



**DON'T MISS THE BOAT**  
**NEF'S ENTERPRISE  
DEVELOPMENT FUND**  
**INFORMATION MEMORANDUM**

Don't let Enterprise Development remain a missed opportunity

**EmpowerED**  
BLACK ECONOMIC EMPOWERMENT RATING AGENCY

Measured Entity (Pty) Ltd

Registration Number: 2003/9349349/022  
Address: West Block, 187 Rivonia Road, Morningside, 2057

| Level Five Contributor     |                       | Analysis     | Results                       |
|----------------------------|-----------------------|--------------|-------------------------------|
| Element                    | Measured Entity Score | Target Score |                               |
| Ownership                  | 3.56                  | 20.00        | Procurement Recognition level |
| Management & Control       | 2.39                  | 10.00        | Black Ownership               |
| Employment Equity          | 5.63                  | 15.00        | Black Women Ownership         |
| Skills Development         | 7.90                  | 15.00        | Value Adding Enterprise       |
| Preferential Procurement   | 17.40                 | 20.00        | Issue Date                    |
| Enterprise Development     | 15.00                 | 15.00        | Expiry Date                   |
| Socio-Economic Development | 5.00                  | 5.00         | Operational Capacity          |
| Overall Score              | 56.88                 | 100.00       |                               |

  
For EmpowerED (Pty) Ltd

By signing this document the recipient truthfully acknowledges that all information in this document is precise and accurate in the knowledge that if the above information is incorrect the recipient may be subject to persecution to the extent of the law.

02.05.11

Date



One of the most practical ways of meeting your BB-BEE requirements is by using your company's existing resources to help black-owned enterprises become more effective. It is also one of the easiest ways to But there's a lot to know. Which is why the NEF is inviting all companies who want an effective Enterprise Development solution to contact us. Don't let Enterprise Development remain a missed opportunity.

If you are looking for an ideal Enterprise Development partner, please call 0861 843 633 (0861 THE NEF) or visit [www.nefcorp.co.za](http://www.nefcorp.co.za)

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# PREFACE BY THE CHAIRMAN OF THE BOARD OF TRUSTEES

## The Pursuit of Economic Development, Growth, Jobs and Transformation



South Africa has the greatest opportunity to position itself for unprecedented growth through delivery in the real economy. The massive dual economic opportunity for South Africa lies in our nation's industrial development backlog including infrastructure, and the underdeveloped South African and African markets.

The current environment of large unemployment represents a unique opportunity to alleviate an industrial value chain challenge whilst attracting new investment in critical infrastructure / industries, and create a large number of sustainable jobs, across multiple sectors. South Africa has a number of sectors that are currently faced with massive bottlenecks. The licensing or creation of specific new enterprises focused on de-clogging these bottlenecks is South Africa's employment-creation and growth opportunity.

This is part of the thinking that has inspired the creation of the NEF Enterprise Development Fund (NEF ED Fund), which offers the opportunity to intensify the implementation of the Codes of Good Practice, as provided for and defined in the Broad-Based Black Economic Empowerment Act of 2003, in the pursuit of a job-creating, inclusive and growing economy.

We can now unequivocally declare that the NEF has reached full institutional and operational maturity. As a state-owned institution the NEF is subject to rigorous governance and regulatory provisions governing its accountability and reporting frameworks. It is on this basis that the NEF has a well-established track record in investing in transactions eligible for enterprise development.

The NEF ED Fund is therefore a partnership that will be managed by a worthy and dynamic organisation. To the corporates that will be a part of this exciting and momentous chapter in our country's transformation and growth, it is my pleasure and privilege to welcome you board. ▸

**Mr Ronnie Ntuli**  
**Chairman, Board of Trustees**  
**National Empowerment Fund**

# FOREWORD BY THE CHIEF EXECUTIVE OFFICER

## A Winning Partnership For Enterprise Development



This Information Memorandum has been designed to provide all the information necessary for corporates desirous of making a contribution towards the development of new and existing enterprises across South Africa's economic landscape.

