

**CALL FOR PROPOSALS**

**IDC CREDIT LINE OFFERING TO NON-BANK  
INTERMEDIARIES**

**TERMS OF REFERENCE**

Call Opens 4 August 2023

Call Closes 29 September 2023

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## 1. Introduction

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Non-Bank Intermediaries (“NBIs”) are financial institutions that do not have a full banking license and cannot accept deposits from the public. NBIs facilitate alternative financial services, such as investment (both collective and individual), risk pooling, financial consulting, brokering, money transmission, and check cashing. NBIs are a source of credit along with licensed banks and Development Finance Institutions (“DFIs”).

Small, Medium, and Micro-sized enterprises (SMMEs) are a diverse group of businesses usually operating in the service, trade, agri-business, and manufacturing sectors. SMMEs play an essential role in contributing to South Africa’s economic development. In 2021, SMMEs accounted for 24% of income and 58% of employment in the manufacturing industry (*Stats SA*). However, SMMEs face various challenges such as:

- Access to finance;
- Affordable and suitable finance;
- Collateral;
- Access to markets;
- Skills, experience, and track record;
- Climate/environmental models for risk management;
- Access to value-chains and market-related prices for production inputs;
- Access to non-financial support

The IDC’s aim of extending credit lines to NBIs is to expand the funding reach to Black owned SMMEs, in part to address the funding challenges faced by SMMEs thereby contributing to creating jobs and supporting economic development in South Africa.

For the financial year ending March 2024, IDC is making available R3 billion to provide credit lines to eligible NBIs.

## 2. Mandate of Funding Call

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- (i) Provide on-lending facilities to NBIs that target **Black owned SMMEs** (refer to **Annexure A** for what qualifies as an SMME).
- (ii) NBIs whose proposals lean towards township based or township-linked or rural based or rural-linked Black owned SMMEs, will be considered more favourably; and
- (iii) Further preference will be given to proposals that also show increased exposure to women and youth owned businesses.

With this funding Call IDC will provide lines of credit to **both** established and emerging NBIs.

- i) **Emerging NBIs:** 100% Black owned and operated NBIs who have a minimum of 3 years **operational track record** in funding SMMEs.
- ii) **Established NBIs:** NBIs who have a minimum **operational track record** of 8 years of funding SMMEs. The minimum BEE shareholding of the NBI being 25%. Those with higher BEE shareholding will be more favorably considered.

#### Application Form and Motivation

In the Application Form, applicants must provide a detailed background to, and strong motivation for their proposal. What is the social and economic benefit of their proposal? How will it make a positive impact and meet the brief of the Call?

#### Pricing

IDC does not have a set interest rate at which it is offering the credit lines. Each NBI application will be priced on its merits.

The NBI will be allowed to price its facilities to final beneficiaries within the acceptable regulatory allowed rates. The NBI must be able to prove historical acceptance of its pricing by the target market.

### **3. Who Can Apply for Funding?**

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Applications can be made by existing non-bank intermediaries that have the aforementioned track record to on-lend to Black-owned SMMEs within the mandate of the initiative as per paragraph 2. Applicants must meet the terms and eligibility criteria as spelt out in this document. Applicants must have a sustainable business model for the foreseeable future with solvency and recurring profitability for at least the last 2 financial years.

NBIs can on-lend the funding to SMMEs towards plant and equipment, working capital and other business-related costs. On-lending instruments could include – revolving credit facilities, purchase orders, invoice discounting, working capital loans, CAPEX loans.

Government (national, provincial, and local) owned entities and Development Finance Institutions (DFIs) are excluded from this Call.

