

NATIONAL EMPOWERMENT FUND
INTEGRATED REPORT 2020



Pioneering Transformative
Growth Beyond the Pandemic



Explaining the cover of the Integrated Report 2020

The cover of this *Integrated Report 2020* portrays the aftermath of a crisis, where the stepping stones are a metaphor for the National Empowerment Fund, the development financier that exists for the service of black entrepreneurs who comprise women, rural and township communities as well as industrialists, by empowering their quest of inclusive growth. Once delivered safely to dry land after a catastrophe that almost devastated the economy, the NEF will be the mortar of hope, reconstruction and growth, providing innovative finance and non-financial support for a new and reimagined future. Through this bastion of renewal, black communities and entrepreneurs are assured of a partner that will continue to provide investor education, business-planning support, entrepreneurial training, incubation, rural and community development, innovative funding and mentorship support so that together the country can pioneer transformative growth beyond the pandemic.



NATIONAL
EMPOWERMENT FUND
(NEF)

INTEGRATED REPORT 2020

31 MARCH 2020

Pioneering Transformative Growth Beyond the Pandemic

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Building the economy, brick by brick

Yet another development empowered by NEF funding

Having approved well over **R10 billion** for the empowerment of black entrepreneurs across the various sectors of South Africa's economy, there is no project that is too big or too small for the **National Empowerment Fund (NEF)** and its valued funding partners. Take this development, for instance, the construction of 312 social housing apartments in Kempton Park, Ekurhuleni, to be known as Kempton Village. Its scale and magnitude, its developmental essence and the entrepreneurial spirit that drives it are the attributes that

have long since become the signature of the funder with a soul. As we contribute to the building of our nation, brick by brick, and with recapitalisation on the horizon, rural and township development as well as the growth of black industrialists can only go to greater heights, and with black women at the forefront.

FOREWORD BY THE MINISTER OF TRADE, INDUSTRY AND COMPETITION



Mr Ebrahim Patel
Minister of Trade, Industry
and Competition

This Annual Report provides an account of the National Empowerment Fund (NEF) for the past financial year ending March 2020.

The sixth government administration took office following the national elections in May 2019, with a re-imagined industrial strategy for the country focused on localisation and a renewed promise, passion and urgency to address long standing socio-economic challenges.

The new **dtic** family accelerated the development and implementation of sector masterplans, completing these 'industry social pacts' in the

The role of development finance institutions is important in driving the aggregate level of investment in the economy and improving the inclusivity of investment and their development impact. The NEF reports approval of industrial funding in excess of R700 million for black-owned and managed businesses in the past financial year. Some 69 firms benefited from this funding, and the NEF reports that 38% of these have meaningful and direct black women shareholding and operational involvement.

While this reflects developments in the financial year, in the period following, the pandemic has been harsh on the economy, both locally and globally. The pandemic and its economic fallout have been described by leading economists as unprecedented in our generation. Across the world, countries are reporting or forecasting their lowest growth in at least a generation.

For public entities, the pandemic principally impacted on their work beyond the financial year, placing pressure on delivery platforms and in a number of cases, on their finances.

automotive, poultry, sugar and clothing and textile sectors. These serve as a blueprint to harness energies amongst industry players for investment and increased output and jobs in sectors which together employ some 500 000 people. The Master Plans set out practical and reciprocal actions that each social partner at industry level would take to build more resilient businesses and industries.

Significant progress was made with the finalisation of the modalities of the new African Continental Free Trade Area (AfCFTA), and with a trade agreement to address access to the United Kingdom in the event of a no-deal Brexit.

The 2019 Presidential Investment Conference, held in November 2019 demonstrated sustained commitment and productive partnerships between the public and private sector in rebuilding the economy. Some R364 billion of further commitments were made (21% higher than at the inaugural Conference the previous year), with potential to create over 400 000 jobs over a five-year period. This brings the total of investment commitments made at the two Conferences (2018 and 2019) to R664 billion, more than 50% of the five-year target set by the President in 2018.



To repair the damage of Covid-19 and reconstruct the economy to create more jobs, bring more young people into entrepreneurship and increase economic inclusion, we need to think boldly and implement smartly.

To address the immediate and urgent challenges of the economy, government and its social partners have agreed to an Economic Reconstruction and Recovery Plan. The Plan includes structural reforms and a commitment to greater levels of localisation and infrastructure investment. These measures will impact and shape the work of the dtic and its agencies.

Every agency of the dtic will be required to play its role in ensuring a steady recovery from the pandemic, and to continue execution of the re-imagined industrial strategy, outlined by President Ramaphosa at the start of this administration. The focus in the period ahead must be on deeper levels of transformation, combining financial and non-financial support. In particular, greater levels of post-investment technical support as well as assistance with developing business plans, is clearly needed.

I would like to thank the NEF leadership (CEO Philisiwe Mthethwa and Board Chairperson Rakesh Garach) together with the board members and staff, for their work this past year and the progress set out in the Annual Report.



Mr Ebrahim Patel

Minister of Trade, Industry and Competition
Government of the Republic of South Africa



ABOUT THIS REPORT

This is the sixth year of integrated reporting for the National Empowerment Fund (NEF), applying the King Report on Good Corporate Governance. The preparation of the report was further guided by fundamental concepts, guiding principles, content elements and presentation guidance provided in the Integrated Reporting (IR) Framework of the International Integrated Reporting Council's (IIRC)'s. The IR Framework states that an integrated report is aimed primarily at financial capital providers, i.e. investors, and serves as a source for improved quality of information on the uses of allocated capitals. However, as a public entity, the NEF's main aim and focus is rather on material factors that affect the creation of value for a much broader stakeholder.

The NEF chose to report in an integrated manner because it aims to provide a balanced, accurate and accessible assessment of the NEF Trust's (excluding its operating subsidiaries, refer to page 24) strategy, business model, performance, risks and opportunities for the year ended 31 March 2020. A high-level overview of the four subsidiaries in the Group is provided on page 24.

The NEF's mandate places it as a significant entity through which economic transformation is being facilitated. We hope that, through this report, we will provide our stakeholders with a transparent overview of our mandate, how we respond to our operating context, our strategic objectives, the values that outline everything we do, our stakeholder engagement processes as well as the risks and opportunities ahead.

The aim of this report is to provide stakeholders with an account of the usage of capitals through various value-creating activities in the short-, medium- and long-term in order to create value for the organisation. It reflects the past as well as the current performance achievements and challenges of the NEF.

Our annual financial statements are prepared in accordance with standards of Generally Recognised Accounting Practice (GRAP) and where relevant, the International Financial Reporting Standards (IFRS). Additionally, the requirements of the Public Finance Management Act (PFMA, Act 1 of 1999 as amended) and the National Empowerment Fund Act (NEF Act, Act 105 of 1998) have been complied with. These financial statements are included in full in this report as part of our regulatory reporting obligations in accordance with the PFMA (1999, as amended).

The NEF's ongoing stakeholder engagements as well as ongoing scanning of external macro-environment (these mainly entail economic, regulatory, policy factors) allow us to identify material issues that inform the content of our report and validate the importance of what we communicate through this report

We assess the materiality of issues to be included in this report by considering:

- Our Materiality Framework, which largely guides financial materiality levels; and

- Issues that could substantially affect our ability to be sustainable, Impact on our ability to discharge our mandate or influence decisions of the Trust and its stakeholders.

The financial, as well as key performance information, in this report has been independently assured by our external auditors, SNG Grant Thornton. Internal Audit also conducts quarterly reviews of our performance milestones to give ongoing assurance of the integrity of the information we provide to our stakeholders throughout the year and at year end.

We welcome your views on this integrated report and the manner in which we approach strategic priorities. Please send us your feedback on info@nefcorp.co.za.

Approval of the Integrated Report

At the time of finalisation of this report the term of office of a number of trustees of the NEF had expired which had affected the constitution of the NEF board. The

integrated report has been properly approved by the NEF Executive Committee and the Audit Committee of the NEF. The remaining members of the NEF Board (assisted by members of the Audit Committee) have also approved the Integrated Report to ensure the integrity and its completeness and have confirmed that this report addresses the material issues and provides a fair presentation of the performance and prospects of the NEF.

The Integrated Report contains certain statements about the NEF that are, or may be deemed to be, forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties as they relate to future events and depend on circumstances that may or may not occur in the future. If any of these or other risks

and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect or incomplete, then actual future performance and achievements may be materially different from those expressed or implied by such statements. The Board therefore advises readers to use caution regarding interpreting any forward-looking statements in this report.

The remaining members of the NEF Board (assisted by members of the Audit Committee) unanimously approved this report and authorised its release on 20 October 2020.

“ The NEF's mandate places it as a significant entity through which economic transformation is being facilitated. ”

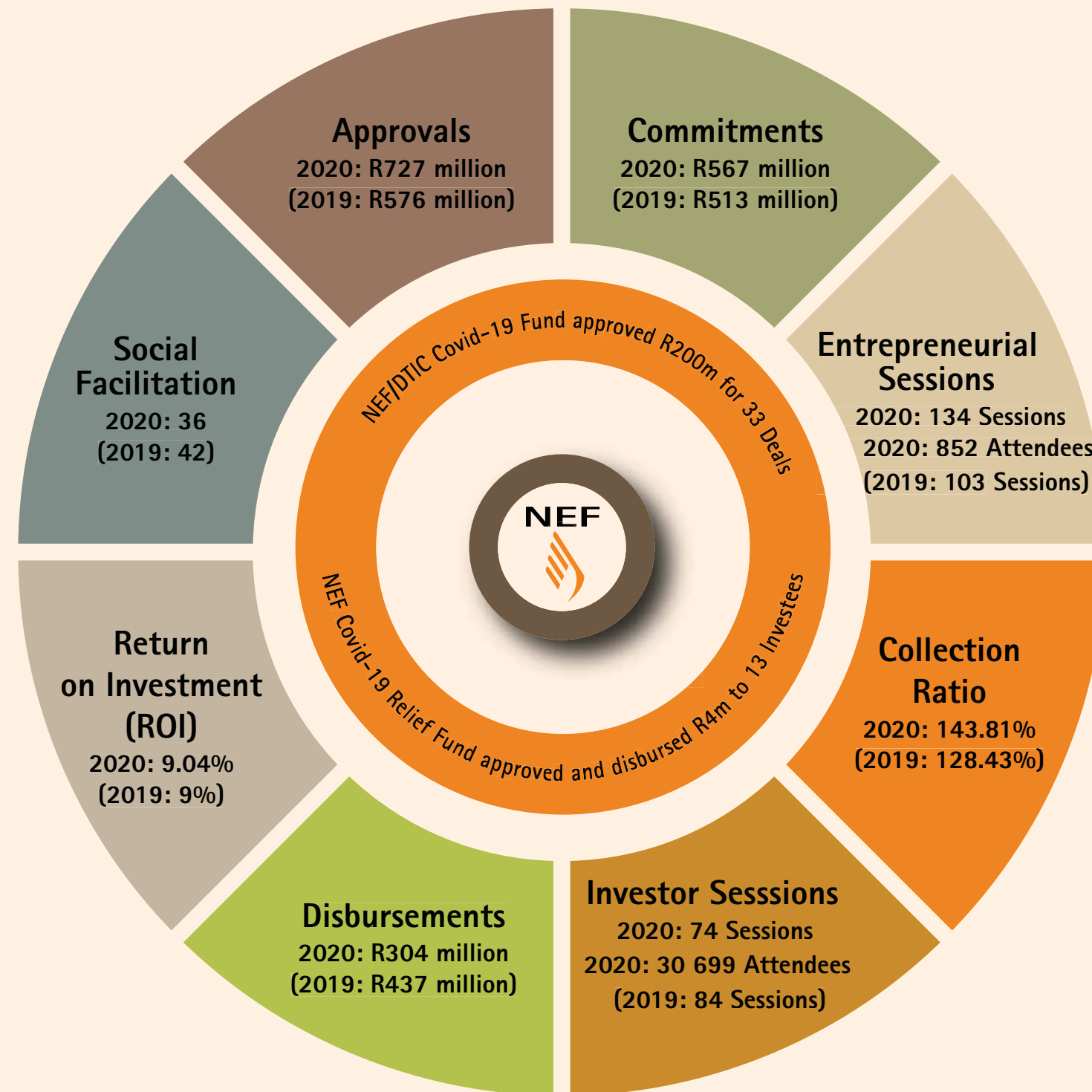


Rakesh Garach
Chairman



Philisiwe Mthethwa
Chief Executive Officer

PERFORMANCE HIGHLIGHTS



NEF-FUNDED BUSAMED HOSPITALS AMONG THE TOP 20 IN THE COUNTRY



Overview & Reports

In July 2019 Discovery Health released a list of 20 leading South African hospitals as voted by their patients. A total 202 hospitals across the country were rated by 53,000 patients looking at how well nursing staff and doctors engaged and communicated with patients; how well-suited the hospital environment was to the needs of patients; how well pain was managed; how clearly information about medication was shared with patients; whether patients were adequately prepared for discharge and whether patients would recommend the hospital to others.

5 Busamed hospitals were ranked in the top 20 of the 202 hospitals that were surveyed nationally.

Busamed ranks supremely as one of the stars in the NEF-funded portfolio. The private hospital sector in South Africa has been dominated by three main hospital groups. These three groups hold more than 79% of the market share and the remaining 21% is fragmented and held by independents. In Busamed the NEF saw a unique and strategic opportunity to bridge the divide and to raise the levels of black participation in the industry.

From early stage to financial close the NEF's net investment of R260 million in Busamed was for the purpose of commercialising 4 hospital licenses and to support black industrialists in a key-targeted growth sector.

The first is Busamed Paardevlei Private Hospital, a 100-bed acute hospital that specialises in cardiac care. Second is the world-class Busamed Modderfontein Private Hospital Orthopaedic & Oncology Centre, a 170-bed hospital that boasts impressive features and facilities, and is located in Johannesburg. The orthopaedic specialists at Busamed Modderfontein are experts in their fields, using state-of-the-art technology in their Robotic Assisted Surgery, the first of its kind in orthopaedic surgery in South Africa and on the African continent. The third is Busamed Harrismith Private Hospital is a 120-bed acute hospital and pride itself in offering the best clinical outcomes supported by integrated systems. Located in the Free State, the Busamed Bram Fischer International Airport Hospital is a 110-bed medical establishment, and boasts state-of-the-art technology and offers a comprehensive range of speciality disciplines such as general surgery, Gynaecology and Obstetrics, Orthopaedics, Paediatrics, Neonatology, Neurosurgery, Orthopaedic Surgery, ENT Surgery, 4 theatres, Radiology, Ophthalmology, Pharmacy, Dermatology and Urology.

Today the group is worth R2.6 billion, having subsequently attracted investors such as the Public Investment Corporation and Standard Bank, among others.

CHAIRMAN'S REPORT



Mr Rakesh Garach
Chairman, Board of Trustees

Commitment to good governance

For the 17th year running, the Board of Trustees of the National Empowerment Fund (NEF) is pleased that once again the development financier is able to report on the basis of a clean external audit, attesting to the NEF's commitment to good governance, an ethos the NEF has striven to entrench across its funded portfolio since operational inception. The Board has found a management corps that is second to none in upholding the same values.

This is the same diligence and integrity that saw the NEF rising to the occasion when the coronavirus pandemic struck

the country, and the NEF set out to identify and fund eligible and sustainable investees that would support Government's ability to respond effectively to the deadly virus.

As a publicly funded institution we assert that the highest standards of good governance must be the norm, and not an exception. This distinction, among others, has been a particularly important attribute that has continued to make the NEF an attractive partner to the many public and private entities that have entered into valuable enterprise and supplier agreements with the NEF, to help empower black entrepreneurs, many of whom operate in township and rural localities.

The Board is aided in the discharge of its duties through a range of committees, exercising oversight, setting policy and direction on areas inclusive of audit, risk management, human capital and remuneration, investment, as well as social and ethics matters.

The Board is fervent in its commitment to international best practice in respect of governance, ethics and integrity and ensures compliance with legislation, policies and regulatory requirements.

Economic overview

According to Statistics South Africa (StatSA), "gross domestic product (GDP) fell by just over 16% between the first and second quarters of 2020, giving an annualised growth rate of 5,1%. This contraction dwarfs the annualised slowdown of 6,1% recorded in the first quarter of 2009 during the global financial crisis. Historical data from 1960, sourced from the South African Reserve Bank, show that the second quarter of 2020 experienced the biggest fall in GDP since that year, far steeper than the annualised 8,2% decline in the fourth quarter of 1982".

Highlights in this Report

Corporate Governance
The centrality of ethical leadership

R10.61 billion
Approved since inception by NEF
to fund B-BBEE

Number of years of NEF securing
clean external audits

17 years
running



With agriculture relatively unaffected, manufacturing output shrank by 74,9%. Air travel came to an almost complete halt, adds StatsSA, "contributing to the fall in economic activity in the transport and communication industry. There was also less activity by rail and road freight operators due to restrictions on the production and movement of various goods." Inevitably, the bus operators funded by the NEF, were not spared the onslaught.

The retail ban on alcohol sales and closure of tourist accommodation facilities were notable drags on trade activity. Wholesalers and motor vehicle traders also reported significant declines, states the same report, underlining the experiences endured by the NEF's extensive tourism portfolio.

With business in the finance industry having fallen by 28,9%, now more than ever before the NEF requires funding to be able to stabilise the investees that together support in excess of 100 000 jobs, countrywide.

Funding the funder

Section 18 of the National Empowerment Fund Act No. 105 of 1998 provides for the NEF to be funded by Government as follows: "The operating and capital expenses of the Trust will be financed by grants, loans, income generated by the Trust or money appropriated by Parliament for that purpose".

The NEF last received funding from Government in 2010, and since then the entity has been self-financed with proceeds from dividends and interest income from its investments, loan repayments and proceeds from the sale in 2007 through the Asonge Share Scheme of a portion of the NEF's holding in the MTN Group.

For the past decade the NEF has not received further funding from the fiscus, despite its sterling results year-on-year. With the first few years having been

spent on establishing systems and processes, stabilising the organisation and engineering a solid way of doing business, the NEF's collections culture has matured appreciably over the years.

Life-to-date over R3.7 billion has been collected, and over the years this has been reinvested into the NEF's funding mandate. From a disbursement of just over R7.1 billion, this substantial collection culture is due to effective portfolio management and entrenching a culture of loan payments.

Mentorship support has also resulted the NEF's high-performing investees servicing their debt obligations diligently.

The debilitating effect of the COVID-19 pandemic, however, has inflicted significant harm on the ability of the portfolio to meet repayment obligations. This portends mortal crisis for black business in the medium term, and only a refinanced NEF will be able to rally to the rescue to save businesses, safeguard jobs, create new ones, stimulate township and rural economies in pursuit of the mandate for which it was established.

As demonstrated throughout this Integrated Report 2020, the NEF has the integrity, acumen, expertise, the experience and the passion to go beyond the milestones that are the essence of these pages.

Equally important, the NEF possesses deep patriotic commitment to supporting black entrepreneurs to contribute to inclusive growth.



Strategic planning framework and alignment to Government's macroeconomic policy

The NEF implements the Code of Good Practice of Broad-Based Black Economic Empowerment, as outlined in the NEF Act.

For this purpose, the NEF employs a sector-targeted approach in developing its portfolio and these sectors include tourism, construction, agri-processing, transport; the 4th Industrial Revolution, creative industries, mining services, franchising, property and student accommodation, rural & township economies, among various others.

In doing so the NEF specifically seeks to support the initiatives of **the dtic** and Government's broader macroeconomic policies by championing and funding the advancement of emerging black entrepreneurs and progressing eligible enterprises into industrialists.

The Government priorities that we seek to support include:

- Acceleration of economic growth and transformation,
- creating sustainable jobs,
- infrastructure and rural development,
- skills transfer and human resource development, as well as
- improving public service in line with national industrial objectives.



This alignment with the Government's fundamental developmental goals has seen the NEF champion the following key strategic imperatives:

1. The need to support the emergence of **black industrialists**, in partnership with local and international co-funders has resulted in the establishment of specialist hospitals countrywide, among many others, out of a total 24 industrial projects which have leveraged over R4 billion third party funding.
2. In **supporting SMEs**, the NEF operates a dedicated fund that has supported entrepreneurship, procurement & franchise funding as well as business planning, incubation, training and mentorship support. In this area, to date the NEF has disbursed over R1.6 billion into the economy to support 454 SME enterprises.
3. To help revitalise **Township & Rural Economies** the NEF has supported the construction & ownership of shopping malls and filling stations across the country, and to date the NEF has disbursed over R2.1 billion in support of 220 entities in rural and township areas.
4. To support **land restitution** the NEF has in the past served as the implementation partner of the 50-50 programme with the Department of Rural Development and Land Reform to empower farmworkers to become part-owners of commercial farms.
5. Similarly, the **tourism sector** has received special focus because of its significant job-creation and developmental potential. We have helped establish community-owned hotels and lodges, as well as infrastructure projects such as the Graskop Gorge Lift, a flagship project that has been driving tourism development in the Panorama Tourist Route and is the first of its kind in Africa. To date the NEF has disbursed over R251 million into this sector.



6. In partnership with various industry stakeholders the NEF has supported the construction of several social housing, student accommodation and related solutions to help deliver **affordable housing** to communities. To date the NEF has disbursed over R272 million into this sector.
7. **Agro-processing** has been identified as a priority sector in the National Development Plan and accordingly the NEF has supported beneficiation investments across the agricultural value chain such as enterprises that produce castor oil, fruit juices, condiments, milk, dairy by-products and various other products. To date the NEF has disbursed over R316 million into this sector.
8. In the energy sector we have invested over R885 million in service stations countrywide, 44% of which are owned and managed by black women.

The implementation of the mandate of the NEF, therefore, is attuned to the developmental and transformation imperatives of the South African economy.

Appreciation

The NEF Act requires that the NEF Board should have between 5 and 7 trustees who "possess expertise and experience in the fields of, amongst others, law, economics, business practice, development practice, capital markets and finance". Over the years the NEF has had the good fortune of being served by successive trustees of high merit and repute.

It is a special privilege to acknowledge the sterling and diligent contributions of past trustees in having invested care, diligence and skills in taking one of the noblest mandates in the land to greater sights and higher vistas.

The NEF is privileged to be led by an illustrious Chief Executive along with executives, managers and staff who are among the finest in the financial services sector.

The NEF is indebted to the Minister, the DG, **the dtic**, Parliament and co-funders for their support and for holding us to a higher standard. The investees and communities that we serve, deserve no less.

Mr Rakesh Garach

Chairman

Board of Trustees

OVERVIEW OF THE OPERATING ENVIRONMENT

Macro-economic environment

Global economy on the downward spiral

The International Monetary Fund (IMF) made a dramatic downward revision in their forecast for global economic growth amid rising effect of the COVID-19 pandemic. They now expect world economic growth to crash markedly by -3.0% in 2020 (-6.3% down from January projections) – this economic downturn surpasses that of the 2008 – 2009 financial crises. Although the global pandemic originated in one of the major emerging market economy, developed economies have now been hit hard by this pandemic and consequently those economies as a group are expected to contract by 6.1% in 2020 whereas emerging markets and developing economies are anticipated to fall by 1.0% during the same time.

Countries around the world are confronted with massive uncertainties' regarding short- and medium-term Impact on their economies as the pandemic spread further and continues to burden health care capacity. As such it is apparently clear that economic damage will mostly vary among countries depending on the extent of the pandemic, health care as well as monetary and fiscal responses. The IMF projections for 2020 show that Italy will be hit hardest as the country is expected to contract sharply by up to 9.1%, followed by Spain and France respectively at 8 and 7.1%, respectively. While the United States and United Kingdom are also expected to fall markedly – the more conservative projections can be attributed to late introduction of the COVID-19 in these countries and similarly in Sub-Saharan Africa.

The world's fastest growing economies (China and India) are expected to shed massive growth during 2020 but they might avoid negative growth. After all, the direction of the economic activity is currently difficult to predict as it will depend on the "pathway of the pandemic, the progress in finding a vaccine and therapies, the intensity and efficacy of containment efforts, the extent of supply disruptions and productivity losses, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioural changes (such as people avoiding shopping malls and public transportation), confidence effects, and volatile commodity prices," according to the IMF.

