



# STRATEGIC PLAN 2020 – 2025



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## 2. Acronyms and Abbreviations

APP	Annual Performance Plan
Approved	Final committee approval obtained, legal agreements not signed
B-BBEE	Broad-Based Black Economic Empowerment
BFS	Bankable Feasibility Study
Commitments	Legal agreements signed. (Deals may have been approved in current and previous financial periods.) All Conditions Precedent may not have been met yet.
CPs	Conditions Precedent
DFIs	Development Finance Institutions
the dtic	The Department of Trade, Industry and Competition
Disbursements	Total cash advancements made against all approved deals (deals may have been approved in current and previous financial periods) subject to all Conditions Precedent having been satisfied by the investee.
ED	Enterprise Development
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
IRR	Internal Rate of Return
MOU	Memorandum of Understanding
NDP	National Development Plan
NEF	National Empowerment Fund
PFMA	Public Finance Management Act
PIU	Pre-Investment Business Support Unit
POIU	Post-Investment Business Support Unit
SDG	Sustainable Development Goals
SEDU	Socio-Economic Development Unit
SME	Small and Medium Enterprise
SPF	Strategic Projects Fund

### 3. Foreword by the Minister of Trade, Industry and Competition

The Public Finance Management Act requires that every public entity prepares a Strategic Plan setting out the overall strategy for the 5 year period covering the state's Medium-term Strategic Framework (MTSF). Every year, an Annual Performance Plan (APP) is prepared, which converts the overall strategy to key annual targets. These documents are then provided for approval to the Executive Authority and budgets are aligned to these plans.



**The National Empowerment Fund (NEF)** has prepared its **Annual Performance Plan 2020/21**, which I now submit to Parliament, as required by the legislation.

This is the first Annual Performance Plan prepared in the 6th Administration by the NEF. I have requested that all entity Strategic Plans and Annual Performance Plans be aligned to the MTSF, which incorporates the work to develop and implement National Sector Masterplans, as well as the trade reforms, investment and transformation work of the Department.

Once the revised MTSF has been signed off, we will review the Strategic Plan and Annual Performance Plan of the entity and align it accordingly. The Strategic Plan and Annual Performance Plan may further need to be aligned to Government's response to the COVID-19 pandemic, both during the period of the national disaster declared by President Ramaphosa, and thereafter as we adapt to the new economic reality. Should adjustments be made, a revised Plan will be submitted to Parliament.

A handwritten signature in black ink, appearing to read 'Ebrahim Patel', with a long horizontal stroke extending to the right.

**Mr Ebrahim Patel**

Minister Responsible for Trade, Industry and Competition



## 4. Overview by the Chief Executive Officer, National Empowerment Fund

### Deepening the axis of excellence

The participation of South Africa's black majority in the economic mainstream remains a critical national imperative for justice, stability, cohesion and sustainable growth. As a driver and thought leader in promoting and facilitating black economic empowerment through the provision of financial and non-financial support as well as the entrenchment of a culture of savings and investment among black people, the NEF has grown into a credible and effective development finance institution. Having approved 1 030 transactions worth R10.35 billion to date, and which have supported in excess of 100 000 jobs, the NEF will continue to make a meaningful contribution to the transformation and growth of the economy.

### Recapitalisation

Accordingly, it remains critical that adequate funding is secured to ensure the long-term sustainability of the organisation and the continued fulfilment of this historic mandate. Recapitalisation remains a key strategic focus of both management and the Board of Trustees. Challenges in securing recapitalisation have consistently resulted in reduction of annual targets in order to ensure that the provision of financial and non-financial support to black entrepreneurs is executed prudently and sustainably. These reductions have impeded the impact that the NEF could have registered across the economy to advance transformation, create value and facilitate the creation of decent job opportunities. The continued reductions will render the institution unable to meet its mandate in the coming years due to lack of capital to fulfil its mandate.

The NEF is pleased to report that the IDC board has approved a R500 million off balance sheet facility on lending facility for the NEF. This facility will be comprised of the following salient terms:

- Facility amount: R500 million
- Facility Tenure: seven years, two year disbursement period and a five year disinvestment period;
- Pricing: Prime;
- Return to the IDC/NEF: 50% of the net margin after impairments, write off's and fees;
- Management fee receivable by the NEF: 0.6% per annum;
- Eligible funding instruments: Debt

The IDC facility is subject to board and Ministerial approval.



### NEF strategy and alignment to DTIC outcomes

The NEF's strategy is aligned to the following DTIC strategic priorities or outcomes, which align with the mandate of the NEF:

- Implement transformation through EE and B-BBBEE
- Increased number of Black People who participate in the mainstream economy
- Grow the manufacturing sector to promote industrial development, job creation, investment and exports
- Township and rural economies development initiatives facilitated





## NEF, the home of hope for the black entrepreneur

In addition, the NEF's strategy, over the next five years, is based on the following key objectives:

- Growing black economic participation in the South African Economy
- Growing BEE through partnerships
- Maintaining Financial Sustainability
- Human Capital
- Non-Financial support

Necessary adjustments will be made to this Strategic Plan at the end of the first quarter of FY2020/21 after considering the changes to the operating environment. In addition, the updated plan will provide details in respect of how the NEF will support key developmental policy interventions of government such as the implementation of:

- a. Sector Master Plans;
- b. the African Continental Free Trade Agreement;
- c. the South African Investment Conference; and
- d. other government initiatives that seek to increase investment activity into the economy aligned to the NEF mandate.

### A commitment to integrity

As a patriotic corporate citizen, a track-record that the NEF intends to maintain, is the unstinting commitment to integrity, sound financial management and the values of the NEF, all three of which are part of the axis of excellence that has seen the organisation achieving clean external audit opinions for 16 years running.

### An academy of excellence

The NEF's operational milestones, since inception to date, have been made possible by the fact that the organisation is an academy of excellence employing young and seasoned black professionals with expertise across various spheres. We are pleased that 61% of

the employee complement is female, and 44% of the management committee are women. A key focus of the NEF going forward will be the retention of this breed of outstanding human capital as the organisation continues to contend with the sceptre of aggressive poaching by organisations with deeper pockets, and to stem the potential brain drain precipitated by the alarm in respect of recapitalisation challenges.

### Success of investees

The central tenet of this Strategic Plan 2020/21-2025 is the faithful commitment of the NEF to ensuring the success and sustainability of the investee companies that the development financier supports. It is for this reason that the suite of non-financial interventions that the NEF provides, inclusive of business planning, incubation, entrepreneurial training, mentorship as well as turnaround, workouts and restructuring, will continue to be benchmarked against international best practice so that we continuously improve and refine our product offering and operational impact.

In the implementation of this strategy the NEF will hold supreme the Ministerial injunction for "all public entities to work with a greater sense of urgency to support Government in achieving its ambitions for the new administration. This is what has been called the spirit of *khawuleza*, and it must define our approach both with Government and public entities to addressing the structures in the economy which impede growth, economic inclusion and job creation".

Management acknowledges the guidance and leadership of the Board, led by Mr Rakesh Garach, in implementing the Strategic Plan.

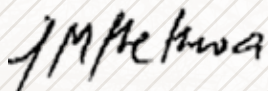
**Ms Philisiwe Mthethwa**  
Chief Executive Officer



## 5. Official Sign-Off

It is hereby certified that this Strategic Plan was developed by the management of the National Empowerment Fund, with the guidance of the Board of Trustees, and takes into account all the relevant policies, legislation and other mandates for which the NEF is responsible. It accurately reflects the strategic outcome-orientated goals and objectives, which the NEF will endeavour to achieve over the period.

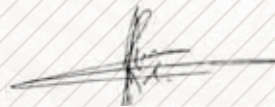
### RECOMMENDED BY THE CEO FOR ENDORSEMENT



**Rank: CEO**

Date: 31 / 01 / 2020

### ENDORSEMENT BY THE ACCOUNTING AUTHORITY



**Rank: Chairman**

Date: 31 / 01 / 2020





## 6. Legislative and Policy Mandate

### 6.1. Constitutional Mandate

The existence of the NEF as a creature of statute is validated and certified by Section 9 of the Constitution of the Republic of South Africa, 1996, which asserts that “equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons, or categories of persons, disadvantaged by unfair discrimination may be taken”.

Deriving from this constitutional injunction, the NEF Act of 1998 empowers the development financier “to establish structures and mechanisms to redress the inequalities brought about by apartheid by facilitating the broader economic ownership by historically disadvantaged persons”.

### 6.2. Legislative Mandate

The National Empowerment Fund (NEF) reports to Parliament through the Minister of Trade, Industry and Competition (the dtic). The work of the NEF is governed by a broad legislative framework, as outlined below:

Number	Act	Purpose of Act
1	<b>National Empowerment Fund Act, No. 105 of 1998</b>	To establish a trust and its objects for the promotion and facilitation of economic ownership of income-generating assets by historically disadvantaged persons; to establish mechanisms to redress historic inequalities and structures to attain the objects of the trust; to provide for the control, management and the dissolution of the trust; and to provide for matters incidental thereto.
2	<b>Broad-Based Black Economic Empowerment Act, No. 53 of 2003</b>	To establish a legislative framework for the promotion of black economic empowerment; to empower the Minister to issue codes of good practice and to publish transformation charters; to establish the Black Economic Empowerment Advisory Council; and to provide for matters connected therewith.
3	<b>The Public Finance Management Act (PFMA)</b>	To regulate financial management in the national government and provincial governments; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments; and to provide for matters connected therewith.
4	<b>Companies Act No. 71 of 2008</b>	To create flexibility and simplicity in the formation and maintenance of companies; encouraging transparency and high standards of corporate governance as appropriate, given the significant role of enterprises within the social and economic life of the nation.





## 7. Our Strategic Overview

### 7.1. Vision

Our vision is to be the leading provider of innovative transformation solutions for an economically inclusive South Africa. We seek to be the lead financier of B-BBEE investments in the DFI space.

### 7.2. Mission

The National Empowerment Fund is a catalyst of Broad-Based Black Economic Empowerment in South Africa.

We enable, develop, promote and implement innovative investment and transformation solutions to advance sustainable black economic participation in the economy.

### 7.3. Values

The values of the NEF are the glue that hold the ethical tapestry of the organisation together. Together these values form the acronym **EMPOWER**, as outlined below:



These values are the emblem of the NEF's service to the nation. They stand as a living testament of the NEF's commitment to integrity. Launched in September 2014, the values are accompanied by a pledge that all at the NEF, from Trustees, Executives, managers and all staff, make, as outlined below:

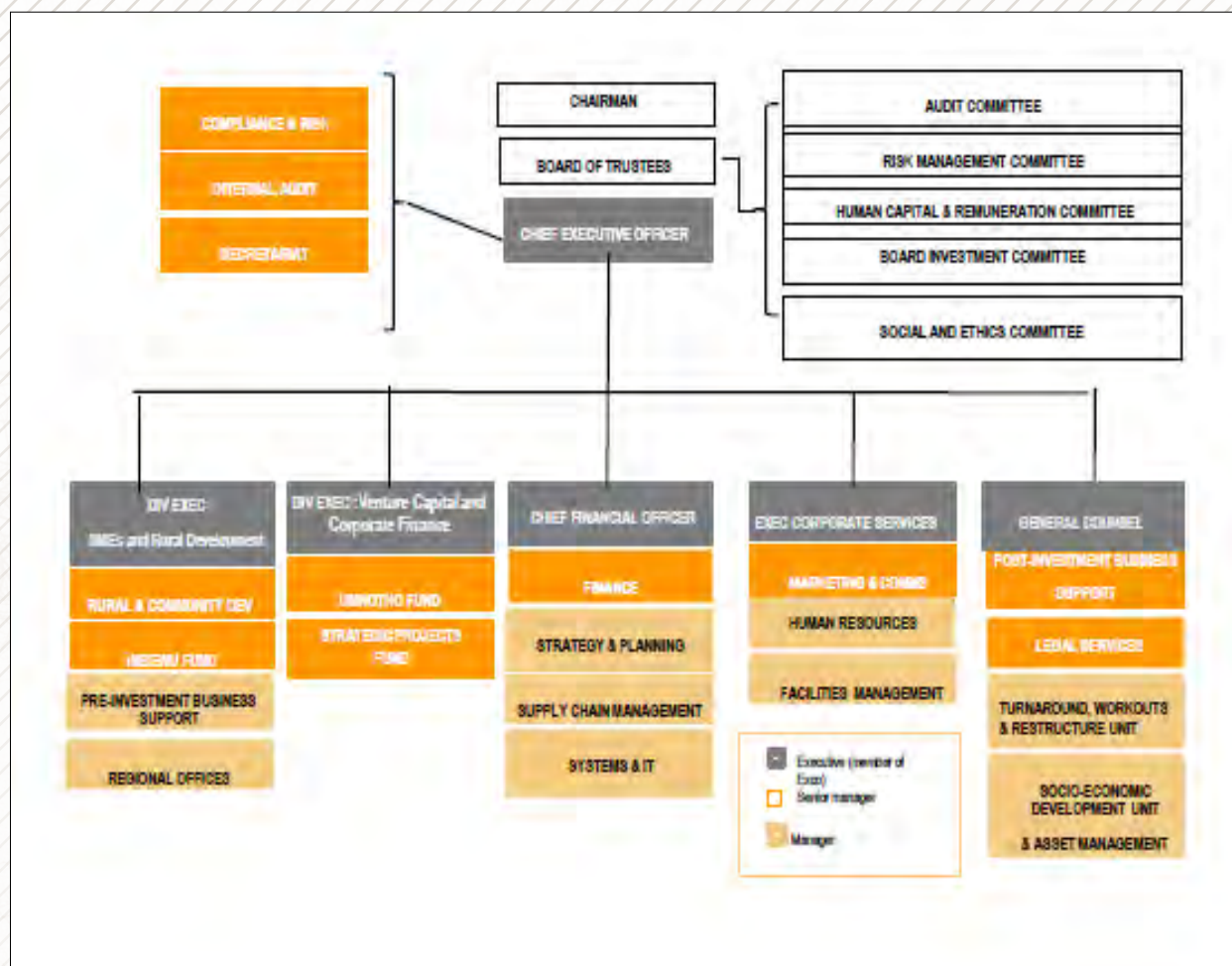
“ As a member of the NEF family, I hereby solemnly pledge to remain faithful to the values and ethos of the NEF, because as an instrument in the quest for inclusive growth, I recognise that the economic dreams and aspirations of black people depend on my willingness to serve with truth in my heart. In taking the hopes of black economic freedom to greater heights, and growth itself to the skies, I hereby undertake that as a patriot I will perform my call to duty with integrity and honour, with empathy and dedication to excellence, inspired by the vision of a growing and inclusive economy. This is my oath, my vocation, my contract with the nation.

”





## 7.4. NEF Organisational Structure



In accordance with international best practice, and as outlined in the NEF Act, the NEF reports to the Board of Trustees that is appointed by the dtc. 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 and its subcommittees hold regular meetings to ensure that these important structures meet their objectives as outlined in the various charters. These guardians of public and institutional trust are the bastion that has ensured that the NEF has continued for successive years to achieve clean external audit opinions.

In providing oversight and leadership the Board and its subcommittees have maintained unstinting independence and foresight in setting strategies and policies for the organisation, and in supporting the efforts to recapitalise the development financier.

Together with the Audit Committee the Board is central in safeguarding the assets of the institution as well as developing and monitoring adequate and effective systems and control processes. The preparation of financial statements in compliance with all applicable legal and regulatory requirements and accounting standards, is yet another key function of the Board.

In conjunction with the Risk & Portfolio Monitoring Committee (RPMC), the Board also manages the risk universe of the NEF closely, ensuring that proper business risk assessment is carried out and that a risk profile of the organisation is upheld.

The Board Investment Committee (BIC) assists the Board, in pursuit of the mandate of the NEF, to assess and where appropriate, to approve such transactions as delegated in terms of the DOA.

Together with the Social & Ethics Committee (SEC) the Board monitors the social and economic development of beneficiary committees, the promotion of equality, the prevention of unfair discrimination and corruption, oversight of the environment, health and public safety, including the impact of the NEF's activities and of its products or services as well as the NEF's employment relationships, its contribution towards the educational development of its employees, gender parity and employee wellness.

Through the Human Capital & Remuneration Committee (HCRC) the Board reviews and sets human capital policies, procedures, structures and all matters relating to the relationship between the NEF and its staff. It also oversees compliance with the human capital policies, procedures and structures regulating the relationship between the NEF and its staff.

The CEO is aided by executives, who in turn lead managers whose portfolios mirror the conventional corporate milieu.

At the heart of the mandate of the NEF is the consciousness to conduct our work with integrity, diligence and foresight, and in this regard, the NEF believes the organisational structure is robust and effective, which is guided by the Delegation of Authority of the various committees.



In the view of management, the governance of the NEF easily compares with the best anywhere and given recent private and public sector lapses in corporate governance, NEF is particularly proud of this distinction.

In order to achieve the set objectives, the NEF is structured to deliver on its mandate by performing the following core activities:

- Fund Management, which comprises:
  - The Venture Capital & Corporate Finance Division, which comprises the uMnotho Fund, the Strategic Projects Fund (SPF) and the Women Empowerment Fund.
  - The SME & Rural Development Division, which consists of the Pre-Investment Unit, iMbewu Fund, Rural & Community Development Fund and Regional Offices.

- General Counsel, which consists of Legal support, Post-Investment support services, Turnaround, workout and restructuring services and Socio-Economic Development and Asset Management Units.

These core areas are strategically supported by the following units:

- Human resource;
- Finance;
- Information Systems and Technology;
- Supply Chain Management;
- Strategy and Planning;
- Marketing and Communications; and
- Facilities.



## 7.5. Overview of the NEF's Performance – Life to date performance milestones

In an effort to strategically pave the way forward for the NEF's future, it is critical to reflect on the achievements of the recent past.

Initially the NEF was capitalised through a government grant of R2.4 billion in the year 2003. With initial capital the NEF has achieved critical milestones highlighted through the Table below. This is a demonstration that should the NEF have had access to sufficient capital, more would have been achieved.

	Output	Achievements
1	Approvals	Approved 1030 transactions worth more than R10.357 billion across the country
2	Disbursement	Approximately R6.920 billion has been disbursed to these companies since inception
3	Integrity	Secured clean external audit opinions for 16 years running
4	Supporting jobs	Since inception, the number of job opportunities supported is 100 302 of which 68 642 were new
5	Industrialisation	25 strategic and industrial projects worth R13.2 billion. The portfolio is expected to create 25 000 jobs at financial close and 3 600 jobs opportunities have been created to date
6	A culture of savings & 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
7	Investor education	Reached approximately 40 000 people in villages and townships through 178 community seminars on how to save and invest, personal financial discipline, shares, dividends, bonds, the property and money markets
8	Entrepreneurship training / incubation	Business skills training provided 3808 potential entrepreneurs who attended 398 seminars from 2011 to end of December 2019
10	Collections	Over R3.6 billion has been repaid by investees



The NEF has built strong systems and processes to grow its portfolio, and is able to continue to increase deal activity once the fund is recapitalised. In doing so, the NEF would be able to continue making a meaningful contribution to the economy as demonstrated in the above Table.