Whilst the NEF has registered significant achievements in its mandate, we believe that the urgent quest for an inclusive, growing and employment-generating economy requires that enterprise development (ED), a key element of the Codes of Good Practice identified in the Broad-Based Black Economic Empowerment Act of 2003, now receives more focused and systematic attention in order to highlight its importance.

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

The NEF ED Fund will fall under the administrative and management authority of the NEF, and will benefit from its institutional fund-management infrastructure, support and investment expertise, which have contributed to the success of black entrepreneurs over the past few years. The application of this expertise will ensure that investments are appropriately targeted, have a high rate of success, and that the investments assist in the development and growth of sustainable black-empowered small and medium enterprises. The NEF will leverage its existing product offering when making these investments from the Fund but also work closely with participating contributing companies in identifying specific opportunities in sector value chains suitable for support by the NEF ED Fund.

Through the Fund, private sector contributors, referred to as 'measured entities' in the BB-BEE Act, will receive ED credits in compliance with Code 600 while still retaining focus on their core business. They will also be able to develop sector value chains in partnership with the NEF through the ED Fund, while the beneficiaries have access to an additional source of funding. Most importantly, the NEF ED Fund will be able to make more investments designed to enable meaningful participation of black business in the country's economy.

The NEF is the only gazetted BEE-Facilitator fund in South Africa. It was awarded this status by the dti in terms of the provisions of Statement 100 of the Codes of Good Practice on BEE. This means that the equity investments held by the NEF in any company are automatically regarded as 100% black-owned, including 40% owned by women and 10% by black designated groups. Any equity stakes would also be regarded as unencumbered, resulting in the investee company receiving a perfect ownership score in respect of the equity stakes held by the NEF. This in turn means that any ED contributions to the NEF are defined as eligible ED funding activity, and allows upfront recognition of the ED contribution by the measured entity.

The NEF ED Fund is targeting to raise R50 million in private-sector contributions, to which the NEF will add R75 million. The NEF ED Fund is set to close by the end of September. We urge the private sector to come forward during this window of opportunity and board the NEF ED Fund as partners in bridging the economic divide. »

**Ms Philisiwe Buthelezi**  
**Chief Executive Officer**  
**National Empowerment Fund**

## ABOUT THE NEF

### Mandate

Established by the National Empowerment Fund Act of 1998, the National Empowerment Fund is a driver and a thought leader in promoting and facilitating Broad-Based Black Economic Empowerment (BB-BEE). It achieves this objective through (amongst other things) the provision of financial and non-financial support to black empowered businesses, as well as by promoting a culture of savings and investment among black people.

### Broad-Based Black Economic Empowerment

The NEF recognises BB-BEE as a key enabler to the meaningful participation of black people in the country's economy, a critical facet of the country's economic transformation. BB-BEE is largely driven by compliance tools, the most distinct being the Codes of Good Practice (Codes) issued under the Broad-Based Black Economic Empowerment Act, 2003 (BB-BEE Act). Generally, private sector enterprises are required to comply with the Codes, which compliance (or rather substantial compliance) yields rewards. Non-compliance or inadequate compliance, on the other hand, attracts penalties, in the form of exclusion from commercial opportunities, especially those advanced through the government procurement process. Compliance is both the private and public sector's role, while the monitoring thereof is a responsibility that vests with government.

The NEF acknowledges that the BB-BEE compliance tools, coupled with the penalty and reward system, will increasingly facilitate meaningful participation of black people in the country's economy; however, reliance of these tools exclusively will yield the required results gradually. Being mindful of this, the NEF is consistently exploring avenues for the acceleration of BB-BEE. In this regard the NEF recognises the importance of the significant opportunities that Code 600 (Enterprise Development) presents in accelerating BB-BEE. In many instances this opportunity is totally overlooked by a majority of private enterprises.

## THE NEF ED FUND

### Opportunity to Partner

The NEF has identified an opportunity to partner with the private sector enterprises (Measured Entities) in delivering sustainable BB-BEE solutions to black enterprises at an accelerated pace. The opportunity entails private sector enterprises making their enterprise development contributions to the NEF's Enterprise Development Fund (NEF ED Fund), and the NEF utilising these contributions to co-finance the NEF's investments in enterprise development beneficiaries (Beneficiaries).