Domestic economy deep in recession

The country reported a contraction of 1.4% in gross domestic product (GDP) during the last quarter of 2019 after shrinking by (0.6% revised) 0.8% in the third quarter of 2019. The further slump in economic activities follow the downward trajectory of the global economy as well as low domestic consumer sentiments, which is being reflected by consecutive drops in real domestic expenditure. The industrial assessment shows that the transport industry continues to sink by contracting up to 7.2% in quarter four of 2019. The notable negative growth of the trade industry has also contributed to plummeting GDP numbers this quarter. Only the finance, mining and personnel service posted positive growth.

The gross fixed capital formation plummeted by 10.0% (contributing -2.0%) during the fourth quarter of 2019, followed by imports which fell by 8.5%. The downward spiral on expenditure growth of these items point to subdued business and consumer confidence. In addition, the already slowing global trade levels have been compounded by lockdown measures to further weigh on the domestic economic outlook. Accordingly, the South African Reserve Bank (SARB) now expects GDP to contract by 7% in 2020 – much worse than the level reported during the 2008 to 2009 financial crises. The consecutive downward revisions reflect the muted domestic economic activities as widespread effects of the lockdown began to be felt despite the easing of restrictions on the production and demand side of the economy. The severe damage caused will continue to weigh significantly on the balance sheets of the NEF and many businesses as it essentially means companies will have difficulties raising sufficient revenues to service their debt obligations, which will lead to high impairments and low collections for the NEF.

Prices, interest rate and exchange rate

Annual inflation eased markedly to 4.1% in March 2020 from 4.6% in February of the same year. As expected, the main contributors were housing and utilities; miscellaneous goods and services; food and non-alcoholic beverages; and transport. Fuel price fell notably by 7.2%, reflecting the declining global and domestic fuel demand as the immediate Impact of the lockdowns begin to be felt across the globe and excess supply as major oil producing countries battle to reach agreement. However, depreciating Rand exchange rate poses a notable upside risk to imported inflation. On average, the Rand depreciated by 4.3% against the US dollar (down to R/\$15.37) between the last quarter of 2019 and first quarter of 2020. But the loss was much worse at about 29% between the opening (R/\$13.99) and closing (R/\$17.98) days of the first quarter of this year. This sharp depreciation of the Rand exchange rate was mainly due to rising global financial volatility and perceived risk towards emerging markets. The implication on businesses affiliated with the NEF will be immediate, particularly investees that depend on imports as the weak exchange rate raises the cost of importing inputs and goods.

The SARB's Monetary Policy Committee (MPC) was forced to cut the repo rate four times this year, which accumulates to the total cut of 275 basis points – taking the repo rate to 3.75% as at 22 May 2020. These historic cuts will reduce the cost of servicing debts for the indebted NEF investees, small businesses, and households in general struggling to keep afloat. Lower interest rates will stimulate much needed domestic consumer demand and improve the financial position of investees. The immediate Impact will be adverse on the NEF's balance sheet but medium- to long-term multiplier effect of low interest will filter down to reduce the negative effect on the investee and the NEF.

South Africa's fiscal position has deteriorated

The financial position of the country is expected to remain under pressure and unsustainable in the short to medium term owing to rising debt outlook and low revenue collection. According to the 2020 Budget, revenue is projected to be R1.58 trillion in 2020/21. Despite the absence of major tax increases, marginal

gains are estimated in personal income tax (4%), corporate income tax (6%) and value added tax (5%) in the upcoming year. On the other hand, consolidated spending will amount to R1.95 trillion during the same period under review while compensation of employees and bailout of state owned entities remains major issues. This will take consolidated budget deficit to about R370 billion.

The National Treasury now projects the national gross debt-to-GDP ratio to climb further than previous expectation. Gross loan debt is forecast to reach R4.38 trillion, or 71.6 % of GDP, by 2022/23, with foreign debt averaging 9.6% of gross debt over the medium term. Net loan debt is expected to reach R4.15 trillion while debt service cost is projected to be about 15% and 18.4% in 2022/23 budget year as a percentage of total expenditure and revenue, respectively. The worsening financial position of government will hinder many developmental and transformational objectives as sources of funds to recapitalise transformational agents such as the NEF are depleted. Poverty and unemployment amongst Black people will escalate due to lack of funding and the NEF will not be able to achieve its mandate.

Social and service delivery environment

South Africa's Quarterly Labour Force Survey shows that the economy experienced a modest quarter-on-quarter increase of 54 000 or 0.3% in the number of people employed between the third quarter of 2019 and fourth quarter of 2019. During the same period, the number of unemployed persons also fell by 8 000 while the number of labour force gained by 38 000. This shows that the problem of high unemployment in South Africa is being exacerbated by the fact that many people are entering the job market without the necessary skills that the economy needs. The unemployment rate remains unchanged for the country at 29.1% but over the last ten years unemployment has risen to unacceptable levels. The unemployment rate for Black people was highest at 32.3% whilst for White people it was lowest at 7.6%.

The provincial unemployment statistics shows that the Eastern Cape has reported the highest rate at 47.7%, followed by Limpopo and Mpumalanga at 44.0% and 43.8% respectively. The Western Cape reported the least rate at about 24.1%, followed by Gauteng (35.3%) and Northern Cape (39.2%). Unemployment trends in South Africa still reflects the legacy of deliberate economic exclusion of Black

people as it is predominately high in the former homeland areas. The unemployment rate continues to rise, particularly in the former homeland provinces where majority are impoverished Black people and the NEF strives to disburse funds and create jobs in these areas. Consequently, the racial inequality gap between White and Black people will remain large. There is a need for the NEF to prioritise sectors with high job returns per rand invested with links of economic activities to rural and township areas such as transport, mining and trade.

The Impact of the NEF

The NEF has had a notable impact on the lives of many South Africans through the targeted intervention of disbursing funds to previously disadvantaged communities – with close to zero % probability of securing financing from commercial banks. The Trust has disbursed a total capital of R7.020 billion since inception to the designated groups. The sectoral assessment shows that the service sector accounted for about 13.28 % (R869 million) of the NEF total disbursement to businesses owned by Black people. This was followed by construction and material industry at about 12.94 % (R849 million) as well as the energy and retail industry at around R588 million and R406 million respectively over the same reporting period.

Hundreds of thousands of direct and indirect jobs have been created and supported over the years. The actions of the NEF have been centred toward the eradication of the triple challenges of unemployment, poverty, and inequality. However, lack of recapitalisation has undoubtedly hampered the much awaited and equal participation of Black communities on the production side (for example; manufacturing, mining etc) of the economy. Most sectors have been battling to transform for years, new Black entrants often struggled to participate due to high capital requirements to establish fully operational businesses. The gap between the poor and the rich is expected to continue to widen as the capacity of the NEF to finance Black people remains at its lowest. It is important to note that the NEF remains committed to addressing issues of inclusion across all industries and have already made notable steps to support youth, women, and Black people in general to ensure that everyone benefits, particularly rural and township people. The table below summarises the socio-economic benefits and achievement of the NEF since inception.

“

The Codes of Good Practice are legally binding on all government and state-owned entities. This means that the NEF is obligated to use the Codes to measure B-BBEE compliance when procuring suppliers, and making concessions.

”

Mr Mziwabantu Dayimani, General Counsel

Investee profile

Parker Family Foods

Company profile

Parker Family Foods CC ("Parker Family Foods") is a **100% Black-owned and -managed** frozen food manufacturer. The business is owned by Mr Jamal Parker who started operating a butchery in 1989 that evolved over the years, leading to the establishment of Parker Family Foods in 1996. Their core focus is on manufacturing, wholesaling and retailing of high quality chicken and beef products at affordable prices for their target market. Parker Family Foods has established itself as one of the fast growing independently owned processed meat manufacturers in the country. They manufacture, store, sell and deliver a selection of over 82 products. They offer a wide range of products made from mechanically deboned meat (MDM) of chicken and beef, such as chicken burgers, beef burgers, rib burgers, crumbed products such as steaklets, nuggets, and waffles to mention a few.

Parker Family Foods has grown significantly since its establishment in 1996 in Stikland, Western Cape, with **over 216 customers** ranging from JSE listed entities such as Shoprite Checkers Group, other national retail players such as Food Lovers Market (Pty) Ltd, Spar Western Cape and restaurants. While Parker Family Foods is relatively small as compared to the well-known major players in the industry such as I&J and RCL Foods etc, they have successfully penetrated the market through reliability, quality delivery, variety and efficiency to the right target market at the right price consistently.

Parker Family Foods has international accreditations for its facilities and food safety and quality controls such as HACCP which allows them to export all their products. Amongst other accreditations are the South African National Halaal Authority, the Muslim Judicial Council (SA), SANS 10049 and ISO 22002 that allows Parker Family Foods to participate in small, niche and open markets.

Development Impact

The owner of Parker Family Foods, Mr Parker, is a seasoned businessman. He started operating a butchery in 1989 and his passion for the industry is undoubted, with his careful study of the target market, patience and persistence which are qualities consistent with great entrepreneurs. In addition to Mr Parker, the business is managed by an experienced team of individuals with vast industry experience and professional expertise. The significant year on year growth necessitated the business to expand their manufacturing capabilities. **Through the NEF's funding of R14,8 million (blended with Western Cape Enterprise Development funds), the business has retained 59 jobs and has grown the staff compliment by an additional 20 jobs through the expansion of the business. The funding will enable Parker Family Foods to increase their current supply and also create a demand for their new product ranges.**



CEO'S REPORT



Ms Philisiwe Mthethwa
Chief Executive Officer

Building generational prosperity

One of the most momentous cultural phenomena to capture the imagination of the world in recent times is the blockbuster movie, Black Panther, which brings to life the story of Wakanda, a fictional country that represents the phenomenal powerhouse that Africa could have become had it not fallen prey to the brutality of slavery and colonialism.

As the place where human civilisation began, Africa could easily have continued to be the global torchbearer for discovery, trade, scholarship, innovation, the arts, architecture, growth and much more across the various spheres of human endeavour.

And that is the vision that inspires us at the National Empowerment Fund (NEF), to be a catalyst in finding, crafting, funding and nurturing black entrepreneurs into superheroes, the Black Panthers who will bequeath South Africa its vibranium, unleashing the kinetic energy necessary to ignite growth across all sectors of the economy and building the prosperity of the nation for generations to come.

Stepping forward to help flatten the COVID-19 curve

It is because of this aspiration that when the COVID-19 pandemic was first reported in South Africa towards the end of the financial year under review in this **Integrated Report 2020**, the NEF joined in the spirited fight to flatten the curve, working alongside the dtic following its R200 million endowment to the NEF for the purpose.

What followed was the establishment of the **NEF COVID-19 Black Business Fund** whose objective was to provide funding to black entrepreneurs of between R500 000 and R10 million per transaction in concessionary loans to purchase machinery, equipment and raw materials and to fund other working capital requirements for the manufacture and supply of healthcare products and essential foods.

Among the difficult but necessary decisions taken by the dtic and the NEF before going to market with the **NEF COVID-19 Black Business Fund** was the need to

Highlights in this Report

Corporate Governance
The centrality of ethical leadership

R10.61 billion
Approved since inception by NEF
to fund B-BBEE

Number of years of NEF securing
clean external audits

17 years
running

Overview & Reports

ensure that businesses eligible for funding would be those with a track-record in the manufacture and supply of healthcare products. In the interest of public health and safety as well as risk management, a key criterion was for applicants to "be a current and registered supplier with retailers and other institutions in good standing".

The loans were offered at 0% interest for the first year and thereafter at 2.5% per annum. The loans will be repayable over a maximum term of 60 months. This is in line with the NEF's mandate as a development financier to champion inclusive growth while responding innovatively to the challenges facing the country.

Working virtually and round the clock throughout the various risk-adjusted levels of the nationwide lockdown, the NEF remained open for business and over a 90-day period contributed to the country's COVID-19 response through **approval of 33 transactions valued in excess of R207 million**. This achievement comprised R166 million from the dtic's R200 million endowment and R41.2 million from the NEF's own balance sheet.

These businesses manufacture and supply a diverse range of products encompassing hospital beds, frail care facilities, stretchers, trolleys, surgical masks, personal protective clothing such as body suits and isolation gowns. Other products are disinfectants, medical gloves, face shields, safety goggles and shoe covers, non-contact thermometers, plastic moulds, bottles, dispensers, hand sanitizers, detergents and soap, among others.

Among these were women-owned businesses, which attests to the diversity and expertise of the clients the NEF and the dtic supported since the advent of the pandemic.

Resourcing the NEF to pioneer transformative growth beyond the pandemic

As at 31 March 2020, uncommitted cash was R119.8 million. In the event recapitalisation continues to evade the NEF, we project an unencumbered position of negative R368 million as at 31 March 2021, should the NEF resume its full-scale lending operations after the lockdown is lifted.

However, our confidence remains undeterred. Were it not for the lockdown, which shifted the attention of the country to survival mode, we are certain that the IDC facility of R500 million would have been disbursed at the beginning of the 2020-2021 financial year, and the NEF is confident that this remains a certainty for the period ahead as soon as the two development financiers can agree on concessionary terms for the loan facility to the NEF, in the national interest.

Since July 2014 the NEF has been in discussion with the IDC in a process supported by Government for the purpose of finding a sustainable and long-term recapitalisation solution for the NEF to be able to take its mandate to the next trajectory.

The NEF was last capitalised by Government in 2010. In the view of many across the transformation fraternity, there are clear dangers in not recapitalising the

NEF, and these include:

- The potential to weaken public trust in Government's commitment to inclusive growth.
- The delay can result in a funding crisis for black entrepreneurs who have very few options for concessionary business funding.
- The delay threatens to destabilise a high-performing organisation through staff attrition and institutional memory leakage.

It is for these critical reasons that both the Board and management of the NEF are intensely and single-mindedly seized with this huge and important task because it goes to the heart of the transformation of South Africa's economy.

Economic overview

As a result of the COVID-19 pandemic economic activity around the globe has been disrupted as efforts to contain the virus have taken centre stage. Substantial downward revisions are being made to growth projections across the world economy, with deep recession prevalent in many parts of the globe.

Recovery from the recession is set to be prolonged. World economic activity is unlikely to return to 2019 levels until 2022. World GDP growth is projected by the World Bank at -5.2% and recovery at +4.2% in 2022 and 2021, respectively. Gradually, recovering production activity and spending should lead to improving world trade and foreign direct investments flows.

The full or partial lockdown of national economies around the globe is unprecedented in world history, and the full extent of the social, economic and financial consequences of the pandemic, as well as recovery, are difficult to determine at this stage.

The pandemic is adding to the woes of an already weak South African economy, taking it into a deeper recession.

Inevitably, this will impact on the NEF's finances and operations, adversely imperilling the ability of the funded portfolio to repay, which will call for innovative interventions in the medium term.

NEF relief measures for investees affected by the COVID-19 lockdown

The NEF's Top Active Exposure amounts to R1.4 billion across key sectors of the economy, and these include property, energy, media, tourism & entertainment, transportation, manufacturing and retail.

As a result of the lockdown only 25% of these were operational, and these were largely in property, retail, essential players in manufacturing and in healthcare.

16% of the investees were operating at reduced capacity, and these were largely in the energy and media sectors.

The vast majority at 59% were non-operational and these included the tourism sector where the NEF has invested in lodges and hotels, among others. Also non-operational were most of the investments in manufacturing, entertainment, transportation, construction and materials, as well as services.

Because the bulk of the NEF's investees were under lockdown, only 7% had adequate cash reserves to meet their loan obligations, while 65% required temporal cash relief. 28% were already under a moratorium before the lockdown for a variety of reasons, and these included:

- Business premises were still under construction;
- Commissioning of plant and equipment takes place over a period of time;
- Some had been recently approved and disbursed and were in the process of ramping up their operations;
- Businesses that were facing financial distress required restructure of loan terms, as well as
- Unfavourable trading conditions because of the constrained economic climate.

As a measure to provide relief to existing clients whose businesses were negatively affected by the nationwide lockdown, the NEF granted 47% of its investees a loan repayment holiday for a period of up to three months, to be reviewed on an ongoing basis in accordance with risk imperatives. This was intended to help safeguard the sustainability of the businesses whose operations had been affected by COVID-19 restrictions.

This amounted to a total R30 million postponement in capital repayments. In addition, the NEF granted a zero rating on interest for eligible investees over the same period, which resulted in a total R20 million benefit for the clients, bringing the total relief package to R50 million. These concessions aimed to ensure that

when the time for the lockdown to be lifted came, the businesses would not be confronted by an ominous debt obligation.

Additionally, the NEF and Raizcorp, a specialist in incubation and business acceleration, have combined efforts to assist entrepreneurs mitigate the risks and challenges confronting their businesses as a result of the COVID-19 pandemic. Through this joint initiative, Raizcorp is equipping entrepreneurs with practical business survival tools for implementation by means of a booklet that brings together nine information brochures on a variety of disaster-management strategies. The booklet is available on the NEF's website, www.nefcorp.co.za.

Placing black women at the forefront of the economy

The imperative that drives the NEF's funding and empowerment philosophy is the obligation to prioritise the funding of black women entrepreneurs because over the years they have demonstrated greater financial acumen and rigor in running sustainable businesses, despite being the greatest victims of oppression, exploitation and exclusion throughout our country's history. It is for this reason that for the NEF, to fund a woman is to fund a nation.

Below are some of the milestones that demonstrate the NEF's principled commitment to the socio-economic empowerment of black women:

- Since operational inception in 2005 to date, the NEF has approved over R10.6 billion to support 1 057 black-owned businesses countrywide for start-up, expansion and equity transformation.
- Of the total approved funding, over R7.02 billion has been disbursed into the economy in accordance with agreed tranches. 76% of the funded businesses are still active despite the many challenges our national economy has faced in recent years.



- Over the past 10 years more than 40% of funding has accrued to black women entrepreneurs. As part of the determination to grow its funded portfolio of businesses that are owned and managed by black women, the NEF will continue to work with organisations that represent women to mobilise deal flow.
- The strides made thus far are primarily due to the indefatigable efforts of the NEF's Women Empowerment Fund (WEF), established in 2014 to affirmatively drive the value and volume of approvals for and disbursement to businesses that are owned and managed by black women.
- The NEF Socio Economic Development Unit was established to empower black people in existing transactions and other broad-based groups through various social development interventions such as social facilitation, entrepreneurial training, corporate governance training and market access to facilitate meaningful participation. To date the NEF's entrepreneurship training and incubation programme has provided business skills to 3 808 participants, who have attended 398 seminars (reflects year-end data) countrywide from 2012 to date. The majority of these beneficiaries are women.
- The NEF's investor education campaign has reached 147 882 black South Africans in the villages and townships through 481 seminars for information on how to save and invest, personal financial discipline, shares, dividends and a range of other asset classes. Over 50% of beneficiaries are women.

Operational milestones during the year under review

As a result of yet-unrealised recapitalisation, during the year under review the NEF Board of Trustees requested the Minister of Trade, Industry and Competition to reduce the level of expected approvals from just over R1 billion to R550 million in order to preserve available and anticipated liquidity for the financial year 2019/20.

The request also sought to ensure that the NEF continued to operate as a going concern for the next 12 months, as required by the NEF's external auditors, with one of the key considerations being the availability of sufficient cash resources.

Therefore, the annual performance report for the year under review is set against these revised balanced scorecard targets, whose highlights follow below:

- Performance for the period saw approvals of 69 transactions worth R727 million against a target of 48 deals worth R550 million. In this area the outcome exceeded target following 10 uMnotho Fund (medium-sized businesses) approvals, 3 from the Strategic Projects Fund (black industrialists), 30 from iMbewu (SME funding) and 5 transactions from the Rural and Community Development Fund. This is a fundamental area of the NEF's mandate and the organisation is exceedingly proud of this achievement.
- Equally pleasing is the showing on commitments, which closed the year at R567 million against a target of R412 million.

- Disbursements lagged behind marginally with a showing of R304 million against a target of R330 million largely as a result of the need for investees to submit all conditions precedent.
- Because of a constrained economic environment, investments supported 1 738 job opportunities against a target of 2031.
- In response to market demand, 38% of approved funding went to businesses that have black women ownership, against a target of 40%.
- An achievement worthy of celebration is the milestone in respect of investing in economically underdeveloped provinces, namely the Northern Cape, Free State, Limpopo, Mpumalanga, Eastern Cape and the North West, where a total R81.7 million was disbursed, which represents 27% against the annual target of 25%.
- In terms of Investor Education 74 sessions were held against a target of 45.
- The commitment to provide entrepreneurial training also made a difference for rural, peri-urban and township communities with 134 sessions having been held across the country against a target of 30.
- Business incubation and referrals have grown appreciably over the years, with 151 entrepreneurs having been referred for incubation and 16 entrepreneurs fully incubated against a target of 125 and 15, respectively.
- We fulfilled the set objective by activating 36 social facilitation sessions during the period against a target of 36.
- Tough economic fundamentals conspired against the NEF's impairment target of 18%, with a showing of between 27%. In this regard the context is patently clear. South Africa was already in the throes of a technical recession when the pandemic came to our part of the world. Add to this Moody's credit rating downgrade to sub-investment grade, a growing fiscal deficit, sustained decline in household consumption and fixed investment, and we can see how the small to medium enterprises that make up the majority of the NEF's portfolio, as well as jobs, were up against obstinate odds. Our task, going forward, is to ensure that we help our investees to weather the storm, and certainly to bring impairments down significantly.
- Against this ominous background we can be pleased that Return on Investment closed at 9,04% against a target of between 9% and 10%.
- Part of the mainstay of the NEF's performance during the year under review is collections, which at total collections closed at 143,81% against a target of 80%.
- The Internal Audit function continues to be an enabler of accountability and ownership by management towards the control environment, risk management and good corporate governance. Internal Audit assessed the system of internal controls and risk management to be adequate, efficient and effective for the year under review.
- The number and nature of audit findings has improved from the year prior with reported findings at current year-end at 29 vs prior year-end findings of 34. The improvement in the nature of the findings indicates continued commitment by management to maintaining a good control environment

- Despite challenging economic conditions, the NEF was able to achieve a collection rate of 86.2% on businesses in the turnaround, workout and restructuring space after successful implementation of turnaround initiatives. In addition, there was an overall increase of 21% in relation to jobs created in distressed investees undergoing turnaround during the financial year.
- As the NEF funds higher risk transactions which normally banks will not be keen to finance, the NEF has implemented robust Risk Management Policies and Frameworks. The NEF has implemented the following policies, frameworks and processes:
 - Risk Management Framework
 - Risk Assessment Process
 - Credit Risk Policy
 - Credits Risk reports are completed for all transactions
 - Background checks are done on all clients
 - Pricing Policy
 - Fraud Prevention Policy
 - Fraud Prevention Plan
 - Whistleblowing Policy
 - Various Fraud awareness and including sessions on cybercrime
 - Fraud Hotline operated by independent party
 - Investigate matters that are reported
 - Follow up on criminal matters
 - Compliance Policy
 - Compliance Framework
 - Business Continuity Policy
 - Business Continuity Framework
 - Business Continuity Plan
 - Update to Business Impact Assessment
 - Updated Departmental Business Continuity Plans.
- On the Information Systems and Technology (IST) front the NEF has demonstrated solid value-add through successful implementation of the following projects:
 - Significant improvements were made on IST governance, cybersecurity and cloud backup and recovery solutions.
 - Enterprise architecture has been developed and validated by an independent reviewed to be in-line with the best practice.
 - Implementation of a redundant or backup link which minimizes network downtime.
- In the year under review the NEF received media coverage valued in excess of R78 million against a target of R50 million, as measured by an independent external media monitoring agency, NewsClip. 97% of the coverage was rated positive, 1 balanced and 2% negative in tonality.

Highly skilled Human Capital

The NEF prides itself it its ability to attract a high calibre of suitably qualified and dynamic professionals who have solidified the NEF into a High Performing Organisation. This the NEF does by providing a compelling Employee Value Proposition that captivates the employment experience from entry to exit, by offering equal growth, learning and development opportunities and a rewarding career that contributes directly towards transformation and growth. We nurture the determination for excellence through a robust performance management system, building capacity through succession planning and talent management.

With a staff complement that is 60% women and with 41% of managers being women, the NEF is both progressive and libertarian. At 67% the majority of employees are in the investment stratum, which constitutes the core business of the NEF, whilst 33% are in the support divisions.