The NEF continues to contribute to the national transformation agenda whilst remaining responsive to the economic environment and adjusting accordingly. Also, discussions at Board level continue to challenge the organisation to constantly interrogate ways in which it

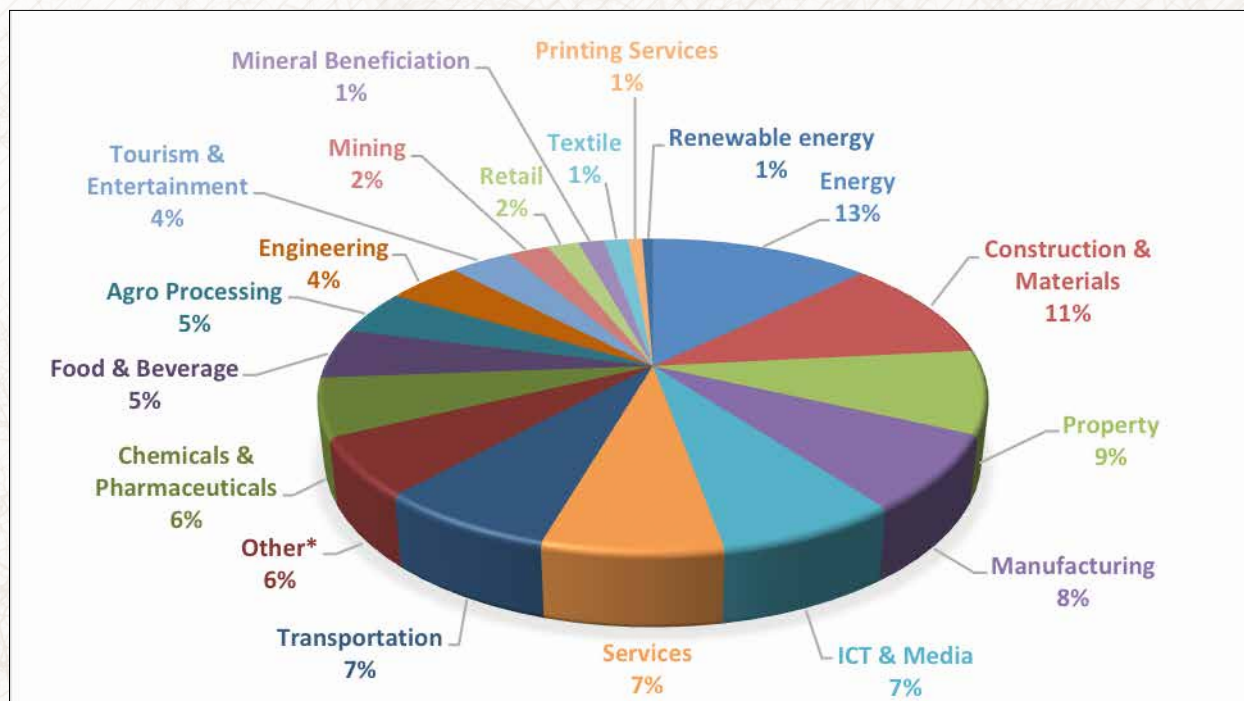
operates and evaluate whether or not they enable the organisation to effectively fulfil its mandate.

As illustrated diagrammatically below, the National Empowerment Fund (NEF) provides financial and non-financial support to black-owned businesses across all sectors of the economy. The NEF's non-financial interventions encompass entrepreneurship training, incubation support, business planning, investor education and mentorship support as critical imperatives for economic transformation and growth.



The NEF has invested a total of R6.92 billion since inception in the following sectors:

## NEF invested portfolio by sector by value since inception – December 2019



Other: Arts & Culture; Distributors, dispatchers, processors; Education; Environmental; Financial Services; Marine; Motor; Wood & Paper



## 8. Key Strategic Objectives/Outcomes

### 8.1. Strategic goals and objectives

NEF's strategic objectives are derived from the NEF Act No. 105 of 1998 and the

B-BBEE Act No. 53 of 2003 as amended, together with the Codes of Good Practice on B-BBEE. The NEF specifically seeks to support the initiatives of the dtic, including the Industrial Policy Action Plan (IPAP) and more broadly the NDP, by championing and funding the advancement of emerging entrepreneurs into black industrialists.

### 8.2. The five key strategic objectives/outcomes of the NEF for the next 5 years:

<b>1.</b>	<b>Growing black economic participation in the South African Economy</b>
<b>2.</b>	<b>Growing BEE through partnerships</b>
<b>3.</b>	<b>Maintaining Financial Sustainability</b>
<b>4.</b>	<b>Human Capital</b>
<b>5.</b>	<b>Non-Financial support</b>

#### 1. Growing black economic participation in the South African Economy

- iMbewu – focus on SME funding
- uMnotho Fund – transformation and black business expansion
- SPF – support meaningful participation in industrial projects by black people
- RCDF – stimulation of economic activities in rural areas and township through entrepreneurship
- WEF – entrenching participation of black women in the economy

#### 2. Growing BEE through partnerships

- ED Funds – raising 3rd party funding to offer comprehensive affordable financing solutions to black entrepreneurs
- Venture Capital Companies ('VCC') – partnering with various players to leverage the incentive for growth of venture capital funding for the benefit of black entrepreneurs
- Co-funding – using the NEF network to assist entrepreneurs fund their businesses

#### 3. Maintaining Financial Sustainability

- Impairments – maintain the impaired portion of the loan book below 18%
- Returns – endeavour to achieve Return on Investments (ROI) of between 9% and 10%
- Efficiency – manage the operational expenses and generate income to achieve Cost to Income ratio within an acceptable range over the period
- Return of Capital – implement close post-investment monitoring and interventions to achieve on average 80% collections on instalments raised

#### 4. Human Capital

- Attraction: Attracting high-calibre and suitably qualified candidates who are fit for purpose
- Skills Development: Provide training and development opportunities to enable employees to thrive in their role
- Retention: Utilising a pay-for-performance remuneration structure which will ensure that key and top talent is retained at the NEF
- Employer of Choice: Provide a compelling employee value proposition that captivates the employment experience from entry to exit

#### 5. Non-Financial support

- Pre-investment – provide meaningful interventions to support entrepreneurs wanting to access funding
- Post-Investment – provide intensive monitoring, support and mentorship to NEF investees to ensure sustainability of the businesses
- Intensive Care & Turnarounds – provide in-depth support to business under strain through the Turnarounds, Workouts and Restructures unit
- Social Impact – through the Socio-Economic Development Unit we will provide training for broad-based groups and communities thereby deepening understanding of business
- Legal – through legal we will entrench our rights and security in transactions to ensure sustainability





## 8.2.1. Growing black economic participation in the South Africa Economy

The NEF is growing black economic participation in the South African economy through its structured and specialised Funds that 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 Funds are listed below:

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

### A. IMBEWU FUND

The iMbewu Fund provides innovative financial solutions with the aim of deepening NEF's impact in the SME sector by increasing the number of black-owned SMEs that participate meaningfully in the economy. The products used in delivering the financial solutions have been designed to address market failures that limit meaningful economic participation by black-owned SMEs. Among these market failures are access to capital, lack of information, lack of access to markets and lack of technical skills. iMbewu Fund provides the funding through the following products:

**Franchise**

**Procurement; and**

**Entrepreneurship**

The financial solutions are backed by strong non-financial support in the form of mentorship and back-office accounting function that are offered to SMEs to enhance their long-term financial sustainability.

The strategic rationale for the iMbewu Fund:

- support the creation of new sustainable black-owned enterprises;
- promote and enable meaningful participation of black people in the economy; and
- contribute towards the creation of employment opportunities, given the importance and contribution of SMEs in the development of the economy.



## I. FRANCHISE FINANCE

The product is designed to allow the creation of new SMEs and to support entrepreneurs who seek to start a new business by acquiring a franchise licence with a reputable franchise brand. The product provides a platform for black entrepreneurs with limited capital and managerial expertise to start and/or expand a business. The strategic rationale for the product is to address the following challenges faced by black entrepreneurs:

- allowing black entrepreneurs to buy into a franchise system that already has an established brand and operating systems that guarantee success;
- technical and business support to address lack of technical and managerial expertise;
- ensuring rapid access to market through a brand that is recognised and with a track record;

- minimising investment risk while also optimising returns, making access to funding possible.

Some of the challenges that have been experienced in the past was the funding of small franchise brands that lack capacity and depth to support their franchisees. Some of these brands had also issued licences to black franchisees in order to access DFI finance to test their new concepts with the ulterior motive of taking over once they become successful. However, NEF has addressed the challenge by funding only reputable franchise businesses with a long successful track record. One of the sectors that have been successful is in the Energy Petroleum sector.

The NEF has strategically targeted the Retail Petroleum Sector in the Energy industry sector – Petroleum as a key strategic sector to foster black inclusion in the mainstream of SA's economy.

### a. Energy Sector – Petroleum



Through the iMbewu Fund the NEF's participation is entrenching black economic empowerment participation in the energy sector through establishing new franchises, acquisitions of franchises and providing expansionary capital. Below is a demonstration of some of the key oil majors that the NEF is in partnership with. The NEF and these partners continue to enhance franchise methodologies to increase inclusion of black participation going forward.



Within the NEF's franchise portfolio, service stations rank as the most vibrant and successful both commercially and in terms of the repayment trends to the NEF. The relationship with the various petroleum companies is in line with the NEF SME strategy that seeks to leverage the technical expertise provided by these companies for the benefit of black- and women-owned enterprises.

Since inception the NEF has funded 104 black-owned service stations amounting to R545 million. Out of these 104 stations 60 are active, 34 have settled in the NEF facilities and 10 are in the Legal service unit. 66% of the active stations are in the low risk category and service the NEF monthly obligations without defaults. This sector has created approximately 1 625 permanent jobs in South Africa. The sector has 39% women shareholding, which is a quantum leap in this industry.



### Examples of transactions funded in the Energy Sector:



In conjunction with the BPSA Supplier Development Fund, the NEF funded Makwande, a black female-owned and -run enterprise, to purchase (3) three trucks for fuel delivery. The company has successfully paid off the NEF. At its exit it had over 30 trucks and over 74 employees in a space of three years.

One other investee is Kgahlisa General Supplies, which approached the NEF for funding in 2015 to acquire an existing Caltex filling station in Botshabelo, which was run down. The NEF approved a total investment of R3 140 000. The Investee is 100% owned and managed by Mr Stephen Phalatse.

The Department of Mineral Resources and Energy (DMRE) has realised that since this sector has not been transformed, they are putting pressure on the oil majors to transform, hence most licences are issued to black entrepreneurs. Through the formal relationships that the NEF has with BPSA, Engen and Shell, it will continue its efforts to transform the sector. Regular meetings are held with the oil majors to discuss new deal origination for black entrepreneurs.

## II. PROCUREMENT FINANCE

The product targets black entrepreneurs who want to pursue business opportunities emanating from supplier development initiatives both in the private and public sector space. NEF would fund black SMEs that have been awarded contracts to supply goods and services. The NEF investment goes towards building capacity by funding working capital and acquisition of assets to allow the SMEs to deliver on the contracts awarded. The strategic rationale for the product is:

- facilitate access to finance for black-owned SMEs;

- support supplier development initiatives espoused in the B-BBEE Act and Codes of Good Practice;
- creation of sustainable jobs; and
- allow access to market through supplier development.

However, many SMEs have experienced some challenges mainly attributable to late payments by the public sector entities. This has imposed a major financial strain on SMEs, resulting in some of the businesses closing down. There are number of interventions at the ministerial level spearheaded by the Department of Small Business Development in an effort to address the SME plight. The expeditious resolution of this matter will auger well for the flourishing and growth of the SA's SME sector.

### Examples of Procurement Finance Transactions:

**Mmutle Mining Projects (Pty) Ltd t/a MMP** is a 100% black-owned and -managed entity established in 2016 by Mr John Mmutle. . MMP based in Middelburg, Mpumalanga, providing mining services in the form of material handling, crushing and screening services, mining rehabilitation, drilling and blasting services and plant hire services. MMP has grown significantly from March 2018 when the NEF facility of R13 000 000 was approved. They had only one contract with Anglo American Greenside generating a monthly revenue of R1.2 million. To date, the scope of work has increased, resulting in the increase in the revenue in excess of R6 million per month as per the latest management accounts. The number of employees to be employed were going to be 24 and to date they have employed a total of 116 employees. MMP has since secured 4 additional contracts with Impala Plats, Zizwe Opencast Mining and Anglo-American Coal, which necessitated the company to open a second office in Rustenburg.





### III. ENTREPRENEURSHIP FINANCE

Funding under the Entrepreneurship Finance product targets black-owned SMEs that require either start-up or expansion capital to pursue business opportunities presented by the market in general. Businesses supported are neither associated with any franchise brand nor do they have a contract to service. These are businesses that are run by entrepreneurs who have identified a niche and have developed a product or service to address a need. NEF supports businesses that have already developed a product or service that has been tested and launched to the market but require funding to scale up operations in order to reach critical mass.

The strategic rationale for the product is:

- facilitate access to funding for black entrepreneurs who do not have the collateral to raise funds from banks;
- creation of new enterprises owned by black people; and
- creation of sustainable jobs.

This is one area where SMEs experience most of the market failures. NEF has designed non-financial support interventions to minimise the probability of failure, which include the following:

- provision of incubation through partnership for businesses that do not have business ideas that are ready for the market;
- entrepreneurial training for businesses that have limited operating experience and need business support to get their businesses ready for funding;

- post-investment, NEF provides an extensive mentorship and back office accounting services which are mandatory for all investees; and
- structuring longer moratorium period on interest and capital repayments to allow businesses to build cashflow.

#### Examples of Entrepreneurship Finance Products:

Mianzo Asset Management is a 100% black-owned and -managed asset management company co-owned by Mr Luvo Tyandela, who is the 55% shareholder and Managing Director. The remaining 45% shares are owned by the Employees Trust, whose beneficiaries are employees of Mianzo Asset Management ("Mianzo"). Mianzo comprises a staff complement of 12 employees who are based in their office in Century City in the Western Cape.

Mianzo is an authorised discretionary Financial Services Provider in terms of Section 8 of the Financial Advisory and Intermediary Services (FAIS) Act, 37 of 2002. Mianzo's core focus is the management of assets on behalf of institutional clients. With R5.7 billion in Assets under Management ("Aum"), from 14 institutional clients, Mianzo's offering includes Equity (Active, Enhanced and Index Trackers) and Absolute Return Funds. Mianzo's Assets under Management grew from R475 million in 2010 to R5.7 billion in 2019. Having fully repaid their first NEF loan in July 2017, Mianzo approached the NEF in 2018 for a second round of funding of R3.4 million, which unlocked further asset allocations from various pension funds.





## B. UMNOTHO FUND

This Fund is designed to improve access to BEE capital and has five products: Acquisition Finance, New Ventures Finance, Expansion Finance, Capital Markets Fund, and Liquidity and Warehousing. These products provide capital to black-owned and -managed enterprises, black entrepreneurs who are acquiring shares in established white-owned enterprises, new ventures finance and BEE businesses that are listed or wish to be listed on the JSE. Funding ranges from R2 million to R75 million.

Under uMnotho Fund the NEF chose the following key strategic sectors as instruments for increasing black inclusion, transformation and contributing to the economic growth of South Africa:

**Property sector including student accommodation**

**Transport and logistics**

**Construction & Materials**

**Fourth Industrial Revolution**

**Creative industries & Media**

**Tourism**

## I. PROPERTY SECTOR



The property industry is still far from a true reflection of South Africa's demographics in terms of ownership patterns, judging from the few number of black people participating in the industry. The true empowerment in the property sector is still lagging; black people are still largely excluded from the entire value chain, which is unacceptable and unsustainable 26 years into our democracy.

According to the Department of Public Works' 2018 Annual Report, the national government spent about R4 billion per annum. Property leases are, on average, concluded at costs that are above the market rates; hence the high rental expenditure of approximately R4 billion per annum. There are a few landlords who dominate the lease portfolio in government, preventing new entrants to the industry, especially previously disadvantaged groups. The importance of a government

lease was that banks recognised that the government would always honour its payments. By far the best tool to transform the industry was through government-owned properties.

On the JSE, it was mostly through this government intervention that the property industry started to see the emergence of black property entrepreneurs and landlords. This gave rise to a few BEE funds, or funds with BEE credentials such as Ascension, Delta, Dipula and Rebosis, with a combined market capitalisation of R18bn, which only makes up about 4% of the total market capitalisation of the sector, which is approximately R400bn.

The NEF in playing its catalytic role in transforming the property sector has approved and committed 30 transactions worth over R593 million. Seven of these were retail properties, while ten were tourism properties;



seven were in the construction of affordable & social housing; two in the industrial and lastly four in student accommodation.

The average number of jobs supported by the investment in this sector is 6 915 during construction while 5 536 are permanent jobs.

The lack of transformation in the sector and the targets as set out in the property charter, which further addresses issues pertaining to ownership, management control, skills development, enterprise and supplier development and socio-economic development; the property industry when compared to other sectors of the South African economy is one of the least transformed in the local economy.

It is therefore a strategic imperative for the NEF to continue investing in the sector; to meaningfully support and grow real black property entrepreneurs is necessary in order to nurture and grow talent, and create a new generation of black property players. It is also important to highlight that within these statistics of black players, there are very few, if not any female-led property companies or developers. Property ownership and development have a fundamental role to play in creating employment, creating wealth, and is a pivotal tool for economic freedom and transformation.

### a. Student Accommodation – Sub Sector of Property



A national challenge that Government is committed to addressing is the chronic shortage of accommodation for South African students at tertiary and vocational level.

There is over 750 000 student bed shortage in South Africa, and the number is expected to increase given the increase in enrolments at all universities in SA. After the 2015-2016 #FeesMustFall protests in 2017 the government announced it would subsidise free higher education for poor and working-class students – more first-year students are enrolling for higher education. On-campus residence is poorly regulated, students sublet, and this results in overcrowding

as well as health and safety risks. Off-campus accommodation can be more affordable, but it is not always academically conducive or well-regulated and this can result in the violation of their right to basic quality of health and safety. The demand for safe, sustainable accommodation needs deliberate action urgently because this has a direct effect on students' academic success. The government is committed to ensuring that in expanding fee-free education for students from poor and working-class backgrounds it will include accommodation, transport and study materials for qualifying students at public colleges and universities.