### **4. Eligibility Criteria**

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The following eligibility criteria are required to ensure that outputs are maximised and that the goals and objectives of the IDC are met. Successful applications should meet all of the following requirements and terms. If any are not met at the time of application, and the requisite documentation not supplied, the application will be rejected:

- i) NBI must have the minimum operating infrastructure and systems to on-board applicants; loan management systems, as well as credit and risk policy documentation in place; and operational, administrative capacity and reporting capability, to successfully implement the proposed programme. Applicant to submit, along with the application, the background documentation of the on-boarding and loan management system being used, describing in detail the functionality and output. Applicant to submit its on-lending pricing structure/methodology, credit and risk policy documentation, as well as portfolio management policy.
- ii) The NBI must be a South African owned and registered company.
- iii) The NBI must be located in South Africa.
- iv) The NBI must be appropriately registered and accredited with the relevant authorities to carry out its lending activity (such as National Credit Regulator, FSCA and other relevant regulatory bodies as applicable). Applicants to submit a valid licence or registration certificate.
- v) The NBI should have a proven financially sustainable business model, a developmental mandate, a capacity to support SMMEs, and technical experience in lending and loan book management.
- vi) Minimum funding the IDC will offer is R50 million up to a maximum of R250m **NB:** The final approved value will be dependent on the outcome of a thorough assessment undertaken by the IDC.
- vii) Applicants (contracting party) must be solvent and profitable for the last 2 financial years.
- viii) Applicants to submit latest **AUDITED** annual financial statements for the last 3 financial years.
- ix) The NBI to submit a list of available pipeline prospects ready to take up at least 50% of the funding request.
- x) At least 50% of IDC funding must be towards IDC's targeted sectors. Preference will be given to NBIs who target more than 50% (refer to **Annexure B** for IDC mandated sectors).
- xi) The NBI must have the capacity to deploy the funds within 1 year of IDC approval. Initiatives demonstrating realistic/plausible impact in a shorter period will be considered more competitive.
- xii) NBIs must have a track record in managing **credit lines with repayment terms**.

## Competitive Features

As this is a competitive process, preference will be given to applications that exhibit some or all of the following features:

**Co-funding:** The IDC aims to leverage existing resources available within the economy, thus the availability of and amount of co-funding will be viewed positively. It will be preferable for applicants to demonstrate their ability to secure co-funding in the form of direct cash contributions, however other lenders will be acceptable. Co-funders must be aligned to the terms and outcomes of the IDC credit line.

**Historical on-lending performance:** A successful track record in respect of re-payments, management of non-performing-loans, impairments, and write-offs, along with business support interventions provided to minimise and/or reduce adverse indicators.

impairments and write-offs for the IDC facility.

**Impact:** An available pipeline demonstrating value and number of potential investments towards Women and Youth owned entities, and entities in rural, township economies, also demonstrating priority given to provinces and localities worst affected by unemployment.

**Job Creation:** Applications with the most cost-effective job creation ratio (IDC credit-line divided by jobs to be created ) will be more favourably considered.

**Non-Financial Support:** The extent and type of non-financial support to be provided to end beneficiaries.

**Performance Indicators:** The proposal should include assumptions in respect of potential.

**Pricing Structure:** NBIs offering comparatively more affordable rates to the market will be prioritised.

**Regional Spread:** Applications that have exposure to a more national footprint and not only Gauteng or Western Cape will be prioritised.

**Transformed NBIs:** Black owned and managed NBIs will be prioritized.

## 5. Terms of Funding

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- (i) The funding from IDC is to be ring-fenced in a separate bank account and separated from any liability arising from the NBI's existing business activities. Funding must be ring-fenced from other NBI activities and not be pooled with other funds.
- (ii) IDC Credit line should not be used to replace existing loans.
- (iii) The NBI will be required to provide adequate security to the IDC for the credit-line.
- (iv) NBIs must be socially and environmentally responsible, with established Environmental, Social and Governance (ESG) policies.
- (v) The NBI to display ability to offer pre and post non-financial support to final beneficiaries.
- (vi) The tenure of the facility to be extended by IDC to the NBI can be up to a maximum of 6-years which is inclusive of a one year close out period. The facility can be recycled during this tenure period. The NBI will in-turn extend term facilities up to a maximum of 5 years to final beneficiaries.
- (vii) The NBI to ensure that their applicants comply with the UIF regulations.
- (viii) The NBI to provide quarterly reports two weeks after the quarter end, being by – 31 March, 30 June, 30 Sept, and 31 Dec. For the first 6 months, to provide monthly reports – to reach IDC two weeks after every month end. The reports will include information as per paragraph 6.
- (ix) IDC will have the right to participate as a member or as an observer on the governance structures of the NBI as it relates to the IDC funding provided.
- (x) NBIs need to acknowledge that while any intellectual property (IP) will reside with the NBI, all successful NBI applicants must permit the IDC to use the concept for learning and dissemination purposes. The learning material will be developed in conjunction with the owner of the IP and will not be used for commercial dissemination.