Life to date the NEF has leveraged third party funding in excess of R8.8 billion

The NEF has had a track-record of success as an implementing partner in enterprise and supplier development, having collaborated with various stakeholders in the public and private sectors.

This has helped to unlock additional capital which show year-on-year successes in the amounts mobilized from partnerships where typically, the NEF funds a transaction to the value of 60%, with concessionary funding from the ED partners amounting to 40% of the requirement.

In rural and community development, NEF investment of R580 million has been matched by external funding of R799 million.

In enterprise and supplier development the NEF has been entrusted with a total R101 million by a variety of investors, and in accordance with our commitment of funding on a 60:40 basis, the NEF stands to invest a total of R403 million to help black entrepreneurs take our economy forward by creating jobs and propelling inclusive growth.

At a provincial level the NEF has enjoyed an excellent partnership with the Western Cape Department of Economic Development and Tourism, which has seen the department invest over R50 million so far into a partnership with the NEF to support black entrepreneurs in the province.

In terms of local government the NEF has signed an agreement with the Ekurhuleni Municipality where the Metro will invest R150 million over a three year period into a fund to be administered by the NEF for empowerment funding of black entrepreneurs in that locality.

This area of work includes oil companies such as BP, Shell and Engen, as well as a retail giant such as Pick 'n Pay with whom the NEF is turning spaza shops into mini supermarkets, as well as a leading automotive manufacturer such as Nissan.

Among these we are proud to identify the Transnet Ports Authority, as well as Government departments such as Tourism and the Department Sport, of Arts and Culture.

NEF COVID-19 Community Solidarity Fund spreads humanitarian aid

The pandemic and the subsequent lockdown both imposed incalculable hardships on the poorest of the poor. Those without jobs, the vulnerable who are bereft of hope, the child-headed households across the villages and townships who have nowhere to run to. These are the people who were hardest hit, except where solidarity relief was provided.

Making a difference in Limpopo

That is why in response to the socioeconomic and humanitarian challenges caused by the pandemic, the NEF partnered with the Domba Trust, a shareholder of Meropa Gaming and Entertainment, along with Goseame Open Market, the fresh produce and retail outlet funded and temporarily managed by the NEF, to deliver 2000 food hampers to rural communities across Limpopo. **2 000 families were assisted.**

Taking hope to provinces

Further, we are pleased to report that as part of the NEF COVID-19 Community Solidarity Fund, NEF Executives, managers and staff contributed R1.5 million to be able to buy food parcels for households across the country.

This was accomplished in partnership with the Telesure Group, which contributed just above R1.5 million towards the fund so that together we could distribute food parcels to 4000 households in the Eastern Cape, KwaZulu Natal, Mpumalanga and Northern Cape.

The households were identified in conjunction with the national and provincial Departments of Social Development.

Golden Dice Foods

Through Golden Dice Foods, an NEF investee, 1000 food parcels were distributed to vulnerable families across Gauteng, the resident province of the food manufacturing company.

Solidarity Fund

From its balance sheet the NEF made a contribution of R500 000 to the Solidarity Fund, which was created on 23 March 2020 by President Cyril Ramaphosa to respond to the COVID-19 crisis in South Africa. This is a platform for the general public, civil society, the public and private sectors to contribute to the consolidated effort to fund various community relief initiatives.

Acknowledgements

The NEF enjoys deep fraternal relations with a variety of industry players, among whom are the Black Business Council, Association of Black Securities and Investment Professionals and the African Women Chartered Accountants Forum. This patriotic fraternity of Black Panthers has continued to place transformation at the top of the country's discourse and are a trusted alliance in the quest for advancing the frontiers of economic liberation.

Management is grateful to the Chairman and to the Board for wise and trusted counsel, to the Minister and the dtic for progressive guidance and leadership, to the Select and Portfolio Committees for oversight that has helped us strengthen the NEF into a solid development financier, and indeed to the staff of the NEF who serve with diligence and honour. To the investees of the NEF, the gladiators who build the nation's economy, thank you for the social license to be at your service.



Ms Philisiwe Mthethwa
Chief Executive Officer

NEF performance since inception

Output	Achievements
Approvals	Approved 1057 transactions worth more than R10.61 billion across the country.
Disbursement	Approximately R7.02 billion has been disbursed to these companies since inception.
Integrity	Secured clean external audit opinions for 17 years running.
Supporting jobs	Since inception, the number of job opportunities supported is 101 183 of which 68 989 were new.
Industrialisation	24 strategic and industrial projects worth R12.5 billion, with the potential to support over 52 000 jobs Since inception 3 600 jobs opportunities have been created
A culture of savings and investment	In a transaction worth over R1 billion the NEF Asonge Share Scheme made available more than 12 million MTN shares to over 87 000 investors comprising Black individuals and groups. 49% of investors were women.
Investor education	Reached 147 882 people in villages and townships through 481 community seminars on how to save and invest, personal financial discipline, shares, dividends, bonds, the property, and money markets.
Entrepreneurship training / incubation	Business skills training provided over 3808 potential entrepreneurs who attended 398 seminars from 2012 to date.
Collections	Over R3.7 billion has been repaid by investees.



ABOUT THE NEF

Our Vision

The NEF's vision is to become the leading provider of innovative transformation solutions for an economically inclusive South Africa.

Our Mission

The NEF is a catalyst for Broad-Based Black Economic Empowerment (B-BBEE) in South Africa. We promote, enable, implement and develop innovative investment and transformation solutions to advance sustainable Black economic participation in the economy.

Our Mandate

Established by the NEF Act (1998), the NEF is the only Development Finance Institution (DFI) mandated to be a driver and thought leader in promoting and facilitating Black economic participation. This is achieved through the provision of financial and non-financial support to Black-owned and -managed business as well as by promoting a culture of savings and investment among Black people.

In order to guide the process of crafting a growing, inclusive and employment-generating economy, Parliament passed the Broad-Based Black Economic Empowerment Act (B-BEE Act, Act 53 of 2003, as amended by Act 46 of 2013).

Our Policy Regulatory Framework

Government discharges the implementation of B-BBEE through the Department of Trade, Industry and Competition (the dtic), and specifically through its BEE Unit, which drafts and monitors policy and legislation, and provides practical guidelines for the implementation of B-BBEE for industry.

The NEF's strategy and operations are informed by various government policies, and especially by the NEF Act (1998). Other policies to which the NEF strategy and operations are aligned include the various policies and legislation directing macro-economy and governance. These include:

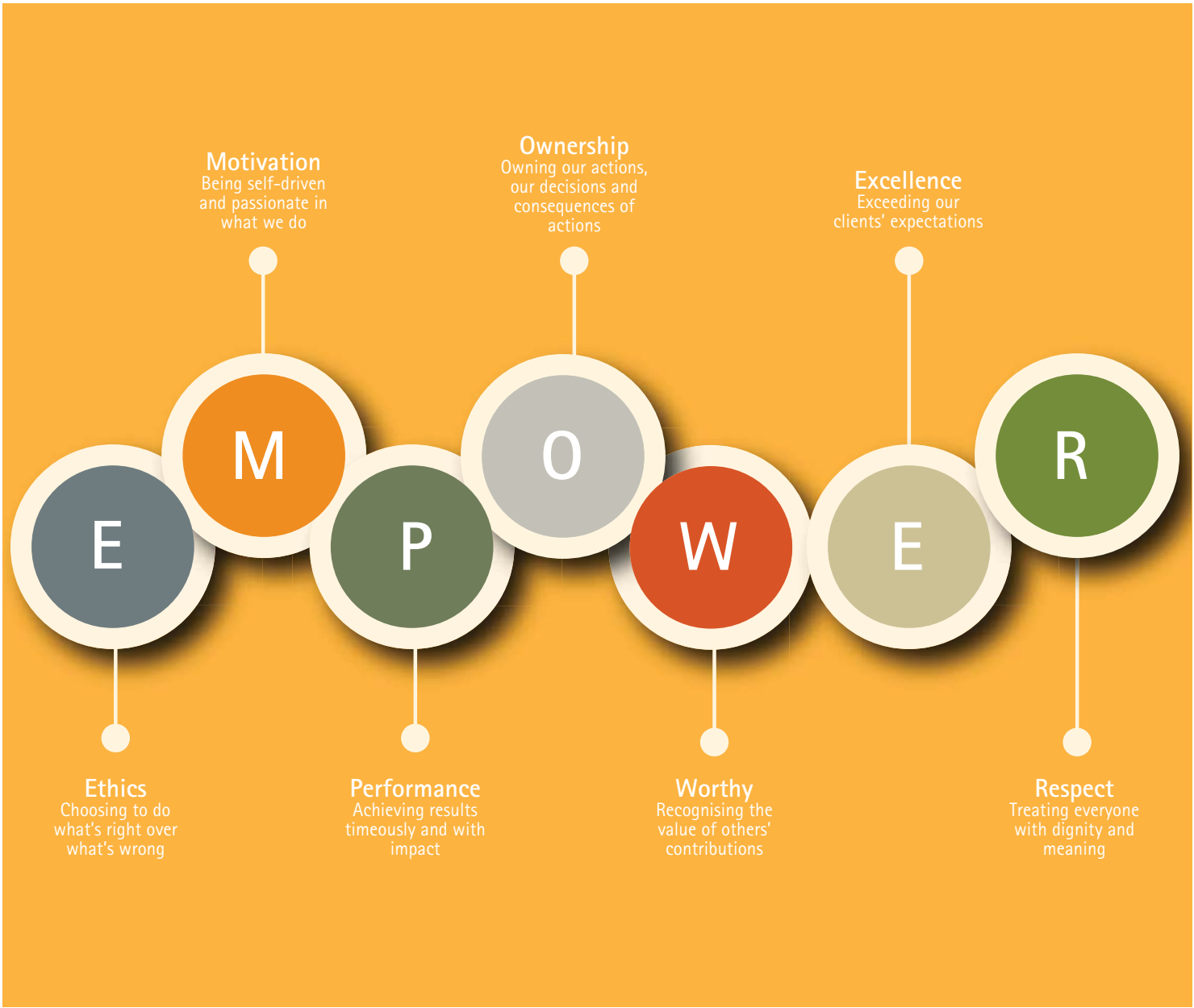
- a. The National Development Plan (NDP)
- b. National Empowerment Fund Act (NEF Act 105 of 1998)
- c. Broad-Based Black Economic Empowerment Act (B-BBEE Act 53 of 2003, as amended), and the B-BBEE Codes of Good Practice
- d. Industrial Policy Action Plan (IPAP)
- e. Public Finance Management Act (PFMA, Act 1 of 1999, as amended), including National Treasury regulations
- f. King Report on Governance for South Africa 2016 (King III)
- g. Protocol on Corporate Governance in the Public Sector, 2002
- h. Preferential Procurement Policy Framework Act (Act 5 of 2000)
- i. Basic Conditions of Employment Act (BCEA, Act 75 of 1997)
- j. Employment Equity Act (EE Act 55 of 1998)
- k. Financial Intelligence Centre Act (FICA, Act 38 of 2001, as amended)
- l. Labour Relations Act (LRA, Act 66 of 1995, as amended)
- m. Occupational Health and Safety Act (OHSA, Act 85 of 1993)
- n. Promotion of Access to Information Act (PAIA, Act 2 of 2000)
- o. Protected Disclosures Act (Act 26 of 2000, as amended)
- p. Protection of Personal Information Act (POPI, Act 4 of 2013)
- q. Companies Act (Act 71 of 2008)
- r. Integrated Small Business Strategy 2004.

In its quest to achieve inclusive economic growth, and to discharge its mandate as outlined in the NEF Act, the Executive Committee and Board of Trustees have translated these policy objectives into strategic objectives, which represent the NEF's priorities for the future. The strategic objectives are used to monitor and review the performance of the NEF.

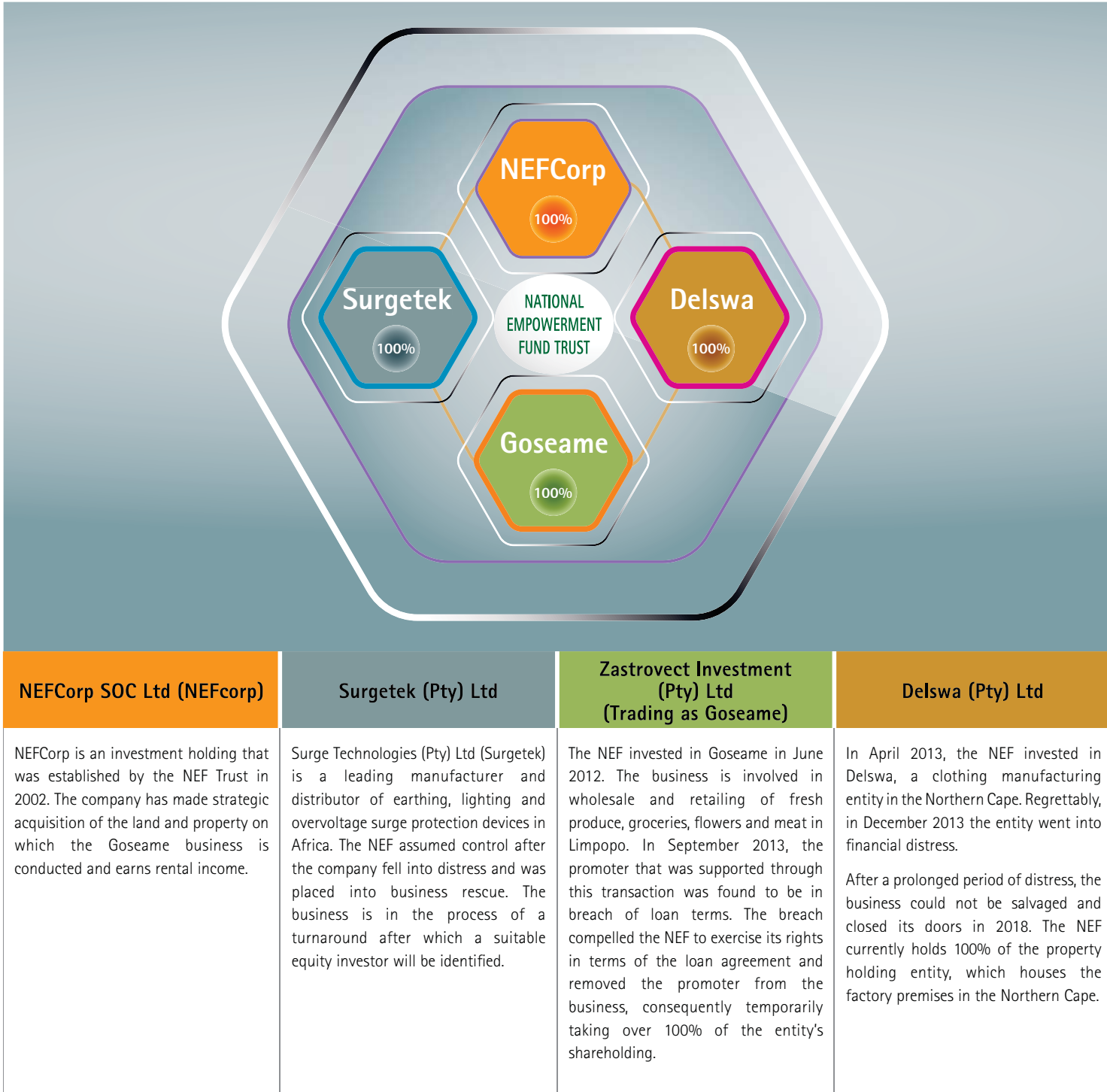
NEF Values

The NEF's values play a significant role in its ability to successfully execute its strategic plans. The values are instilled in employees as the ethos and tenet that is inspired from the senior management to all employees. These values are a business tool that is used to drive business strategy to create a strong competitive advantage by aligning our people to the mission, purpose, vision, and values.

The values are denoted in the acronym EMPOWER and are further explained in the diagram below:



Group Structure



Our Strategic Objectives

As depicted below, our business model is premised on the four main strategic objectives, which advance the creation of value for the NEF. These are as follows:

Strategic objectives	Advancing B-BBEE	Maximising empowerment dividend	Establish the NEF as a financially sustainable DFI	Optimising non-financial support
Key outputs	<ul style="list-style-type: none">• Provide finance to business ventures established and managed by Black people.	<ul style="list-style-type: none">• Invest in Black empowered businesses that have high employment creating opportunities.• Support the participation of Black women in the economy.• Facilitate investment across all provinces in South Africa.	<ul style="list-style-type: none">• Establish the NEF as a financially sustainable DFI. This is achieved by ensuring that we invest in transactions that have economic merit, through sound financial management of the NEF itself, as well as through portfolio monitoring and support activities.	<ul style="list-style-type: none">• Encourage and promote savings, investment and meaningful economic participation by Black people.• Advanced Black economic empowerment through commercially sustainable enterprises.
Key performance indicators	<ul style="list-style-type: none">• Value and number of deals approved• Value of new commitments• Value of new disbursements	<ul style="list-style-type: none">• Number of jobs created or supported• Percentage of investment in women owned and managed businesses• Percentage of investment activities to be invested in the following targeted provinces: North West (NW), Northern Cape (NC), Free State (FS), Limpopo (LP), Mpumalanga (MP) and Eastern Cape (EC).	<ul style="list-style-type: none">• Percentage of portfolio impaired• Target ROI before impairments• Collection ratio	<ul style="list-style-type: none">• Number of entrepreneurial training sessions provided• Number of entrepreneurs who are referred for incubation and successfully completed business incubation• Number of social facilitation sessions for NEF investees• Number of investor education sessions held across the country

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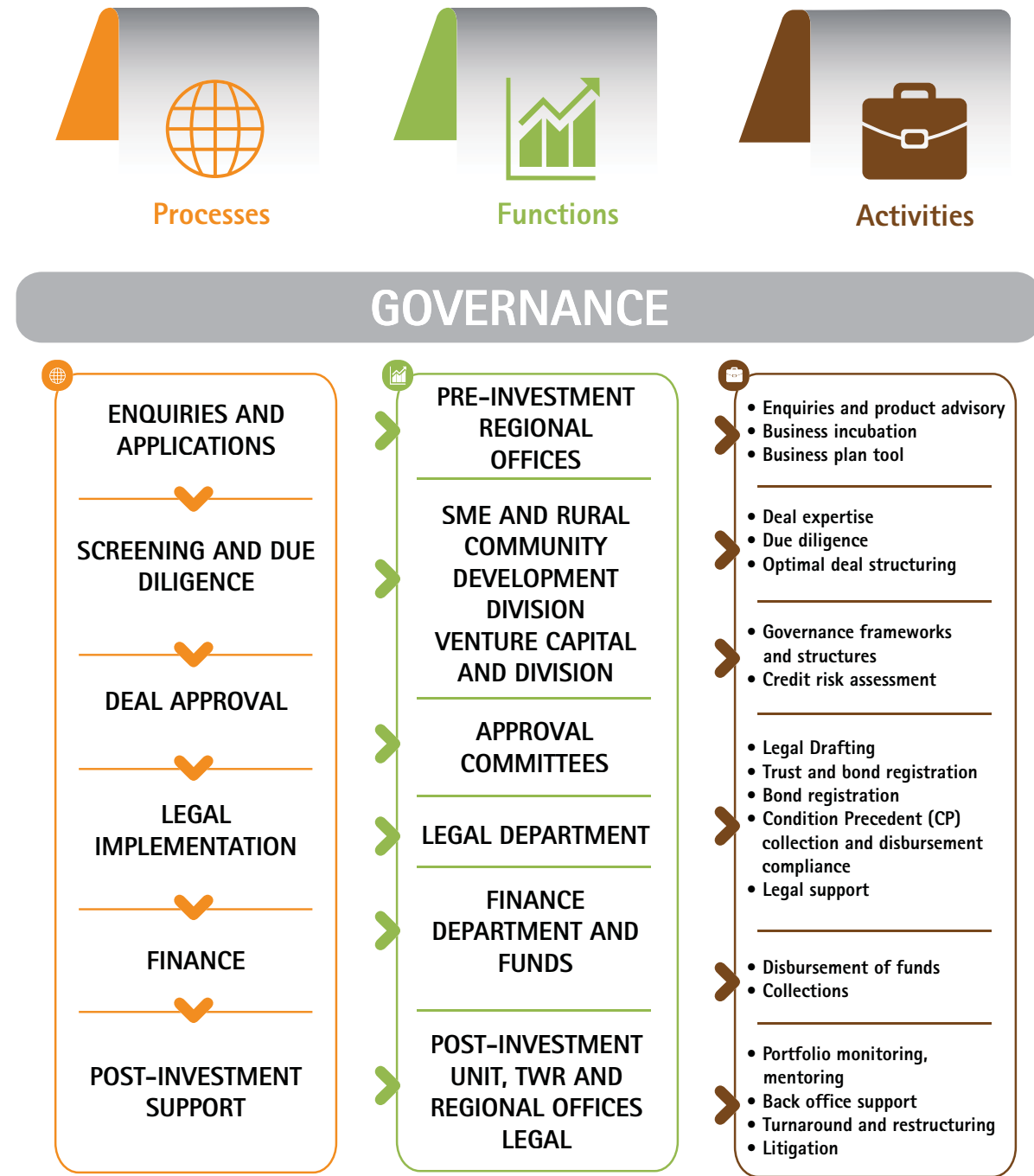
Broad-Based Black Economic Empowerment policy strives to ensure that the economy is structured and transformed to enable the meaningful participation of the majority of its citizens and to further create capacity within the broader economic landscape at all levels promoting the entry of black entrepreneurs into the mainstream of economy.

Ms Hlengiwe Makhathini, Divisional Executive Corporate Finance and Venture Capital

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Our Business Model

This is how we execute our business model through these processes:



NEF Core Business

The NEF is structured and transacts through its funds to address the needs of businesses as demonstrated by the nature of products housed in each of the five funds below. Projects that require more than R75 million are assisted through a co-funding arrangement with other capital funders in the market.

The work of Regional Offices cuts across all units in the NEF.

The Funds:

	Strategic Projects Fund	iMbewu	uMnotho	Rural and Community Development	Women Empowerment Fund
Objectives	<ul style="list-style-type: none">Funds the development of projects through stages of projects.	<ul style="list-style-type: none">Supports start-up businesses.Provides capital for the expansion of small enterprises.	<ul style="list-style-type: none">Provides capital for expansion of businesses, the buying of shares in White-owned businesses or funding new ventures.	<ul style="list-style-type: none">Supports the development and growth of a rural economy in rural communities, which is achieved by the mobilisation of structures such as cooperatives.	<ul style="list-style-type: none">Supports businesses that are more than 50% owned and managed by Black women.
Products	<ul style="list-style-type: none">Venture capital funding structures.Development of Black industrialist funding in strategic sectors.	<ul style="list-style-type: none">Franchise financing.Procurement/contract.Entrepreneurship funding.	<ul style="list-style-type: none">Acquisitions.New ventures.Expansion.Capital markets.Liquidity and warehousing funding.	<ul style="list-style-type: none">New ventures.Business acquisition.Expansion.	<ul style="list-style-type: none">The product offerings cut across all products provided by the different funds.
Funding range	<ul style="list-style-type: none">Funding up to R75 million.	<ul style="list-style-type: none">Funding from R250 000 to R15 million.	<ul style="list-style-type: none">Funding ranges from R2 million to R75 million.	<ul style="list-style-type: none">Funding ranges from R1 million to R50 million.	<ul style="list-style-type: none">Funding from R250 000 to R75 million.




NEF Non-Core Business

The work of Regional Offices cuts across all units in the NEF.