South African universities are battling to accommodate more than 20% of the student population as demonstrated by the Table below:

University	# of Students (2016)	# of Beds(2016)	% beds
University of Johannesburg	51 669	6 600	13%
University of Pretoria	53 232	10 000	19%
Tshwane University of Technology	58 901	12 000	20%
University of Witwatersrand	37 448	7 400	20%
University of Stellenbosch	30 161	6 500	22%
University of Cape Town	29 232	6 800	23%
Rhodes University	8 136	4 000	49%
University of Western Cape	21 796	3 300	15%

Less than 10% of 1st year university students can be accommodated. Similarly, Technical and Vocational Education and Training (TVET) colleges have over 710 000 college students, with only 10 120 beds available. Colleges can provide accommodation for only 1.4% of students. By 2030, to meet the enrolment targets set out in the Post-School Education and Training policy and the National Development Plan, an extra 400 000 beds would be needed.

It is for this reason that the NEF has since entered this space to support black entrepreneurs who want to alleviate the challenge. The NEF has approved R136 million towards student accommodation developments with a total project size of R354 million. A total of 1 223 jobs that will be created during constructions, and 166 permanent jobs will be supported during the operation phase.

#### Examples of Investments in Student Accommodation:

An example of investments in this sector is Ordicode, a 100% black-owned and -managed business; a property development worth R50 million in the Johannesburg CBD which has received R27 million funding from the NEF. The project creates 343 construction jobs and will create 15 permanent jobs. It is 80% woman owned and 20% owned by a student trust. In February 2020, Ordicode will avail 106 units of 2 bedrooms each to University students.

Tshellaine is a 100% black-youth-owned and -managed, and 50% black-women-owned business, following the Sponsors' struggle to find employment post-university graduation. Tshepo Lekgau and Elaine Phasha, both UJ graduates, established Tshellaine in 2012 with the stipend that they received from serving in the structures of the

university as well as earnings from casual employment and started operations by subleasing one unit; a two-bedroom apartment with a kitchen and bathroom to 4 UJ Soweto Campus students. Tshellaine used the first unit to apply for Off-campus Housing Accreditation with UJ and was granted accreditation in 2013 to accommodate 56 students. The directors then approached Southgate Ridge, owned by IHS Property Management, for rental space and managed to get 9 units and 36 beds. The 56-bed accreditation turned into 104 beds in 2015 and 160 beds in 2017. Tshellaine is currently accredited for 200 beds by UJ and has been fully operational at 100% capacity since 2012, from the property at Southgate Ridge.

Having gained the operational experience of five years and keen to own property, Tshellaine approached the NEF for funding of R37.5 million to purchase a piece of land in Winchester, Johannesburg for the development and construction of 66 units that would accommodate a maximum of 264 students.

#### Ongoing opportunities and NEF's involvement in the sector:

The National Department of Higher Education, NSFA & Universities have developed an Accreditation Policy to deal with the shortage and improve the state and condition of accommodation students have access to off-campus. Strategic Black Developers are rejuvenating city centres by turning older unoccupied buildings into modern student apartments for rental to university students. The NEF in partnership with other co-funders are supporting Strategic Black Developers to develop student accommodation properties. There is an opportunity to invest – there is a shortage of over 750 000 student beds nationally.





## II. TRANSPORT AND LOGISTICS

South Africa is home to the farthest-reaching and highest-quality transport network on the African continent, which is good news for aspiring transport entrepreneurs. Road and rail networks are the backbone of any economy. However, they are also one of the most important assets in terms of sheer monetary value. For decades the country's extensive road, air, rail and sea links have underpinned economic and social development not only in the domestic market but through the region as a whole. As with all sectors of the economy, however, transportation and logistics remain largely untransformed.

The NEF has invested over R505 million in the sector, which comprises 3.27% of the invested portfolio. NEF investment has supported 3 165 jobs.

Examples of these include African People Movers (APM), whose mission is to unlock and deliver value by consistently ensuring that the intercity passenger service remains relevant to the commuters through comfort, safety and service. APM started its operations with four rented buses before obtaining NEF funding. The company received R45m expansion finance from the NEF. APM has 32 operating licences for all the routes envisaged in the business plan. It is 100% black owned. Through this investment, 30 jobs were retained and 33 new jobs were created. Lately the company has 158 jobs and looks to create additional 45 jobs. All NEF-funded buses were assembled in South Africa.

In driving empowerment, the NEF has demonstrated the courage and tenacity to enter sectors where there are established giants with considerable market share. APM is one of many such breakthroughs that best exemplify the spirit, the courage and the mettle of a funder who will stop at nothing to make the dreams of black entrepreneurs, a living reality.

The NEF continues to play in the sector as there is continuous demand in the economy. The sector is also highly untransformed and most corporates (especially mining houses, SOE's, oil majors) are looking for black entrepreneurs to source this service from. The NEF will continue to fund black participation where there are direct contracts with these companies and scalability.

## III. CONSTRUCTION AND MATERIALS

Given its considerable size, the construction sector is envisaged to play a powerful role in South Africa's economic growth, in addition to producing structures that add to productivity and quality of life. Since construction is labour intensive, when the sector is working at full capacity, large sections of the nation's work force are active.

Construction is the NEF's second-largest funded sector, with investments in excess of

R730 million in the sector, which comprises 11% of the invested portfolio. NEF investment has supported over 6205 jobs, and an average of 29% has benefitted black women entrepreneurs.

**Examples of support for black economic empowerment in the sector are Go 2 Market (G2M) and Motheo Construction.**

G2M is a 100% black-women-owned and -managed concrete mixing company. The core product of the company is to provide onsite concrete mixing using the mobile OMEGA Volumetric Concrete Mixer (VCM). These mixers are capable of producing a wide range of volumetric mix designs, including standard concrete, high-specification concrete, grout mixes, pump mixes efficiently according to complex construction specification. G2M is committed to revolutionizing the industry with new innovations while maintaining the highest quality standards.

G2M systems allow for a quick set up and erection of the batch plant, reducing the costs of transport as compared to the conventional drum mixer. G2M has an exclusive contract to supply the VCM within the continent. Among the active projects that the company has completed in the south of Gauteng are 9 600 residential units in Fleurhof Ext. 1, an integrated housing project in South Hills Moffit Park and the Jabulani central business district. G2M has supported 80 jobs on full-time basis.

Motheo Construction Group (Pty) Ltd is a black-women controlled construction company focused primarily in the in general building (namely schools, offices, clinics, retail centres, etc.), civil engineering (namely construction of roads, water reticulation and sewer reticulation) and rail infrastructure (renewal/replacement of rail track and construction of railway station) with 8GB PE and 8CE PE CIDB ratings when the NEF initially funded the business.







The company has grown significantly over the years and has undertaken a number of key projects; the skills within the management and shareholder base as well as good leadership of Dr Ndlovu are mainly responsible for the success of the company. The company through the funding of the NEF has obtained the 9 CIDB rating. Motheo supported over 1 150 jobs.

## Outlook of the sector going forward

The construction sector is distressed, facing a host of risks and challenges, including the continuing shortage of major projects and non-payment by government and other state entities.

The NEF investees will be assisted to diversify their revenues and increase the number of projects they have to ensure they remain operational through the current economic conditions.

An opportunity exists for NEF investees to venture into the following segments: Developments, Materials, Mining, Roads and Earthworks.

Furthermore, with the R100bn committed towards the Infrastructure Fund for the next 10 years opportunity exists for both NEF investees and new applicants; this will drive job creation, black empowerment and economic growth. The NEF will not focus on funding a specific project, but the business model presented. This will ensure the loan is serviced even when the specific project is running at a loss, but the business is profit making.

## IV. FOURTH INDUSTRIAL REVOLUTION

The Fourth Industrial Revolution can be described as the advent of "cyber-physical systems" involving entirely new capabilities for people and machines." World Economic Forum

"The advent of the Fourth Industrial Revolution has injected hope that these new technologies will help leapfrog our (SADC) countries to the cutting edge of modern industrial production processes" Minister of Science and Technology, Mmamoloko Kubayi-Ngubane, at the Fourth Industrial Revolution Workshop 7 March 2019

The NEF wants to actively drive the participation of black companies in the 4th Industrial Revolution.

### Examples of NEF investments in the Fourth Industrial Revolution

Rikatec (Pty) Ltd focuses on information management systems for vehicles. The company uses big data and machine learning to detect vehicle breakdowns, predictive maintenance, vehicle wear and tear, vehicle resale value, driver profiling and driver ratings. Rikatec is 60% black-owned, 63% black-youth-owned and -youth-managed. The NEF approved R15m and disbursed R10m. The NEF owns 10% of Rikatec. Rikatec has created 10 jobs with 37 more expected in the next year. Proof of concept will unlock agreements with SA Taxi, Constantia Insurance, fleet management and other insurance companies.

Quickloc8 (Pty) Ltd is a 100% black-owned entity that was established in 2015 by Mr Mbavhalelo Mabogo. The entrepreneur identified a void in the market for a smartphone tracking platform for vehicle tracking, monitoring and telematics for the lower end of the market. Current tracking technology available in South Africa is mostly too expensive and not within reach of smaller businesses. The applicant has positioned itself to offer high-end tracking capabilities at a considerably lower cost to users.

The product offering is tracking devices with complete mobile capabilities for both individuals and businesses.

The entrepreneur approached the NEF for R2.5 million, for funding of business assets, stock and working capital. 2 Permanent jobs maintained and 21 new jobs created.







## V. CREATIVE INDUSTRIES & MEDIA

In 2015, revenue from cultural and creative industries generated globally accounted for 3% of the world's Gross Domestic Product (GDP), or a total of \$2 250bn. It also created a total of 29.5 million jobs worldwide, or 1% of the earth's actively employed population.

South Africa is aligned with this trend where in 2014, according to some early mapping of the sector, South Africa's creative economy contributed over R90.5bn to the national economy or 2.9% of the GDP in 2013 to 2014, exceeding, for instance, the contribution of agriculture to the GDP (2.2%). In 2014 the industry accounted for 2.9% of employment in South Africa, equating to 443 000 jobs.

Yet despite its contribution to the country's GDP the creative economy remains the most underappreciated economic drivers in South Africa.

It is precisely to harness the productive potential of the sector that the NEF has continued to increase its support for black entrepreneurs in both the creative and media industries, having invested a total R524 million. The NEF has disbursed R39m in the creatives sector. This investment has unlocked 1 762 job opportunities. Even though editorial leadership in the country's newsrooms has largely been transformed, ownership remains primarily white.

The NEF continues to work in partnership with the Department of Arts and Culture (DAC); this brought about the establishment of the Enterprise Development Fund (ED) worth of R250 million as intervention in the sector. The DAC has embarked on a strategy to reposition the arts, culture and heritage sector as key players in government's programme of action for social cohesion, creation of sustainable jobs and ensuring social and economic development. The Mzansi Golden Economy (MGE) Strategy drives strategic investments to optimise the economic benefit of the Arts in South Africa. By improving investment in key areas of the creative economy, it is anticipated that job creation and productivity will be enhanced and the sector's global competitiveness will be increased.

### Examples of NEF funding in this space include:

Kings of Mulberry Street, is a special purpose vehicle ("SPV") which was incorporated for the production of a film called "Kings of Mulberry". Ladybug Films (Pty) Ltd, is the production company that owns 100% of Kings and is committed to striving for a quality South African film industry; one that is representative of the nation, commercially viable and encourages development.

The film follows the story of two 9-year-old boys from different social backgrounds who become unlikely friends and save their township from the ills of a local gang who terrorises the community.

It is set during the apartheid years, with a nod to Bollywood. It reflects all the elements which make the genre so popular: colour, music, adventure, dancing, gangsters, adventure, comedy, fun and the obligatory wedding.

The NEF together with the DAC utilising the ED Fund provided Kings with R3.5million to produce a film named "Sew The Winter To My Skin." The total project size is R16million where R3.5million of the project was sought from NEF in conjunction with DAC.

Located in central Johannesburg at what was popularly known as the Carlton Centre Ice Rink, the Sky Rink Studios is a new venture started by a team of black entrepreneurs who were the owners of Diallo Works CC and BBDM BROS respectively. Diallo Works and BBDM are South







African companies with extensive experience in communications, TV production, IT, digital media platforms and events production. Both companies have a history of producing TV and short films from comedy to documentaries. The total project value is R190 million and the NEF has approved R40 million funding for the business.

This business employs 10 permanent people and consistent with the nature of the industry, the temporary staff will vary in accordance with the size and scale of productions.

Another example is Gauteng's newest radio station, Power 98.7. Six years ago, the National Empowerment Fund (NEF) invested R36.2 million to fund the introduction of the commercial radio station Power 98.7, which launched officially on 18 June 2013. The Gauteng-based radio station broadcasts on four frequencies, namely 98.7, 103.6 (Soweto), 104.4 (Midvaal) and 107.2 (Ekurhuleni). Growing in leaps and bounds, Power 98.7 has become a unique and vibrant platform for a people determined to build a winning nation. As the nation's theatre of the mind, Power 98.7's introduction into the commercial radio market is adding to efforts to transform media, which is in line with the NEF's mandate, and is a proud offspring of South Africa's democracy.

Since the launch, Power 98.7 was named the second most influential media platform in business in an analysis of the Agenda Setting Media (ASM), which was commissioned by Media Tenor SA.

## C. Strategic Projects Funds (SPF)

The fund aims to play a central role in early stage projects by identifying, initiating, scoping and developing projects that are in sectors identified by government as the key drivers to South Africa's economic growth. These projects will be taken through 6-stages of the project development phases.

### The phases being the following:

Scoping and Concept Study, Pre-Feasibility Study, Bankable Feasibility Study, Financial Closure, Construction Phase, and Technical Completion.

In support for black industrialists, the NEF creates new manufacturing and industrial capacity alongside local and international partners.

Through the Strategic Projects Fund (SPF), the NEF has made important steps in seeking competitive opportunity for the South African economy and the inclusion of black participation in opportunities at the outset of projects, as opposed to doing so during equity closure.

In essence, in this area the NEF aims:

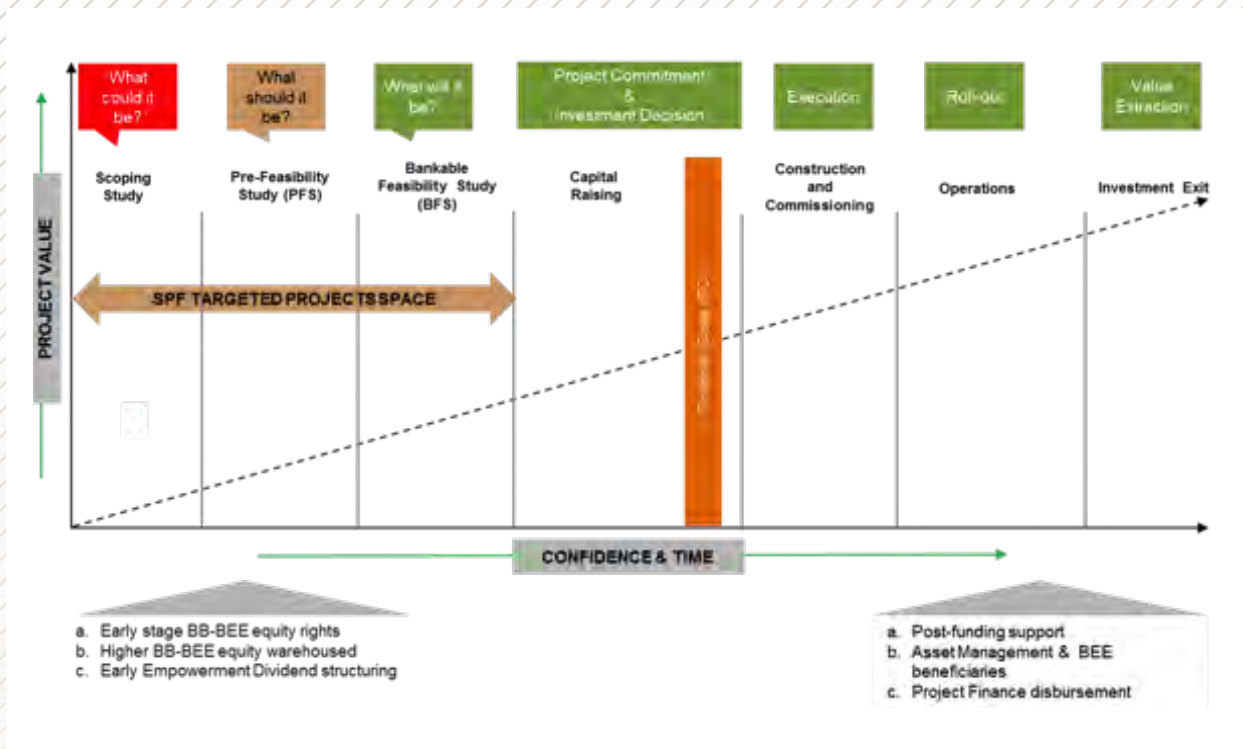
- Create new manufacturing and industrial capacity.
- Create new and sustainable jobs as opposed replacement capital finance
- Invest new fixed capital into economically depressed areas or poverty nodes
- Create an inclusive economy by increasing black South African participation at the early stages of projects.
- Increase South Africa's export-earning potential and reduce import dependency.
- Increase co-investment and linkages with foreign direct investors.

## I. SPF BENEFICIATION PROJECT LIFECYCLE

Industrial projects typically undergo an extensive and rigorous development cycle prior to reaching a bankable stage at which point they can be evaluated for commercial viability and funded by investors.

Such investors can either be equity and/or commercial funding institutions through debt, quasi-debt or equity instruments, for implementation. As illustrated graphically below, over time with the progression of project development, the confidence in the potential viability of a business concept and the value of the project both increase.





#### The typical project development stages include;

1. **Scoping & concept** – this is the initial stage of project development used to generate, refine and short-list ideas for further development.
2. **Pre-feasibility Study (PFS)** – this is the second stage of project development during which business models developed during the scoping phase are assessed for commercial viability, developed in more detail with qualifying assumptions, and a project risk matrix drawn up to conclude the potential commercial viability of business concepts.
3. **The Bankable Feasibility Study (BFS)** is the final project development stage wherein the material project contracts are executed, minimising or eliminating project implementation and viability uncertainty in order to permit capital raising for project execution.
4. **The Capital-Raising Stage** is reached when project execution capital is raised from equity investors and/or debt providers.
5. **Financial Close (FC)** is the stage at which all project capital is raised, potentially unconditionally in readiness for fund drawdown and project implementation, subject to fulfilment of any Conditions Precedent (CPs).
6. And lastly, **Project Implementation** is execution stage of the project e.g. construction phase, followed by set up of the operational company.

At the NEF the SPF targets investing in these projects as early as practically possible for three key reasons:

- firstly, to achieve the lowest investment equity subscription or entry price;

- secondly, to influence the equity or ownership structuring of the projects, with a leaning towards B-BBEE empowerment; and
- thirdly, to secure equity to be warehoused on behalf of and for future distribution to B-BBEE entities.