- (xi) Access by IDC to the records pertaining to the IDC loans, and the loans extended to the underlying SMMEs by the NBIs.
- (xii) Right for IDC to audit, review and inspect its portfolio (either IDC itself or through appointment of service providers).
- (xiii) Annual independent audits based on agreed procedures, will be required to determine accuracy of fees and loan book performance.
- (xiv) Right for IDC to contact or visit NBI funded SMMEs directly.
- (xv) Submit proof that all current funders have been informed of the application for IDC funding and have given consent thereof (submit proof of such consent with application).
- (xvi) Provide the terms of the other funders' facilities (interest rate, tenure of facility, moratoriums, default covenants, on-lending terms to SMMEs).
- (xvii) Provide the final legal agreements signed with all current funders.
- (xviii) Provide in detail the security offered to current funders and written proof of their willingness or position to negotiate with IDC on security.
- (xix) Provide your consent to both IDC and your other funder/s to share information with each other, as well as to negotiate any necessary terms (submit proof of this consent with application).

## 6. Reporting Requirements

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Successful applicants are expected to have robust reporting capability and capacity as they will be providing the following reporting requirements:

### 6.1 Financial Indicators

- i) Arrear's recovery rate (percentage of total recoveries against total arrears).
- ii) Arrear's ratio (i.e., Total arrears as percentage of the total loan book).
- iii) Non-performing Loans (NPLs) ratio (i.e., NPLs as a percentage of the total NBI debtor book).
- iv) Instalment conversion rate (i.e., percentage of repayments/instalments received versus the expected repayments/instalments due per debtor).
- v) First instalment default rate (i.e., the percentage of clients who fail to meet the first instalment/repayment).
- vi) Collateral coverage (i.e., total collateral value as a percentage of the total facility amount).
- vii) Loan condition breaches per debtor and associated remedial actions.
- viii) Undertaking breaches (i.e., number of clients with undertaking breaches versus the total portfolio).
- ix) Number and value of approvals.
- x) Facility terms per client including interest rates, repayment terms, moratoriums, and security.
- xi) Number, value and reasons for cancelations, rejections and/or withdrawals.
- xii) Loan book analysis including bad debt provisions, security to loan value, write offs, recoument period and interest margins.
- xiii) Rand value of disbursements.

- xiv) Fund facility report detailing funds received from IDC, disbursements, interest accrued and balance of funds available. This report to be supported by a detailed bank statement.
- xv) Progress against Commitment Disbursement Profile (see Application Form).
- xvi) Other Information- such as details of any litigation, arbitration, administrative proceedings, and other information which would have a Material Adverse Effect and would have an impact on the financial position of the NBI.
- xvii) Notification of Event of Default – The NBI would have to notify the IDC of an Event of Default and status of such, including steps taken to remedy it.

### **6.2 Developmental Indicators by Number and Value**

- i) Portfolio provincial and regional exposure (incl. rural, township)
- ii) Portfolio exposure in terms of ownership by priority groups (i.e., Black, Youth & Women).
- iii) Sectors/value chain.
- iv) Number of jobs created.
- v) Number of jobs saved.

### **6.3 Pipeline Information**

Provide detailed pipeline information detailing the transaction stage, total funding, jobs, province, priority group, sector, and estimated disbursement date.

### **6.4 Risks and Mitigants**

Risks impacting the deployment of the funding and mitigation steps taken.

### **6.5 Lessons Learnt Since Implementation.**

Provide key insights and lessons learnt in respect of progress.

## **7. Evaluation Process**

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Evaluation of applications will be done in three phases as outlined below.