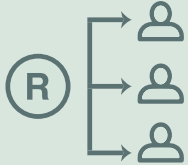
Pre-Investment Unit (PIU) and Regional Offices	Post-Investment Unit (POIU) and Regional Offices	Turnaround Workouts and Restructure (TWR)	Legal Service Unit	Socio-Economic Development Unit (SEDU) and Regional Offices
<p>Pre-Investment and Regional Offices are responsible for:</p> <ul style="list-style-type: none">• Application administration, which entails the registration of new applications and distribution of applications to the respective funds for assessment.• Product advisory, which entails the handling of enquiries from clients and business development support.• Non-financial support, which has three key elements, namely:<ul style="list-style-type: none">– Business Planner Tool, which is an online tool that assists users to compile business plans.– Business incubation, which is aimed at providing support to clients that have an idea that is at an early stage; it is not ready for funding and therefore needs nurturing.– Entrepreneurial training, which is targeted at entrepreneurs that require capacity building and enhancement in running their fledgling businesses.	<ul style="list-style-type: none">• Post Investment Unit and Regional Offices perform portfolio management through monitoring of investee operational performance, credit control and collections; and to provide advice and support through mentorship programmes.	<p>TWR has the responsibility of restructuring and turning around all distressed invested NEF transactions.</p>	<p>This Unit's function is to draft, negotiate and conclude legal agreements for and on behalf of the NEF. It also has the obligation to consider and take legal action to recover losses incurred, including recoveries in instances of illegal and criminal conduct, against NEF investees and guarantors.</p>	<p>SEDU, with the assistance of Regional Offices, facilitates social interventions in NEF-funded transactions with broad-based groups, communities, or employee empowerment structures. The team identifies business opportunities for the targeted beneficiaries in transactions and assists in creating market linkages and identifying other development intervention areas for meaningful participation in the economy.</p> <p>The Unit also mobilises funding for the NEF Enterprise and Supplier Development Fund to benefit targeted investees in different sectors of the economy. In addition, the team facilitates a culture of savings and investments through the NEF Investor Education programme.</p> <p>The SEDU also manages the NEF Corporate Social Investment (CSI) programme which mainly focuses on Black people's education and development programmes throughout the country.</p>

Value Creation and the Forms of Capital

We have, with the focus on the creation of value, made use of four forms of capital that have enabled us to achieve key performance measures and ultimately the strategic objectives aligned to them. In order to promote broad-based participation of Black people in the economy, the below business inputs and activities have assisted in creating value for our stakeholders.

	Capitals	Inputs and Business Activities	Outputs	Impact
	<ul style="list-style-type: none">Financial capital	<ul style="list-style-type: none">Cash generated from investments made.Cash raised through partnerships.Cash generated and collected from investees.Cash recovered by Legal.Collections from the Post Investment Unit.	<ul style="list-style-type: none">Deals approved valued at R727 million.Committed deals valued at R567 million.Disbursement of deals to the value of R304 million.	<ul style="list-style-type: none">Financial sustainability.Continued achievement of mandate to empower and enable Black-owned businesses to participate and contribute to economic growth.
	<ul style="list-style-type: none">Human capital	<ul style="list-style-type: none">Positive ethical culture, skills, capacity and motivated staff.Trainee programme.HR policies and systems.	<ul style="list-style-type: none">161 employees (2019:170), 60% of them are female, with 40% of senior management being female.Employee turnover at 12%.Value of training spent on employees R793 182 and R195 467 on employee bursaries.	<ul style="list-style-type: none">Career development through training interventions.Increased level of skills, education, and financial literacy.High levels of employee engagement and longevity.Positive employee morale.
	<ul style="list-style-type: none">Social and relationship capital	<ul style="list-style-type: none">Funding activities to maintain jobs in new investments, increase investment in Black women-owned business and provincial distribution.Stakeholder engagements.Bursary scheme and other CSI programmes.Socio-economic development and investor education seminars.Activities to increase brand reputation.	<ul style="list-style-type: none">38% of disbursements to Black women-owned investments.16 deals worth approximately R82 million (27% of disbursements) have been invested in targeted provinces.1 738 supported job opportunities of which 792 are new.36 social facilitation and 74 and entrepreneurial training sessions held respectively.The media advertising value equivalent was valued at R79 million; the coverage target was 90% while the NEF achieved 95% positive, 4% balanced and 1% negative.	<ul style="list-style-type: none">Continued achievement of mandate to empower and enable Black-owned businesses to participate and contribute to economic growth.Our brand is viewed in a more positive light than in the prior year.

Value Creation and the Forms of Capital (continued)

	Capitals	Inputs & Business Activities	Outputs	Impact
	<ul style="list-style-type: none">• Intellectual capital	<ul style="list-style-type: none">• Innovative B- BBEE funding initiatives.• Improvement to IT systems.	<ul style="list-style-type: none">• Assisted clients to implement innovative funding strategies and models.• Tests and improvements made, including network vulnerability tests, to secure IT systems.	<ul style="list-style-type: none">• Revitalisation of Township Economy (e.g. partnership to revitalise township economy through the conversion of spaza shops).• Partnerships with fuel giants to help investees (e.g. entered into MOA with Engen, co-operation agreement with Shell SA, enterprise and supplier development agreement with BPSA)• Partnership with Transnet Port terminals.• Partnership with Ekurhuleni Municipality.
	<ul style="list-style-type: none">• Manufactured capital	<ul style="list-style-type: none">• 8 regional offices across the country.• IT infrastructure and systems	<ul style="list-style-type: none">• Provided access to walk-in clients across the country• Assisted clients to lodge inquiries and applications in the comfort of their offices or homes	<ul style="list-style-type: none">• Increasing number of inquiries and applications.• Continued achievement of mandate to empower and enable Black-owned businesses to participate and contribute to economic growth.

OUR STAKEHOLDERS AND STRATEGIC PARTNERS

Evident in this Integrated Report is how the NEF creates and leverages stakeholder value. Stakeholders are defined as a person, group or an organisation with an interest or concern in, or influence over the NEF and who can affect or be affected by its objectives, policies and actions.

Stakeholder engagement is a critical element of the NEF business. Our stakeholders contribute to our value-creation process, which is articulated through our funded projects' business processes and procedures. As a DFI, our priority is to generate a developmental Impact return, not a commercial rate of return. Social and relationship capital are, therefore, central to our value creation. Across our holistic end-to-end infrastructure value chain the NEF fulfils many roles: financier, advisor, strategic partner, implementer, integrator, collaborator, catalyser and thought leader. Within each of these, the NEF has a wide and established stakeholder network, as illustrated in the overview below. We pride ourselves on long standing and well established relationships with various public and private sector entities to partner in the delivery of social and economic transformation.

The NEF values the strategic stakeholder partnerships and considers them a key strategic imperative. The NEF understands that as a public entity it is accountable to the public, and ensures that it utilises its strategic position as a channel between the private and the public sectors to drive development and transformation Impact. The NEF capitalises on its strategic partnerships to source deal flow and provide funding to clients at lower cost than if they were borrowing in the commercial market.

The NEF aims to strengthen its engagement with all stakeholders. To this end, we conduct multi-stakeholder reputation and perception surveys every two years, the latest one concluded in 2018. The data collected indicated that the stakeholders have a high level of awareness and reputation satisfaction. Among its entrepreneurs, the NEF enjoys a high regard among small enterprises, women-owned businesses, youth and Black industrialists. Stakeholders generally feel that the NEF was making a positive contribution to the economy and to job creation. The key concerns regarding business interactions with the NEF were around obtaining funding, as well as the time-consuming application processes and the lack of communication and feedback on applications. The survey indicates that one of the ways of improving our reputation is to focus on driving effective communication with our stakeholders. This includes improving engagement levels by providing open and timeous feedback.

Most of the findings were related to the service issues, turnaround time, lack of communication and onerous information requirements. The findings point to a continued need to focus on customer centricity and a culture of service excellence within the NEF through various initiatives such as:

- Streamlining our application processes, including the minimum information requirements.
- Improving our responsiveness.
- Tailoring our service to specific customer needs.

Details on our stakeholders and strategic partners:

Our Stakeholders	How we engage	Their needs and expectations	Expectations	How we create value
Employees	<ul style="list-style-type: none">• One-on-one engagements with staff• Team and divisional engagements• Internal and external communication platforms• CEO feedback sessions• Staff engagements and culture surveys	<ul style="list-style-type: none">• Reward and recognition• Employee development programmes and personal growth• Enabling working environment• Ability to make a valuable contribution to South Africa's development ambitions	<ul style="list-style-type: none">• Motivated and empowered employees• To be brand ambassadors• Further the NEF's development agenda• Enthusiasm, commitment and skills• Service delivery mind-set• Awareness of the NEF's funding activities and developmental Impact	<ul style="list-style-type: none">• Transformation• Personal development• Remuneration linked to performance, creating value• Staff awareness of how their work contributes to the NEF's value proposition
Clients and business partners	<ul style="list-style-type: none">• Regional roadshows• Business support• Customised products and services• Client events• Government-sponsored events• One-on-one engagements• Surveys	<ul style="list-style-type: none">• Transparent and efficient application process• Business support• Affordable and appropriate pricing	<ul style="list-style-type: none">• Innovative business plans that address South Africa's developmental needs• Reasonable lending rates• Honour financial and other undertakings	<ul style="list-style-type: none">• Growing industrial development funding for Black industrialists, women, youth and Black entrepreneurs• Strengthen businesses through business support• Interest and repayment rates linked to development Impact

Details on our stakeholders and strategic partners: (continued)

Our Stakeholders	How we engage	Their needs and expectations	Expectations	How we create value
Shareholders	<ul style="list-style-type: none"> Shareholder meetings Board strategy sessions Presentations and reports to Portfolio Committee on Economic Development and Select Committee on Economic and Business Development Integrated Report 	<ul style="list-style-type: none"> Transparency and good governance Risk management and compliance Operational efficiency Thought leadership Lead sustainable Black business development 	<ul style="list-style-type: none"> An enabling policy environment Policy certainty Strategic leadership 	<ul style="list-style-type: none"> Investment in government priority areas Socio-economic development to fulfil the mandate
Regulators and funders	<ul style="list-style-type: none"> Investor roadshows Integrated Report 	<ul style="list-style-type: none"> Transparent and effective corporate governance Financial sustainability 	<ul style="list-style-type: none"> Consultation Understanding of the NEF's operating context 	<ul style="list-style-type: none"> Funding schemes Input for policy development Leveraging funding to benefit Black entrepreneurs Industry economic development
Communities	<ul style="list-style-type: none"> Regional offices Community trusts linked to the NEF's investments CSI initiatives Due diligence on the environmental and social Impact of investments 	<ul style="list-style-type: none"> Supporting climate resilient industries Wide dissemination of benefits Business opportunities and inclusive growth Compliance with environmental and social legal requirements Emission reduction Water stewardship 	<ul style="list-style-type: none"> Support for NEF-linked projects Participation in NEF initiatives Invest in environmentally conscious projects Productive use of land 	<ul style="list-style-type: none"> Community and worker shareholding in the NEF funded projects Social and community projects Benefitting from poverty reduction Sustainable industrial development Utilising natural resources to create value for current and future stakeholders
Enterprise and supplier Development Stakeholders Third party funders	<ul style="list-style-type: none"> Assist measured entities to comply with the BBBEE Act transformation agenda Conclude co-funding partnerships Invest in beneficiaries in the stakeholders' industry and database Provide all business developmental support for business sustainability Co-manage partnership through Project Steering Committees. NEF BEE facilitator status creates a platform to earn ESD points as per code 400 requirements 	<ul style="list-style-type: none"> Industry Transformation Meaningful participation by the historically disadvantaged groups Obtain BEE Points 	<ul style="list-style-type: none"> Sustainable businesses and investments Transparency and accountability A return on investments Industry growth 	<ul style="list-style-type: none"> NEF BEE facilitator status creates a platform to earn ESD points as per code 400 requirements Co-investment and cost sharing model stretches the rand to reach more investees Value creation and unlocking other third party investors Provide an array of non-financial support interventions Market linkages through forward and backward linkages Market exposures through EXPOS
Other partners	<ul style="list-style-type: none"> Engagements with academics, industry bodies, experts, DFIs, State-Owned Entities (SOEs), research institutions and organisations 	<ul style="list-style-type: none"> Funding and participation in pilot initiatives Influencing policy development 	<ul style="list-style-type: none"> Entrepreneurship and innovative solutions Mutual partnership 	<ul style="list-style-type: none"> Knowledge networks that support sustainable industrial development and address the needs of society
Media	<ul style="list-style-type: none"> Media briefings Press conferences and releases and print media 	<ul style="list-style-type: none"> Key strategic initiatives Investee project information Operational and financial performances 	<ul style="list-style-type: none"> Raise public awareness of our strategy, products and services as well as our operational results 	<ul style="list-style-type: none"> Responding to media enquiries timeously Being transparent and available

KEY RISKS AND MATERIAL ISSUES

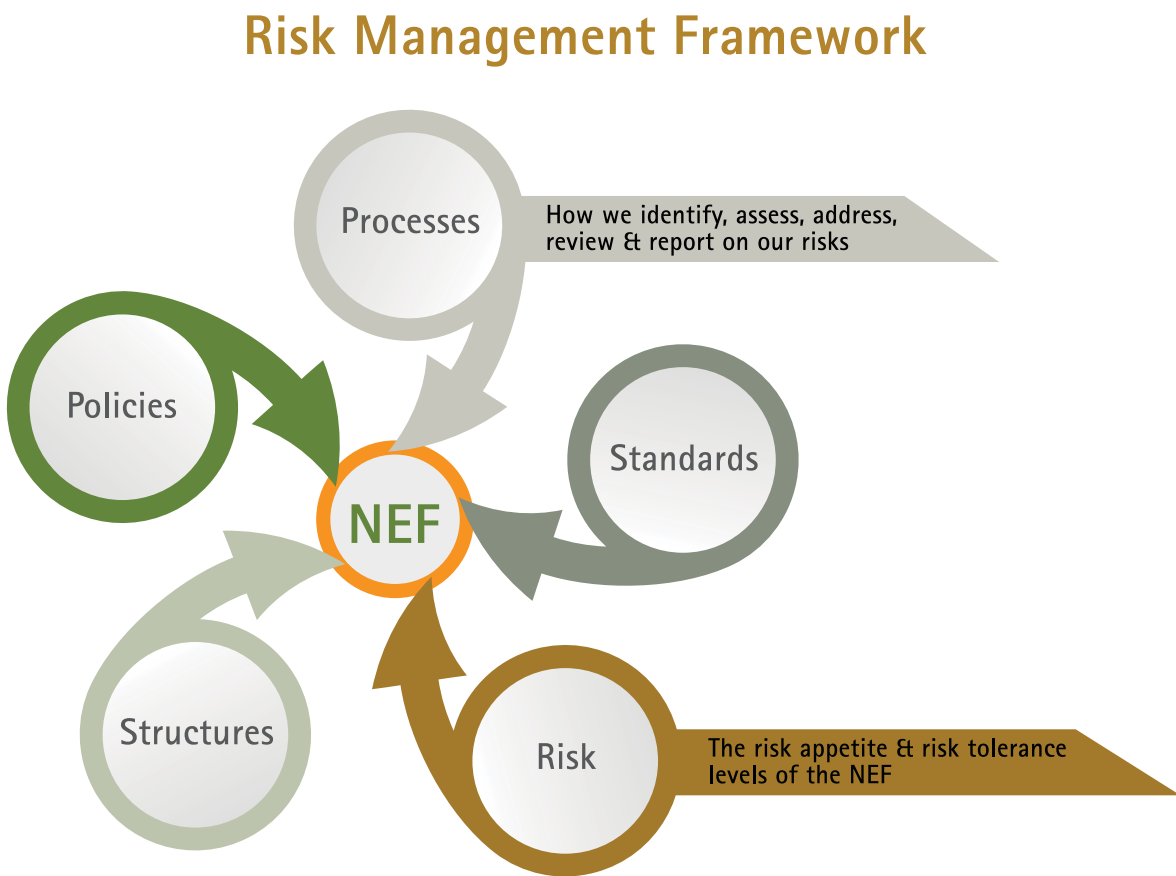
The NEF continuously assesses the current and emerging risks faced by the organisation in accordance with the organisation's enterprise risk management process. This risk management process also includes regular review of the organisation's risk appetite to cater for changes in the environment in which the organisation operates. The risk management activities cut across the entire organisation and the ultimate objective is to maintain an effective risk management culture.

As the NEF is a developmental finance provider, its business model is the provision of funding to entrepreneurs that have either minimal to no own contribution or minimum to no security to pledge (or both) and which entrepreneurs would otherwise not qualify for financial support from traditional finance institutions. This, inadvertently, leads to the NEF taking on a higher level of risk. It is, therefore, of critical importance that the NEF maintains a strong risk management process in order to remain a viable and sustainable organisation.

The NEF management is currently concerned with various risks which include, amongst others, credit risk, market risk, liquidity risk, risks from missed opportunities and reputation risk. The emergence of the COVID-19 pandemic has exacerbated these risks and has also created additional risks such as business disruption and continuity risks. If not managed appropriately, these risks may adversely affect the performance of the organisation and its promise to its stakeholders, customers and members of the public.

The Risk Management Framework:

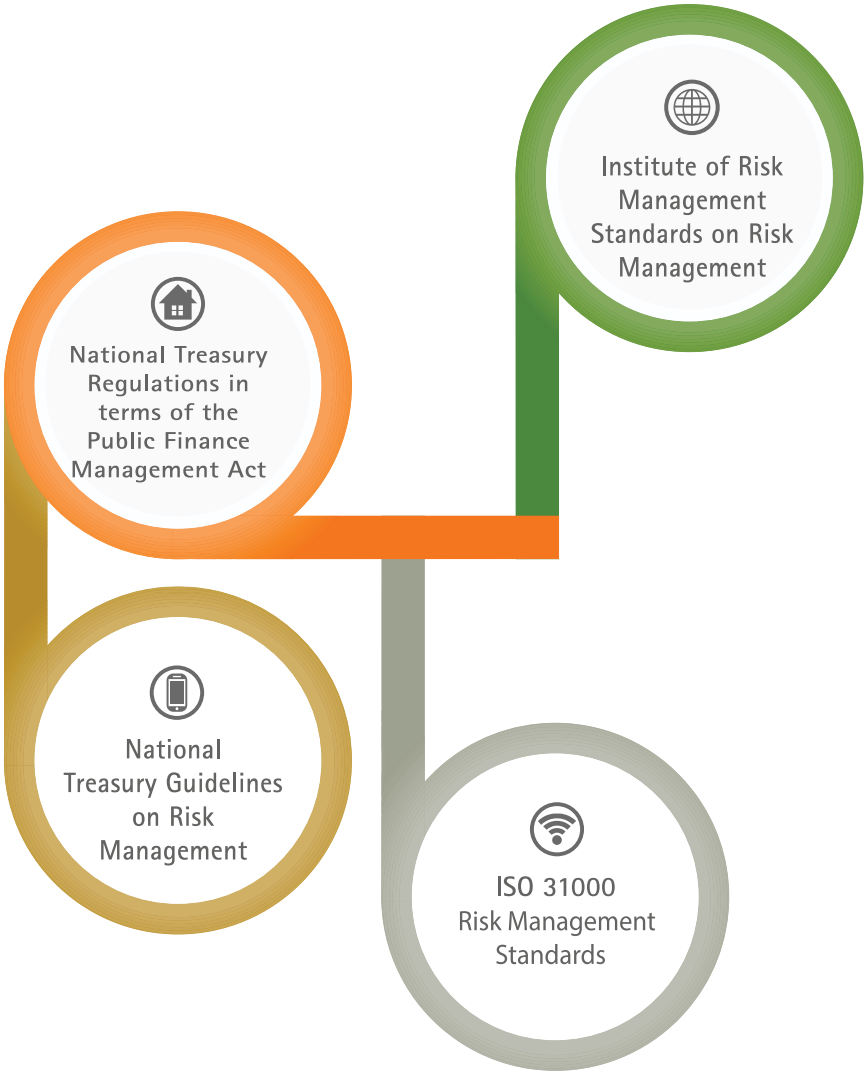
The following diagram depicts the NEF's Risk Management Framework and Strategy and outlines the important elements of effective risk management:



KEY RISKS AND MATERIAL ISSUES (continued)

Risk Management Standards:

The NEF's risk management standards are based on best practice and good corporate governance as depicted in the diagram below:

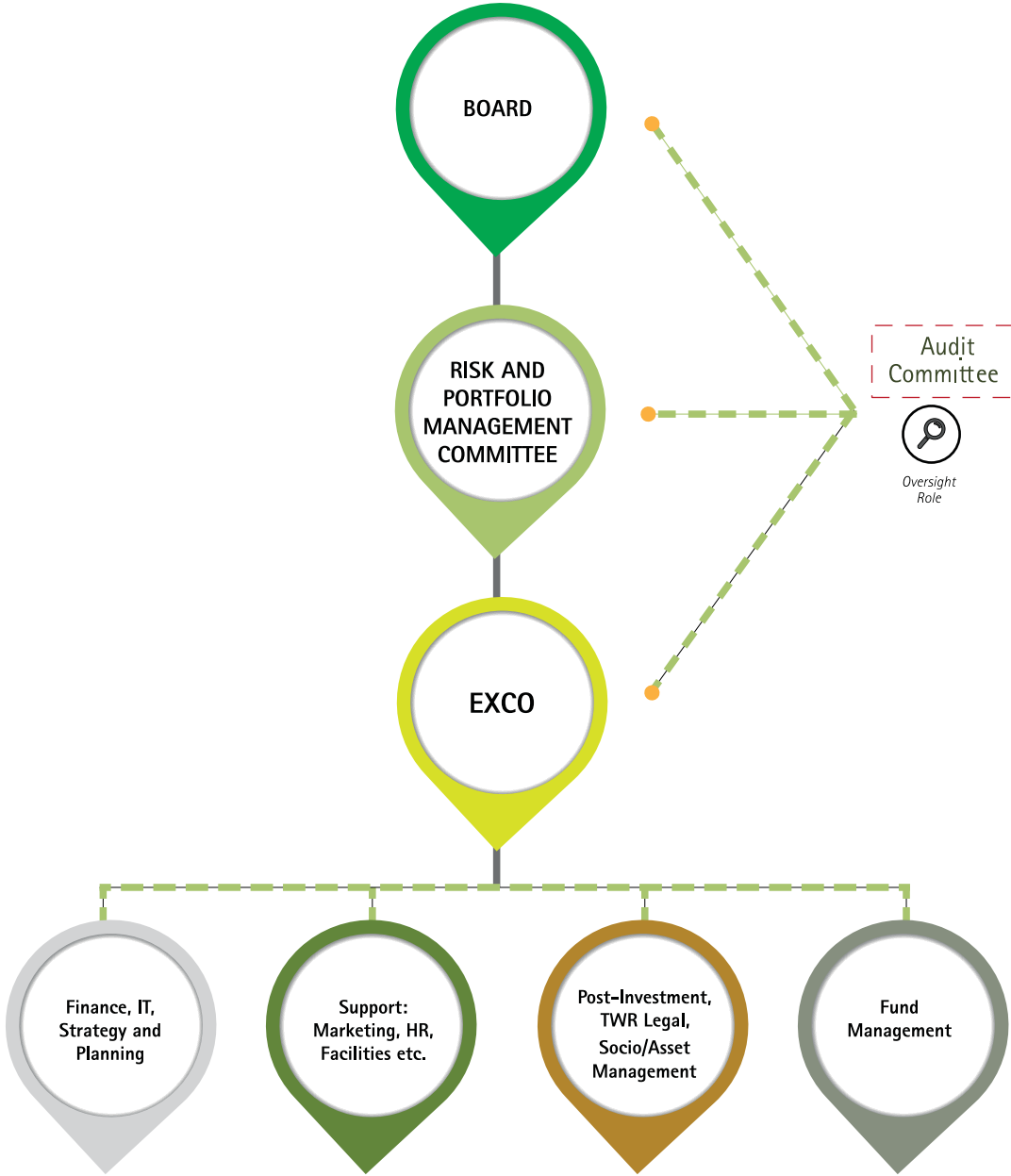


The Board of Trustees of the NEF (the Board) is responsible and accountable for directing and monitoring the organisation's risk management performance in a structured framework. The Risk and Portfolio Management Committee, which is a committee of the Board, is responsible for governance oversight of risk management. The NEF's Executive Committee, with the assistance of the Chief Risk Officer, is responsible for implementing the Enterprise-wide Risk Management (ERM) process.

The Audit Committee, also a committee of the Board, provides additional assurance to the Board, mainly, on the financial reporting risk management process and internal control on an annual basis.