### General Overview of Code 600

Code 600 contains the scorecard and measurement principles for Enterprise Development. The Codes define Enterprise Development Contributions as monetary and non-monetary contributions carried out for beneficiaries with the objective of contributing to the development, sustainability and financial and operational independence of beneficiaries.

### Beneficiaries

The beneficiaries of Enterprise Development Fund shall be -

- Exempted Micro Enterprises (EMEs) or Qualifying Small Enterprises (QSEs) which are 50% black-owned or black-women owned; or
- An entity of any size of turnover which is 50% black-owned or black-women owned,

### Features of the NEF ED Fund

The NEF ED Fund is a segregated fund and subdivision of the NEF supported by a bank account established in the name of the NEF. The proceeds of this account would be used exclusively by the NEF to invest in Beneficiaries, which would be majority black-owned or black-women owned small and micro enterprises, with the objective of facilitating the development, sustainability and/or financial and operational independence of the Beneficiaries (**Purpose**).

To the extent that the investments would attract returns and/or be repayable, these proceeds would be paid into the NEF ED Fund and be reinvested, thereby creating an additional source of funding for further investments in the Beneficiaries.

The NEF ED Fund would be under the administrative and management control of the NEF, and would benefit from the NEF's institutional fund management infrastructure, support and investment expertise, which have yielded success for entrepreneurs over the past few years. The application of this expertise would ensure that investments are appropriately targeted, have a high chance of success and that the investments would assist in the realisation of the Purpose. The NEF would leverage off its existing enterprise development qualifying product offering when making these investments.

## BENEFITS ARISING

### BEE Scorecard Points

Through the NEF ED Fund, the contributors would receive enterprise development credits under Code 600 of the Codes, the Beneficiaries could tap into an additional source of funding and most importantly the NEF would be able to make more investments designed to enable meaningful participation of black people as defined in the Codes (black people) in the country's economy.

### Tax Effects

In addition, contributions made to the NEF would generally be exempt in terms of section 56(1)(h) of the Income Tax Act, 1962 and would qualify for a deduction in terms of section 18A of that Act upon the NEF issuing to a contributor a receipt in respect of its contribution to the NEF. Contributions received by the NEF would generally be exempt in the hands of the NEF in terms of section 10(1)(cA) of the Income Tax Act, 1962, by virtue of the NEF's tax status.

### NEF as Enterprise Development Funding Beneficiary

NEF has been designated as a BEE Facilitator in terms of the Codes. The Codes provide that in calculating the ownership score arising from a BEE Facilitator, a BEE Facilitator must be treated as 100% owned by black people, 40% owned by black

women, 10% owned by black designated groups, and without any acquisition debt or third party rights.

Since NEF is deemed to be 100% owned by black people, the NEF qualifies as a beneficiary for Enterprise Development.

In addition, in terms of Code 600, payments made by Measured Entities to third parties to perform Enterprise Development on behalf of the Measured Entities, qualify as Enterprise Development contributions.

NEF is therefore suitably qualified to act as a recipient of Enterprise Development contributions and to carrying out Enterprise Development activities.

### Recognition of Enterprise Development Contributions to NEF

As a result of NEF qualifying as an Enterprise Development beneficiary, contributions made by Measured Entities to NEF will be recognized as Enterprise Development contributions from the point at which they are contributed to NEF, and Measured Entities will be entitled to earn Enterprise Development points as a result of such contributions.

NEF in turn, will be entitled to use the contributions to carry out Enterprise Development activities in a manner consistent with the aims and objective of the NEF ED Fund.

Since the Measured Entities may only make Enterprise Development contributions to the NEF ED Fund by way of contributions, in terms of the Benefit Factor Matrix attached to Code 600, 100% of the amount of such contributions will be recognised as Enterprise Development spend.