### **7.1 Evaluation and Shortlisting Phase 1 – Administrative Compliance, Basic Assessment, Limited FICA**

Phase 1 evaluation will be based on submitted material, as per the Application Content ONLY. No additional information will be requested from applicants, and failure to provide all the necessary

information and documentation at the time of application will result in disqualification. This stage includes some FICA verification of the NBI.

Note that the information submitted with the application will form the basis for the IDC to establish whether applications are eligible as per the criteria set out in paragraph 4 and 5 above.



Compliant applications will progress to Phase 2 – Due Diligence. Non-compliant and unsuccessful applicants will be informed after completion of Phase 1.

### 7.2 Evaluation Phase 2 – Due Diligence

IDC will perform due diligence assessments on the shortlisted proposals. Additional information may be requested during this phase, to augment and/or substantiate the application. Applicants must note that this is a competitive process, and should the requested information not be provided within the prescribed time then the application will be rejected. Site visits will form part of the due diligence process. Applicants must ensure their availability for the due diligence and site visits.

### 7.3 Evaluation Phase 3 – Approval/Selection

IDC Credit Committee will consider and decide on the recommendation from the due diligence team. Once the application is approved this will conclude the selection process, after which applicants will be informed of the outcome. The decision of the IDC Credit Committee will be final. Successful applicants will enter into an agreement with the IDC.

**Note:** Due to limited available funds this is a competitive process – therefore not all applications that make the shortlist will be funded. Those applications deemed to be the “best fit” will be prioritised.

## 8. Application Process

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Allocations from the IDC are made using a **competitive review process**. Applicants must visit <https://www.idc.co.za/call-for-nbi/> to access the application form. Applicants are to ensure that all documents required/requested in the application form are submitted with the application form.

### How to apply

- All documents submitted must be in English.
- Applications to be submitted to email [nbiapplication@idc.co.za](mailto:nbiapplication@idc.co.za) before the closing date.
- Application form and Annexures can be accessed at <https://www.idc.co.za/call-for-nbi/>
- Only applications received through the prescribed process will be accepted.
- Incomplete applications (including Annexures not submitted) will not be accepted.

Applicants are urged to submit a single pack of information.

**The closing date is 29 September 2023 at 17H00. No application will be considered if submitted after the closing date and time.**

For queries, please contact IDC **Call Centre at 0860 693 888 or 011 269 3000** or email your queries to [nbiapplication@idc.co.za](mailto:nbiapplication@idc.co.za).

**Webinars will be held in August and September to allow interested applicants to raise their queries. Look out for the date and the link at <https://www.idc.co.za/call-for-nbi/>.**



**The IDC reserves the right to re-open this window in the event the broader objectives of the Call are not being met from the applications received. The IDC also reserves the right to amend and adjust terms within reason.**

## ANNEXURE A - SMME Definition

Whether a business qualifies as an SMME is determined based on the official [government definition](#) for SMMEs:

Must satisfy **both** of these criteria:

- i) Employees  $\leq$  250
- ii) Annual turnover:
  - Agriculture:  $\leq$  R35 million
  - Mining and quarrying:  $\leq$  R210 million
  - Manufacturing:  $\leq$  R170 million
  - Electricity, gas and water:  $\leq$  R180 million
  - Construction:  $\leq$  R170 million
  - Wholesale trade:  $\leq$  R220 million
  - Retail, motor trade and repair services:  $\leq$  R80 million
  - Catering, accommodation and other trade:  $\leq$  R40 million
  - Transport, storage and communication:  $\leq$  R140 million
  - Finance and business services:  $\leq$  R85 million
  - Community social and personal services:  $\leq$  R70 million

For start-ups, where existing turnover and jobs would be zero, the budgeted numbers at the end of the first year of full production/operations should be used.

## ANNEXURE B

Chemicals, medical and industrial mineral products  
Machinery, equipment and electronics  
Automotive and transport equipment  
Agri-processing and agriculture  
Tourism and related services  
Textiles and wood products  
Media and audio-visuals  
Mining and metals  
New technologies  
Infrastructure  
Energy