KEY RISKS AND MATERIAL ISSUES (continued)

It is the duty of all business divisions of the NEF to support the Board and its committees to implement the risk management process. The diagram below shows the overall risk management structure, from the Board down to business divisions:



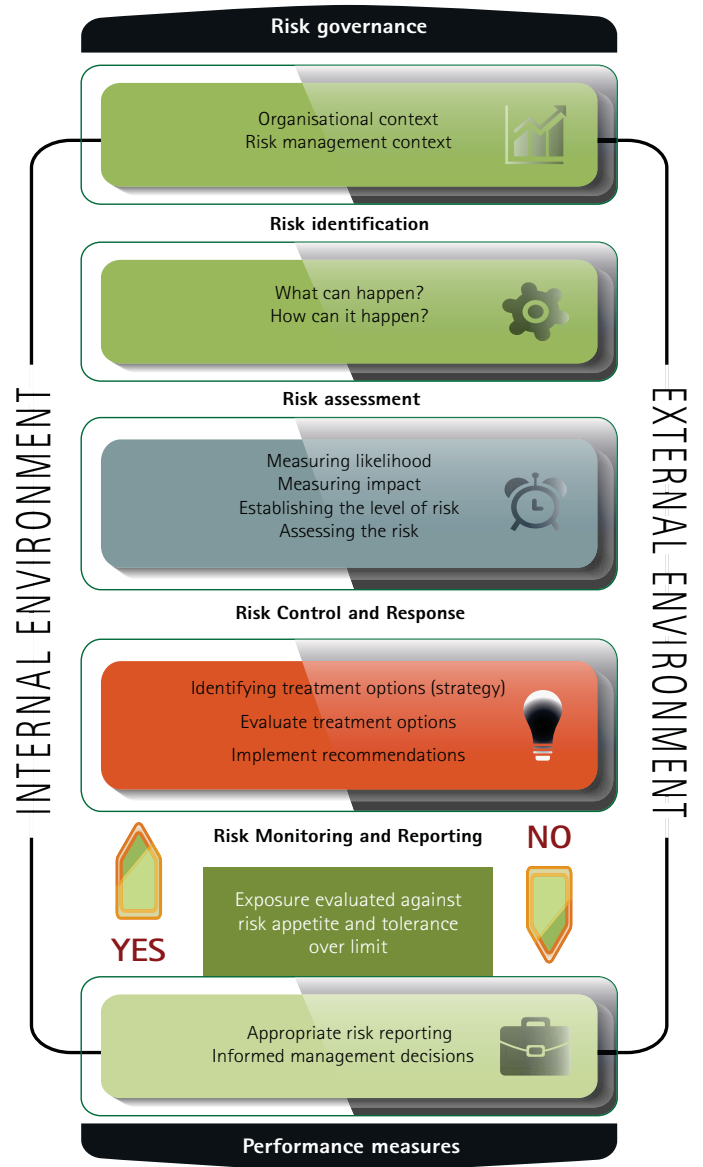
Overview & Reports

The NEF's approach to risk management is an intentional act of balancing the management of various threats while taking full advantage of the opportunities in the environment in which the organisation operates.

KEY RISKS AND MATERIAL ISSUES (continued)

Risk Management Process

The diagram below outlines our risk management process in terms of our ERM methodology.

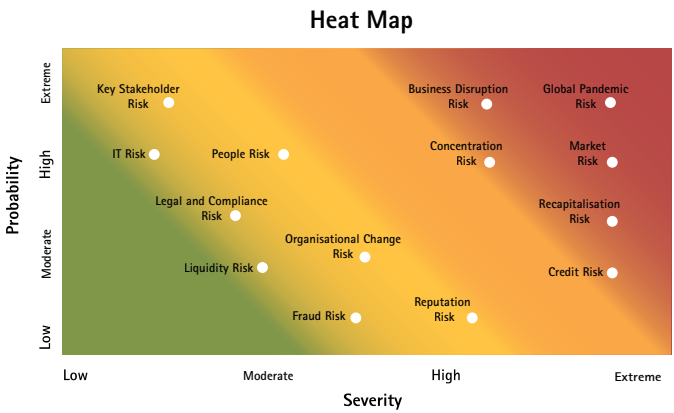


Identification of Material Issues

Material issues are identified as part of a risk management process from which key risks, mitigating measures and opportunities are identified. This process is managed by the Executive Committee, the Risk and Portfolio Management Committee and the Audit Committee and is then approved by the Board.

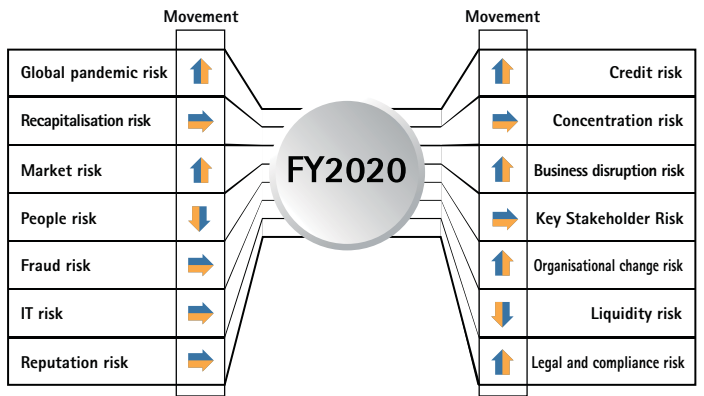
Key Risks Heat Map

Below is the depiction of the ratings of the residual risk that remains after management has applied all measures to mitigate the key risk. This has been represented by the heat map and then later by the table with the full details of the key risks and the residual risk ratings:



The following diagram reflects the movement in the residual risk rating from the previous financial year 2018/19. The arrows bear the following meaning:

- ➡ This reflects that the residual risk has remained the same from the previous year.
- ⬇ This reflect that the residual risk decreased which is a also an improvement in the outlook of the measured business objective.
- ⬆ This reflects that the residual risk has increased or the outlook for the measured business objective has worsened.



The following further explains the movement that depicts the increase in residual risk or the outlook in the business objective that has worsened from the previous year (📈): -

- **Global pandemic risk**

The global pandemic risk is a new risk that has become much of a concern for both the NEF and its investees due to the absence of assurance of when the pandemic will come to an end. It is a threat to the country's economic wellbeing and the NEF along with its investees' business continuity. This risk is, however, currently being closely monitored as uncertainty in the market and across the globe, remains.

- **Market risk**

Market risk has further increased from the previous financial year due to uncertainty in the economic environment in the country and in the global market at large.

- **Credit risk**

Credit risk has increased due to the threat of the COVID-19 pandemic and the economic downturn in the South African and global economies, leading to cash flow constraints for investees and subsequently limiting their ability to repay the loans.

- **Organisational change risk**

This is an emerging risk due to the pending possibility of a business combination with the Industrial Development Corporation (IDC). The anxiety of this combination could lead to loss of quality human resources.

- **Business disruption risk**

This is also another new risk identified as a direct consequence of the COVID-19 pandemic and is likely to affect productivity and efficiency of the NEF's operations. Due diligence investigations are likely to be reduced to desktop investigations leading to funding of transactions that would otherwise not have been funded if the full due diligence investigations had been performed. This is likely to lead to increased credit risk.

- **Legal and compliance risk**

This is another new risk which has emerged, and it is related to a noticeable increase in the number of legal and compliance issues by the investees of the NEF that are likely to affect the organisation.



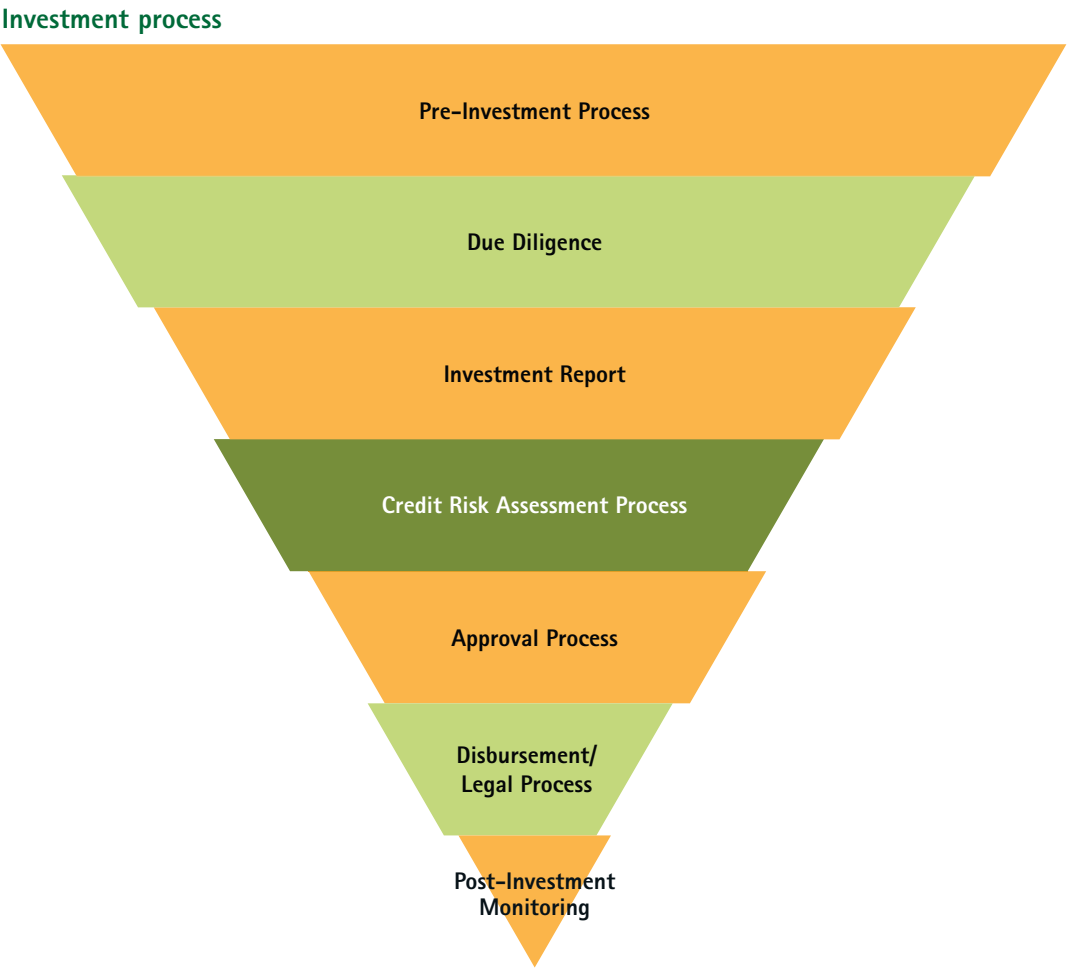
Credit Risk Management

Credit Risk Management is a significant component of the ERM process of the organisation. This is because the NEF is an institution whose major objective is the provision of financial support in the form of credit facilities. The NEF Management assigns priority and adequate resources to ensure effective management of credit risk.

Credit risk is defined as the risk or possibility that a borrower or counterparty will fail to or will fall short in honouring their obligations arising from a credit agreement and its terms and conditions, resulting in financial loss to the credit provider.

Credit risk is considered a dominant risk within the NEF as the provision of debt and or quasi-equity finance represents the organisation's core business. As such, effective management of credit risk is of paramount and essential importance to the long-term success and sustainability of the organisation.

The management of credit risk has been assigned to the Credit Risk Department (part of Risk and Compliance Division) established by the Board. The principal role of the Credit Risk Department is to ensure that the funds of the organisation are advanced to entrepreneurs and entities that are credit worthy and have proven to have commercially viable enterprises. The Credit Risk Department, inadvertently, plays an active role in the investment process as seen below:



Credit Risk Management (continued)

Although the Credit Risk Department has a responsibility for the overall credit risk management, that is, credit risk policy formulation and independent credit risk assessment of all credit applications tabled at approval committees, the Board assigns the responsibility for credit risk management to all personnel or departments playing a role in the investment process as detailed below:

Responsible team	Credit risk management actions	Desired outcomes
Investment team Interdisciplinary team of financial, technical, community development and legal specialists	<ul style="list-style-type: none">○ Identification of factors that may expose NEF to credit risks including mitigating measures on each credit application reviewed and conclusion on credit worthiness, feasibility and commercial viability of such a credit proposal.○ Performance of adequate due diligence investigations to confirm existence of mitigating measures and commercial viability of credit applications.○ Structuring of credit proposals such that credit advance does not burden the applicant's finances but reduces credit risk.○ Preparation of a credit approval (investment) report that is factual and assists investment committees in making informed credit decisions.	<ul style="list-style-type: none">○ Letter of decline or an informed decision to proceed to due diligence investigation.○ Letter of decline or investment report.○ Appropriately structured and priced transactions.○ Accurate approval committee decision that has considered all credit risk factors.
Credit risk division Division independent of the due diligence and business generating team	<ul style="list-style-type: none">○ Detailed review of credit approval/investment reports prepared by the investment teams.○ Independent identification of credit risk factors for each credit application or investment proposal which is approval committee bound.○ Provision of support to the approval committees with objective opinion on viability of the evaluated credit application or investment proposal with regards to the level and acceptability of credit risk.	<ul style="list-style-type: none">○ Adequate and independent credit risk assessment.○ Credit Risk Assessment report○ Accurate approval committee decision that has considered all credit risk factors.
Investment approval committees Approval committees evaluating funding proposals in line with delegation of authority.	<ul style="list-style-type: none">○ Analysis of credit application or investment proposals or reports to ensure that all credit risk elements have been adequately addressed.○ Formulation of an informed credit or investment decision on the basis of economic viability and acceptable credit risk exposure.	<ul style="list-style-type: none">○ Accurate approval committee decision that has considered all credit risk factors.○ Approval or decline of funding application.
Post Investment Unit Division supported by portfolio management committee responsible for managing the portfolio during the life of each transaction and maintaining portfolio risk within acceptable parameters.	<ul style="list-style-type: none">○ Provision of on-going post-investment monitoring to ensure that the investees adhere to the business plan or to address emerging operational risks of the investee that have the potential to affect their cashflows and ability to honour the NEF loan.○ Monitoring of non-performing or slow paying investees and collection of outstanding debts promptly.○ Provision of mentorship and other support deemed necessary in areas of business management in which the NEF investees lack adequate experience, skills and or capacity to successfully operate their enterprises.	<ul style="list-style-type: none">○ Financially sustainable enterprise that is profitable, capable of making debt repayments and/ or dividend distribution while growing its equity value.○ Timely interventions and collections.○ Timely interventions and collections.

Credit Risk Management (continued)

Responsible team	Credit risk management actions	Desired outcomes
Legal Services Unit Unit responsible for ensuring legal compliance in the funding process	<ul style="list-style-type: none">○ Performance of an independent legal due diligence for each credit application to identify legal risk factors.○ Drafting, negotiating and conclusion of legal agreements and other legal documents with investees and other external stakeholders involved in the applicant's business in line with applicable statutes.○ Investigation and acting on investees transferred to the Legal Unit as a result of failure by these investees to honour their obligations, including those for which all turnaround options have been exhausted.○ Acting on securities or collateral to recover some or all debts from investees failing to honour their debt obligations.○ Legally pursuing and litigating on behalf of the NEF against investees defaulting on their credit obligations to ensure all possible avenues to collect or recover debts are exhausted.	<ul style="list-style-type: none">○ Mitigation of legal risk in each credit proposal.○ Watertight agreements that ensure collection and for legal to handle in case of default.○ Recovery of outstanding debt or acting on securities.○ Recovery of outstanding debt or acting on securities.○ Recovery of outstanding debt and or obtaining default judgements from relevant court and listing with credit bureaux and seeking civil and criminal convictions of investee companies and/or their directors.
Turnaround, Workouts and Restructure Unit (TWR) Unit responsible for reviving distressed transactions	<ul style="list-style-type: none">○ Provision of specialist service and intensive monitoring of investees experiencing cash flow or liquidity challenges and similar challenges affecting debt repayment.○ Analysis of the causes of financial distress leading to operational challenges and repayment defaults.○ Restructuring of business operations to ease the cash flow constraints and devising turnaround or workout strategies.	<ul style="list-style-type: none">○ Turnaround of distressed business and/or collection.○ Turnaround, collections and/or exit.○ Turnaround, collections and/or exit.



Key Credit Risk Indicators

The Risk and Compliance Division tracks several key risk indicators, as part of portfolio risk monitoring, to assess and highlight potential credit risk factors that may adversely affect the overall performance of the organisation. An adverse movement in these credit risk indicators (year-on-year) indicates a potential increase in credit risk.

These indicators are further analysed below to provide a broader understanding of the level of credit risk monitoring at the NEF:

Impairments

Impairment ratio indicates potential erosion of the book value of the investment/ credit portfolio of the organisation and the extent of the potential credit risk on the existing portfolio. An increase in this ratio indicates a potential increase in credit risk. There was a significant increase in the impairment ratio from 18% in 2018/19 to 27% in 2019/20. There were a few large exits reducing the loan book value which was also exacerbated by a decrease in the valuation of the available-for-sale investments with a net effect of increasing the value of impairments.

Financial performance

ROI is an indicator of financial performance of the organisation's investments determined as a percentage of total returns over the total investment book value. An increase in ROI from the previous period (year-on-year) and or above the organisational target (which target is set above break-even ROI) reflects good quality of investments made and lower credit risk, whereas a lower than budgeted ROI and decrease in ROI (year-on-year) means a possible increase in credit risk of the portfolio. ROI remained constant from 9% in 2018/19 to 9.04% in 2019/20. It also reflects a slight normalisation in credit risk in the current year under review.

Portfolio risk

The overall portfolio (credit) risk of the NEF is monitored by the Post Investment Unit. The Unit undertakes the risk rating of the entire credit portfolio on a quarterly basis. The portfolio is rated from low to high using a Board-approved risk rating model. An increase in the portfolio risk indicates an increase in the credit risk for the organisation. The portfolio risk has remained medium for three years in a row (including the current year) which is indicative of a stable credit risk outlook for the existing portfolio. This is, however, likely to change due to the emergence of the COVID-19 pandemic which is likely to significantly and adversely affect the businesses of the NEF's investees.

Non-performing loans (NPLs)

NPLs are defined at the NEF as debt facilities with monthly instalments that remain unpaid for a period of 90 days and above. The NPLs are determined as a percentage of total active loan book value (total value of NPLs divided by total active loan book value). An increase in NPLs indicates increase in credit risk of the

organisation. There was a significant increase in the NPLs from 28.6% in 2018/19 to 49% in 2019/20. The biggest contributor is the majority of the NEF investees experiencing adverse effects of weak economy towards the end of 2019/20 caused by the COVID-19 pandemic which resulted in a nationwide lockdown followed by a sovereign credit downgrade to junk status.

Collections

Collections are scheduled and or unscheduled repayments of credit or debt by investees. Collections are expressed as a percentage or ratio of repayment receipts over instalments raised for performance measurement purposes (collections ratio). Scheduled or periodic (monthly, quarterly or annually) instalments are raised on investments structured as debt/senior loan. In certain instances, where investees have excess cashflow they opt to reduce or fully settle their debt facilities through either senior debt facilities or junior debt facility such as mezzanine structured loans where no instalments are raised. These are referred to as unscheduled repayments or receipts.

Due to the fact that no instalments are raised unscheduled repayments, the collections ratio increases above 100%. In spite of this anomaly, collections ratio of 90% and above 100% indicates acceptable credit risk. An increase in total collections ratio from 128.4% in 2018/19 to 143.81% in 2019/20 was recorded and was due to higher exits and loan repayment acceleration as compared to 2018/19. Collections remained above the target for the year.

Security cover/collateral

The security cover for the NEF's investments is generally low due to the nature of NEF's mandate which places emphasis on commercial viability as the basis for funding as opposed to collateral based lending. This has an adverse effect on the overall credit risk of the organisation compared to traditional financial institutions. Over 72% of the NEF's loan book is unsecured. The security cover has, however, increased from 16% in 2018/19 to 28% in 2019/20 which slightly reduces credit risk of the organisation.

Overall credit risk assessment

Based on the above indicators, there is a notable increase in the credit risk rating of the organisation. This increase also reflects the subdued economic growth for the past few years, the economic downgrades and the devastating effects of the COVID-19 pandemic. The South African Government is constantly working on various strategies to improve the economy of the country and has been working overtime to shield small- and medium- enterprises (SMEs) from the adverse effects of COVID-19. The NEF's Management is also committing resources to keep credit risk at an acceptable level by ensuring vigorous assessment of credit applications to reduce impairments and by intensifying post monitoring to ensure timeous interventions and collections while also actively management the portfolio of COVID-19-affected investees.

Internal Credit Risk Rating and Pricing Models

The NEF developed and utilised credit risk rating and risk pricing models which are aligned to the organisational mandate. The output of the Credit Risk Rating Model is used as an input in the pricing of transactions.

Compliance

In a highly regulated environment, we view compliance as part of preserving the integrity of the organisation through an integrated way of compliance implementation. The NEF values and strives to ensure compliance with laws, regulations and applicable standards in a way that supports the organisation being both ethical and a good corporate citizen.

The Compliance Management programme of the NEF is at a relatively mature stage as key steps have been taken in the design and detailing of the compliance management programme. Some of the interventions included the development of a Compliance Framework (which includes a Compliance Policy and Manual, Compliance Committee Charter and a Compliance Monitoring Manual) as well as the relevant regulatory universe of the NEF. Compliance monitoring efforts are an ongoing initiative aimed at minimising compliance risks.

Compliance management within the NEF is a significant and strategic process and is a key factor in assuring the sustainability of the organisation as well as re-assuring all stakeholders. The theme of integration is considered in all compliance efforts at the NEF. Such integration ensures that compliance becomes a crucial role-player in the combined assurance process at the NEF and becomes an integrated consideration in all key business processes.

A Compliance Committee is constituted and is responsible for all matters relating to compliance that affect their respective business units. The NEF upholds high standards in compliance management to protect the organisation from the adverse effects of non-compliance and legislative breach.

A dedicated effort was made to ensure compliance with the B-BBEE Act (2003, and its amendments), the FICA (2001, as amended) and the POPI Act (Act 4 of 2013). We continue to actively monitor the legislative landscape for any changes which may affect the business.

We proactively engage with regulators and other DFIs on all compliance-related matters. Through the use of guidelines issued by the Compliance Institute of South Africa, we aim to effectively identify, monitor and report on compliance performance and risks.

In order to supplement our current compliance management efforts and to build a medium-term view of compliance management within the NEF, we will be developing a strategy that will allow for progressive growth in compliance management in a manner that is aligned to the strategic goals of the organisation. This will include the implementation of various multi-disciplinary compliance programmes to ensure compliance with applicable laws and good governance practices.

On 15 March 2020, the Honourable President of the Republic declared the COVID-19 epidemic a national state of disaster. This necessitated that the NEF put in place precautionary measures to better protect all employees and to limit the impact of the pandemic. Policies and protocols were developed to ensure that the NEF complies with COVID-19 regulations and to ensure alignment to the Governments' strategy to manage the spread of the virus.



Snapshot of Investee Profiles

Below is a random sample of the NEF's investee company profiles:

Companies	Woman % shareholding	Province	Jobs	Strategic sector	Partnerships	Industrial Development	Amount
1. Khabokedi Waste Management (Pty) (Page 44)	59% (black female)	GP, WC	500	Waste Management – Green economy	CoE: Fetola Fund	Green Economy	R39m
2. Nare Leisure Investment (Pty) Ltd (Page 45)	100% (black female)	NC	75	Tourism	Tourism Transformation Fund	Tourism	R9.6m
3. Nkomazi Cotton Development Project (Page 46)	80% (black female)	MP	16 650	Agro-processing	n/a	IPAP	R42.6m
4. Surge Technology (Pty) Ltd (Page 47)	100% NEF *Black Facilitator Status	GP	17	Manufacturing	n/a	Industrial	R20.3m
5. Mohlalefi Engineering (Page 48)	100% (black owned)	GP	31	Agro-processing	n/a	IPAP	R36.3m
6. Tyre Energy Extraction (Pty) Ltd (Page 49)	n/a	EC	60	Renewable energy	n/a	Black Industrialist	R38.1m
7. Makwande Supply and Distribution (Page 50)	100% (black female)	GP	185	Transport and logistics	n/a	Transport and logistics	R13.9m
8. The Leopards Sands (Page 51)	10% profit share for community	MP	44	Tourism	Tourism Transformation Fund	Tourism	R15m
9. BT Industrial (Page 52)	25% (black female)	GP	41	Manufacturing	City of Ekurhuleni	IPAP	R15m
10. Parker Family Foods (Page 14)	100% (black owned)	WC	79	Manufacturing / Wholesaling and Retailing	Western Cape Enterprise Development Fund	Food processing	R14.8m

Investee profile

Khabokedi Waste Management (Pty) Ltd

Company profile

Khabokedi is an existing company that focuses on providing solid waste management services to public and private sector clients located throughout the country. They provide various services relating to waste management, however, their core focus has been landfill operations management. They have started processes to **diversify their service offering to include waste recycling services in support of the green economy**. Through the years, Khabokedi's quality of work, experienced resources, and good track record for timeous execution has resulted in a strong reputation in the market, giving them a competitive advantage over some of the industry players.