Through the Strategic Projects Fund, NEF will facilitate B-BBEE in the following ways:

- Warehouse equity for B-BBEE in early-stage projects at valuations with little or no premium paid to access the projects. This enables NEF to distribute its warehoused equity to B-BBEE at lower valuations once the project is operational;
- Take early-stage risk on behalf of black people as early-stage projects have higher execution risks compared to operational companies. The NEF will assume most of the financing risk and devise instruments to carry or transfer equity to B-BBEE once project fatal flaws have been mitigated;
- Manage the project and venture capital finance structuring complexities as it is more complex and difficult to raise capital for new ventures as compared to uMnotho finance deals where valuations can be ascertained based on historical performance and risks are clearly understood;
- Enable project promoters to focus on making projects bankable and operational by giving the B-BBEE status as NEF is the only DFI gazetted as a B-BBEE facilitator;
- Once the initial project risks have been reduced, the NEF will transfer its shareholding to selected B-BBEE groups through a transparent process.





## II. GROWING BLACK INDUSTRIALISTS

Through the SPF the NEF has been hard at work to increase the number of black people participating proactively in early-stage projects and other divisions of the NEF proactively seek to invest in expansionary and new ventures. Through the SPF fund the NEF has made important steps in seeking competitive opportunity for the South African economy and the inclusion of black participation in opportunities at the outset of projects, as opposed to doing so during equity closure.

The total portfolio of Black Industrialists that were supported by the NEF in partnership with local and international investors amounts to 25 projects valued at R13.2 billion.

The SPF seeks to create new manufacturing and industrial capacity alongside local and international partners. To date the NEF has invested approximately R900m in developing projects (with a total of 25 projects currently under development); businesses that have created over 3600 jobs and leveraged over R4.3 billion of third-party funding.

### **Examples of transactions funded under this Fund include:**

Gemilatrix aims to create a women-owned and -led male condom manufacturing plant to be based in the East London SEZ. The project will enable for a reduction of imported condoms and the creation of new jobs in the poor province of the Eastern Cape.





Mendirail & Engineering's vision is to become a leading firm specialising in railway infrastructure ("perway") products manufacturing, supply and installation. The company wishes to take advantage of the growing rail infrastructure demand in Southern Africa. The project has just recently successfully completed a pilot phase which has seen their four (4) sleepers receiving accreditation by Transnet after a long testing process. The project is in advanced stages of completing a bankable feasibility study.



Jalo Renal Izintso seeks to establish a Hollow Fibre Dialyser manufacturing plant with a capacity to produce 2 million dialysers per annum. The project will also produce other hemodialysis products such as dialysates, dialysis kits etc. The bankable feasibility has been completed and the project has been successfully awarded a R50 million Black Industrialist grant.



Busamed is a proudly South African black-owned private hospital group with six bed licences currently across South Africa, offering friendly, cost-effective and innovative healthcare service in a safe and caring environment. Busamed's vision is to be a consolidator of the fragmented health care market. This has been kick-started with the commercialisation of 4 hospital licences for 630 hospital beds, spread over four provinces, namely Western Cape, Gauteng, KwaZulu-Natal, and the Free State. The first hospital (a cardiologic centre) is based in Somerset West and commenced operations in May 2015. The second

hospital was launched in Johannesburg's Modderfontein in November 2016, while the third was launched in Harrismith at the same time. The fourth hospital, based in Bloemfontein, began operations in 2018.

Going forward the NEF will continue supporting black industrialists to play a meaningful role in the industrial and manufacturing development of South Africa. The continued support of black industrialists will yield significant job creation, contribute to South Africa's export market and reduce import dependency, and improve living conditions of the population in economically depressed areas.



## D. Rural and Community Development Fund (RCDF)

The Rural and Community Development Fund was designed to promote sustainable change in social and economic relations and support the goals of growth and development in the rural and township economy, through financing of sustainable enterprises. This would be achieved through the mobilisation of rural communities in legal entities or cooperatives, in order to participate in the broader economic activities and realise the economic transformation goals in rural South Africa.

- Promote access to finance for black rural entrepreneurs/communities;
- Promote economic transformation in order to enable meaningful participation of black people in the economy;
- Increase the participation of communities, workers, co-operatives and other collective Enterprises owned and managed by black people;
- Create sustainable rural enterprises and thereby assisting in the creation of job opportunities and sustainable incomes; and
- Identify new growth sector with potential for job creation and broad-based participation.

Under RCDF the NEF chose the following key strategic sectors as instruments for increasing black inclusion, transformation and contribution to the economic growth of South Africa:

### Revitalisation of the Rural and Township Economies

#### Tourism

#### Agro-processing

#### Real Estate

## I. REVITALISATION OF THE RURAL AND TOWNSHIP ECONOMIES

The NEF understands the importance of sustainable economic activity in Townships and Rural areas and has developed products that focus on funding businesses in these areas. The NEF currently has substantial presence in townships, rural and peri-urban areas. This is because the NEF believes in taking economic activities and opportunities to where its target market is.

As part of the NEF mandate and strategic objectives, the NEF through the RCDF is driving black economic empowerment by supporting the growth of rural and township economies in order to help take economic empowerment where the majority of its target market resides. This is in line with the Government's objective to revitalise the rural and township economies. This is because rural and township-based SMEs are typically outside the value chain reducing them to survivalist rather than viable business ventures. This grassroots revolution has seen the NEF funding black-owned shopping malls, hotels, social housing, student accommodation, procurement, franchises, clothing and footwear manufacturers, among many others, including converting existing spaza shops into mini-supermarkets that can compete with established retailers.

Over R2.1 billion has been invested in the development of community-owned businesses, having supported 18 989 jobs, with the majority of beneficiaries being women.

## II. TOURISM

The benefits of the tourism sector are usually felt at two levels; national and subnational levels. At the first level, tourism is expected to foster economic growth through the provision of foreign exchange earnings and increase of national revenue, and at the second level an improvement in people's wellbeing in the areas of job creation, income





distribution and development, economic inclusion and indirectly assisting with land redistribution in South Africa. Tourism is closely related to a number of other economic sectors such as agriculture, construction and retail, and thus its development has the potential to generate positive externalities to the rest of the economy. Tourism development can also promote the productivities of other industries through industrial substitution and integration, and lead to structural and transformational change.

As a result, the NEF has funded various lodges and hotels within the tourism industry throughout the country. The total portfolio disbursed to date is over R200 million yielding over 519 jobs; a significant amount and a clear demonstration of NEF's commitment to focus on priority sectors with the potential to create jobs and uplift the economy. The impact of these transactions have influenced social and infrastructure development, such as road infrastructure, housing, and retail centres in the respective communities.

The NEF and the Department of Tourism ("DT") entered into an MOU to establish the Tourism Transformation Fund (TTF) that focuses exclusively on the transformation of the South African tourism sector.

The DT has contributed a total of R120 million towards the fund, which was transferred to the NEF over a 3-year period from the 2017/2018 to 2019/2020 financial year (R40 million per annum). Through this partnership, the NEF finances the senior debt and shareholder's loan portion of the transactions while the DT funds are applied as grant funding. The TTF grant component is capped at 30% of the total funding approved by the NEF up to a maximum of R5 million per applicant.

One of NEF's flagship projects is the Graskop Gorge Lift, a project that will drive tourism development in the Panorama Tourist Route, and the first of its kind in Africa. The first phase of the project received funding from the NEF to the tune of R33.4 million. The total value of the project is R40 million at present and is expected to grow to R150 million upon completion of the second phase. Graskop Gorge Lift Centre demonstrates the National Tourism Sector Strategy in action as it will enhance visitor experience, showcase innovation in destination management and demonstrate the Broad-Based Benefits in the tourism sectors.

Below is summary of other transactions that have been funded by the NEF through TTF:

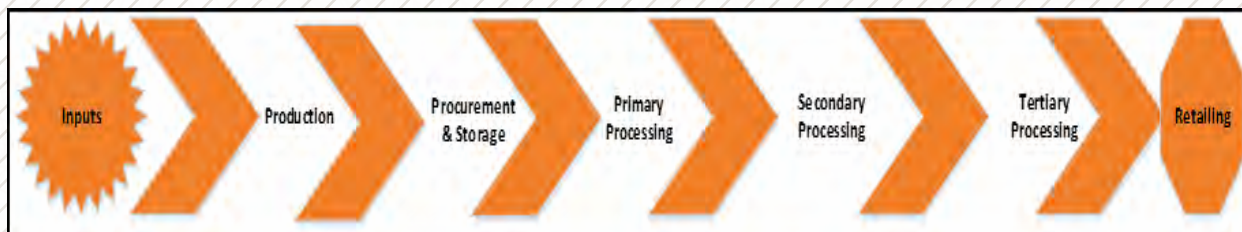
<b>Tourism Sector</b>						
<b>Name of Investee</b>	<b>Location</b>	<b>Total Project Cost</b>	<b>NEF Investment</b>	<b>Star Grading</b>	<b>Jobs Created/Supported</b>	<b>Women Shareholding</b>
Golden Valley	Magaliesburg	17 800 000	11 700 000	3*	10	60%
Lux Boutique	Upington	15 134 235	14 523 629	4*	49	100%
Miami Lodge	Limpopo	6 200 000	4 300 000	4*	29	70%
Hayani Guest Lodge	Limpopo	5 000 000	3 500 000	3*	15	70%
Nare Boutique Hotel	Northern Cape	11 300 000	9 600 000	4*	56	100%
Tinyiko Lodge	Mpumalanga	15 000 000	10 500 000	4*	54	100%
Casambo Lodge	Mpumalanga	7 820 000	5 400 000	4*	73	100%
<b>Total</b>		<b>78 254 235</b>	<b>59 523 629</b>		<b>286</b>	

The NEF intends to continue bolstering its partnership with the DT in order to grow the participation of black businesses within the tourism sector. Both the NEF and DT continue to promote the TTF programme and source commercially viable transactions. With the continued support of businesses within the tourism sector, the NEF will not only contribute in growing this sector but will assist in growing other sectors that benefit from the tourism sector.



### III. AGRO-PROCESSING

An analysis of the agribusiness value chain provides an indication of areas of funding that are complementary between institutions. Though they may fund similar sectors, the scale and the level may be completely different. NEF is stronger on the primary & secondary processing, whilst the IDC may be interested in the tertiary processing.



Sub-Sectors	Primary Processing	Secondary Processing	Tertiary Processing
<div> <div></div> <div>Examples of key products</div> </div>			
Fruits & Vegetables	Cleaning, sorting, grading & cutting	Pulp, flakes, dried, flavoured, preserved, paste, sliced, diced, etc	Ketchups, jams, juices, pickles, chips, spices, etc
Grains & Cereal	Sorting & Grading	Rice, flour, malt, cereal etc	Biscuits, noodles, flakes, cakes, etc
Oil Seeds	Sorting & Grading	Oil cakes, etc	Sunflower, Olive, Soya oil, etc
Milk	Grading & Refrigeration	Cottage cheese, cream, etc	Processed milk, spreadable fats, yoghurt etc
Meat, poultry & Marine products	Feedlot, sorting, grading etc	Abattoir, preserved, frozen, packaged, etc	Ready to eat meat (Preparation), cold meats, etc

The above agribusiness value chain analysis reflects the areas in which the NEF has played a huge role and invested quite substantially. The transactions in this space are on the borderline of agro-processing and hence there are areas of cooperation with the IDC as they focus on fully-fledged agro-processing. The NEF has always played a role in primary agro-processing, especially when there are strong forward and backward linkages. A forward linkage is created when investment in a particular project encourages investment in subsequent stages of production. A backward linkage is created when a project encourages investment in facilities that enable the project to succeed. Normally, projects create both forward and backward linkages.



The table below indicates the sub-sectors in the agribusiness value chain funded by the NEF:

Transaction	Sector	Sub-Sector	Amount Invested	Target Group	Gender		Linkage
					Male	Female	
Middeldrift Dairy	Agri-business	Milk Production - Livestock	9 900	Community	856	1 284	Forward
Ntusi Dairy	Agri-business	Milk Production - Livestock	13 000	Community	500	1 320	Forward
Berlin Beef	Agri-business	Beef Production - Livestock	27 500	Co-operatives	25 200	37 800	Backward & Forward
Mthanda Dairy	Agri-business	Milk Production - Livestock	14 000	Community	624	937	Backward & Forward
Buffalo Bull	Agri-business	Beef Production - Livestock	9 900	Workers Trust	40	60	Forward
Boesmansrivier	Agri-business	Piggery - Livestock	7 000	Workers Trust	8	12	Forward
Imbaza Mussels	Agri-business	Acquaculture - Fisheries	9 900	Workers Trust	23	90	Forward
Western Breeze	Agri-business	Fruits & Vegetables	28 552	Community	187 216	280 824	Forward
Molam's Farming	Agri-business	Grains, Oil Seeds	13 200	Community	1 736	2 604	Forward
Richmond Oepkomonde	Agri-business	Sheep - Livestock	3 610	Community	18	26	Forward
Mohale Agri Copoerative	Agri-business	Poultry & Vegetables	14 500	Co-operatives	19	29	Forward
Nyonende Hatchery	Agri-business	Poultry	9 700	Co-operatives	3	5	Forward
Dihoai Co-operative	Agri-business	Milling	9 350	Co-operatives	2	3	Backward & Forward
Subrofusion	Agri-business	Grains - Sorting & Grading	14 000	Workers Trust	5	40	Backward & Forward
Super Grand	Agri-business	Milling	15 000	Co-operatives	15	235	Backward & Forward
			199 112		216 265	325 269	

#### Examples of transactions in the agro-processing sector:

Middeldrift Dairy (Pty) Ltd is a joint venture initiative between Amadlelo Agri (Pty) Ltd and the Middeldrift community through their Gwebindlala Trust. It is a commercial dairy farming operation on the agricultural land owned by 51 beneficiaries belonging to the Gwebindlala Trust. The core of the business is conducted on the Middeldrift Dairy Farm measuring 150ha in extent through irrigated pastures. This is a successful community partnership transaction where Gwebindlala Trust owns 20% of the business, NEF 40% as well as Amadlelo Agri owning 40%. The NEF will transfer all its shares to Gwebindlala Trust upon exiting the transaction, which will make the trust 60% owners of the business.

The business boasts of a forward agro-processing linkage with Coega Dairy (Pty) Ltd. Coega Dairy is situated near the Coega Harbour in the Coega Industrial Development Zone and takes pride in being an environmentally friendly dairy with a focus on local farmers and the community's wellbeing. Coega Dairy combines farm freshness with eco-friendly technology to bring consumers quality dairy products straight from the farms of the Eastern Cape countryside. Its ultra-high temperature (UHT) processing plant also plays a role in reducing carbon footprint. Founded by a group of 13 farmers in 2010.

Middeldrift supplies approximately 4.2 million litres of fresh milk to Coega dairy on a yearly basis and turns over about R19 million per annum. The business benefits 2 140 beneficiaries from the local community. The milk is processed into UHT milk as well as butter products.





Pyratrade (Pty) Ltd is a company that has erected a castor oil processing plant. The factory is located in Hammarsdale, KwaZulu-Natal in Sperwing Industrial Park. An existing building has been converted to the specification of the processing plant.

The business is owned by the Sandstone Trust (70%) and the Emerging Castor Bean Producers Trust (30%). The factory has a capacity to process 4 200 tons of oil per year (350 tons of oil per month). This equates to approximately 8 000 tons of castor beans per year (660 tons per month) supplied by the black emerging farmers in KZN. At full capacity, the factory employs 22 people per shift and runs two shifts at full capacity.

The business exports all its semi-processed oil to the UK and has signed an off-take agreement with WS Lloyds and sold at R15 000 per ton. The oil is then processed into a final castor oil product ready for consumption.

Greenbuds Logistics (Pty) Ltd ("Greenbuds") is a fresh produce processor and distributor that was founded in 2007 and began operating in 2012. It is located in Valkop Luka-Phokeng, North West Province. The business provides processed fruit and vegetables to over 13 active clients primarily within the North West region, including hotels, mining companies and schools in the region. They source raw materials from approximately 200 emerging and commercial farmers in the North West and Gauteng, as well as from the Joburg and Tshwane markets. Greenbuds approached the NEF (through the Black Industrialist Funding Forum) to fund the upgrade of its factory in Rustenburg in order to comply with the requirements of the Hazard Analysis and Critical Control Points ("HACCP") system and to purchase new plant and equipment. The total project size amounts to R36 million. The anticipated total number of jobs post-funding will amount to 52 direct jobs and 2 000-3 600 indirect jobs

## IV. REAL ESTATE



The Gordon Institute of Business Science undertook research on understanding of the economic environment within rural areas and townships in 2016. The purpose of this study was to understand what research has been done on strategic interventions to revitalise both the rural and township economies, as well as to make recommendations on how to bolster current revitalisation efforts. The literature reviewed has shown a bias towards the retail SMME sector within townships at the expense of wholesale and manufacturing, which, along with retail and due to their symbiotic nature, are a necessity in order to have truly thriving rural and township economies. Further, the rural economy needs to be taken cognisance of if the imbalances of the past are to be addressed, and some of the issues currently faced in townships are to be addressed.

The investment in this sector has a lot of spin-offs and has created a number of SMMEs in the franchising space. For each shopping centre, there is a huge opportunity of franchising, which the NEF has taken full advantage of. This is one of the most successful investment spaces in the rural and township economy that still has a huge potential to grow.





Umlazi Mega City – The communities of Umlazi and Lamontville townships in KZN, represented by Sizovuna Investments, acquired a 25% stake in Umlazi Mega City Shopping Centre with NEF funding of R51.8 million. We have since been exited by the Community. Created value of R100 million for the community post-NEF exit.

NEF realised an investment return of 11%, approximately R90 million. This genuine B-BBEE deal is delivering substantial social returns to community beneficiaries at large, including job creation and skills development.

Orange Farm – In the peri-urban area of Orange Farm, in Gauteng's Johannesburg south, the NEF has approved R50 million to support 19% upfront community ownership of a regional shopping centre measuring 39 000m<sup>2</sup>. 46% of the shops will be let to black tenants in a mall whose commercial viability is based on 80% confirmed leases. Between 20% and 30% of the project value will be spent in the Orange Farm area, and retail store opportunities.

The NEF and Pick n Pay Partnership as an instrument that fosters the township economies. Below are a list of transactions concluded with Pick n Pay, as part of the Pick n Pay conversion program:

The NEF and Pick n Pay Partnership as an instrument that fosters the township economies

Pick 'n Pay Conversion Programme				
Name of Investee	Location	Amount Invested	Jobs Created	Women Shareholding
Something Nice	Cape Town, WC	1 730 000	22	49%
BVN Market Store	Mohlakeng, GP	1 430 000	16	0%
Matlala's Market Store	Thokoza, GP	1 550 000	22	0%
Eden Park Market Store	Edenpark, GP	1 395 000	14	100%
<b>TOTAL</b>		6 105 000	74	

An example of investment in the township economy is the partnership the NEF has established with Pick n Pay in a multi-million project that will change the face of micro-businesses and turn them into viable businesses that compete with established retailers in the townships.