### Agreement with the Measured Entities

The Measured Entities will, upon a decision to contribute their Enterprise Development spend to the NEF ED Fund, be required to enter into agreements (Participation Agreements) with the NEF. The Participation Agreements would regulate the terms and conditions applicable to the Measured Entities' contributions to the NEF, and the use to which the NEF may put such contributions, in qualifying enterprise development initiatives. The key terms and conditions of the Participation Agreement are set out below under the caption **KEY TERMS OF THE OFFERING**.

## KEY TERMS OF THE OFFERING

The following is a summary of key terms and conditions for contributions that the Measured Entities will make to the NEF ED Fund, as set out in the model Participation Agreements that the NEF will enter into with the Measured Entities. The model Participation Agreement will be provided to Measured Entities as prospective contributors and their advisors, and should be reviewed carefully prior to making a decision as to whether or not to make a contribution. In the event that the terms described herein are inconsistent with or contrary to the terms of the Participation Agreement, the Participation Agreement shall prevail.

|                           |  |
|---------------------------|--|
| The Contributor           | Measured Entities (as contemplated in the Codes) that wish to make Enterprise Development Contributions.   |
| The Recipient             | The NEF, in its NEF ED FUND.   |
| Nature of the NEF ED Fund | The NEF ED Fund is a segregated fund and subdivision of the NEF supported by a bank account in the name of the NEF. The proceeds of this bank account are ring-fenced from the NEF's other bank accounts and operations and the proceeds of the bank account will be separately accounted for and used exclusively to invest in the Beneficiaries. |
| Fund Size                 | The NEF ED Fund is seeking to raise a minimum of R50, 000, 000 in contributions from Measured Entities per annum. It is intended that these contributions be raised each year of the NEF ED Fund's term during the Fund Raising Periods.   |
| The Contributions         | All contributions from Measured Entities in terms of any Participation Agreement will be irrevocable and unconditional. The NEF has no obligation to repay the contributions to the Measured Entities.   |
| Term of the NEF ED Fund   | The NEF ED Fund will have a 5 year term for each Contributor, at the end of which any surplus proceeds of the Fund would be wholly reinvested into a subsequent NEF ED fund that would serve as a re-investment reserve in that ED fund for the benefit of contributors in that subsequent NEF ED fund.  |

## KEY TERMS OF THE OFFERING (continued)

|                         |  |
|-------------------------|--|
| Fund Raising Period     | Each year in the first quarter of the financial year commencing in the month of April.   |
| Currency Considerations | The Fund will be a South African Rand denominated fund and the funding of Investments and distributions, as well as related expenses, will be made in Rand.  |
| Minimum Commitment      | The minimum capital for contributions from the Measured Entities is R5, 000, 000, or any smaller amount agreed to by the Manager in its sole discretion.   |
| Beneficiaries           | <p>The NEF will utilise proceeds of the NEF ED Fund, comprising the Measured Entities contributions, to invest in the following enterprises through its existing products and Funds:</p> <ul style="list-style-type: none"><li>• Exempt Micro-Enterprises or Qualifying Small Enterprises, which are 50% (fifty percent) or more black-owned or black-women owned;</li><li>• An entity of any size of turnover, which is 50% (fifty percent) or more black-owned or black women owned.</li></ul> |

## KEY TERMS OF THE OFFERING (continued)

|                           |   |
|---------------------------|---|
| Investment Objective      | The NEF will make loan and equity-related investments in the Beneficiaries with the objective of realising the Purpose. The loan and equity-related investments will primarily be through the NEF's existing products and funds, which are described in the section captioned OVERVIEW OF THE NEF.  |
| The Purpose               | Each of the Investments will be made in the Beneficiaries with the objective of facilitating the development, sustainability and/or financial and operational independence of such Beneficiaries.   |
| Commitment by the Sponsor | The NEF will make investments in the Beneficiaries on a co-financed basis. The NEF will draw 40% of the investment capital amount from the NEF ED Fund, and finance the balance of the capital amount from the NEF's own resources, other than from the NEF ED Fund.  |
| The Manager               | <p>The NEF ED Fund's Manager will be an NEF internal resource(s), for which the NEF would be entitled to receive a management fee, payable from the proceeds of the NEF ED Fund.</p> <p>The Manager will have the overall responsibility for managing and administering the NEF ED Fund, investigating, structuring and negotiating potential investments in accordance with the NEF ED Fund's investment criteria and objectives approved by the Fund's Investment Committee as well as, monitoring the performance of the Investments and providing advice to the NEF regarding exit strategies.</p> <p>The Manager will have the absolute discretion to recommend Investment opportunities to the NEF Investment Committee in line with the current NEF Investment Policy.</p> |