Development Impact

The business has been in existence since 2009 and is **100% Black-owned, 59% of which is women- and youth-owned**. The business is managed by an experienced team of individuals with vast industry experience and professional expertise. They manage 13 landfill sites which are located in six provinces across the country, thus contributing to job creation in those provinces. Through **NEF funding of R39 million (blended with City of Ekurhuleni Fund)**, the business has **retained 342 jobs**, and has the opportunity to grow the staff compliment **by additional 158 jobs** through the expansion of the business.

Khabokedi's business operates out of the **Ekurhuleni Municipality** as its head office is based in Alberton. In addition to that, the biggest contract serviced by the company is with the Ekurhuleni Municipality. As a result, they also qualified for funding through the **Ekurhuleni's Fetola Enterprise Development Fund in partnership with the NEF**.



Investee Profile

Nare Leisure Investment (Pty) Ltd

Company profile

Nare Leisure Investment (Pty) Ltd is a new entity established in 2018 with the purpose of establishing a four-star top-end Boutique Hotel in **Kimberly, Northern Cape**. Nare Leisure is **100% Black woman-owned** by Ms Tsholofelo Maletsatsi Wesi. Ms Wesi took advantage of an opportunity that she identified within the tourism industry. A 39 years of age, dynamic and versatile Black woman with strong credentials and a good track record within the hospitality industry and in managing different projects. Through the NEF's funding of R9.6million (blended with TTF), the business will **create 75 jobs of which 19 will be permanent and 56 will be during construction**.

Development Impact

When the NEF was approached by Nare Leisure, the property was under the ownership of ABSA Bank and the construction had commenced and the building was 29.75% complete. Since then, the property has been acquired from ABSA, and the building construction is now 86% complete.

The hotel will feature four floors with the top floor overlooking the city and offering 360-degree panoramic views of Kimberley. It will consist of 13 rooms which can accommodate a maximum amount of 26 guests and a roof-top hosting facility with a capacity of 50 individuals. The hosting facility will provide a high-end venue for events such as corporate lunches, birthday celebrations, baby showers, bridal showers, year-end functions and other smaller events. This facility will enable the hotel to reach clients whom would not necessarily be interested in the accommodation services provided by the hotel but the public that wants to have lunch, dinner or drinks any time of the day. The boutique hotel will have catering services on the premises which will serve breakfast, lunch and dinner.

Nare Boutique Hotel is centrally located in town, in close proximity to the major tourism and business attractions of the vicinity. The proposed development is in a busy area and will be easily accessible from five of the major roads entering

Kimberley. Nare Boutique Hotel will aim to provide products and services of such quality that will comply with the requirements for a four or five-star grading from the Tourism Grading Council of South Africa.



“By complying with B-BBEE, organisations promote economic transformation which in turn will promote economic growth across the country due to the increase in the extent to which communities own and manage enterprises.

Mr Nhlanhla Nyembe, Acting Divisional Executive
SME Rural and Community Development

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Investee Profile

Nkomazi Cotton Development Project

Company profile

The Lebombo Agricultural Secondary Co-operative Limited ("Lebombo") approached the NEF in 2015 for **feasibility funding of R7.4 million** to investigate the establishment of a cotton lint manufacturing plant. **The cooperative is 100% Black-owned and 67% women owned.** It is comprised of **21 primary cooperatives** and has **1 190 members** in total who are small holder farmers. The farms are located in and around the Nkomazi Municipality in Mpumalanga. The funding was approved in 2016 and was financed through a Joint Venture which is owned by both the Co-operative (51%) and the NEF (49%).

The BFS was developed in partnership with a turnkey professional service provider. The BFS phase has been completed and it yielded positive outcomes. Some of the salient features of the outcomes include the identification and selection of the gin equipment manufacturer, project site location securing, market and risk assessments and financial modelling.

Development Impact

The total project size is ca. R300 million and following the positive BFS outcomes, the NEF **has invested a further R42.6 million into the project.** The balance of the project funds are being raised externally by engaging different development finance institutions, commercial banks and private equity funders in the market.

At completion, the Nkomazi Cotton Development Project is expected to yield empowerment dividends such as the creation of **16 650 sustainable jobs** (through direct farming, processing of the cotton and construction of the plant, promoting growth in the agro-processing sector and promoting greater economic participation in the **Lebombo and greater Mpumalanga area.**



Investee Profile

Surge Technology (Pty) Ltd

Company profile

Surge Technology (Pty) Ltd trading as Surgetek was formed in 1988 following an exclusive association with Dehn & Sohne to supply lightning and overvoltage protection products in Africa. **Today the company is 100% Black-owned** and boasts a number of partnership agreements with leading international manufacturers and designers. This has seen the company establish itself as one of the leading supplier and manufacturers of quality products backed by excellent technical know-how and after sales service.

The company provides a wide range of products from lightning and power surge protection devices to electrical safety equipment and clothing (Arch Flash PPE), portable earthing devices and voltage detecting systems that are utilised by the major electrical, industrial, mining and telecommunication sectors in South Africa. Most of the power protection and safety equipment are SABS approved and are specified by the major users including amongst others government departments, municipalities, air traffic control, state-owned enterprises, and other private companies.



Development Impact

The company is a **wholly owned subsidiary of the NEF** following the business rescue process that completed in late November 2017. With the assistance and rescue interventions of the NEF, **the company was able to turnaround and retain the majority of its 18 long serving member staff, averaging over 30 years with the company.** The business has emerged from distress and is a success story of business rescue in an otherwise untransformed industry.

To confirm its status as one of the leading suppliers of lightning protections devices in South Africa, the company was invited to supply lightning protection equipment and devices in collaboration with their international supplier Dehn to the three Photovoltaic (PV) projects owned by Scatec in the Northern Cape as part of the renewable energy Independent Power Producer Procurement Program (REIPPPP).



“ South Africa's policy of black economic empowerment (BEE) is not simply a moral initiative to redress the wrongs of the past. It is a pragmatic growth strategy that aims to realise the country's full economic potential while helping to bring the black majority into the economic mainstream.

Mr Setlakalane Molepo, Divisional Executive SME Rural and Community Development

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Investee Profile

Mohlalefi Engineering

Company profile

Mohlalefi Engineering is a pioneering manufacturer and supplier of innovative, lifesaving and reliable roof support and safety solutions for the mining industry. Founded in 2017, Mohlalefi Engineering designs, manufactures, supplies and installs safety structures, roof tendons and anchors for underground mining operations. All Mohlalefi products are manufactured locally from a pilot plant located in Alberton industrial site, Gauteng.

The company is 100% Black youth-owned. Mohlalefi Engineering uses an innovative manufacturing process to create mining roof support systems that are superior in performance compared to competitors in terms of strength. Mohlalefi has a strong research and development base, with decades of experience in the mining roof support space. This enables the project team to better understand customer needs as well as to provide continuous support and training for the products. **Mohlalefi currently has employed 48 employees** and has a capacity to produce 10 000 units per month.

Development Impact

The NEF has invested R15 million towards conducting a bankable feasibility study based on a pilot plant. The pilot plant is used to produce and acquire all the necessary statutory testing and certification for the Mohlalefi products. To date, Mohlalefi is already rendering its services to six mines locally and one mine in Zimbabwe, bringing the total to seven mines. Post the Siyanda and Royal Bafokeng mine trials, Mohlalefi will be supplying underground support to nine mining operations companies. This will conclude the market development milestone and the balance of the milestones are expected to be completed by March 2021.



“

The NEF Women Empowerment Fund aims to address barriers that often push women entrepreneurs into the informal economy where a lack of access to finance, information, and networks jeopardise their capacity to grow and develop businesses.

Ms Zama Khanyile, Head: uMnotho Fund

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Investee Profile

Tyre Energy Extraction (Pty) Ltd

Company profile

Tyre Energy Extraction Pty Ltd ("TEE") is a Black-owned company which is located in the COEGA Development Zone in the **Eastern Cape**. The NEF has been involved in the project since the early stage of its development in 2012, this is when the project was still a concept. The project has now developed significantly having gone through pre-feasibility, bankable feasibility and is now at financial close with the plan to get it operational in the first quarter of 2021.

Development Impact

Mr. Lunga Limba, a Black industrialist that resides in the **Eastern Cape (Port Elizabeth)** is the main driver and owner of this project. **NEF has invested R38.1 million** in TEE and has a 30% equity stake in it. The main objective of the project is pyrolysis of waste tyres in the Eastern Cape and through that process, the company will generate oil, waste steel, char and gas for sale to the respective markets. The success of this renewable energy project will see it being rolled out to other provinces outside of the Eastern Cape.

The company will create 60 direct permanent jobs. In addition, this project will support numerous other indirect jobs from the tyre collectors, transporters which are mainly owner driven transport companies and jobs in the approved depots which store tyres before they are transported to recyclers.

This is a project that fits squarely in this renewable energy space, a developing sector in South Africa. TEE will contribute to the cleaning of the environment through the eradication of historical tyre dumps which have filled up beyond their capacity.

The NEF is proud to be part of a project that is aligned to government policy regarding waste tyre management.



“ Although South Africa has made significant strides in terms of women's political representation at various levels, women are still marginalised economically as men control the bulk of the resources and decision-making. It is for this reason that at the NEF we established the Women Empowerment Fund.

Ms Eldene Govender, Acting Head iMbewu Fund

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Investee Profile

Makwande Supply and Distribution

Company profile

Makwande Supply and Distribution (Pty) Ltd ("Makwande") is a **100% black woman-owned and managed** business by Ms Nona Chili. The business has been providing transport and logistics services to the petroleum industry since 2009. In 2015, Makwande approached the NEF seeking R12m to increase its fleet of eight trucks by an additional three trucks in order to service a three-year contract that was awarded by one of the oil majors. With an increased fleet, the business was able to secure more contracts and was awarded an eight-year contract from yet another oil major. Since then, the business has grown its asset base to 58 trucks and employs 175 permanent employees.

Development Impact

Makwande exited the first NEF loan in July 2019 and approached the NEF for a second loan of R13.9m for the acquisition of the depot from which it operates. The property comprises three erven totaling 15 200 sqm boasting a truck stop, ancillary office building, workshop and other related buildings. **The NEF's financial support enabled the business to trade competitively by increasing capacity as well as increasing its asset base by owning its own commercial property.**



Investee Profile

The Leopards Sands

Project value: R48.2m

NEF funding: R15m

Jobs: 44 permanent Jobs

Grading: 5 star

Ownership: Owned by 5 Black entrepreneurs

Community Benefit: 10% profit share.

Project description: Overlooking the Sabi River, Leopard Sands River Lodge by BON Hotels is set to launch in May 2020. The lodge is bordering and overlooking the world-renowned Kruger National Park, only minutes from the Kruger Gate entrance. The lodge has 18 luxury units, all equipped with private plunge pools overlooking the iconic river, home to hippos, crocodiles and countless species of birds. It also boasts an elevated restaurant that gives guests a unique view of the park. Discussions are at an advanced stage with San Parks to collapse the border fence with Kruger National Park.



“

The tourism industry is important for the benefits it brings due to its role as a commercial activity that creates demand and growth for many more industries. Tourism not only contributes towards more economic activities but also generates more employment, revenue and plays a significant role in development.

Mr Eric Zwane, Head Rural and Community Development Fund

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Investee Profile

BT Industrial

Company profile

BT Industrial (BT) is a **100% Black-owned** engineering business founded by Mr Kgomoiso Lekola in 2017. BT's head office and manufacturing plant is situated in Germiston, east of Johannesburg. The business is a manufacturer and supplier of HDPE pipes ranging from 65mm to 1000 mm. HDPE pipes are mainly used for industrial purposes in the mining and construction sectors.

As a manufacturer of HDPE pipes, BT Industrial conforms to the local content requirement of the new Mining Charter, meaning that every R1 spend translates into a R1.28 B-BBEE benefit for its mining clients.

Development Impact

The NEF approved R15 million as a revolving loan facility to BT for expansionary purposes. This resulted in **maintaining 28 sustainable permanent jobs** as well as **creating 13 new permanent jobs**.

BT obtained its SABES approved certificate in 2019 and was DEKRA approved in 2020.

Its main achievement in 2019 was being one of the seven majority Black-owned small businesses selected as **winners of the SA SME Fund's CEO Circle Entrepreneurs Award** for entities deemed high-potential enterprises with the ability to grow into a significant company of R500m-plus in value.



CFO'S REPORT



Mr Lebogang Serithi
Chief Financial Officer

Finance Report

New developments and updates

The Group's results include four subsidiaries, namely Zastrovect Investment (Pty) Ltd (trading as Goseame Open Market – Goseame), Delswa (Pty) Ltd, Surgetek (Pty) Ltd and National Empowerment Fund Corporation SOC Limited (NEFCorp SOC Ltd). These entities are briefly described on page 24.

Management is still working on the disposal of Goseame. It has, however, taken longer than anticipated; as a result, an application to extend the PFMA (1999, as amended) Section 92 exemption has been made with

National Treasury. Management also intends to dispose of Surgetek once it has stabilised enough to attract suitors. A prospective purchaser for the property in Delswa has been found and sale agreement has been concluded, however awaiting for a condition to be met which is property rezoning and the rezoning certificate in order for the transfer to be effective.

Due to the immaterial net contribution to the results of the Group from all these subsidiaries, this report will only focus on the performance and financial position of the Trust.

“ The NEF, by virtue of its mandate to support and promote enterprises owned and managed by Black people, focuses its efforts on identifying and procuring from businesses that have significant black ownership and whose owners are operationally involved in the management of these businesses. ”

Highlights in this Report

Corporate Governance
The centrality of ethical leadership

R10.61 billion
Approved since inception by NEF
to fund B-BBEE

Number of years of NEF securing
clean external audits

17 years
running

A five-year snapshot of the results and financial performance of the Trust is as follows:

Table 1:

Rm	5 year CAGR	5 year average	Annual Growth	2019/20	2018/19	2017/18	2016/17	2015/16
Financial Position								
Cash & Cash equivalents	0%	1 267	40%	1 420	1 017	1 134	1 345	1 419
Investment in development activities	-2%	2 417	-13%	2 146	2 466	2 569	2 537	2 369
Financial market assets	-19%	1 074	-46%	498	925	1 248	1 287	1 412
Other assets	-9%	52	2%	57	56	51	4	92
Total assets	-5%	4 810	-8%	4 121	4 464	5 003	5 173	5 292
Liabilities								
Trust capital & reserves	-6%	4 496	-13%	3 650	4 217	4 722	4 787	5 104
Total liabilities and equity	-5%	4 810	-8%	4 121	4 464	5 003	5 173	5 292
Financial Performance								
Interest on development activities	-2%	217	-27%	183	251	231	212	206
Interest on cash investments	-2%	78	4%	75	72	73	85	83
Total interest	-2%	294	-20%	258	323	304	297	289
Dividends								
Dividends from development activities	-12%	6	-24%	4	5	13	1	7
Dividends from financial market assets	-16%	80	8%	59	54	76	75	137
Other income	-15%	51	10%	45	41	18	52	101
Profit on disposal of investments	0%	13	0% -	-	- 8		58	
Total income			366	424	410	432	591	
Impairments and Fair Value Gains/Losses								
Impairments (including write offs)	-11%	286	-8%	252	275	217	240	445
Fair value gains/(losses)	-190%	-35	-61%	-35	-88	32	-145	60
Income after credit impairment charges and fair valuations			78	61	226	48	206	
Operating Expenses								
Operating expense	-2%	241	-15%	220	257	251	240	237
Operating surplus/(deficit) for the year			-141	-197	-26	-192	-31	
Fair Value Gains/(Losses) on Listed Equities								
Fair value gains/(losses) on listed equities	-10%	-323	38%	-426	-309	-39	-125	-716
Surplus/(deficit) for the year	-5%	-440	12%	-568	-505	-65	-317	-747
Financial Ratios								
Cash & Cash equivalents to total assets		26,5%		34,4%	22,8%	22,7%	26,0%	26,8%
Net Return on assets		-9,3%		-13,8%	-11,3%	-1,3%	-6,1%	-14,1%
Return on investment (before impairments)		8,7%		9,04%	9,0%	8,3%	7,8%	9,5%
Return on investment (after impairments)		-1,2%		-2,7%	-0,4%	1,2%	-0,5%	-3,5%
Operating expenses to income		55,6%		60,1%	60,8%	61,3%	55,7%	40,2%

Due to the muted and significantly inadequate GDP growth of the South African economy at 0.2% in 2019 compared to the required 5% per the NDP, it is unfortunate that the NEF is reporting a 13% decline in year-on-year growth in development assets.

Muted disbursements during the year were at R304 million against R383 million in 2019 and net write-off of assets was R18.9 million for the year.

Whilst the NEF continued to deliver a healthy level of commitments, lower disbursements were mainly as a result of conditions precedents that proved to take longer than anticipated. In some cases, where we had co-funded transactions, our partners were required to inject funds ahead of us as part of our risk mitigation process.

As South Africa's credit rating has been downgraded to junk status during the early days of the lockdown to contain the COVID-19 pandemic, this indicates that the economic environment will be worse off than the current situation. We expect our development portfolio to continue to decline compared to prior years due to some sectors which will be adversely affected by the national lockdown, further, the NEF has granted clients a notional moratorium of 90 days, which can lead to a 2% adjustment on the impairment ratio.

The dtic has partnered with both the IDC and the NEF, by allocating R200 million to the NEF in order to enable it to finance products which are critical in the fight against COVID-19. Further, the NEF has approved a R20 million critical needs funds for its affected clients.

The compounded negative growth in our portfolio since 2015/16 is at -2% and is worse off than the recorded average GDP growth over the same period of -0.6%. The cost per job for the year was about R174 914, against a target of R162 500.

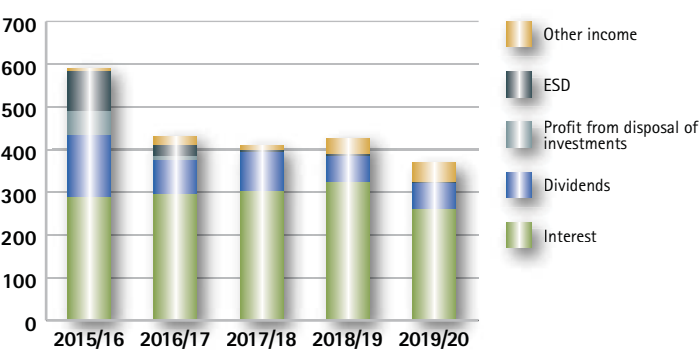
Due to tough economic conditions which affected the muted growth in development assets, interest earned on these assets has declined by 27% year on year, although our main income line has resulted in reporting a ROI at 9.04%, which is 4 bps up when compared to the prior year's ROI of 9%.

These levels of returns continue to highlight the need for the NEF's funding mix to have some element of concessionary pricing, especially given the significant socio-economic benefits that have been (and continued to be) derived from NEF activities – as demonstrated in the performance highlights and the performance overview sections of this report.

Dividend income holdings has increased by 5% year on year at R62 million (R59 million in 2018/19). The decline in total income was at 13.7% (which is 960 bps below CPI rate), resulted in cost-to-income ratio of 60.1% (restated 60.8% in 2018/19). The reported cost-to-income ratio has unfortunately broken the upper end of our long-term target range of 54-58%. Management has worked tirelessly to ensure that expense growth is limited, as demonstrated by a compounded negative growth in expenses of 2% over the past five years, as a result of the implementation of cost containment measures including the performance bonus provisions not provided for. Management is therefore continuing to explore initiatives with the intention of diversifying and growing the NEF's income.

Figure 1 below shows how the income mix has changed over the past five years. The graph shows that interest income and dividends used to be the core sources of income for the organisation. This income mix has changed over time with the introduction and growth of other income sources. In line with the nature of our business and our instrument mix, interest income has continued to be the core source of income, comprising on average about 70% of total income over the period (i.e. excluding 2015/16 where we saw a much varied income mix than the norm). Dividend income has significantly reduced in the current financial year, while unconditional enterprise development funding income has materially reduced since 2015/16. Other income includes bad debt recovered and raising fees charged on new facilities. The steady decline in the contribution from raising fees over the years has had an Impact on income growth.

Figure 1: Income mix



Although there were tough economic conditions, impairment provisions and write-off charges were at R252 million (R275 million in 2018/19); an 8% decline for the year. This total charge represents net write-offs at R18.9 million (R10.3 million in 2018/19), while impairment provision charges were at R233.5 million (R264.5 million in 2018/19). Based on assessment of the portfolio, economic conditions are anticipated to get worse due to clients being affected by the COVID-19 pandemic.

It is key to point out that the NEF has consistently delivered a surplus after impairment and write-off charges but before operating expenses, as well as following fair valuation movements of all its unlisted equity investments. In particular, the NEF reported net income of R78 million before operating expenses and fair value movement on listed equity investments in the current year. In the last five years, the NEF recorded a net surplus of R619 million.

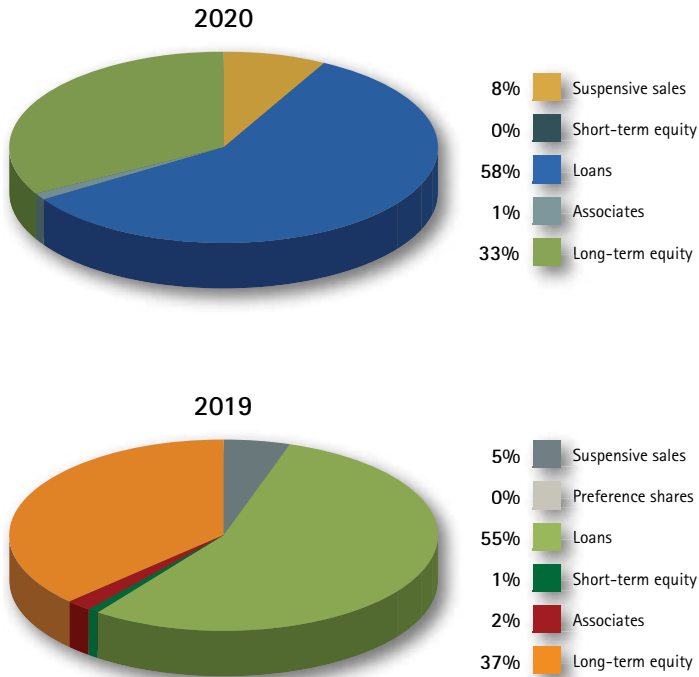
As a schedule 3A entity, if government had continued to make annual contributions towards operating expenses (which include non-financial support programmes that are part of the NEF's mandate), the balance sheet of the NEF would have grown by over R2.1 billion (42% potential increase to the financial position) since 2010. These resources would have been used to support the core mandate of the NEF in providing financial assistance to Black business.

Since the NEF has had to fund its operating expenditure as well, a net operating deficit of R141 million was reported during the 2019/20 financial year (R197 million in 2018/19). The last item that impacts our net performance, is the fair valuation of listed equity holdings (mainly driven by the MTN shares), which as demonstrated in Table 1 above, have resulted in material unrealised fair valuation movements in the recent past. During the 2019/20 financial year, a net deficit of unrealised fair value movement of R426 million was reported, resulting in a net deficit of R568 million for the year.

Figure 2 indicates that interest-bearing lending remains a focus for the NEF. Originated loans, preference shares and suspensive sale advances have remained steady at 66% compared to 60% in 2018/19.

The portfolio skew in favour of non-equity instruments provide the NEF with the required element of predictable cash flows, though this must be done in full consideration of the level of loans in moratorium at that specific reporting date.

Figure 2: Portfolio make-up (gross amortised cost/fair value)



The total collections ratio (measured as receipts as a percentage of instalments raised) at 143.81%, has improved from the prior year's 128.43%. Total collections and disposal income on the portfolio at R483.6 million is 24.3% higher than total portfolio collections made in 2018/19. When equity disposals are excluded, pure portfolio collection is 27% higher than the prior year. This is testament that active portfolio management has ensured that over R3.5 billion is collected from our invitees since inception.