The Pick n Pay Conversion Programme is an innovative initiative, which involves the retail chain investing grant funding of up to R500 000 in the upgrading and refurbishing of Spaza shops, connecting them to Pick n Pay systems (including linking them with the chain retailers' group suppliers at preferential rates for stock), providing initial stock and providing business

mentorship. The programme creates a unique townships experience. What makes this programme unique is that all store owners remain 100% independent while they continue being supported through an established Pick n Pay systems and processes. The NEF, Old Mutual (through its Masisizane Fund) and Brimstone are co-funding the programme.

## E. Women Empowerment Fund

The purpose of the Women Empowerment Fund, established in the financial year 2014/15 is to accelerate the women economic empowerment through the provision of funding to businesses owned by black women. Finance will be provided from R250 000 to R75 million across the whole of the NEF existing product suite described above. A minimum of 51% black female ownership is a main criterion. Black

women have to be operationally involved at the managerial and board levels. Other empowerment dividend pillars have to be considered.

Examples of transactions funded under this Fund include:

The NEF is currently developing a project in partnership with 2 black women to build the first manufacturing plant for production of dialysers. This project is in financial close. Since inception, the Venture Capital Fund has invested R580 million in transactions that are now operational, leveraging a total of R4.78 billion in private funding from commercial banks and private equity funding, and in the process creating over 8 000 new jobs.

L&R is 100% black woman-owned company based in Meyerton, Gauteng. The company has experience in construction with the primary focus being social housing. L&R has a CIDB grading of 8GB PE and 7CE PE. The business has over a period of time completed projects of over R322 million.

The combined experience of its staff allows L&R to cover a wide range of activities on the contracts that have been awarded to the entity. L&R has a track record and the capacity to deliver on any project it manages, which includes, building; construction and concrete supplies services in the open market. L&R is an award-winning entity and it has been the recipient of the Govan Mbeki Best Women Contractor Award in the North West Province. It has also been awarded Best Women Contractor for 2015 and 2016 in the Eastern Cape.



## 8.2.2. Growing BEE Through Partnerships

The NEF has been growing, and will continue to make an effort to grow BEE, by partnering with various stakeholders to leverage on funding opportunities to fund NEF investees. The stakeholders include, but are not limited to, Enterprise Development (ED) funders and Venture Capital Companies (VCCs) as discussed below:

### A. Enterprise Development (ED)

The NEF continuously looks to foster strategic partnerships that unlock third party capital that can be deployed to applicants/investees along with the organisation's own unencumbered capital. To date the NEF has leveraged third party funding amounting to R8.8 billion (made up of both the ED funds and funds from commercial lenders/other DFIs).



The NEF is currently in partnership with various stakeholders, which are from both private and public sectors, for the purpose of crowding in capital. The ED partners are tabled below:

The ED partners are tabled below: -

No.	Funder	Launch Date	Total Funds Received	Primary Objective of Fund
1	Daimler Chrysler SA	September 2011	R4 800 431	To empower two former employees of Chrysler to start their own business
2	Dept. of Economic Development (WC)	August 2012	R40 302 775	Co-funding black entrepreneurs in the Western Cape
3	Bakwena Ba Mogopa	November 2012	R5 000 000	Co-funding black SMMEs in the North West
4	Evrax Highveld	December 2012	R2 000 000	Co-funding black SMMEs participating in the steel and Vanadium value chain in Mpumalanga
5	Transalloy	December 2012	R250 000	NEF to provide funding on a 60:40 ratio to black suppliers participating in the ED Gas supply chain in Emalahleni
6	Intersurgical	December 2012	R400 000	Co-funding black entrepreneurs in the Intersurgical value chain
7	ED Gas	December 2012	R350 000	Co-funding black entrepreneurs in the ED Gas value chain



No.	Funder	Launch Date	Total Funds Received	Primary Objective of Fund
8	BPSA	February 2017	R53 000 000	Support black entrepreneurs to acquire filling stations
9	Bakgatla Ba Kgafela	March 2013	R5 000 000	Provide financial and non-financial support for SMMEs and entrepreneurs in the community
10	Department of Rural Development and Land Reform	March 2016	R583 222 4245	Support farmworkers to become landowners
11	Department of Arts and Culture	September 2016	R75 000 000	Unlocking business opportunities in the arts and heritage sectors
12	Department of Tourism	March 2017	R80 000 000	Tourism Transformation Fund (TTF)
13	Nissan South Africa	March 2016	R5 305 900	Allocate business vehicles to black entrepreneurs
14	Transnet Port Terminals	April 2019	R15 000 000	To empower SMEs operating within the Transnet value chain
<b>Total</b>			R869 631 531	

On 6 December 2019 the NEF launched a partnership agreement with the City of Ekurhuleni (CoE) through which the two institutions will commit a total R300 million over the next 3 years, for the purpose of providing financial and non-financial support to black entrepreneurs conducting business within the City and those conducting business with the City. This historic partnership comes on the back of the great work the NEF has undertaken over a period of time as a partner trusted by many across the public and private sectors to help propel enterprise and supplier development.

The Municipality and the NEF will each contribute R150 million to the partnership. Through the "Fetola Enterprise Development Fund", whose name derives from the SeTswana word for transformation, the two institutions will provide funding from a minimum of R250 000 to black-owned SMEs as well as potential industrialists for employment-generating inclusive growth. The Fund will be administered by the NEF. Under the Fetola Fund, entrepreneurs will receive 50% of their funding requirement through the regular NEF funding criteria and the balance through the contributions received from CoE. CoE contributions will be priced at concessionary rates of between zero and 5% fixed interest rate. Funding under the partnership will be provided to applicants qualifying for NEF financial support where commercial viability of the project has been proven. The Fund will focus specifically on majority black-owned enterprises that are commercially viable and sustainable, as guided by the NEF due diligence processes, unlocking investment support in key sectors for new and established black-owned businesses.





The NEF continues to explore more ED funding partnership opportunities to diversify its source of capital and maximisation of Empowerment Dividend. The NEF is currently in talks with 5 partners to raise over R180 million.

## B. Alternative forms of third party funding

As mentioned above, SPF is a project development and Venture Capital Fund that targets projects that are in alignment with the Industrial Action Policy Plan and the National Development Plan. As per the description of venture capital given above, SPF projects typically have exponential growth potential, which is cemented by following strict project development processes to advance projects from concept stage to financial close.

Most of these projects are at financial close already and would require capital of over R1.6 billion. Due to limited funding resources at the NEF and the prudential limit of R75 million per transaction, the SPF investment team has endeavoured to identify alternative methods of raising capital for projects. The capital raised will supplement the funds invested by the NEF in the earlier stage to fully commercialise and grow these projects. To that effect, VCCs were identified as another form of leveraging additional funding.

### Venture Capital Companies

Venture Capital Companies ('VCC') are special purpose vehicles that have been identified by the South African government as tools that can stimulate economic growth by investing into small businesses. These companies are a response to Section 12J of the South African Income Tax Act, which was promulgated in 2009 by Treasury as a response to the limited equity finance pool for small and medium businesses and junior mining companies. These companies are different from standard venture capital firms in that they offer added advantages to investors. These advantages are in the form of tax breaks that are in proportion to the amount invested.

A number of regulatory conditions are in place to ensure compliance and limit abuse of these types of companies. One such condition is that a company cannot invest more than R50 million into any project.

### Application to SPF projects

The NEF can appoint an asset management firm that will register and manage a VCC on its behalf. The SPF investment team and asset management company can make efforts to find investors that will invest their funds into the VCC for a minimum period of 5 years. The asset management firm will receive management fees that will be a fraction of the total funds raised.

A VCC can invest R50 million in equity into any of the SPF projects that are at financial close. Should the project require more than R50 million, another VCC vehicle will be used to fund the balance. The number of VCCs managed by the asset management firm will depend on the quantum of funding required by different projects in the portfolio.

The invested funds will remain in the project until the business has grown substantially and the VCC is ready to divest to a new investor or until the business lists on a stock exchange. The retrieved funds will thereafter be disbursed back to individuals/corporates who invested into the VCC. The NEF can remain a part of the project at this point or exit following the guidelines of the Exit Framework.

## 8.2.3. Maintaining Financial Sustainability

Maintaining financial sustainability remains one of the key objectives of the NEF. In order to achieve this the NEF has to maintain a delicate balance of achieving its developmental mandate while ensuring that the key financial matrix, for example impairments to book and ROI, remain within their targeted range. In addition, the NEF will continue to evaluate exposures/assets within its balance sheet, which can be more effectively managed so as to reduce volatility in earnings.

In order to maintain financial sustainability, the NEF will focus on the following key areas:

- Reduction of impairments
- Improved collections
- Enhancement of the NEF's ROI and management of the cost-to-income ratio





## A. Reduction of Impairments

Currently the NEF has an impairment to book ratio of 24%, which is outside the targeted range of 18%. It's currently at these levels as a result of a settlement of a significant account, which led to the reduction of the loan book and a slowdown in economic activity in South Africa, which has affected the businesses of our investee companies. Over the medium to long term the NEF will embark on the initiatives below in order to reduce overall impairment levels.

### Short to medium term

- Increased focus on high-value approved transactions of + R20m
- Monthly client management meetings to discuss challenges and solutions
- Monthly impairments management meetings to discuss movements and high-value impairments
- Linkage of clients and ensure market access for SME clients through various interventions
- Revise business model if need be and ensure its successfully implemented
- Quarterly meetings with TWR and LSU with regards to urgent interventions
- Revaluation of underlying collateral when clients fall into arrears or are in financial distress

### Long term

- Ensure that clients are managed as per original approved terms and/or revised one
- Seek technical equity partners for some of the transactions
- Reduction of the time taken to collect amounts that are in arrears

The current NEF impairment models utilise International Accounting Standards 39 as a basis, with the introduction of the newly adopted International Financial Reporting Standard 9 expected to result in higher volatility in impairments, management will endeavour to ensure that this volatility is minimised as much as possible, when this new standard is adopted.

## B. Collection Ratio (short to long term)

The NEF intends on collecting a total of R2.1 billion over the MTEF. This collection target is a combination of normal collections (as a result of the natural amortisation of the loan book) and extraordinary collections as a result of the NEF proactively seeking exits/settlements where it is deemed commercially viable to do so. The collection efforts will further be enhanced through the following initiatives:

- Monthly monitoring of clients during moratorium and/or reduced instalment period;
- Encourage early settlement for amortised loans;
- Value enhancement on equity transactions and pursue dividends in equity transactions; and
- Convert patient instruments so that clients can start with repayments.

## C. Return on Investments and Cost to Income

The current ROI on the NEF's assets is 9.34%, with the NEF targeting a ROI of between 9% and 10%. In the short to medium term the NEF intends on maintaining its ROI within the targeted range. This will be maintained as a result of the following initiatives:

- Maintaining an appropriate risk-adjusted pricing on newly approved loans; and
- Encouraging the funds to disburse funds earlier in the financial year to enable the NEF to earn interest for a longer period during the year.

The NEF has a targeted cost-to-income ratio range of between 54% and 58%. In the short to medium term this target range is expected to be maintained through management implementing cost-saving measures, which will ensure that, from an operational perspective, the NEF continues to fulfil its mandate while ensuring that the growth in operational costs is maintained at CPI + 1%.

### 8.2.4. Human Capital Plan

The Human Resources (HR) department plays a critical role in supporting the business strategy, in that HR provides an enabling environment and serves as an enabler of people development and ensures that its processes and procedures sufficiently motivate staff so that they can deliver the required standards and outputs.

The HR department through various interventions, will ensure that employees are actively engaged and contribute to the refinement of its service offering and thus positioning the NEF for success in achieving its mandate. The department does this by:

- Delivering business results through an integrated people-centred strategy, that supports employees by providing training and development opportunities;
- Attracting high-calibre and suitably qualified candidates who are fit for purpose;
- Utilising a pay-for-performance remuneration structure which ensures that key and top talent is retained at the NEF; and
- Ensuring that exceptional performance and potential remains a major yardstick with which performance and ultimately succession planning and talent management is measured, albeit there are other key factors that assist in determining the suitability of the targeted employees.

Underpinned by the NEF's core values, the organisation strives to position itself as an employer of choice. Broadly, the NEF:

- Offers a rich, rewarding and fulfilling career for its employees;
- Embraces diversity in its employees by creating an environment that allows for inclusivity, thereby increasing the levels of employee engagement;
- Offers support and assistance to staff to improve their skills, qualifications and expertise;
- Offers a unique mandate that is appealing to its employees and ensures that they remain engaged all the time;
- Has employees that are young, vibrant and dynamic that go beyond the call of duty for their clients;
- Ensures that the wellbeing of its staff is taken care of and has employee-friendly HR policies; and
- Provides an enabling environment for its employees to thrive in their jobs.



The NEF has, despite operating with limited human capital in the last four years, managed to meet and exceed its annual targets. This situation is, however, unsustainable and has to be speedily remedied as soon as the recapitalisation issues are resolved. This will ensure that the full potential of the organisation is realised as operating processes are already established and tested to allow even higher achievements.

## 8.2.5. Non-Financial Support

The NEF provides non-financial support through four of its business units, specifically:

- The Pre-Investment Unit, which provides the first line of non-financial assistance to prospective investees. The unit provides support to applicants seeking funding, in addition to entrepreneurial development training. The three key elements are:
  - 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 who have an idea that is at an early stage; is not ready for funding and therefore needs nurturing.
  - Entrepreneurial training, which is targeted at entrepreneurs who require capacity building and enhancement in running their fledgling businesses.
- The Post-Investment Unit, which manages the investment portfolio management through monitoring of investee operational performance, credit control and collections and assists investees with mentorship and training.
- The Turnaround, Workout and Restructuring Unit, has been a key addition complementing the services of the Post-Investment Unit. Its purpose is to provide support to investee businesses that are experiencing operational and financial challenges. This team works together with the entrepreneurs in assessing and restructuring the financial and/or operational aspects of the businesses.
- The Socio-Economic Development and Asset Management Unit, which facilitates social interventions in transactions with broad-based groups or communities; fosters a culture of savings and investment among its beneficiaries through such programmes as the national investor education programme. It also identifies opportunities for beneficiaries in transactions and assists in developing market linkages.

## A. Empowerment dividend

The NEF measures and assesses its impact not only on the basis of financial return, but in accordance with what is referred to as the Empowerment Dividend which is the socio-economic impact of the NEF's investment activities, as provided for in the Broad-Based Black Economic Empowerment Act.

The elements of the Empowerment Dividend are measured as follows:

- Contribution to Broad-Based Black Economic Empowerment – The NEF assesses each transaction against the results of the B-BBEE scorecard, before and after funding, to ensure that each transaction contributes to the advancement of B-BBEE.

- Participation by black women – The NEF emphasises the empowerment of women by providing for an additional weighting for black women participation.
- Job Creation – Contribution towards employment creation and the number of jobs created per rand invested or jobs sustained through investment in expansion type activities.
- Investment in Priority Growth Sectors – The number of investments facilitating black ownership and control of existing and new enterprises in the priority sectors of the economy as identified by the IPAP and the National Development Plan.
- Geographic Spread – Geographic spread of investments and contribution towards increased economic activity across all provinces, particularly in areas of regional economic disadvantage.
- Investment Return – The real return that each Fund realises on capital employed, after the impairment ratios experienced for that fund, as a combined measure of debt, equity and quasi-equity invested.

## B. The NEF's Target market

The NEF provides funding to black entrepreneurs for start-up and expansion companies as well as for acquiring equity in existing white-owned businesses in line with the transformation objectives of B-BBEE. The target market is further segmented into the following tiers:

- Black individuals and groups with significant operational experience and an extensive investment portfolio and accumulated capital (Tier 1).
- Black individuals and groups with operational experience, which could include having concluded a limited number of BEE transactions. This sector typically has limited accumulated capital with existing Investments still encumbered / "not in the money yet" (Tier 2).
- Black individuals and groups with limited business or entrepreneurial experience (Tier 3).

## C. Challenges faced by the target market

In bridging the economic divide, the NEF strives to address the following market failures:

- Limited own capital;
- Poor quality of business plans;
- Lack of accurate and reliable financial information;
- Limited management skills, including financial, marketing and technical expertise;
- Lower bargaining power and strong competition from established businesses with entrenched market dominance;
- Inadequate access to affordable capital; and
- Lack of access to international markets.

In response to these challenges, the NEF's financial and non-financial services assist the target market.



## 9. NEF situational analysis

### 9.1. External factors

South Africa's business conditions have deteriorated significantly over the recent years. This is reflected by the Business Confidence Index (BCI), which fell to 21 in the third quarter of 2019 – well below the 50 midpoint. Such low levels were last seen during pre-democratic elections in South Africa. Economic output is projected to slow globally and South Africa is no exception. The country's growth trajectory remains depressed owing to low confidence levels, domestic investment, high unemployment, subdued demand and structural challenges.

During the third quarter of 2019, South Africa reported a contraction of 0.6 percent, following a growth of 3.1 percent in the second quarter of 2019. According to SARB the 2020 growth forecast has been revised downward to 1.2%. The country's debt level is amongst the most pressing issues facing the government. Net debt of R2.52 trillion was reported in the 2018/19 budget year and it is projected to rise to R3.03 trillion in 2020/2021, which is 52.2% of the GDP. The economic inequality gap has widened 25 years in to the democratic dispensation. It is clearly reflected in the high unemployment rate as it stood at 38.2% for Blacks, 23.5% for Coloureds, 13.3% for Asians and 7.4% for Whites.

With the subdued economic performance, SMEs suffer the most impact as they are confronted with reduced demand for their products/services and extended payment delays from their customers, resulting in cashflow constraints for the business. The downfall of SMEs will exacerbate the unemployment crisis in South Africa as SMEs are known

providers of high employment. Thus, for NEF and other DFIs, it can no longer be business as usual and it has become paramount to employ rigorous strategies to assist with the sustainability of SMEs. Concerted efforts need to be made by the NEF and other DFIs to stimulate increasing levels of entrepreneurship through extending affordable and patient capital to both existing and potential NEF clients. Further to this, there is a need to intensify non-financial support such as creating market linkages and assisting SMEs in negotiations for better payment terms with larger customers (especially government institutions) to yield faster settlement of invoices.