## KEY TERMS OF THE OFFERING (continued)

|                       |  |
|-----------------------|--|
| Investment Committee  | <p>The NEF's Investment Committee will comprise of the existing NEF Corporate Governance Structures and applicable Board subcommittees depending on the quantum of the investment to be made in the Beneficiary and shall be evaluated in form and procedure as all other investments within the NEF.</p> <p><b>The Investment Committee will -</b></p> <ul style="list-style-type: none"> <li>(i) Approve transactions to be funded through the Fund;</li> <li>(ii) Manage the relationship between the Fund and the Measured Entities; and</li> <li>(iii) Recommend a replacement Manager, if applicable.</li> </ul> |
| Management Fees       | <p>The NEF as a Fund Manager will be entitled to an annual fee linked to its direct costs incurred out of the management and administration of the NEF ED Fund and will not exceed 3% of the aggregate Capital Commitments in the NEF ED Fund in each year.</p>  |
| Diversification       | <p>The NEF ED Fund will invest in various sectors of the economy excluding morally reprehensible sectors and in line with the principles espoused in the Participation Agreement.</p>  |
| Investment Agreements | <p>The NEF will make investments in the Beneficiaries in terms of Investment Agreements. The NEF does not transfer or assign any rights or obligations under the Investment Agreements to the Measured Entity and the Measured Entity will have no proprietary interest in the benefit of the Investment Agreements or, save as otherwise provided herein, in any monies received by the NEF under or in relation to the Investment Agreements.</p>  |
| Governing Law         | <p>The Participation Agreements will be governed by the laws of the Republic of South Africa.</p>  |

## KEY TERMS OF THE OFFERING (continued)

|                 |   |
|-----------------|---|
| Reports         | The Manager shall provide reports to the Measured Entities advising on the investments made and any event or circumstance which could have a material adverse effect on the NEF realising the Purpose.  |
| Confidentiality | The Measured Entities and their advisors shall keep confidential any and all matters relating to the NEF ED Fund and its affairs, except as required by applicable law and otherwise approved by the Board.   |
| Amendments      | The Participation Agreement may be amended by written agreement of the NEF and the Measured Entity.   |
| Risk Factors    | Each prospective Contributor should consult its own tax and other advisors in determining the possible tax or other consequences to it under the laws of the jurisdictions of which it is a citizen, resident or domiciled, in which it conducts business or in which it otherwise may be subject to tax of investment in the Fund. |
| Auditors        | The auditor shall be the appointed auditors of the NEF at any time.<br>The initial firm of auditors to the fund have been selected as Price Waterhouse Coopers.   |

## KEY TERMS OF THE OFFERING (continued)

|                               |  |
|-------------------------------|--|
| Closings                      | <p>1.1. The Initial Closing may occur upon the earlier of:</p> <ul style="list-style-type: none"><li>(i) September 30, 2011; and</li><li>(ii) The date upon which the Capital Commitments (including the Contributor's Commitment) total at least R50 million (the "Initial Closing").</li></ul> <p>The annual closing may occur upon the earlier of:</p> <ul style="list-style-type: none"><li>(i) 12 months from the date of the Initial Closing; and</li><li>(ii) The date upon which the aggregate Capital Commitments equal at least 90% of the annual target Fund size, or such other amount as determined by the Manager in its discretion (the "Final Closing").</li></ul> |
| Retention of Surplus Proceeds | <p>During the Term, the Manager will be entitled to retain any surplus proceeds of the Fund as a reserve fund and will further be entitled, in his/her discretion, to create appropriate reserves for future anticipated expenses and liabilities of the Fund. At the end of the Term, any surplus proceeds of the Fund would be wholly reinvested into a subsequent NEF ED fund that would serve as a reserve in that fund.</p>   |

Measured Entities are advised to take note of the closing date of the NEF ED Fund as being 30 September 2011 and are thus urged to consider their participation and commence engagement with the NEF well in advance so as to ensure that they meet this closing date. 