Portfolio impairment provisioning in the year further increased to a range of 25% - 27% from prior year's 18% mainly due to the settlement of Ubumbano Rail (Pty) Ltd loans, which had a negative Impact on the impairment figures as a provision of R78 million had to be made for the remainder of the balance. Additionally, the transfer of certain contracts to the Legal Department due to failure to make payments exacerbated the impairment provision. As a result of the above settlement, the loan book decreased by R230 million without any commensurate increase in disbursements. The Impact of the COVID-19 pandemic caused nationwide lockdown which has adversely affected a significant part of the NEF's portfolio.

Fair value movements on unlisted equity positions resulted in an unrealised loss of R36 million against an unrealised loss of R88 million in 2018/19 based on the performance of our investees, which were further affected by the adverse current economic conditions.

Our governance framework around IST continued to be entrenched and enhanced during the year. One of the key milestones is the development of the Enterprise Architecture (EA) roadmap. The intention of an EA roadmap is to determine how an organisation can most effectively achieve its current and future objectives; more specifically relating to IT, to ensure that IT can efficiently support the organisation in achieving those business objectives. We have appointed a service provider who has developed an EA roadmap to define the blueprint for the NEF.

We worked on three major projects during the year; the first one being the improvement of bandwidth infrastructure of head office and all our regional offices to enhance efficiencies. The second one to improve on the Cybersecurity. The IST Department has implemented Sophos Endpoint Protection and Sophos XG firewall solution with an advanced protection to mitigate possible threats, risks on network, user and computer intrusions. These projects have been implemented.

Lastly, we have implemented the redundant or backup link. The redundant link is used to prevent small network failure. These are used to provide redundancy, i.e. serves as a back-up when a link fails, the redundant link will take over through another path.

We are proud that the IST Department has expressly demonstrated the value add of all projects and technology investments, which include:

- Cloud backup and recovery solutions that have assisted in limiting the capital investment in IT infrastructure.
- The benefits of EA:
 - Simplification of an enterprise. The enterprise architecture benefits include more efficient business operation with lower costs, more shared capabilities, lower management costs, less duplication and redundancies.
 - More effective IT operations. The EA helps in easier system and network management, improved ability to address critical enterprise-wide issues like cybersecurity.

The NEF remains committed to ensuring stability of the IT systems, with 99.6% system availability attained during the year as well as securing our IT environment with regular network vulnerability testing and annual health checks, and constant monitoring of both our IT infrastructure and applications.

The IST team is always looking for better ways to efficiently enhance the organisation's security. We have for instance revised IST policies, procedures and framework guidelines, to minimise risk of data leak or loss, strengthen access control, outline acceptable and unacceptable use, and to set guidelines for best practices for use, ensuring proper compliance for NEF system data.

Regarding IST, we have very exciting projects to roll out in 2020/2021. These include; the migration of our emails to the cloud using our existing office 365, migrating CRM to the cloud, and the upgrade and roll-out our antivirus software onto servers

and employee's machines. The IST Department will continue to create awareness on cybersecurity, disaster recovery and IST policies to reduce threats and attacks.

Supply Chain Management

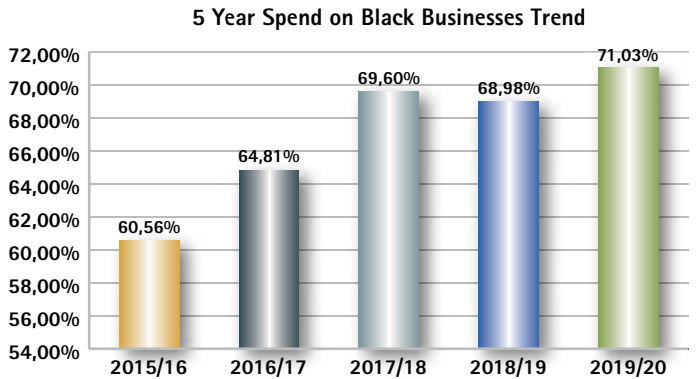
During this financial year, 12 tenders were issued and 6 were awarded and the remaining six are still in progress with three having closed in the 2020/21 financial year. These tenders were evaluated against the process set out in the NEF's Supply Chain Management Policy, the National Treasury Supply Chain Management Regulations and Preferential Procurement Policy Framework Act (2000) and all of the relevant practice notes.

The NEF, by virtue of its mandate to support and promote enterprises owned and managed by Black people, focuses its efforts on identifying and procuring from businesses that have significant black ownership and whose owners are operationally involved in the management of these businesses. Furthermore, the emphasis on developing Black-owned emerging businesses in targeted sectors as part of the NEF's Supply Chain Management Policy is underpinned by specific targets set in the annual Business Plan in this regard.

The NEF's total procurement for the year was R55.4 million from 365 suppliers. This represents an achievement of 71.03% against a target of 65% for suppliers with Black ownership of between 50.1% and 100%. Using the minimum acceptable target of 25.1% according to the Codes of Good Practice as amended, the NEF achieved a 78% total procurement from Black-owned and -managed businesses. An analysis of our procurement spend of the last five years also indicates that we have managed to shift the composition of our increasing procurement spend on EMEs from 32.31% during the 2014 financial year to 47.71% in the current year.

The traction we have made in the past five years in procuring from the majority of Black-owned entities is demonstrated in Figure 3 below.

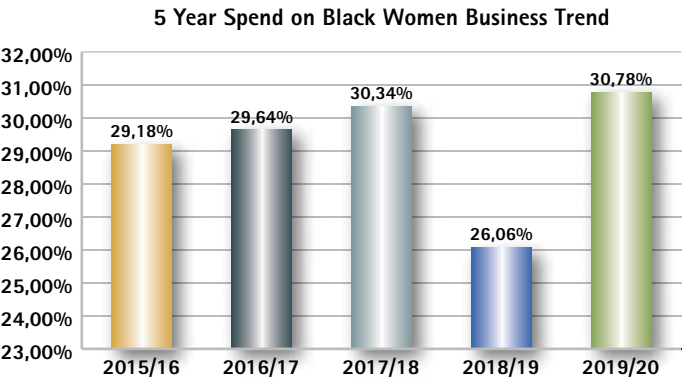
Figure 3: Five-year trend on spend towards Black-owned entities



Pioneering Transformative Growth Beyond the Pandemic

Even more gratifying is the achievement of 30.78% procurement from the majority of Black-women-owned businesses; against a target of 20%. This achievement is higher when comparing to the previous financial year 2018/19 depicted in figure 4 below, as the NEF continues to support and empower Black women-owned businesses.

Figure 4: Five-year trend on spend towards Black women-owned entities



Supply chain management practice has been maintained at the highest levels of good governance and the Procurement Committee is able to report that no procurement irregularities were identified in the financial year ending 31 March 2020.

Mr Lebogang Serithi
Chief Financial Officer

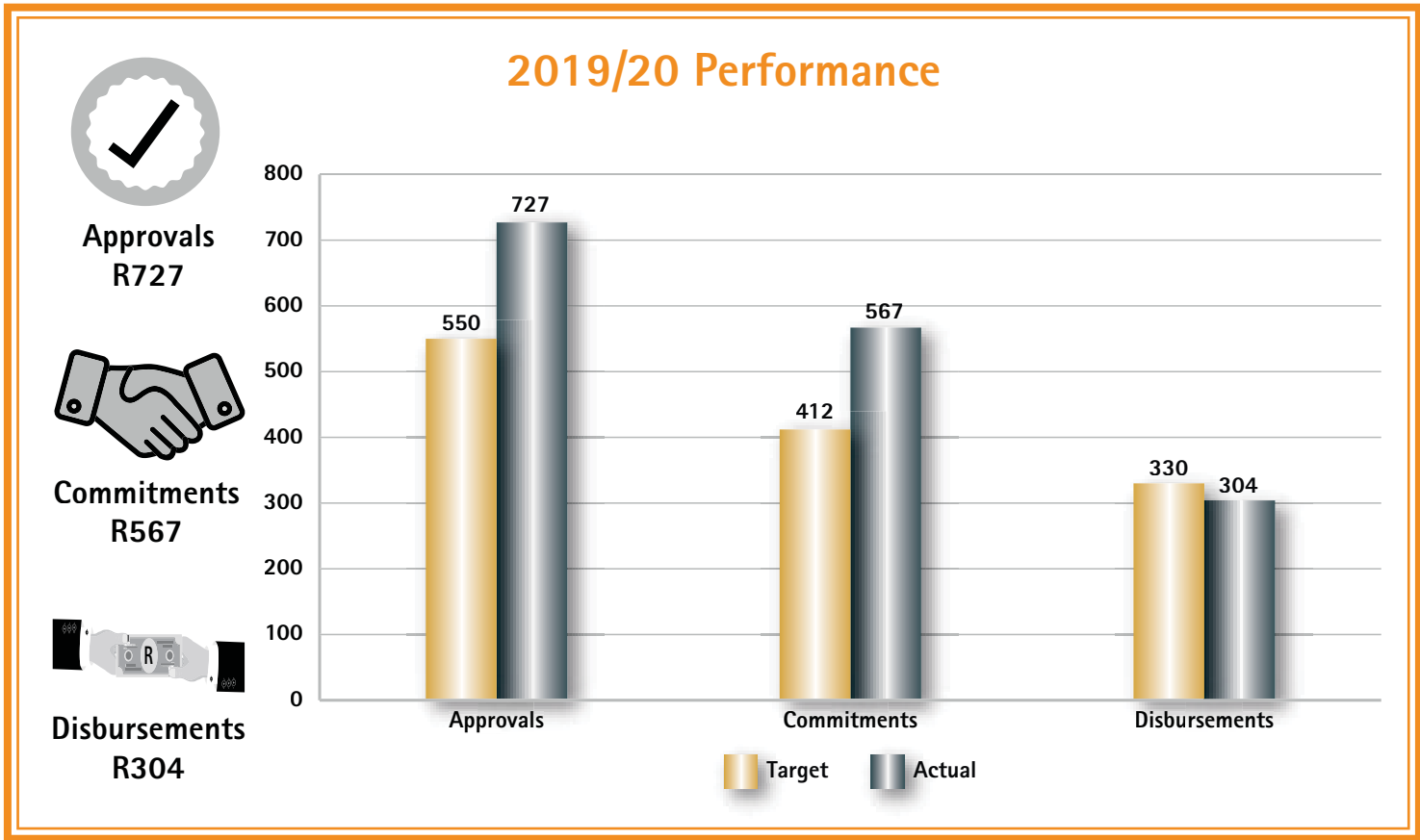


PERFORMANCE REVIEW

The NEF 2019/2020 financial year performance presented in this section is based on revised targets.

Achievements against strategic objectives

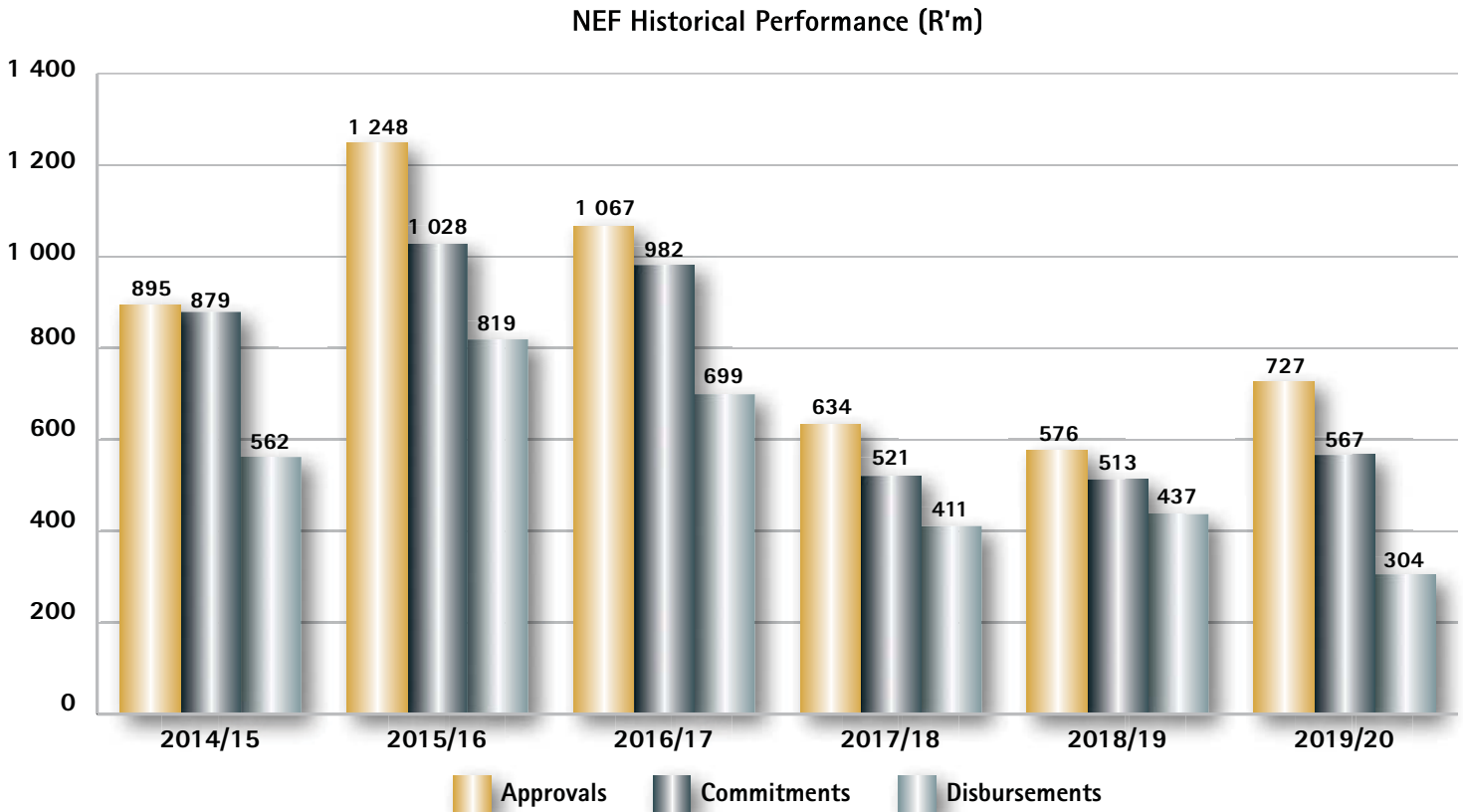
Advancing B-BBEE provide finance to business ventures



The figure above depicts performance against targets for approvals, commitments, and disbursements for the 2019/20 financial year. It shows that the NEF significantly exceeded the targets set for approvals after recording R727 million against a target of R550 million. In addition, commitments also exceeded target after posting R567 million against a target of R412 million owing to the pipeline that was processed on time. Contrary, the disbursements target was not achieved for the year under review after posting R304 million against a target of R330 million mainly. This was due co-funding with financiers and CPs that required third party participation which was hindered by the lockdown. Other factors that affected disbursements are deal packaging as well as post-approval clients wanting to re-negotiate the terms of approval, amongst other things.

Achievements against strategic objectives

Advancing B-BBEE provide finance to business ventures



Overview & Reports

The historical trend demonstrate that the NEF's approvals, commitments and disbursements all peaked at R1.24 billion, R1.02 billion and R0.81 billion respectively during the 2015/16 reporting year. This performance was supported by the Department of Rural Development and Land Reform (DRDLR) partnership which brought in significant capital, however in subsequent years, particularly in the current year, the NEF's uncommitted cash position has diminished significantly. Consequently, the overall performance of these key performance indicators has been on the downward trajectory as the Board was forced to revise the targets. Approval declined by 41.7% between 2015/16 financial year and the current period under review. While commitments and disbursements also fell by 44.8% and 62.8% respectively during the same period under review.

“ Through the Strategic Projects Fund, the NEF provides essential funding that underpins growth, meaningful jobs, productivity, and competitiveness in the economy. ”

Mr Andile Stemela, Head Strategic Projects Fund

Maximising Empowerment Dividend

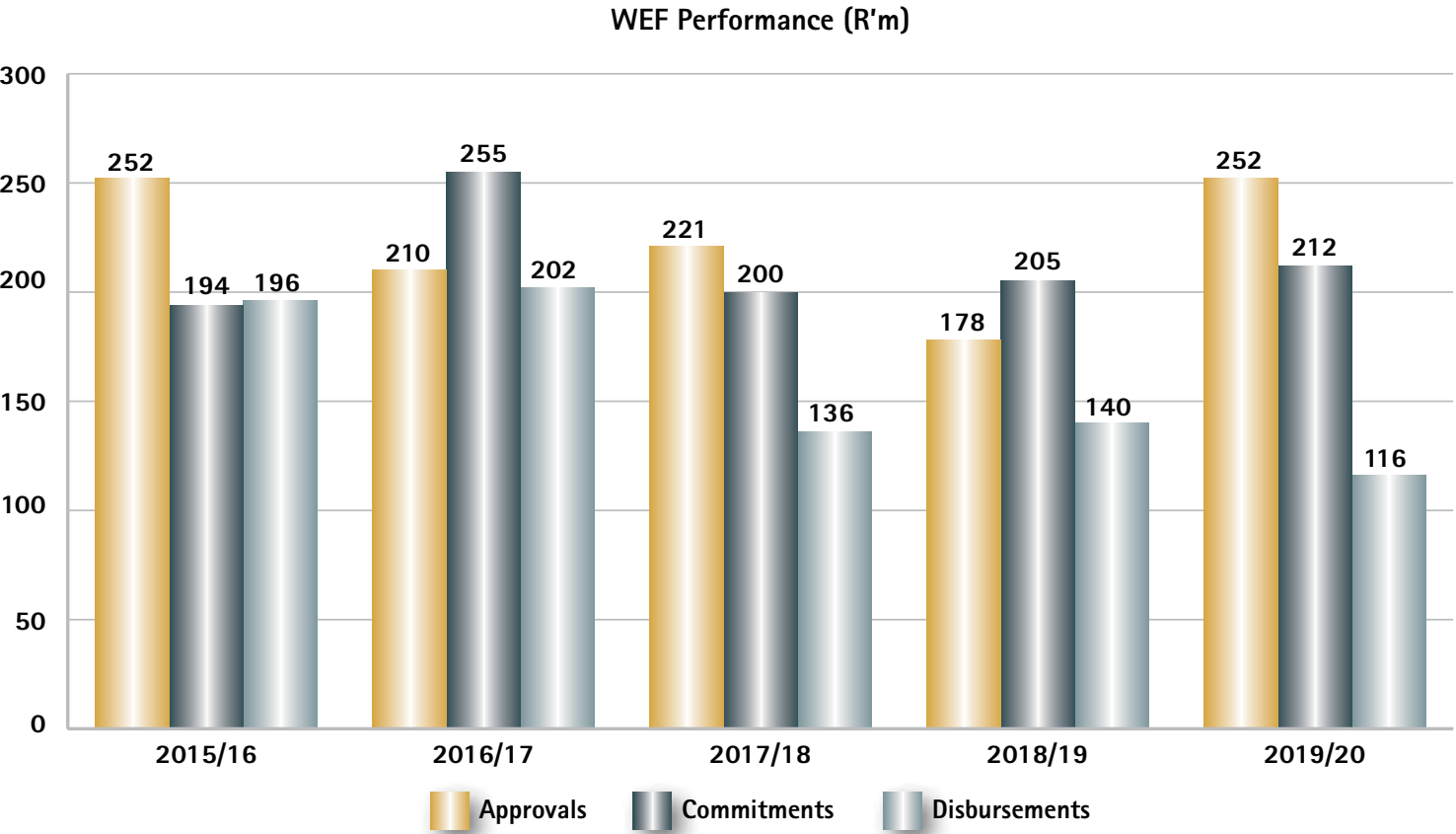
		Target 2019/20	Actual (2019/20)	Actual (2018/2019)	Actual (2017/18)
 1 738 Jobs	Jobs created	2 031	1 738	3 713	3 069
 38% of disbursement to women	Percentage of disbursements to women	40%	38%	32%	35%
 27% of disbursements to outline regions	Percentage of disbursements to outline regions	25%	27%	19%	36%
 Disbursements R304m	Disbursements	R330m	R304m	R437m	R411m

Jobs created

The organisation facilitated 1 738 job opportunities at year end against a target of 2 031. This represents an over 50% decline as compared to the prior financial year performance of 3 713 in the number of jobs opportunities facilitated. The declining number of job opportunities facilitated mainly reflects the cutting of approvals, commitments, and disbursements targets in recent years and to some extent that the deals funded are not in high job creating industries. Since inception, the number of job opportunities geared to be supported increased to 101183 (of which 68 989 were new).

Women Empowerment Fund (WEF)

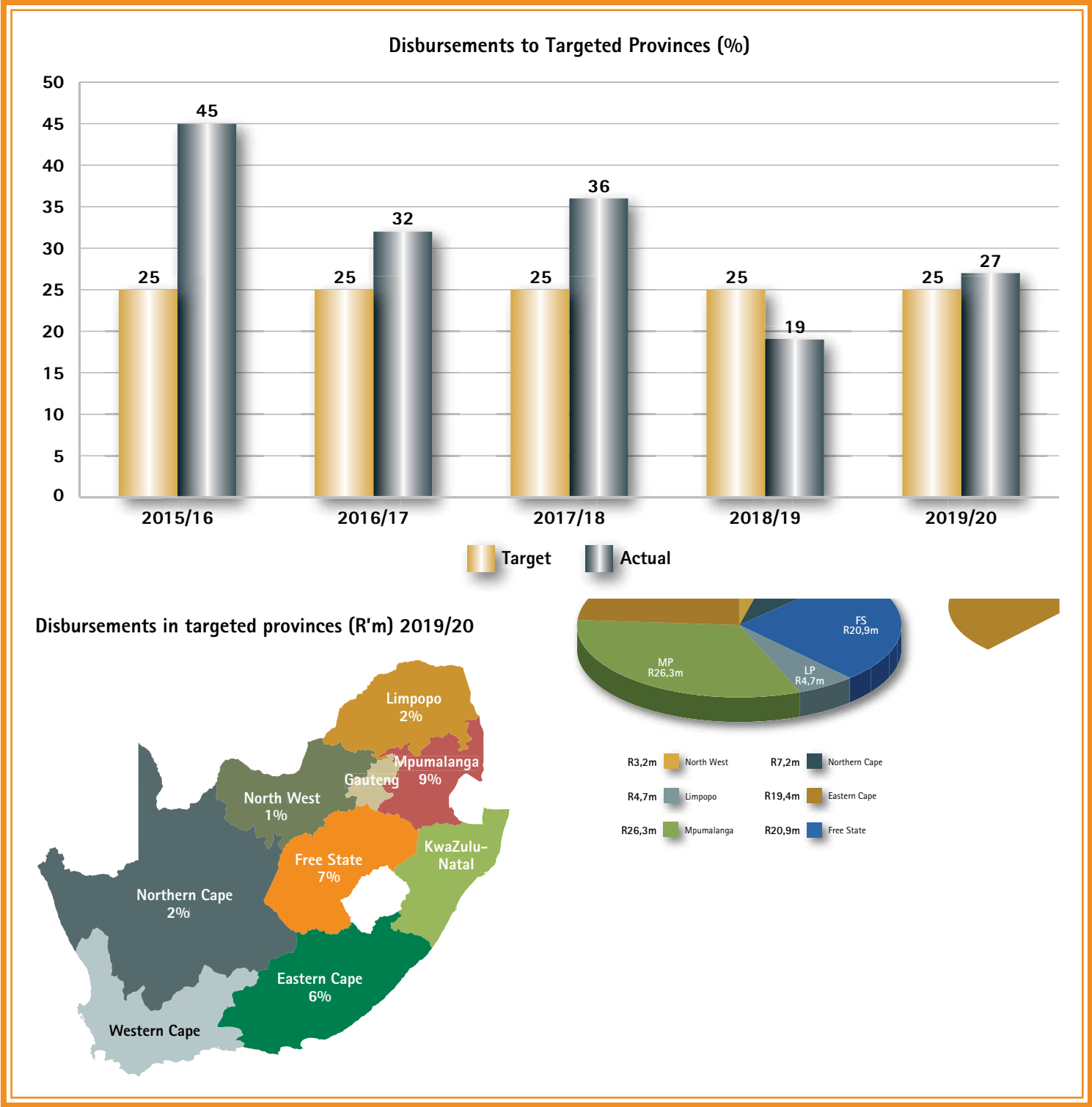
The NEF's WEF is comprised of businesses that are 51% or more owned and managed by Black women. The purpose of the fund is to accelerate the growth of businesses owned by Black women.