### 9.2. Internal factors

The National Empowerment Fund (NEF) is plagued with lack of capital, prohibiting the previously disadvantaged to enter into industries with high capital requirements, such as revitalisation of township and rural economies, tourism, property and student accommodation, agro-processing, the fourth industrial revolution, and the media and creative industries. Financial resources rank as the top enabler for the Trust to deliver on its mandate of promoting and facilitating ownership of income-generating assets by previously disadvantaged people.

The NEF was established with the intention of being capitalised with additional funds over the first few years of operation, however, the Trust only received a once-off R2.4 billion and no additional funds over the past 10 years. Lack of sufficient financial resources has put a huge constraint on the ability of the Trust to function at optimal level, resulting in a slow pace of transformation on the production side and ownership of the economy. This has also been exacerbated by the high-risk nature of clients that the Trust services – the risk is evident by the resistance of commercial banks to finance such business ventures.





## 9.3. Analysis of Strengths, Weaknesses, Opportunities and Threats (SWOT)

A brief summary of the NEF's strengths, weaknesses, opportunities and threats is listed below:

### NEF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)

#### STRENGTHS

- Pioneering SME finance.
- Innovative and solutions-based products.
- Institutional and operational maturity.
- Non-financial support provided. Deliberate intensive post-investment interventions.
- Provision of tools that stimulates entrepreneurship.
- Ability to structure retail offers.
- Ability to develop and conclude early-stage projects.
- Technically strong, experienced and committed staff.
- Established portfolio with lessons learnt database.
- Continual implementation and maintenance of a strong environment
- of corporate governance and ethical culture.
- Maintenance of clean (over 16 years) annual audit reports from the Auditor General.
- Championing advocacy and thought leadership on B-BBEE.

#### OPPORTUNITIES

- Opportunity to contribute towards job support and creation.
- Contribute to closing the gaps in the economic value chain.
- Support of agriculture and other priority sectors.
- Facilitating FDI into South Africa through SPF projects.
- Facilitation of Exports from SA into the continent.
- Potential to contribute to localisation through new venture development.
- Leading public discourse on transformation.

#### WEAKNESSES

- Need to be recapitalised in order to continue fulfilling mandate.
- Low approval rate due to need to balance between the development mandate and the need for sustainability.
- Need to improve efficiency of information systems.

#### THREATS

- Inability to secure additional capital.
- Lower consumer and investor confidence.
- Slow pace of transformation across the economy.
- B-BBEE being viewed as a stand-alone policy with organisations only complying with minimum requirements.
- Potential gearing of the balance sheet could increase the cost of funding for investees.
- Potential loss of key staff.





## 10. Key programmes aligned to government priorities

### 10.1 Alignment to the National Development Plan

*"Employment scenarios prepared by the Commission suggest that most new jobs are likely to be sourced in domestic-orientated businesses, and in growing small- and medium-sized firms."*

*(Page 39, National Development Plan)*

Enabling milestones listed in the National Development Plan to which the NEF can contribute include:

- Increasing employment from 13 million in 2010 to 24 million in 2030.
- Broaden ownership of assets to historically disadvantaged groups.

By focusing on its mandate, which is to promote and facilitate black economic participation in the economy, the NEF is able to contribute towards the transformation of the economy. In particular, the NEF can contribute towards the achievement of these milestones by contributing to the creation of employment through the financial and non-financial support of entrepreneurs.

Through the funding of sustainable local black-owned ventures, the NEF would be actively contributing towards supporting local, black-owned, small and medium-sized enterprises, and in doing so, supporting the job creation abilities of these firms. The NEF also strives to contribute towards the promotion of labour-absorbing industries by funding transactions in the priority sectors. In addition, the funding provided by the NEF can support local business and contribute towards attracting funding from private investors through co-funding arrangements.

The NEF is able to contribute towards the creation of an integrated rural economy through its Rural & Community Development Fund, which focuses on funding agricultural projects in rural areas. In doing so, the fund contributes to the development of rural economies, as well as the development of agriculture and agro-processing and tourism in rural areas.

Through the continuation of its Investor Education Programme, the NEF endeavours to inculcate a spirit of entrepreneurship, as well as savings and investment.

### 10.2 Alignment with the dtic strategy outcomes

In ensuring that the strategic outcomes and objectives of the DTIC and the NEF are aligned, the NEF has selected the following strategic outcomes/objectives of the DTIC, which align with the NEF's mandate:

- Implement transformation through EE and B-BBEE
- Increased number of Black People that participate in the mainstream economy
- Grow the manufacturing sector to promote industrial development, job creation, investment and exports
- Township and rural economies' development initiatives facilitated





## 10.3 Measuring our impact:

### Impact statement

The development, promotion and implementation of innovative investment and transformation solutions to advance sustainable black economic participation in the economy. This resulting in the creation and support of a number of job opportunities

In pursuance of its mandate, which align with the above dtic strategic outcomes or objectives, the NEF has chosen the following key performance areas to meet over the next five years:

No.	Outcome	Outcome Indicator	Baseline 2014–2019	Five Year target 2020–2025
1.	Growing black economic participation in the South African Economy and job creation	Percentage of disbursements to targeted provinces (NC, FS, LP, MP, NW, EC)	33%	25%
		Value of deals approved	R4.4 billion	R3.5 billion
		Value of commitments	R3.9 billion	R2.6 billion
		Value of disbursements	R2.9 billion	R2.1 billion
		Percentage of portfolio disbursed to businesses owned by black women	35%	40%
		Number of job opportunities expected to be supported or created	51 092	12 916
2.	Growing BEE through partnerships	Value of partnerships concluded	R295 million	R560 million
		Maintain Brand Awareness of 90%	87%	90%
3.	Non-Financial Support	Number of entrepreneurs referred for incubation and number of entrepreneurs who successfully complete business incubation	490 and 118	700 and 150
		Number of investor education seminars held across the country	271	225
		Number of entrepreneur business training sessions provided	190	225
		Number of Social Facilitation Sessions for NEF investees	184	170
4.	Maintaining Financial Sustainability	Percentage of portfolio impaired	20.33%	18%
		Percentage of ROI before impairments	9%	9–10%
		Portfolio collection ratio	91%	80%





## 11. Financial Plan

The NEF's strategic objectives are detailed in section 6 of this Plan, and detailed Financial Projections are provided in Appendix A.

The financial projections were compiled on the back of the reduced core targets (approvals, commitments and disbursements), with the intention of ensuring that the NEF continues to be a going concern. In addition, the projections were based on the following key assumptions:

- CPI inflation forecast of 5.1% in FY2021 and an average CPI forecast of 4.9% over the forecast period. These are as per the National Treasury's MTEF guidelines;
- Portfolio provisions on average of 17% during the total forecast period;
- Interest earned on surplus cash 6.4%
- Approvals of R4.1 billion between FY2020 and FY2025;
- Capital raising fee of 1% on disbursements

### 11.1. Projections of revenue, expenditure and borrowings

The NEF is currently engaged in a recapitalisation discussion with its Shareholder Ministry, Government and other relevant stakeholders. The projections in this section have been revised in line with available resources.

Revenue projections include interest on loans and investments, interest on cash in bank, dividend income from listed and unlisted equity investments, raising/origination fees and enterprise and supplier development contributions received. The interest on loans is projected at rates based on the pricing policies of each fund and the interest rate projections over the entire investment portfolio. The majority of the NEF's loan instruments are priced utilising prime as a reference rate, with the current return on investment on these loans being 9.34%. Fees are projected at 1% of funds disbursed each year.

Interest on cash in the bank is projected at an average rate of 6.27%, which are the projected rates achieved on money invested with the South African Reserve Bank and on the call facility with Standard Bank.

Dividend income is particularly difficult to predict/project as these are linked to different dividend policies of the NEF's investee companies. The NEF has a portfolio of listed and unlisted investments, the majority of which relates to the MTN shares allocated to the NEF by Government. The dividend projections included in the overall revenue is therefore based on our historic trend and best estimate of what the NEF could receive each year.

The Net Asset Value of the NEF has increased from the initial R2.4 billion to just over R4.2 billion as at financial year end 2018/19. This overall increase over the period has largely been a factor of appreciation in fair value of the NEF's listed investment portfolio and retained earnings as the loan book has grown over the years; however, material unrealised fair value losses on listed investments have been reported in the last five financial years, as a result of the decline of MTN's share price from a high of R240 per share, on the 24th of April 2015, to R82 per share on the 31st of December 2019. This represents a 66% decline in the value of MTN, over the five-year period, which is a significant asset on the NEF's balance sheet, comprising 19% of the total assets.

Total Expenditure (i.e. including funding for non-financial services offered by the NEF) has been in line with the NEF's activities and targets. Operational expenditure includes general, administration and employee costs. Apart from office rental and salaries, all operational expenditures are budgeted for from a zero base. The overall methodology applied when budgeting for operational expenditure is largely linked to the organisational targets and activities. The NEF has continued with a targeted critical role recruitment drive since the lifting of the funding moratorium in 2014.

The NEF also embarks on various projects in line with the mandate as per the NEF Act (i.e. non-financial support services) for which specific budget allocations are required. To this end an average of R16m per







annum has been budgeted for over the next three years. These projects are Investor Education road shows, entrepreneurship development and training, back office services for SMEs, mentorship support, and coaching for investees.

Over the strategic period, the cost-to-income ratio is forecasted to breach the intended long-term range of 54%-58%. This is mainly as a result of reducing income from both investments as a result of lower available capital for investments and dividend receipts (mainly from MTN) over the period. In addition, non-financial support activities which are mandatory to the NEF are currently not subsidised. In the event that the NEF gets transfers from the dtic to fully fund the non-financial services we currently undertake, the cost-to-income ratio could be brought down from an average of 86% and maintained around 82% over the course of the strategic period which is closer to the long-term range.

## 11.2. Asset and liability management

The NEF, as a Schedule 3A entity under the PFMA, is required to operate fully on the basis of not budgeting for a deficit. Investment activity is funded out of cash balances and thus all liabilities will at all times be offset by cash balances.

Excess cash is managed through a cash management process where short-term cash is invested in call accounts of three approved banks to meet short-term cash requirements and excess cash with the South African Reserve Bank in terms of the requirements of the PFMA.

In an attempt at better managing excess cash, the NEF is exploring the option of implementing an inhouse or outsourced treasury function, with the intention of better managing excess liquidity held, which will

result in the NEF earning additional risk-adjusted returns on its surplus cash. This initiative would entail implementing the necessary treasury policies, processes and controls in order to apply for the necessary exemption from the National Treasury.

## 11.3. Cash flow projections

Please refer to Appendix A.

## 11.4. Capital expenditure and infrastructure plans

Annual capital expenditure allocation is mostly related to replenishment of existing capital expenditure items such as computers, furniture and office equipment. The NEF further plans to enhance its IT environment and platforms over the medium period. The total allocation for capital expenditure over the forecast period is R14.7 million.

### Infrastructure plans

The NEF does not directly fund infrastructure for itself or the country as part of its mandate though there may be an element of infrastructure funding provided through projects funded by the Strategic Projects Fund that is a specific requirement of that project and in line with national targeted strategic sectors.

## 11.5. Dividend policies

The NEF does not have a dividend policy with respect to any surplus reported. Surpluses are retained following a Section 53(3) application to the National Treasury each year in order to meet further capitalisation needs of the NEF since it is not currently on the MTEF.



# 12. Risk Management and Fraud Prevention Plan

## 12.1. Risk Management Framework

The NEF's Risk Management Framework is based on Committee of Sponsoring Organisations of the Treadway Commission (COSO), Institute of Risk Management Standards of South Africa (IRMSA) Code of Practice and PFMA & Treasury regulations.

The ERM (Enterprise-Wide Risk Management) methodology of the NEF consists of the following interrelated components: internal environment, objective setting, risk identification, risk assessment, risk control and response, risk monitoring and reporting, and risk performance measurement. These components are derived from best practice with respect to ERM governance.

The Framework is continuously benchmarked against best practice such as the International standard on Risk Management (ISO 31000) and KING IV; and where required, relevant changes are made to the Framework. The Framework was benchmarked to the updated COSO Framework and relevant changes were made to the NEF Risk Management Framework.

The Risk Assessment process results in the output of the risk universe, allowing key risks to be identified. The Risk Assessment exercise is completed on an annual basis and divisional risk registers are updated on a quarterly basis to identify any emerging risks and track progress.

## 12.2. Risk Strategy (Risk Register)

The realisation of the strategic objectives presented by the NEF may be affected by the following key risks:

### A. Recapitalisation Risk

The risk that the NEF will not be able to raise sufficient capital to fund the NEF's short- to medium-term investment and operating activities.

Without an injection of new capital, the NEF estimates that it will run out of capital to finance new transactions within the next six months. The lack of adequate capital will also negatively impact on the NEF's ability to follow through on participation interest or equity options for transactions within the NEF's Strategic Projects Fund. This will have a negative impact on the achievement of the NEF's mandate and the ability to transform the economy.

The NEF has obtained approval by the shareholder ministry to become an Arm's-length subsidiary of the IDC. IDC has also approved interim funding of R500 million. Various other initiatives are underway regarding resolving the issue relating to the recapitalisation of the NEF i.e. exploring strategic partnerships with other entities to co-fund transactions. The NEF is also undertaking fundraising initiatives for the Strategic Projects Fund transactions.

### B. Concentration risk in MTN

The shareholding in MTN comprises a significant component of the NEF's Balance sheet. The decline in share price of MTN has a significant impact on the NEF's asset base as it has reduced from R2.2 billion to R834 million in the last 5 years. Management is evaluating possible options to manage the volatility of this strategic asset.

### C. The inability to attract and retain key skills

The risk that the NEF does not have adequate capacity and skills to deliver on its mandate. There is a risk of loss of key personnel due to the uncertainty regarding the delay in implementation of the recapitalisation process. There has recently been an increase in resignations at management and professional level, 36 personnel with an accumulated experience of 431 years.

Management and the Board are, however, currently limited on implementing viable retention strategies due to lack of certainty regarding future funding. Various non-monetary options are currently being explored as retention strategies.

### D. Business/Market Risk: The risk that changes in external market conditions have a negative impact on the viability of funded transactions.

The investment portfolio of the NEF consists of businesses in the commercial environment that are susceptible to normal business risks in a volatile economic environment, fluctuations in commodity prices and foreign exchange rates amongst other variables. The current volatile local economic environment has led to significantly lower GDP growth rates. In addition, household personal finances are under financial strain due to an increase in living costs. This is negatively impacting on business conditions and has placed strain on some of the clients in the portfolio.

The NEF portfolio is arguably more susceptible to these variations given the nature of the businesses being supported i.e. early-stage business, inexperienced entrepreneurs, geared balance sheets and hence not as able to absorb the impact of these fluctuations as well as more established businesses.

In evaluating transactions, market conditions are considered, due diligence investigations, modelling and structuring of transactions by the deal teams. In addition, a regular micro- and macro-economy sensitivity is undertaken by our Post-Investment Unit and NEF-appointed mentors are used to promptly advise NEF investees on appropriate course of action.



## E. Credit Risk: Unsustainable levels of impairments

The NEF is mandated to intervene in the economy through the provision of funding to black-owned enterprises, which due to past economic imbalances, may be of a higher credit risk. This risk is exacerbated by the current tough economic climate that may impact on funded businesses and their cashflows leading to the inability to honour loan repayments and possible defaults on loans to the NEF.

Internally, the risk that the assessment processes of the NEF may not be able to inform appropriate investment decisions does exist, as does the risk of not collecting on amounts due and not being able to timeously identify distressed investments, which may be able to be rescued. The risk of funding the wrong "jockeys" impacting on the performance of investments and the portfolio also exists. Inadequate controls mitigating this risk may negatively impact on the performance and quality of the portfolio.

The controls introduced to attempt to mitigate this risk include:

- Appointment of skilled fund management teams.
- Due diligence investigation processes that include background checks.
- Adequately constituted and efficient approval structures.
- Portfolio management, monitoring and reporting processes.
- Use of pricing models according to a pricing policy which compels consideration of credit risk.
- An independent credit risk assessment process by the Risk Division.
- Credit collection process managed by collaboration between the Post-Investment Unit and the Finance Division.
- Adequate turnaround workout and restructuring process.

A Credit Risk policy has been approved by the Board to enhance the Credit vetting process at the NEF.



Below is a summary of the key risks and mitigants that the NEF faces and has put in place:

Outcome	Key Risk	Risk Mitigation
Growing black economic participation in the South African Economy and job creation	<ul style="list-style-type: none"> <li>• Recapitalisation Risk.</li> </ul>	<ul style="list-style-type: none"> <li>• NEF to become Arm's length IDC subsidiary</li> <li>• R500 million facility has been approved by the IDC</li> <li>• Co funding of transactions</li> <li>• 3rd party funding sought for SPF transactions</li> </ul>
Financial sustainability	<ul style="list-style-type: none"> <li>• Concertation risk MTN</li> </ul>	<ul style="list-style-type: none"> <li>• Appointment of Corporate Finance advisors to explore options available in respect of this exposure</li> </ul>
Human Capital	<ul style="list-style-type: none"> <li>• Attract and retain key skills</li> </ul>	<ul style="list-style-type: none"> <li>• Various non-monetary retention strategies have been implemented by management and NEF board</li> </ul>
Financial Sustainability	<ul style="list-style-type: none"> <li>• Business/market risk: external conditions have a negative impact on funded transactions</li> <li>• Credit risk: unsustainable levels of impairments</li> </ul>	<ul style="list-style-type: none"> <li>• Thorough due diligence (DD) investigations on transactions</li> <li>• Transaction structuring and modelling which takes into account DD investigation findings</li> <li>• Short-term and long-term impairment intervention measures put in place</li> <li>• Thorough due diligence (DD) investigations on transactions</li> <li>• Appropriate governance in place in respect of credit granting/approval, monitoring</li> </ul>





## 12.3. Fraud Prevention Plan

The Fraud Prevention Plan is the responsibility of all staff and management at the NEF. This plan is a dynamic document and is updated regularly to reflect changes in the business operations and circumstances of the NEF. The Plan has been reviewed by management, updated and approved by the Board during October 2018.

The NEF has developed and implemented a Fraud Prevention Strategy and Fraud Prevention Plan to guide behaviour and to combat any fraudulent activities. Key aspects of the Fraud Prevention Strategy and Plan are listed below.

### Anti-Fraud Policy Statement

As a first step towards implementing an anti-fraud strategy, the NEF adopts and publishes an Anti-Fraud Policy statement along the following lines:

The NEF recognises the possibility of fraud and corruption occurring in its operations. As such it is the policy and mission of the NEF to strive for the protection of its employees and its other stakeholders (such as applicants, investees, suppliers etc.) through the implementation of an effective and efficient Fraud Prevention Strategy.

We believe that there is only one effective way of fighting fraud and other corrupt practices and that is by instilling the reality amongst employees and other stakeholders, (such as clients (investees), suppliers of goods and services, public,) that fraud and corruption do not pay and will be detected and dealt with severely.