# OVERVIEW OF THE NEF

## Introduction

The NEF's vision is to become the leading provider of innovative transformation solutions for an economically inclusive South Africa. The NEF differentiates itself not only with a focused mandate for BB-BEE, but by also assuming predominantly equity-based risk to maximise the Empowerment Dividend.

## The NEF implements its mandate in three ways:

### Asset Management

By structuring accessible retail savings products for black people through its Asset Management Division, which is a custodian of

certain equity allocations in State-Allocated Investments (SAIs), the NEF aims to foster a culture of savings and investment among its beneficiaries.

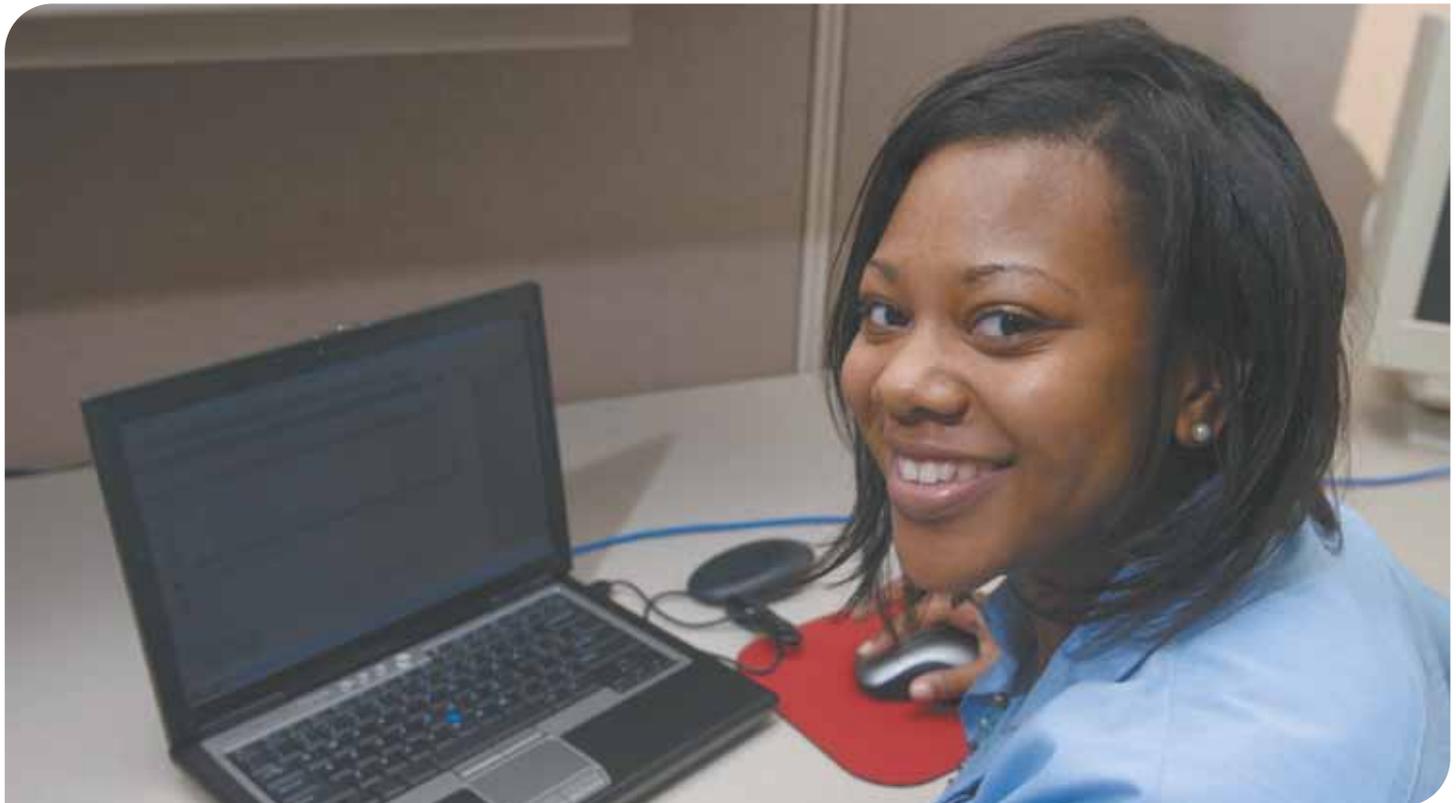
### Fund Management

As a facilitator of BB-BEE, to support black enterprises by providing finance and financial solutions across a range of sectors through its Fund Management Division.

### Strategic Projects Fund

As a leader in venture capital finance which allows entrepreneurs to participate in projects that are at an early stage within sectors identified by the South African government as key drivers to the economic growth of South Africa.

The fund also provides project finance and private equity in these projects once they are regarded as bankable. ▶



## PRODUCT OFFERING

The NEF's product offering is designed to meet broad investment objectives. Set out hereunder are only the NEF's product offering geared for the Black entrepreneur that would meet the requirements of enterprise development in terms of Code 600. Investments are likely to be made in the Beneficiaries using one or more of these product offerings.

### iMbewu Fund

This Fund is designed to support black entrepreneurs wishing to start new businesses, as well as support existing black-owned enterprises with expansion capital. The Fund supports these entities by offering debt, quasi-equity and equity finance products with the funding threshold ranging from a minimum of R250, 000 to a maximum of R20 million.

**Funding is delivered through the following products:**

- Entrepreneurship Finance;
- Procurement Finance; and
- Franchise Finance;

The Entrepreneurship Finance product is aimed at providing start-up and expansion capital to new and early-stage businesses that are owned and managed by black people.

**The key criteria of this product are:**

- BEE applicants should be actively involved in the day-to-day management of the business;
- Minimum black ownership of 50.1% is a requirement;