The NEF remains committed to growing Black women-owned businesses as all our targets for the WEF have been exceeded in the current year. However, the performance for disbursements has decreased in comparison to the previous year, while approvals and commitments increased. This performance is in line with the NEF overall performance.

Regional activity

The NEF remains committed to increasing the value of the collective portfolios in the six targeted provinces namely North West, Northern Cape, Free State, Limpopo, Mpumalanga and the Eastern Cape due to greater focus being placed to increasing the geographical reach. A total of R81.7 million was invested in the six provinces representing 27% of annual disbursements against target of 25% in the current year.



THE NEF AS A SUSTAINABLE DFI

To ensure continued sustainability of the organisation, active portfolio monitoring is crucial. The NEF's sustainability performance is measured through impairments, ROI and collection ratio.

Impairments	2019/20	2018/19	2017/18
Target	18%	18%	18%
Actual	27%	18%	15.4%

ROI	2019/20	2018/19	2017/18
Target	9%-10%	9-10%	9-10%
Actual	9.04%	9%	8.3%

Total collections ratio	2019/20	2018/19	2017/18
Target	80%	80%	80%
Actual	143.81%	128.43%	142.5%

OPTIMISING NON-FINANCIAL SUPPORT

Non-financial support forms an integral part of the NEF's mandate and is just as crucial to the success of an enterprise. As such, the NEF contributes to the delivery of its mandate through programmes that offer entrepreneurial development and support.

Investor education

Investor education campaigns are offered in all provinces around the country with the aim of reaching the general public including efforts focused on the youth at tertiary institutions through industrial theatre performances. The NEF's investor education campaigns have reached over 147 000 people across communities since inception. The table below highlights the number of investor education sessions over a three-year period.

	2019/20	2018/19	2017/18
Target	45	45	32
Actual	74	84	58

Business training

The objective of the training is to provide emerging Black-empowered SMEs an understanding of basic business principals and business management competencies in the areas of finance, human resources and legal compliance. It also serves as a marketing tool, for the NEF's funding products. This is typically a four-day training course with between 10 and 24 people. Upon completion, the trained individual will have:

- The ability to produce business plans.
- Understanding of financials.
- Marketing and sales of the business.
- Creation of business networks.

	2019/20	2018/19	2017/18
Target	30	30	18
Actual	134	103	19

Business incubation

Business incubation nurtures entrepreneurial ideas into feasible business opportunities. The table below highlights the number of entrepreneurs referred for incubation and of those that are fully incubated over a three-year period. It shows that the NEF achieved targets for the total number of business referred and incubated during the 2019/20 reporting year after recording 151 against a target of 125 for business referral and 16 against a target of 15 for business incubated.

Referred businesses

	2019/20	2018/19	2017/18
Target	125	125	75
Actual	151	141	101

Fully incubated

	2019/20	2018/19	2017/18
Target	15	15	15
Actual	16	23	13

Social facilitation

Social facilitation forms part of the NEF's non-financial support services seeking to assist NEF investees, and other broad-based groups with various empowerment intervention programmes that ensure accelerated implementation of the transformation and development mandate. The function of social facilitation is to foster meaningful participation by broad-based groups in NEF-funded transactions to ensure understanding of how transactions are structured; address beneficiaries' expectations, identify and prioritise broad-based opportunities, implement corporate governance structures, create backward and forward linkages as well as implement socio-economic development plans. The table below highlights the number of social facilitation sessions held over a three-year period. It shows that the NEF achieved the target for social facilitation during the 2019/20 reporting year after posting 36 against a target of 36.

	2019/20	2018/19	2017/18
Target	36	36	18
Actual	36	42	49

GROWING B-BBEE THROUGH PARTNERSHIPS

The NEFs Enterprise and Supplier Development Fund (ESDF)

The NEF has identified an opportunity to partner with and provide a mechanism to private and public organisations for delivery of sustainable B-BBEE solutions to black enterprises at an accelerated pace. The opportunity entails private sector enterprises making their Enterprise Development (ED) and Supplier Development (SD) contributions to the NEF's ESDF. The NEF utilises these contributions to co-finance its investments in ED and SD beneficiaries, in order to facilitate their development, financial and operational independence.

The NEF ESD Fund has received contributions from 16 contributors from both the private and public sector such as BP South Africa, Nissan South Africa, Bakubung Platinum Mine, the Western Cape Department of Economic Development and Tourism (DEDAT) and the City of Ekurhuleni, valued at over one billion rand (R1,15 billion) since inception of the fund.

Contributions to the value of R101 000 000 were received in the 2019/20 financial year against a target of R75 000 000. The table below shows the entities that contributed to the NEF ESD Fund in the 2019/20 financial year:

Contributor	Amount
Western Cape DEDAT	R10 000 000
Department of Tourism	R40 000 000
City of Ekurhuleni	R33 000 000
Transnet Port Terminals	R15 000 000
Bakubung Platinum Mine	R3 000 000
Total	R101 000 000

Performance against the Annual Performance Plan

Output	Performance measure or indicator	Annual target 2019/20	YTD achievement	Reason for variance
Provide finance to Black-owned business by investing in the form of loans, quasi-equity and equity finance through funds and funding products, targeting black rural enterprise, smes, corporate finance and venture capital.	Value of deals approved (R million).	R550m	R727m	The target was achieved and exceeded owing to a pipeline that was processed on time.
	Value of new commitments (R million).	R412m	R567m	The target was achieved as exceeded.
	Value of disbursements (R million).	R330m	R304m (Including grants)	<ul style="list-style-type: none"> The target was not met due to co-funding with financiers and conditions precedent that required third party participation. Other delays in disbursements relate to deal packaging and collections of transactions documents from clients. Post-approval clients want to re-negotiate the terms of approval, which leads to the delays in disbursement. Delays were experienced with transaction at financial close.
Source investment opportunities for the funding programmes that focus on the creation of new employment opportunities.	Number of jobs expected to be supported or created.	Support 2 031 new and existing job opportunities.	1 738 Jobs opportunities.	The target was not achieved due to underperformance in disbursements. In addition, deals that were funded were not operating in high job creating industries. Others that were funded already had exiting jobs and did not create any new jobs.
Source investment opportunities for the funding programmes that are owned and managed by black women.	Percentage of portfolio disbursements to businesses (partially/wholly) owned by women.	40% of annual disbursements.	Year-to-date, 38% of the portfolio has been disbursed to investees that are partially/wholly owned by women.	The target was not achieved. This is a significant increase in comparison to the 32% achievement in the 2018/19 financial year.

Output	Performance measure or indicator	Annual target 2019/20	YTD achievement	Reason for variance
Increased share of portfolio in under-represented provinces	Percentage of disbursements to be invested in EC, NC, NW, MP, FS and LP.	25% of disbursements to be invested in EC, NC, NW, MP, FS and LP.	27% of disbursed funds comprising of 16 deals worth R81,7m were split as follows; NW: 1 worth R3,2m NC: 1 worth R7,2m FS: 3 worth R20,9m LP: 2 worth R4,7m MP: 6 worth R26,3m EC: 3 worth R19,4m.	The target was achieved owing to more disbursement that were made to targeted provinces.
Conduct investor education seminars in provincial towns and increase understanding by participants.	Number of seminars held across the country.	45 Investor education seminars per year.	74 investor education seminars per year.	Target was met and exceeded due to invitations received and workshops attended with stakeholders who share the same content (savings and investments) as the NEF.
The provision of non-financial support and training for Black-owned businesses and entrepreneurs	Number of entrepreneur training sessions provided.	30 Entrepreneurial training sessions, with an average score of 60% required in the post-training assessment.	134 Entrepreneurial training sessions conducted with an average score of 76% in the post-training assessment.	The target was met and exceeded. This is as a result of interested entrepreneurs in acquiring the business knowledge.
The provision of non-financial support and training for Black-owned businesses and entrepreneurs	Number of entrepreneurs who successfully complete business incubation.	Refer 125 entrepreneurs for incubation; and 15 entrepreneurs in the final incubation stage.	151 Entrepreneurs were referred to business incubation partners. 16 Entrepreneurs are fully incubated.	The target was achieved.
The provision of non-financial support and training for Black-owned businesses and entrepreneurs	Number of social facilitation sessions for the NEF's investees.	36 Social facilitation sessions.	36 social facilitation sessions were conducted.	Target was achieved. All deals in the pipeline that could possibly be facilitated have been facilitated.
Increase positive brand awareness of the nef.	Brand audit survey findings.	Increase brand awareness to 90%.	N/a	The target was achieved in the past financial year. The brand survey is conducted every two years. The 2018/19 survey will apply in 2019/20.

Output	Performance measure or indicator	Annual target 2019/20	YTD achievement	Reason for variance
Obtain an overall real return on fund investments through equity returns, interest on loans and interest on cash balances with minimised impairments and write-offs.	Percentage of portfolio impaired.	18%	27%	The target was not achieved. The YTD impairment is above target, because of loan book decreasing by R230m without increase on disbursement, transfer of contracts to legal (impaired at 100%) and settlements of R78m.
	Target roi before impairments (to be reviewed annually).	9-10%	9,04%	The target was achieved.
	Collections ratio.	80%	143.81%	The target was exceeded because of significant settlements (Ubumbano R140m and Matlosana R55m) within the financial year.

INVESTING IN HUMAN CAPITAL

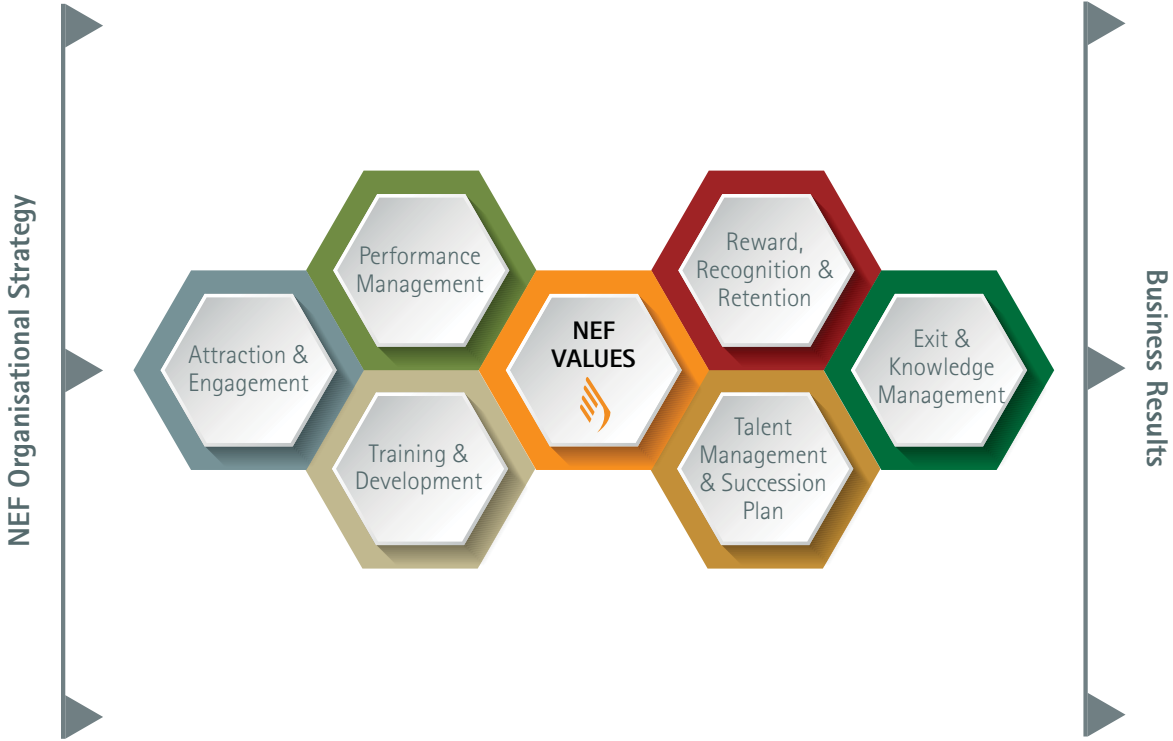
Creating Value with Human Capital

The value that is created under human capital is obtained through employees and the intellectual assets they generate for the organisation. The availability of appropriate skills of suitably qualified talent that is committed to the performance and achievements of the organisation is critical as it ensures the attainment of short and long-term sustainability goals.

Human Capital Strategy

The Human Capital Strategy is governed through the Human Capital and Remuneration Committee. Its responsibilities are to ensure good corporate governance by having oversight over processes, policies, systems and procedures that govern human capital. It also has oversight over human capital strategy, training and development, performance and remuneration, as well as how the culture of the organisation is maintained.

The Human Capital Strategy is underpinned by the following pillars in order to deliver the required business results:



Attraction and Engagement:

Attracting high caliber and suitably qualified candidates who are fit for purpose. Provide a compelling employee value proposition that captivates the employment experience from entry to exit.

Performance Management, Talent Management and Succession Planning:

Facilitate the optimisation of performance through performance management systems and of capacity through succession planning and talent management.

Training and Development:

Provide training and development opportunities to enable employees to thrive in their roles.

Reward, Recognition and Retention:

Utilise a pay-for-performance remuneration structure which ensures that key and top talent is retained at the NEF.

Exit and Knowledge Management:

Applying exit and knowledge management tools to improve the NEF's human capital strategies.

Looking ahead 2020/21

- Enhancing leadership capability.
- Consolidate employee initiative gains made in the previous year.
- Increase employee development initiatives.
- Provide an enabling environment to employees during these unprecedented times as we adopt to the new normal.
- In conjunction with the NEF's medical aid provider, implement COVID-19 business support that allows employees to self-screen using a cellphone application.

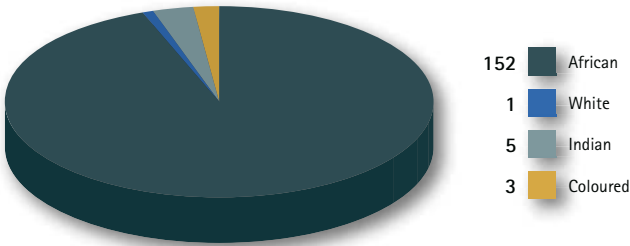
- Support the improvement of the health and wellness of our employees through the Employee Wellness Programme.
- Implement the Working from Home Policy during the lockdown period.
- Adapt our current policies and draft new ones in line with the new COVID-19 regulations in order to navigate the new working environment and ensure the safety of our employees.

Employee Overview

Diversity

The NEF is a high performing organisation which has set high performance standards for its employee and has managed to achieve these incredible results over the years through its high caliber and suitably qualified, best of the class professionals. The NEF prides itself with employees who come from diverse backgrounds who are committed and dedicated to the mandate of the NEF. The graph below shows the racial representation of the NEF's employees.

Racial demographics:



Women to the forefront: At the NEF, 62% of the employee complement are women, and 43% of members of the Management Committee are women (picture taken before the COVID-19 pandemic).

Gender equity:

	Male		Female	Total
Number of employees	64		97	161
Executive Management	3		2	5
Senior Management	24		17	41
Professional staff	26		38	64
Skilled	6		34	40
Semi - skilled/ Unskilled	5		6	11

Tenure breakdown (%)

The employees of the NEF have over time shown their commitment, support and passion for the NEF's mandate and this can be clearly demonstrated by the years of service they have dedicated to the NEF. The table demonstrates that 54% of the NEF's employees have been with the organisation for six years and longer, whilst 46% have been at the NEF for less than five years. Thus, showing that there is longevity at the NEF.

Years of service	No	%
0 - 3 years	46	28.6%
4 - 5 years	28	17.4%
6 - 10years	44	27.3%
11 years >	43	26.7%
Total	161	100%

Training and development

Learning and development programmes are an important element of ensuring employees engage in continuous self-development to enable them to thrive in their roles. During the financial year, an amount over **R793 182** was spent on training and development initiatives. The funds were spilt as shown below.

Gender	Number of Training Interventions	% of Training Cost	Training Expense
Male	67	34%	R266 658
Female	98	66%	R526 524
Total	165	100%	R793 182

Internal bursaries

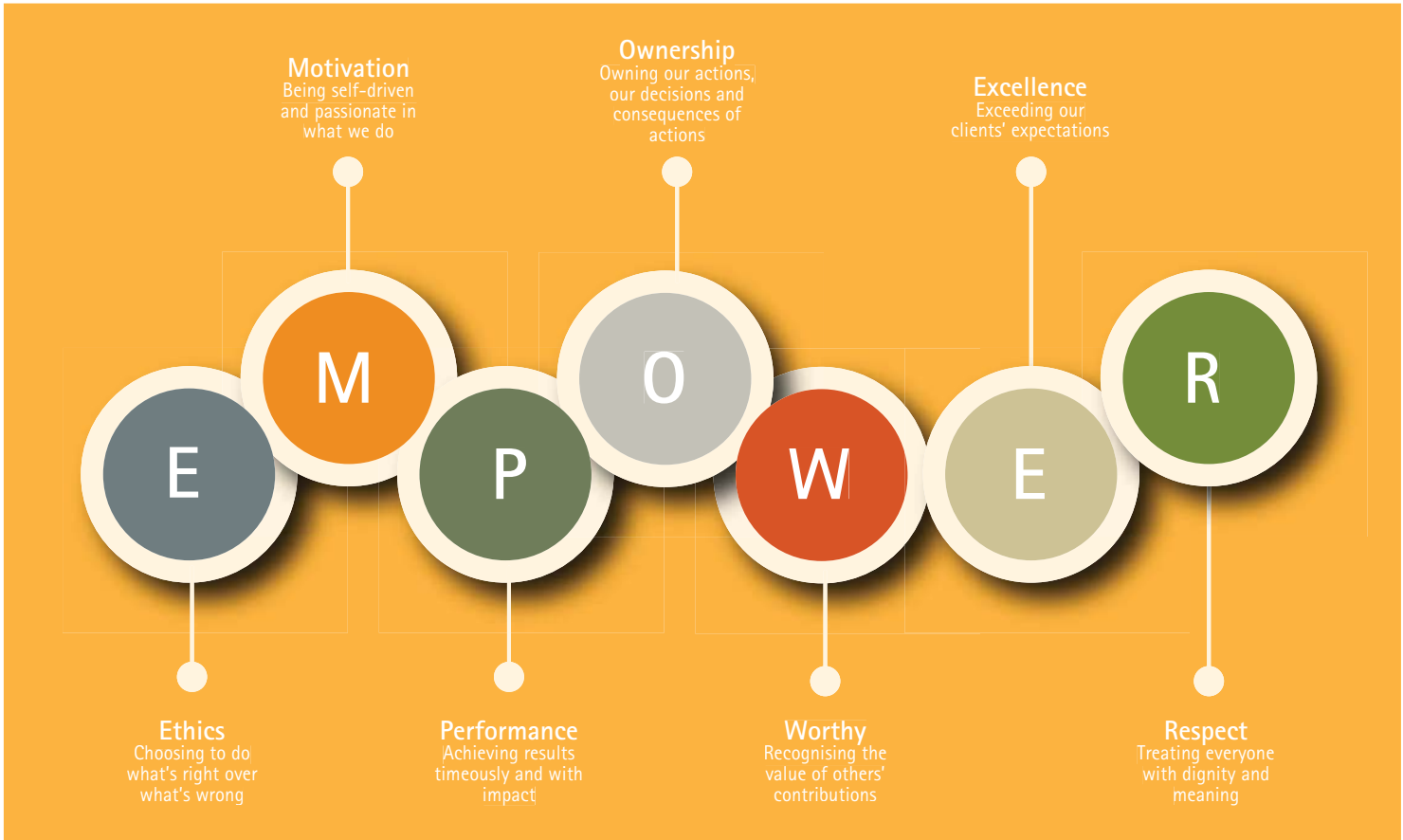
The NEF provides study assistance to its employees who would like to further their studies through tertiary institutions by awarding them with bursaries. In this financial year, 14 employees were supported to the tune of R195 467.

Bursaries				
Gender	Number	%	Amount	%
Male	5	42%	R47 716	25%
Female	7	58%	R147 761	75%
Total	12	100%	R195 467	100%

NEF Values

The NEF's values play a significant role in its ability to successfully execute its strategic plans. The values are instilled in employees as the ethos and tenet that is inspired from the senior management to all employees. These values are a business tool that is used to drive business strategy to create a strong competitive advantage by aligning our people to the mission, purpose, vision, and values.

The values are denoted in the acronym EMPOWER and are further explained in the diagram below:



Trainees

The NEF has taken a keen interest to assist in the fight against the high unemployment rates of graduates in the country. Graduates can gain work experience by being in the employ of the NEF for a period of 12 months, where they are exposed to different functions to equip them with a variety of skillsets. These graduates, who mostly possess Bachelor of Commerce (BCom) degrees, are placed in various departments within the NEF. They are provided with practical work experience and are provided with work readiness tools. This programme has been in practice at the NEF since 2008. In an effort to combat the unemployment rate, the NEF has since employed 40 trainees to date. The NEF has successfully managed to place 16 trainees permanently within the organisation.



The NEF heeding the Presidents call for the Jerusalem Dance Challenge

CORPORATE SOCIAL INVESTMENT

The CSI is a function within the Socio Economic Development and Asset Management Unit (SEDU that focuses on projects and resources that improve the wellbeing of beneficiaries, without direct financial benefits to the NEF. This function takes various forms like gifts in kind and employee time.

In the financial year 2019/2020, the NEF spent over R2.1 million on CSI projects that positively impacted the lives of the needy South African households, schools and individuals respectively.

Among the initiatives, the NEF participated in the Mandela Day programmes across all nine provinces by visiting schools where employees took part in cleaning the yards, painting walls, doing landscaping and planting vegetables, plants and flowers as well as donating school shoes. Children and family care centre were also visited and the NEF donated items like nappies, baby formulas, sanitary towels, groceries and blankets.

The NEF also held a Women Empowerment Workshop involving women from the dtic's various agencies. As the title states, the workshop focused on women empowerment matters like women's rights, gender-based violence, personal challenges and leadership.

Another notable initiative was that of donating equipment to a Non-Profit Organisation (NPO) established by six people living with disabilities. The NPO was established to address the needs of people living with disabilities in the KwaZulu-Natal. The donated equipment was an electronic chair to one of the people living with disabilities and a document reader to assist the visually impaired students at the University of KwaZulu-Natal.

In March 2020, the NEF donated an initial amount of R10 000 towards the purchase of sanitisers, soaps and toilet papers for needy communities that were adversely impacted by the COVID-19 pandemic. This initial contribution was later increased by more contributions which saw a greater impact realised. The aim of NEF's contribution was to complement the support provided by the South African Government and the private sector in lending a helping hand to distressed households as well as provide humanitarian support to the most vulnerable households and ease the burden imposed by the COVID-19 effects.

The table below depicts the CSI initiatives undertaken by the NEF:

	CSI
Interventions	Amount
NEF External Bursary (National)	R1 689 954
Take-a-Girl Child-to-Work Programme (National)	R189 480
2019 NEF Mandela Day (National)	R178 274 (NEF CSI budget and R7 500 cash from NEF staff contributions towards sanitary towels) 4 schools in Gauteng and 8 in the other provinces
Siyalungisa Emthunzini Wokuphumula NPO (KZN)	R57 678
NEF/DTI Women Empowerment Session (National)	R54 100
COVID-19 Diepsloot contribution (GP)	R10 000
Total spending on CSI	R2 179 486

External bursaries: Case studies

The NEF is a Developmental Finance Institution (DFI) as such it has a legislative requirement to play a pivotal role in the skills development of graduates in the country. Skills development is one of the key pillars of the B-BBEE Codes of Good Practice, of which the NEF is a custodian. During the financial year the NEF awarded **29 bursaries** to South African students who come from disadvantaged backgrounds to the tune of **R1 689 954**.

In the 2019 Academic year eight (08) students completed their qualifications and below is the qualifications name.



“

The NEF is committed to supporting and partnering with both public and private sector entities that are sustainable, with long-term and measurable socio-economic impact in communities across the country. All our partnerships are designed to ensure that they have a deep, broad and sustainable impact in the identified communities.

Ms Nokuthula Nkomo, Head Social Economic Development Unit

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