Therefore, the NEF's view on fraud and corruption is one of zero tolerance, and as such the NEF is committed to:

- Aggressively detecting incidents of fraud and corruption;
- The investigation of all allegations of misconduct by employees, clients and suppliers, said to be occasioned by fraud and corruption; and
- The prosecution of all offenders criminally and, where necessary, the institution of civil and disciplinary action against them.

### Anti-Fraud Charter

In implementing the Fraud Prevention Policy of the NEF has adopted the following principles:

- We have a zero-tolerance attitude to fraud
- We understand and manage our risks
- We are proactive in defending our assets
- We react swiftly when a crime is uncovered

## 12.4. Fraud Risk Management Strategy

The key objectives of the NEF's Fraud Risk Management Strategy are:

- To establish the necessary preventative, control and monitoring mechanisms/ systems to minimise the defrauding of the NEF funds, resources, assets and services by any persons/organizations.
- To ensure that adequate measures are in place to protect the NEF from internal as well as external fraud (i.e. supplier, potential applicants, clients, syndicates targeting NEF i.e. false applications etc.).





- To ensure that adequate measures are in place to report fraud (whistle blowing policy and hotline).
- To ensure that all reported matters are investigated.
- To account to the Board, via the Audit Committee on all fraudulent activity within the NEF.
- To take the necessary action against all parties involved in fraudulent activities against the NEF and to punish and deter any fraudulent actions from continuing or recurring.

The focus of such a strategy is the formalisation and implementation within the NEF of a culture of zero tolerance for fraud and corruption, a high level of fraud awareness, and a management and control environment that makes it as difficult as reasonably possible to misappropriate assets or to succumb to corruption.

From the perspective of the NEF, good governance as it pertains to fraud prevention includes:

- Continuing the present focus on governance
- A robust control environment
- A strong and independent Internal Audit function
- A relevant and well-communicated Code of Conduct
- A whistleblowing policy and mechanism (fraud hotline) to report suspected fraud or corruption.

From a fraud prevention point of view it is important that:

- When management considers the strategy and direction that the organisation is taking, they take into account the environmental factors relating to fraud and that they insist that a suitably comprehensive fraud prevention strategy be put in place to address such risks, this is done via the organisational risk assessment process.

- Each manager brings his or her specialised industry knowledge or technical background to bear when considering how fraud risks are to be avoided.
- Regular monitoring of performance against pre-set objectives should take place.
- Individual operational units are held accountable for their actions.
- Constant pressure for improvement is exercised as this has a powerful impact on reducing fraudulent activity. This is done via the implementation of internal and external auditor's recommendation, which is tracked.
- The management team's awareness of the possibility of fraud is monitored, as this is also an active manner in which managers can encourage defensive strategies.
- Regular monitoring of the internal control environment takes place to ensure that it remains of sufficiently high standard.

## 12.5. Relevant Court Rulings

There are no recent court rulings that would have an impact on the NEF's ability to implement its strategy.



## 13. Appendix A: Financial Projections

### Income and Expenditure

	ACTUAL March 19 R	FORECAST March 20 R	BUDGET March 21 R	
<b>INCOME:</b>				
Dividends	59 047 738	70 000 000	71 194 939	
Interest Received Banks	78 220 252	59 169 576	48 391 345	
Interest from Investments	251 438 117	214 234 878	203 342 017	
Capital raising Fees	3 623 881	3 300 000	3 600 000	
Enterprise Development Fund	5 750 000	5 200 000	8 200 000	
Other income	6 468 041	1 150 000	1 150 000	
Bad Debts Recovered	5 781 291	8 000 000	8 000 000	
Income from DRDLR	24 659 981	-	-	
	<b>434 989 301</b>	<b>361 054 454</b>	<b>343 878 301</b>	
<b>EXPENDITURE</b>				
Goods & Services	72 771 763	74 600 117	78 800 151	
Compensation to employees	171 942 216	178 781 204	189 249 046	
Depreciation	1 666 740	914 459	1 264 062	
Projects/ Non-financial support	11 096 292	11 717 684	15 072 286	
Impairment Provision & Write offs	274 805 088	55 437 206	55 284 961	
<b>Total Expenditure</b>	<b>532 282 099</b>	<b>321 450 671</b>	<b>339 670 506</b>	
<b>OPERATIONAL SURPLUS/(DEFICIT)</b>	<b>(97 292 798)</b>	<b>39 603 783</b>	<b>4 207 796</b>	
Fair value Adj - Held at fair value	(21 151 580)	-	-	
Fair value Adj - non associate equity inventments	(61 493 162)	-	-	
Fair value Adj - unincorporated equity inventments	(2 306 644)	-	-	
Fair value adj - investment in associates	(308 711 143)	-	-	
<b>TOTAL FAIR VALUE ADJUSTMENTS</b>	<b>(393 662 529)</b>	<b>-</b>		
<b>Net surplus/(deficit)</b>	<b>(490 955 327)</b>	<b>39 603 783</b>	<b>4 207 796</b>	

#### Key ratios

Return on Investment	9%	11%	11%
Impairments ratio	18%	18,3%	17,6%
Collections ratio	128,4%	80%	80%



	BUDGET March 22 R	BUDGET March 23 R	BUDGET March 24 R	BUDGET March 25 R
	76 752 372	82 313 805	87 899 430	93 510 409
	40 741 883	33 868 936	35 494 645	37 198 388
	213 740 735	225 734 775	239 132 697	253 766 036
	3 900 000	4 200 000	4 500 000	4 800 000
	8 200 000	7 600 000	7 000 000	6 400 000
	1 150 000	1 150 000	1 150 000	1 150 000
	8 000 000	8 000 000	8 000 000	8 000 000
	-	-	-	-
	<b>352 484 990</b>	<b>362 867 516</b>	<b>383 176 772</b>	<b>404 824 832</b>
	83 181 946	87 683 619	92 442 088	97 472 935
	202 943 848	214 231 444	226 150 529	238 736 617
	1 417 071	1 522 109	1 733 101	1 917 519
	16 236 551	17 187 741	17 839 225	18 521 931
	45 563 851	39 285 824	42 342 936	46 615 011
	<b>349 343 266</b>	<b>359 910 736</b>	<b>380 507 877</b>	<b>403 264 013</b>
	<b>3 141 724</b>	<b>2 956 780</b>	<b>2 668 895</b>	<b>1 560 819</b>
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>3 141 724</b>	<b>2 956 780</b>	<b>2 668 895</b>	<b>1 560 819</b>

11%	11%	11%	11%
16,5%	15,3%	14,3%	13,4%
80%	80%	80%	80%



# Statement of Financial Position

	Actual 2019 March R	Forecast 2020 March R	Budget 2021 March R	
<b>ASSETS</b>				
<b>Non Current Assets</b>	<b>2 472 393 909</b>	<b>2 434 722 590</b>	<b>2 588 933 514</b>	
Property, Plant and Equipment	2 732 174	4 725 991	6 895 612	
Intangible Assets	735 637	1 527 361	1 713 677	
Investments in Associates	66 411 001	99 411 001	135 411 001	
Investments Held at Fair Value	354 903 942	354 903 942	354 903 942	
Investment in subsidiary	19 876 554	19 876 554	-	
Finance Lease receivables	166 099 145	164 661 734	176 045 626	
Loans and Preference Shares	1 861 635 455	1 789 616 007	1 913 963 654	
Preference shares	-	-	-	
Loans	1 861 635 455	1 789 616 007	1 913 963 654	
<b>Current Assets</b>	<b>1 994 261 991</b>	<b>2 011 537 095</b>	<b>1 792 284 821</b>	
Trade and other receivables	18 149 360	18 149 360	18 149 360	
Dividends receivables	32 873 314	-	-	
Non-current assets - Held for sale	1 073 400	-	-	
Investments Held for Trading	924 667 708	924 667 708	924 667 708	
Cash and Bank	1 017 498 209	1 068 720 027	849 467 753	
<b>TOTAL ASSETS</b>	<b>4 466 655 899</b>	<b>4 446 259 685</b>	<b>4 381 218 335</b>	
Trust Capital and Reserves	4 231 141 326	4 270 745 110	4 274 952 906	
Trust Capital	2 468 431 472	2 468 431 472	2 468 431 472	
Retained Income	1 762 709 854	1 802 313 638	1 806 521 434	
- Balance at Beginning of the Year	2 253 665 181	1 762 709 854	1 802 313 638	
- Retained Income/(Deficit) for the Year	(490 955 327)	39 603 783	4 207 796	
<b>Non-Current Liabilities</b>				
Liabilities directly associated with non-current assets classified as held for sale	9 249 151	9 249 151	-	
<b>Current Liabilities</b>	<b>226 265 422</b>	<b>166 265 427</b>	<b>106 265 430</b>	
Accounts Payable	226 265 422	166 265 427	106 265 430	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 466 655 899</b>	<b>4 446 259 686</b>	<b>4 381 218 335</b>	



	Budget 2022 March R	Budget 2023 March R	Budget 2024 March R	Budget 2025 March R
	<b>2 783 965 797</b> 7 304 183 2 388 036 174 411 001 354 903 942 - 188 852 587 2 056 106 047	<b>3 006 754 413</b> 8 268 639 2 101 472 216 411 001 354 903 942 - 203 439 231 2 221 630 129	<b>3 248 066 279</b> 9 107 716 2 729 295 261 411 001 354 903 942 - 219 179 929 2 400 734 396	<b>3 504 752 166</b> 9 837 713 3 281 780 309 411 001 354 903 942 - 248 086 284 2 579 231 446
	- 2 056 106 047	- 2 221 630 129	- 2 400 734 396	- 2 579 231 446
	<b>1 570 394 259</b> 18 149 360 - - 924 667 708 627 577 191	<b>1 320 562 422</b> 18 149 360 - - 924 667 708 377 745 354	<b>1 051 919 450</b> 18 149 360 - - 924 667 708 109 102 382	<b>786 794 383</b> 18 149 360 - - 924 667 708 (156 022 685)
	<b>4 354 360 056</b>	<b>4 327 316 835</b>	<b>4 299 985 729</b>	<b>4 291 546 549</b>
	4 278 094 630 2 468 431 472 1 809 663 158 1 806 521 434 3 141 724 - <b>76 265 427</b>	4 281 051 410 2 468 431 472 1 812 619 938 1 809 663 158 2 956 780 - <b>46 265 426</b>	4 283 720 304 2 468 431 472 1 815 288 832 1 812 619 938 2 668 895 - <b>16 265 426</b>	4 285 281 123 2 468 431 472 1 816 849 651 1 815 288 832 1 560 819 - <b>6 265 427</b>
	76 265 427	46 265 426	16 265 426	6 265 427
	<b>4 354 360 056</b>	<b>4 327 316 835</b>	<b>4 299 985 729</b>	<b>4 291 546 549</b>



# Cashflow Statement

	Actual 2019 March R	Forecast 2020 March R	Budget 2021 March R	
<b>Cash flows from operating activities</b>	<b>(275 415 261)</b>	<b>(307 449 004)</b>	<b>(322 171 478)</b>	
Cash receipts from customers	25 611 710	17 649 999	20 950 001	
Cash paid to suppliers and employees	(301 026 971)	(325 099 003)	(343 121 479)	
<b>Cash flows from investing activities</b>	<b>159 111 688</b>	<b>358 670 821</b>	<b>102 919 204</b>	
Additions to property, and equipment	(2 237 578)	(2 700 000)	(3 200 000)	
Additions to intangible assets	-	(1 000 000)	(420 000)	
Investment disbursements	(383 005 270)	(330 000 000)	(360 000 000)	
Dividends received	71 691 321	70 000 000	71 194 939	
Interest receipts	78 220 252	59 169 576	48 391 345	
Repayments on originated loans, preference shares and leases	379 442 963	340 201 245	346 952 920	
Proceeds from sale of investments	15 000 000	223 000 000	-	
<b>Decrease in cash and cash equivalents</b>	<b>(116 303 573)</b>	<b>51 221 818</b>	<b>(219 252 274)</b>	
<b>Cash at beginning of the year</b>	<b>1 133 801 782</b>	<b>1 017 498 209</b>	<b>1 068 720 027</b>	
<b>Total Cash at end of year</b>	<b>1 017 498 209</b>	<b>1 068 720 027</b>	<b>849 467 753</b>	



	Budget 2022 March R	Budget 2023 March R	Budget 2024 March R	Budget 2025 March R
	(311 112 347) 21 250 000 (332 362 347)	(328 152 805) 20 950 000 (349 102 805)	(345 781 842) 20 650 000 (366 431 842)	(344 381 482) 20 350 000 (364 731 482)
	89 221 785	78 320 967	77 138 869	79 256 415
	(1 500 000) (1 000 000) (390 000 000) 76 752 372 40 741 883 364 227 530 -	(2 200 000) - (420 000 000) 82 313 805 33 868 936 384 338 226 -	(2 200 000) (1 000 000) (450 000 000) 87 899 430 35 494 645 406 944 794 -	(2 200 000) (1 000 000) (480 000 000) 93 510 409 37 198 388 431 747 619 -
	(221 890 562)	(249 831 837)	(268 642 972)	(265 125 066)
	849 467 753	627 577 191	377 745 354	109 102 382
	627 577 191	377 745 354	109 102 382	(156 022 685)



# Personnel information

				PRELIMINARY OUTCOMES			YTD ACTUALS AS AT 31 DECEMBER 2019					
Category	Salary Level	Salary Bands	Components of Remuneration	2018/19			2019/20					
				Number of posts filled on funded establishment	Expenditure on posts filled on funded establishment (R thousand)	Unit Cost	Number of posts on approved establishment	Number of funded posts (establishment)	Number of posts filled on funded establishment	Expenditure on posts filled on funded establishment (R thousand)	Unit Cost	
			<b>Performance bonus</b>		36 606	–					–	
Permanent	1 251 184 – 1 521 589	Senior Management	Guaranteed package	21	27 394	1 304	21	21	18	17 800	989	
Permanent	208 584 – 257 507	Semi-skilled	Guaranteed package	9	2 138	238	9	9	9	1 835	204	
Permanent	470 040 – 733 256	Professionals	Guaranteed package	75	54 696	729	79	79	66	34 185	518	
Permanent	316 791 – 376 595	Skilled	Guaranteed package	39	14 605	374	39	39	46	12 562	273	
Permanent	869 007 – 1 057 325	Middle Management	Guaranteed package	19	19 118	1 006	19	19	19	15 178	799	
Permanent	2 228 822 – 2 519 153	Executive Management	Guaranteed package	1	2 337	2 337	1	1	1	1 692	1 692	
Permanent	2 228 822 – 2 519 153	Executive Management	Performance bonus		1 128	1 128			–	–	–	
Permanent	2 228 822 – 2 519 153	Executive Management	Guaranteed package	1	2 429	2 429	1	1	1	1 729	1 729	
Permanent	2 228 822 – 2 519 153	Executive Management	Performance bonus		1 153	1 153			–	–	–	
Permanent	2 228 822 – 2 519 153	Executive Board Members	Guaranteed package	1	778	778	1	1	1	2 025	2 025	
Permanent	2 228 822 – 2 519 153	Executive Board Members	Performance bonus		–	–			–	–	–	
Permanent	3 647 110 – 4 128 882	Executive Board Members	Guaranteed package	1	4 073	4 073	1	1	1	3 115	3 115	
Permanent	3 647 110 – 4 128 882	Executive Board Members	Performance bonus		1 994	1 994			–	–	–	
Permanent	2 848 655 – 3 222 636	Executive Management	Guaranteed package	1	2 915	2 915	1	1	1	1 985	1 985	
Permanent	2 848 655 – 3 222 636	Executive Management	Performance bonus		579	579				–	–	
<b>TOTAL</b>				<b>168</b>	<b>171 942</b>	<b>1 023</b>	<b>172</b>	<b>172</b>	<b>163</b>	<b>92 106</b>	<b>565</b>	

Personnel numbers have decreased from a staff complement of 171 at the beginning of 2013/14 to 163 as at 31 December 2019. The staff complement is projected to grow to over 172 in the short to medium term. The staff complement is mainly made up of professionals. Attrition levels increased to 14% during 2013/14 as a result of uncertainties regarding the recapitalisation and job security, however, there has been a significant fluctuation of attrition levels since, which currently stand at 8.59% as at 31 December 2019. Personnel cost as a percentage of total operating expenses, averages around 68%, which is an acceptable norm in Development Finance Institute/Private Equity environments, where there is a high dependence on professional staff. The ratio of support staff to line staff is 1:2.



	PROJECTIONS OVER THE MTEF														
	2020/21			2021/22			2022/23			2023/24			2024/25		
	Number of posts filled on funded establishment	Expenditure on posts filled on funded establishment (R thousand)	Unit Cost	Number of posts filled on funded establishment	Expenditure on posts filled on funded establishment (R thousand)	Unit Cost	Number of posts filled on funded establishment	Expenditure on posts filled on funded establishment (R thousand)	Unit Cost	Number of posts filled on funded establishment	Expenditure on posts filled on funded establishment (R thousand)	Unit Cost	Number of posts filled on funded establishment	Expenditure on posts filled on funded establishment (R thousand)	Unit Cost
		40 042	–		44 087	–		45 386	–		53 064	–		55 611	–
	21	28 339	1 349	21	30 457	1 450	21	32 818	1 563	21	33 221	1 582	21	35 148	1 674
	9	2 835	315	9	2 977	331	9	3 226	358	9	3 394	377	9	3 591	399
	79	59 741	756	79	64 903	822	79	67 590	856	79	68 978	873	79	72 979	924
	39	16 629	426	39	17 461	448	39	18 814	482	39	19 905	510	39	21 060	540
	19	20 233	1 065	19	21 245	1 118	19	22 892	1 205	19	22 720	1 196	19	24 037	1 265
	1	2 473	2 473	1	2 597	2 597	1	2 798	2 798	1	2 961	2 961	1	3 132	3 132
		1 194	1 194		1 254	1 254		1 351	1 351		1 429	1 429		1 512	1 512
	1	2 571	2 571	1	2 699	2 699	1	2 909	2 909	1	3 077	3 077	1	3 256	3 256
		1 220	1 220		1 281	1 281		1 381	1 381		1 461	1 461		1 545	1 545
	1	2 364	2 364	1	2 482	2 482	1	2 675	2 675	1	2 830	2 830	1	2 994	2 994
		834	834		876	876		944	944		998	998		1 056	1 056
	1	4 311	4 311	1	4 526	4 526	1	4 877	4 877	1	5 160	5 160	1	5 459	5 459
		2 110	2 110		2 216	2 216		2 388	2 388		2 526	2 526		2 673	2 673
	1	3 085	3 085	1	3 239	3 239	1	3 490	3 490	1	3 693	3 693	1	3 907	3 907
		613	613		643	643		693	693		734	734		776	776
	<b>172</b>	<b>189 249</b>	<b>1 100</b>	<b>172</b>	<b>202 944</b>	<b>1 180</b>	<b>172</b>	<b>214 231</b>	<b>1 246</b>	<b>172</b>	<b>226 151</b>	<b>1 315</b>	<b>172</b>	<b>238 737</b>	<b>1 388</b>



## 14. Appendix B: Human Capital

### 1. Details of the NEF Board

The Board of Trustees is appointed in terms of the National Empowerment Fund Act. Board members possess expertise in the fields of, amongst others, finance, risk management, strategy, economics and policy development. The roles of the Chairman and CEO are separate, and the composition of the Board ensures balance of authority precluding any one Trustee from exercising disproportionate power of decision making. Most of the trustees were duly appointed effective from the 5th of April 2018 and have been inducted onto the NEF's Board of Trustees in accordance with the NEF Act and corporate governance best practice.