- Business and/or industry experience by black entrepreneurs is also considered;
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme where there is lack of business and/or Industry experience;
- The business should be able to repay NEF's investment;
- Business must have a clear value-add with a sustainable business case;
- Business should preferably employ a minimum of 5 people;
- Maximum NEF funding is generally R5 million; and
- The NEF will exit from the investment in 5 to 7 years.

The Procurement Finance product is aimed at assisting black-owned SMEs that have been awarded tenders or contracts by public and private sector entities. The product's main objective is to ensure that qualifying SMEs have the capacity to carry out the contracts.

**The key criteria of this product are:**

- Repayment terms must match or be less than the contract term;
- NEF funding is generally limited to R10 million and in instances where there is exceptional economic transformation impact, R20 million;
- There must be active participation by black individuals in the operations of the business;
- Minimum black ownership of 50.1% is required;
- Industry knowledge by management or there must be clear transfer of skills through relevant partnerships;
- The NEF will seek to co-finance with commercial banks to share risk where possible; and
- The NEF reserves the right to oblige applicant to participate in the NEF mentorship programme.

The Franchise Finance product is aimed at assisting black entrepreneurs who wish to acquire a franchise license.

The product is aimed at entrepreneurs who wish to start their own businesses by buying a franchise linked to a particular brand to reduce risks associated with start-up businesses lacking a track record.

**The key criteria of this product are:**

- The NEF prefers to fund recognised franchise concepts;
- Co-operation and commitment to the business by a franchisor;
- Active management involvement by BB-BEE parties is required;
- Minimum BEE shareholding of 50.1% is a requirement;
- Transactions will be structured with sustainable capital structure;
- BEE party must have been pre-approved by the franchisor before approaching NEF;
- NEF funding generally limited to R5 million; and
- The NEF will exit from the investment in 7 years. ⚡

## PRODUCT OFFERING

### Rural and Community Development Fund

Rural and Community Development Fund was designed to promote sustainable change in social and economic relations and supporting the goals of growth and development in the rural 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.

