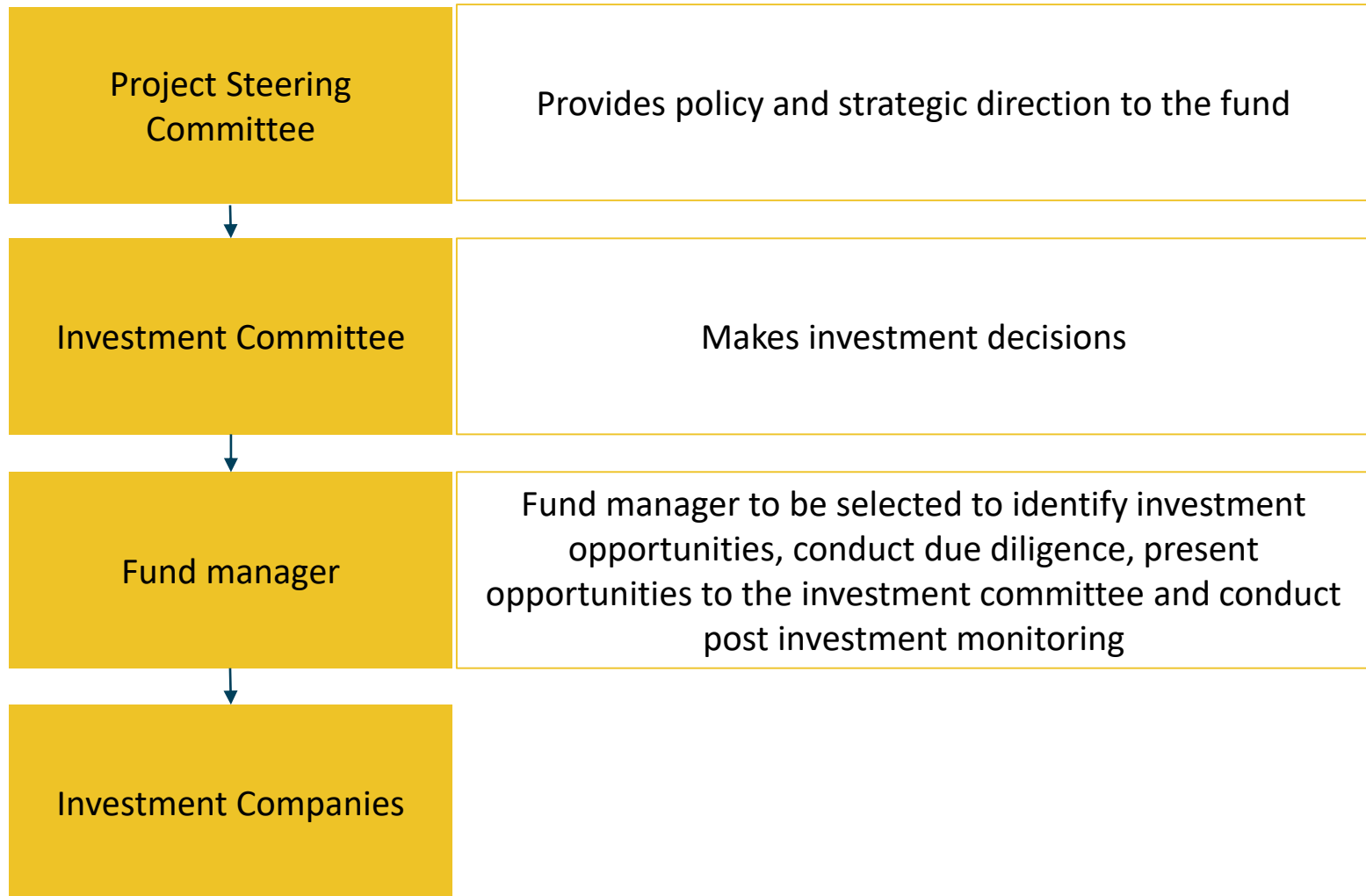
- 1 IDC
- 2 Potential Funder X
- 3 Government Depts
- 4 Other (e.g. IDC DIS)

