

FEATURE: Christo Fourie, IDC**27 August 2015**

South Africa's Industrial Development Corporation has shifted the focus of its former venture capital unit to incorporate so-called new industries. SAVCA spoke to Christo Fourie, Head: New Industries, at IDC, about the significance of the change.

SAVCA: The IDC is shifting the focus of its venture capital unit to incorporate new industries. What is the new vision?

CF: Our vision is to establish new industries that will form the base of the South African economy of the future. We will do so by pro-actively identifying the most promising new and emerging industries/technologies, and then supporting and nurturing them until they have become globally competitive and self-sustainable. We will target new industries that have the potential to make a significant contribution to economic growth in the country. These new industries will stimulate jobs-rich industrialisation through increased local manufacturing and further beneficiation of South African resources.

SAVCA: The IDC has been an important and long-standing supporter of venture capital in South Africa. What does this new approach mean for the venture capital industry?

CF: The impact of the change from Venture Capital to New Industries is that the IDC will no longer provide venture capital funding across the industry spectrum, but only to start-ups within certain prioritised new industries. We will be presenting the list of proposed new industries, to be prioritised for pro-active development, to the IDC Board in September. If our proposals are accepted we will immediately start with the formulation of development strategies for the prioritised industries. In parallel with the strategy formulation phase, we will source and assess potential investment opportunities in the prioritised industries. We will provide funding in the form of equity and/or debt across the following stages of business development within the prioritised new industries:

- final stages of the development of disruptive and scalable technologies;
- early-stage commercialisation of disruptive and scalable business models or technologies;
- growth/expansion stages of disruptive and scalable business models or technologies.

SAVCA: What, in your view, should the role of government be in supporting and enabling venture capital?

CF: Government should seriously consider providing its support for a fund-of-funds type VC programme, such as the well-known Yozma programme of Israel. The evidence is out there that a programme like this can stimulate high-impact entrepreneurship, technology and business model innovation, SME formation and ultimately job creation. Government support should include:

- Funding for investment into privately managed VC funds through a fund-of-funds programme – if Government committed around 33% of the required capital it could potentially be sufficient to entice private sector investors to commit the balance of the capital;
- Reduced red tape around business formation, ongoing operation and eventual disposal of investments by founding shareholders;

- Continued/improved tax incentives for investors willing to invest in the VC asset class (Section 12J already goes a long way).

SAVCA: Which industries do you believe will benefit most from the new IDC mandate?

CF: We have analysed 22 candidate new industries from the perspective of attractiveness (significance of impact on South African economic growth) and South African competitive advantage (probability to succeed). Industry attractiveness was assessed against both sustainability and developmental impact considerations. The 7 industries which we are proposing to prioritise for pro-active development will therefore benefit most from the IDC New Industries mandate. We will be able to disclose the industries which we will initially be focusing on later in September. New industry assessment and prioritisation will be a continuous process and as a result other new industry candidates may be prioritised in subsequent years.

SAVCA: How will you measure your success?

CF: Industry development objectives and associated milestones and deliverables will be set when the industry development strategies are formulated. Achievement of the milestones and deliverables will be tracked and reviewed on an ongoing basis. The industry attractiveness and competitive advantage will further be re-assessed at least annually. These factors will inform whether the IDC will continue its support of any of the prioritised new industries. Success will be achieved when a new globally competitive industry has been established which:

- makes a meaningful contribution to South Africa's economic growth;
- facilitates increased localisation of manufacturing/beneficiation of local resources and the resultant job creation across the new industry value chain.