Annexure III

Funding Gap Analysis

1.1 Introduction

In order to justify the awarding of a grant for any project, a funding gap analysis methodology to assess additionality has been developed. The reason for conducting a funding gap analysis is to ensure that grants are approved for companies where they are likely to have an impact on decisions regarding the timing scale and quality of the project. The analysis will focus on:

- The level of post-investment debt in the balance sheet of the entity, the execution of an investment project, as well as the amount of debt incurred in order to fund the investment project; and

- The impact of the grant on the decision by a foreign investor to locate the project in South Africa.

Projects in the following categories will not be required to indicate the existence of a funding gap:

- All projects below R5 million;

- New entities not linked to an existing entity, where BEE shareholding is greater than 50%:
  - This provision does not apply to a new project of an existing entity; and
  - This excludes instances where: the majority shareholder of the entity has a similar business to that of a start-up entity, such that if the shareholder had established the start-up business under the auspices of its existing business, it would have been defined as an expansion per the Enterprise Investment Programme (EIP) rules; and
• New projects not linked to an existing entity, where more than 50% of the shares are owned by first-time foreign investors in South Africa.

1.2 Initial Assessment

The following projects will be considered to have a funding gap:

Expansion and new stand-alone projects undertaken by existing entities:

• The debt: total capitalisation of the entity is $\geq 40\%$ in the first year, post undertaking of the expansion/investment;

• The debt: proportion in relation to the total funding requirement of the new stand-alone project or expansion is $\geq 40\%$. For this provision only, debt means a third party interest bearing debt raised directly for the project and does not include debt raised generally for the entity;

• The project is more than 50% owned by a foreign investor, and the awarding of a grant will positively influence the location of a project in South Africa.

• The dividend pay-out ratio averages less than 50% for the past three (3) years, and any of the following criteria is met:

  - The entities have generated a loss after tax for the most recent financial year-end;
  - The free cash flow/installment of the entity is $<1.2$ for the most recent financial year-end;
  - The specific industry in which the entity operates is performing poorly, relative to other sectors in the South African economy at the time of assessment of the application. the dti will fully reserve its discretion in making a decision on this basis.

New entities not linked to an existing entity:
The Debt: total capitalisation of the entity is \( \geq 20\% \) in the first year for the forecasts. This excludes instances where the majority shareholder of the entity has a similar business to that of a start-up entity, such that if the shareholder had established the start-up business under the auspices of its existing business, it would have been defined as an expansion per the EIP rules.

**Glossary of Terms**

1. ‘Debt’ means third party interest bearing debt net of cash;
2. ‘Free cash flow’ means Earnings before interest, tax, depreciation and amortisation, less capital expenditure, less taxation, adjusted for movements in working capital;
3. ‘Shareholders equity’ means equity, shareholder loans and retained earnings or reserves; and
4. ‘Total capitalisation’ means debt and shareholders’ equity.