- R 50 million
- R 20 million
- TBC
- TBC

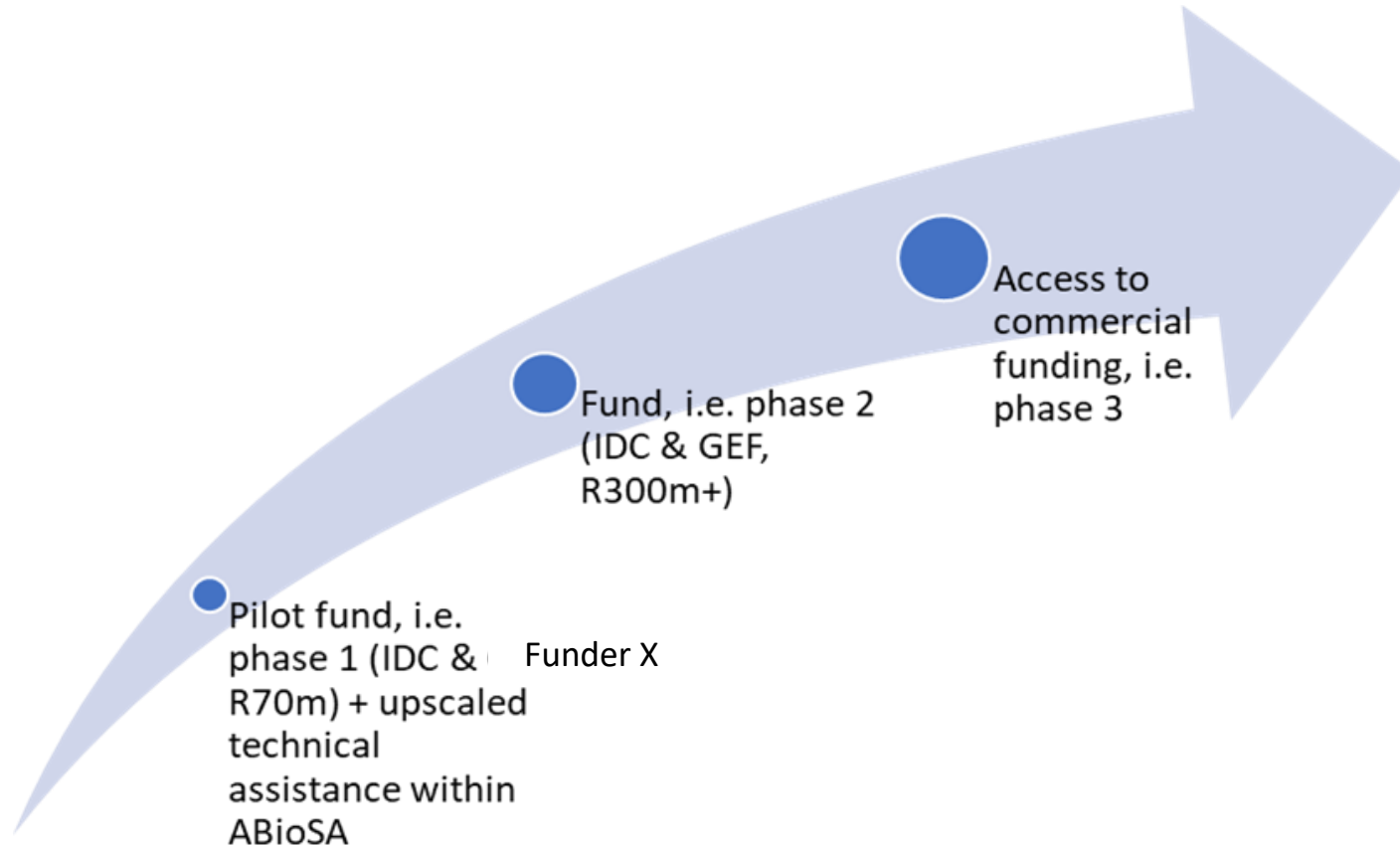


R150 million

Proposed Governance of the Fund



The current fund will be a pilot for further funding rounds



Potential future funders with the above objectives: IDC, South African Government Proparco, FFEM, German Government and others

Way Forward

- Fundraising
 - IDC to give in principle approval of the funding amount – proposal to go to EXCO 12 Feb (Zandile)
 - Government Departments to get commitment of how much they can contribute
 - Meetings with leadership from DEA, DST, the dti, and the DSBD to share Sector fund concept (Preshanthie)
 - 13 February 2019 – relevant CDs and DDGs (Preshanthie)
 - 27 February 2019 – DGs of DEA, DST, the dti and the DSBD (Preshanthie)
 - Firm commitment from other funders obtained
- Engagement of stakeholders
- Due Diligence on Shortlisted Fund managers / Service providers
- Finalization of fund details
- Presentation of final fund details to IDC Special Credit Committee
- Set up of the Fund

The ask from Government Departments and other stakeholders is to indicate how much they can contribute towards the fund

QUESTIONS?