The governance structure comprises the following Board committees:

- 3.1 Audit Committee;
- 3.2 Risk and Portfolio Management Committee;
- 3.3 Human Capital and Remuneration Committee;
- 3.4 Social and Ethics Committee; and
- 3.5 Board Investment Committee.

**Ms Nonkqubela Maliza**



Trustee, Ms Nonkqubela Maliza, holds a BA (Economics & Psychology) and a BA Honours (Economics) from Rhodes University, as well as an MBA from the University of Cape Town. She has been a senior executive for over 15 years and has worked in both the private and public sectors, where she acquired substantial international exposure as well as experience in risk management, economic analysis, stakeholder management and general management.

**Mr Rakesh Garach**



Mr Rakesh Garach, the Chairman of the Board, is a Chartered Accountant of South Africa. He obtained his degree from the University of Natal and has in the past 25 years gained diverse and in-depth experience in the financial services industry. He also has significant experience in mining, retail and manufacturing. He has held multiple roles in both the private and public sectors.

**Mr Ernest Kwinda**



Mr Ernest Kwinda, a trustee of the NEF, is a CA (SA) and holds a Bachelor of Commerce (Honours) from the University of Natal and a Masters in Commerce (SA and International Tax) from the Rand Afrikaans University. Ernest has experience in banking and corporate finance with a focus on mergers and acquisitions, listings, valuations and black economic empowerment. Ernest is co-founder and executive director of Identity Advisory, a boutique corporate finance advisory firm..

**Ms Philisiwe Mthethwa**



CEO, Ms Philisiwe Mthethwa, holds an MBA Corporate Finance from the University of Sheffield, and has studied towards the MSc Economics (thesis not defended) at the University of Paris 2. She possesses diverse knowledge in banking, capital markets and international investment. She has been instrumental in turning the NEF into a high-performing organisation that has seen 988 black-owned and -managed enterprises receive much-needed finance for start-up, expansion and equity acquisition purposes.

**Dr Nthabiseng Moleko**



Trustee, Dr Nthabiseng Moleko holds an Honours in Business Science (Economics) from the University of Cape Town and an MPhil in Development Finance from the University of Stellenbosch Business School (USB). She also is the first South African woman with a PhD in Development Finance from the USB. Nthabiseng has extensive experience in economic development, development finance, pension funds research and providing strategic leadership in policy making for women economic empowerment.



**Ms Lerato Molefe**



Ms Lerato Molefe, a trustee of the NEF, holds a BSc degree in Chemical Engineering from the University of Cape Town and is currently completing a BCom (Honours) degree in Investment Management through the University of Johannesburg. She is a Senior Manager specialising in Mergers and Acquisitions at AECL Limited and her responsibility includes leading and directing all aspects of the acquisitions and disposals that the Group undertakes. She also has experience in Asset Management.

**Mr Sipho Zikode**

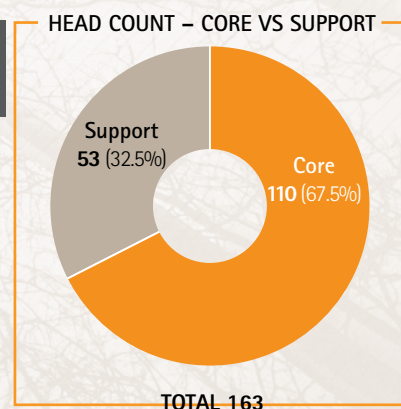
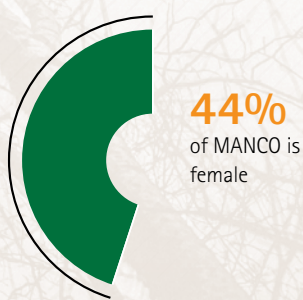


NEF Trustee, Mr Sipho Zikode, holds an MBA and Post-Graduate Diploma in Marketing from the University of Pretoria, a B.Com degree and a Diploma in Chemical Engineering from Wits University. He is a Deputy Director-General with the dtic. His responsibilities include providing strategic leadership on the implementation of the B-BBEE Act and the B-BBEE Codes of Good Practice, as well as the revitalisation of industrial parks and the Black Industrialists programme.

No.	Qualification	Number
1	Chartered Accountants	16
2	Master's degree	17
3	Engineers (additional 4 holds Master's degree)	5
4	Honours degree	22
5	Bachelor's degree	41
6	LLB degrees (8 are admitted attorneys)	8
7	Advance Diploma	1
8	Diplomas	20
9	Certificates	30
10	Abet	3

## 2. NEF Staff Composition

Average age of NEF employees is 39 years – maturing organisation





## 15. Annexure C: Technical Indicator Descriptor (TID)

### Performance Indicator 1: Value of deals approved by the NEF

1. Indicator title	Value of deals approved by the NEF
2. Definition	Total value of deals approved by the NEF
3. Source/collection of data	Funds; CRM System
4. Method of calculation / Assessment	Simple Count
5. Assumptions	Reliable Data
6. Disaggregation of Beneficiaries (Where applicable)	N/A
7. Spatial Transformation	N/A
8. Desired Performance	Approved Deals
9. Indicator responsibility	Unit Divisional Executives

### Performance Indicator 3: Value of Disbursements

1. Indicator title	Value of Disbursement made by the NEF
2. Definition	Indicates the total cash which the NEF has advanced to investees
3. Source/collection of data	Finance Department; Funds
4. Method of calculation / Assessment	Simple count
5. Assumptions	Reliable Data
6. Disaggregation of Beneficiaries (Where applicable)	N/A
7. Spatial Transformation	9 Provinces
8. Desired Performance	Disbursed Funds
9. Indicator responsibility	Unit Divisional Executives

### Performance Indicator 2: Value of Commitments

1. Indicator title	Value of Commitments made by the NEF
2. Definition	The total cash which the NEF has agreed to advance to investees in legal agreements signed
3. Source/collection of data	Legal Department
4. Method of calculation / Assessment	Simple Count
5. Assumptions	Reliable Data
6. Disaggregation of Beneficiaries (Where applicable)	N/A
7. Spatial Transformation	N/A
8. Desired Performance	Committed Deals
9. Indicator responsibility	Unit Divisional Executives

### Performance Indicator 4: Number of job opportunities supported or created

1. Indicator title	Number of job opportunities supported or created
2. Definition	Number of job opportunities supported
3. Source/collection of data	Funds
4. Method of calculation / Assessment	Simple Count
5. Assumptions	Reliable Data
6. Disaggregation of Beneficiaries (Where applicable)	N/A
7. Spatial Transformation	9 Provinces
8. Desired Performance	New jobs created and supported
9. Indicator responsibility	Unit Divisional Executives





**Performance Indicator 5: Percentage of portfolio disbursed to businesses owned by black women**

<b>1. Indicator title</b>	Percentage of annual disbursements owned by black women
<b>2. Definition</b>	Percentage of the portfolio disbursed in a year owned by black women
<b>3. Source/collection of data</b>	Funds
<b>4. Method of calculation / Assessment</b>	Disbursements to Business owned by Black women/Total Disbursements
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	Target for Women: 40% of Total Disbursements
<b>7. Spatial Transformation</b>	9 Provinces
<b>8. Desired Performance</b>	Disbursements to Businesses owned by Black women
<b>9. Indicator responsibility</b>	Unit Divisional Executives

**Performance Indicator 7: Number of investor education seminars held across the country**

<b>1. Indicator title</b>	Number of investor education seminars held across the country
<b>2. Definition</b>	Number of investor education seminars held
<b>3. Source/collection of data</b>	Socio-Economic Development Unit (SEDU)
<b>4. Method of calculation / Assessment</b>	Simple Count
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	N/A
<b>7. Spatial Transformation</b>	9 Provinces
<b>8. Desired Performance</b>	Investor education seminars completed
<b>9. Indicator responsibility</b>	Unit Divisional Executives

**Performance Indicator 6: Percentage (25%) of disbursements to be invested in Northern Cape, Free State, Limpopo, Mpumalanga, Eastern Cape and North-West**

<b>1. Indicator title</b>	Percentage of annual disbursements to be invested in Northern Cape, Free State, Limpopo, Mpumalanga, Eastern Cape and North-West
<b>2. Definition</b>	Increase portfolio size in under-represented provinces
<b>3. Source/collection of data</b>	Funds
<b>4. Method of calculation / Assessment</b>	Disbursements to disadvantaged provinces (NC, LP, EC, MP, NW, FS) / Total Disbursements
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	N/A
<b>7. Spatial Transformation</b>	6 Provinces
<b>8. Desired Performance</b>	Disbursements to disadvantaged provinces
<b>9. Indicator responsibility</b>	Unit Divisional Executives

**Performance Indicator 8: Number of Entrepreneurial Training Sessions provided**

<b>1. Indicator title</b>	Providing Business Skills (Entrepreneurial and Bootcamp) Training
<b>2. Definition</b>	Business Skills Training
<b>3. Source/collection of data</b>	Pre-Investment Unit
<b>4. Method of calculation / Assessment</b>	Simple Count
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	N/A
<b>7. Spatial Transformation</b>	9 Provinces
<b>8. Desired Performance</b>	Business skills training completed
<b>9. Indicator responsibility</b>	Unit Divisional Executives



**Performance Indicator 9: Number of entrepreneurs referred for business incubation; and number of entrepreneurs who successfully complete business incubation**

<b>1. Indicator title</b>	Number of entrepreneurs referred for business incubation; and number of entrepreneurs who successfully complete business incubation
<b>2. Definition</b>	Business Incubation
<b>3. Source/collection of data</b>	Pre-Investment Unit
<b>4. Method of calculation / Assessment</b>	Simple Count
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	N/A
<b>7. Spatial Transformation</b>	9 Provinces
<b>8. Desired Performance</b>	Entrepreneurs referred and fully incubated
<b>9. Indicator responsibility</b>	Unit Divisional Executives

**Performance Indicator 10: Number of Social Facilitation Sessions provided**

<b>1. Indicator title</b>	Number of Social Facilitation Sessions provided
<b>2. Definition</b>	Number of Social Facilitation Sessions provided to investees
<b>3. Source/collection of data</b>	Socio-Economic Development Unit (SEDU)
<b>4. Method of calculation / Assessment</b>	Simple Count
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	N/A
<b>7. Spatial Transformation</b>	9 Provinces
<b>8. Desired Performance</b>	Social Facilitation sessions completed
<b>9. Indicator responsibility</b>	Unit Divisional Executives

**Performance Indicator 11: Maintain Brand Awareness of 90%**

<b>1. Indicator title</b>	Maintain Brand Awareness of 90%
<b>2. Definition</b>	The findings of the Brand Audit Survey
<b>3. Source/collection of data</b>	Marketing and Communications
<b>4. Method of calculation / Assessment</b>	Research Report
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	N/A
<b>7. Spatial Transformation</b>	N/A
<b>8. Desired Performance</b>	Positive NEF Brand maintained
<b>9. Indicator responsibility</b>	Marketing and Communications Manager

**Performance Indicator 12: Percentage of Portfolio Impaired**

<b>1. Indicator title</b>	Percentage of the portfolio impaired
<b>2. Definition</b>	The total percentage of the value invested in investees that is valued at less than the original valuation, and that may have to be written off in future
<b>3. Source/collection of data</b>	Finance Department
<b>4. Method of calculation / Assessment</b>	IAS39 Principle
<b>5. Assumptions</b>	Reliable Data
<b>6. Disaggregation of Beneficiaries (Where applicable)</b>	N/A
<b>7. Spatial Transformation</b>	N/A
<b>8. Desired Performance</b>	18% impairment
<b>9. Indicator responsibility</b>	Unit Divisional Executives, Finance and Post-Investment



### Performance Indicator 13: Target ROI before impairments

1. Indicator title	Target return on investment before impairments
2. Definition	Annual return earned by the total portfolio i.e. loans and preference share portfolio before impairments
3. Source/collection of data	Finance Department
4. Method of calculation / Assessment	Debt instrument (interest and year to date) / Debt book value
5. Assumptions	Reliable Data
6. Disaggregation of Beneficiaries (Where applicable)	N/A
7. Spatial Transformation	N/A
8. Desired Performance	9-10% ROI
9. Indicator responsibility	Unit Divisional Executives, Finance and Post-Investment

### Performance Indicator 15: Value of Partnerships concluded

1. Indicator title	Value of Partnerships concluded
2. Definition	The NEF seeks to improve third party partnership funding
3. Source/collection of data	Finance Department, SEDU
4. Method of calculation / Assessment	Simple Count
5. Assumptions	Reliable Data
6. Disaggregation of Beneficiaries (Where applicable)	N/A
7. Spatial Transformation	N/A
8. Desired Performance	Value of partnerships concluded
9. Indicator responsibility	Unit Divisional Executives

### Performance Indicator 14: Collections Ratio

1. Indicator title	Improve collections ratios
2. Definition	The NEF seeks to improve the percentage of monies collected from investees based on the total amount invoiced
3. Source/collection of data	Finance Department
4. Method of calculation / Assessment	Simple Count
5. Assumptions	Reliable Data
6. Disaggregation of Beneficiaries (Where applicable)	N/A
7. Spatial Transformation	N/A
8. Desired Performance	80% Collections
9. Indicator responsibility	Unit Divisional Executives, Finance and Post-Investment





## Notes

[illegible]



## Notes

This image shows a full page of a notebook or worksheet. It features horizontal blue ruling lines spaced evenly down the page. In the bottom third of the page, there is a faint, light-colored illustration of bare tree branches, suggesting a winter or autumn theme. The paper itself is white, and the overall appearance is clean and ready for writing.



# HOW TO REACH THE NATIONAL EMPOWERMENT FUND

## Gauteng Province

### Head Office

West Block, 187 Rivonia Road, Morningside 2057, PO Box 31, Melrose Arch, Melrose North 2076  
Tel: +27 (11) 305 8000 | Fax: +27 (11) 305 8001 | Call Centre: 0861 843 633 | 0861 (THE NEF)  
applications@nefcorp.co.za (Funding) | info@nefcorp.co.za (General Enquiries)

## Eastern Cape Province

7b Derby Road, Berea, East London 5241 | Tel: (043) 783 4200 | 0861 NEF ECP (0861 633 327)  
Fax: 0861 ECP NEF (0861 327 633) | easterncape@nefcorp.co.za

## Free State Province

34 Fountain Towers, Corner Zastron and Markgraaf Street, Westdene, Bloemfontein, 9300  
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## KwaZulu-Natal Province

4th Floor (South Side), Grindrod Bank Building (Old KPMG Building),  
5 Arundel Close, Kingsmead Office Park, Durban | Tel: (031) 301 1960 | 0861 NEF KZN (0861 633 596)  
Fax: 0861 KZN NEF (0861 596 633) | kzn@nefcorp.co.za

## Limpopo Province

Suite 8, Biccard Park, 43 Biccard Street, Polokwane 0699 | Tel: (015) 294 9200 | 0861 NEF LIM (0861 633 546)  
Fax: 0861 LIM NEF (0861 546 633) | limpopo@nefcorp.co.za

## Mpumalanga Province

13 Ferreira Street, Maxsa Building, 2nd floor, Nelspruit | Tel: (013) 754 9860 | 0861 NEF MPU (0861 633 678)  
Fax: 0861 MPU NEF (0861 678 633) | mpumalanga@nefcorp.co.za

## Northern Cape Province

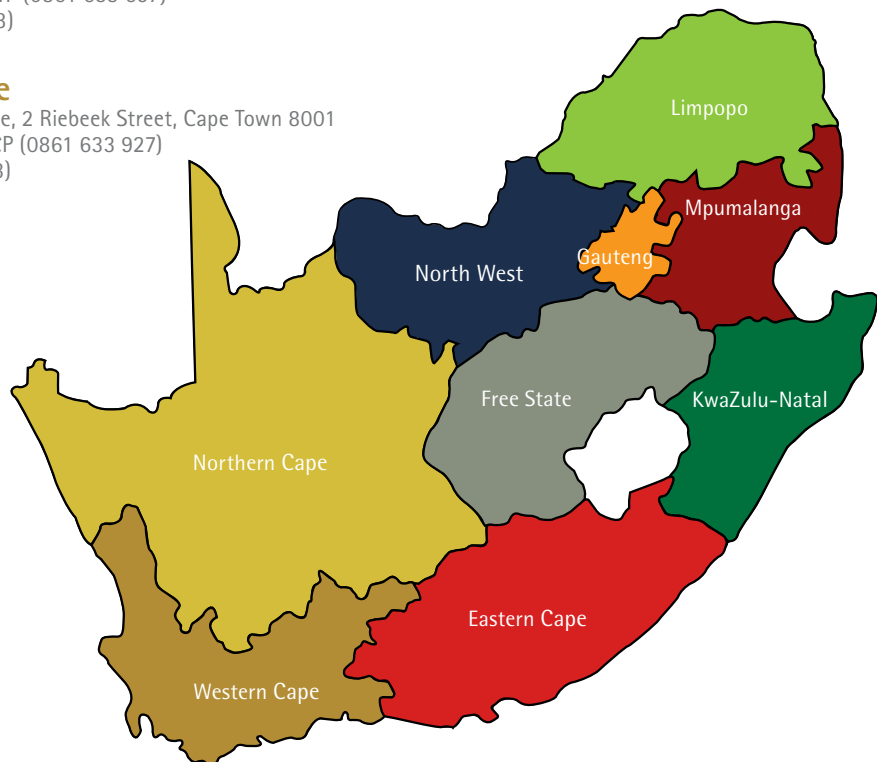
Block Three, Ground Floor, The Montrie Corporate Park, 10 Oliver Road, Monument Heights, Kimberley  
Tel: 0861 NEF NCP (0861 633 627) | Fax: 0861 NCP NEF (0861 627 633) | northerncape@nefcorp.co.za

## North West Province

32B Heystek Street, Sunetco Office Park, Ground Floor, Rustenburg, 0299  
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## Western Cape Province

Suite 2815, 28th Floor, ABSA Centre, 2 Riebeeck Street, Cape Town 8001  
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