The fund has four products:

- Project Finance,
- Business Acquisition,
- Expansion Capital and
- Start-up/Greenfields

The funding threshold ranging from a minimum of R1 million to R50 million.

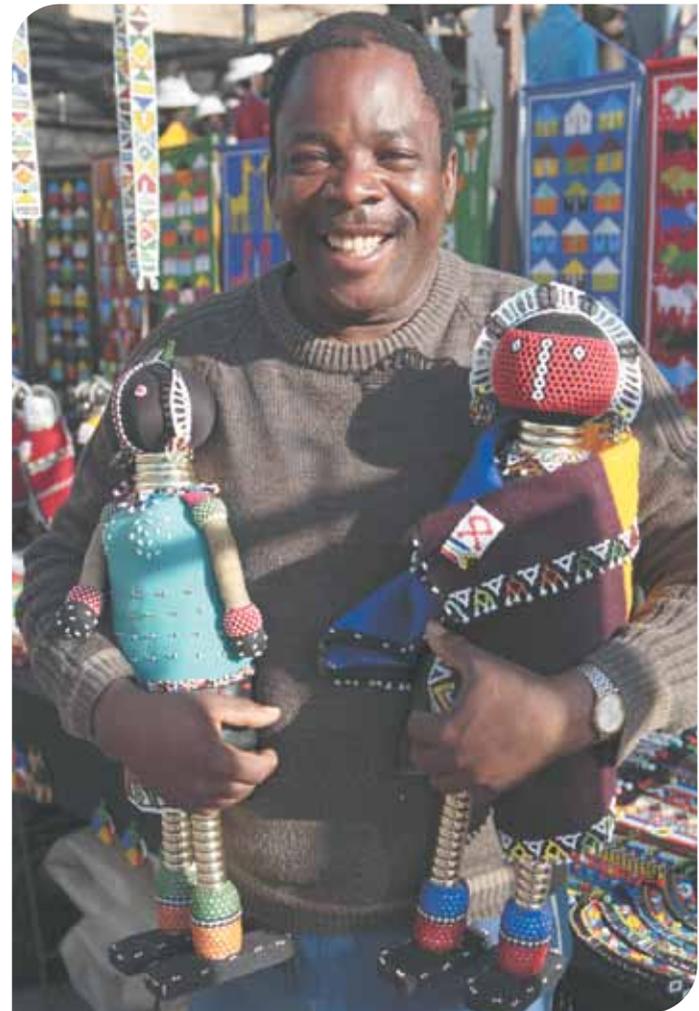
Sectors to be funded include:

- Agribusiness and Forestry;
- Agro-processing;
- Tourism;
- Mining & Beneficiation;
- Manufacturing; and
- Aquaculture.

The key criteria of this product are:

- Projects must be financially sustainable;
- BEE applicants should be actively involved in the day-to-day operations of the business;
- Technical partners should be actively involved in the day-to-day operations of the business;
- The NEF will invest using debt, equity and quasi-equity instruments;

- Minimum black ownership of 25.1% is a requirement;
- Joint ventures between black and non-black partners to support skills transfer;
- The business should be able to repay NEF's investment;
- The business must have a clear value-add with a sustainable business case;
- The NEF will exit from the investment in 5 to 10 years; and
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme. ♪



## THE INVESTED PORTFOLIO

### The Human Face of the NEF

The NEF has to date approved transactions worth in excess of R1.8 billion for start-up, expansion and equity acquisition by black entrepreneurs. These approvals translate into real life success of the NEF investees.

The NEF intends to build on its success and make additional investments in the Beneficiaries using the NEF ED Fund resources, and thereby in partnership with the Measured Entities make a meaningful impact in the business operations of the Beneficiaries.

Hereunder are a few of the NEF investee stories. »



### DMS Powders

DMS Powders (BEE party funded at R30 million) is the largest global supplier of both atomized and milled Ferrosilicon (FeSi) with a production capacity of 42 000tpa. Their products are produced with proven technology and precision.

The production of FeSi in South Africa dates back to 1949 for use in the dense medium separation of diamonds. This was also the early beginning of DMS Powders, trading as Amcor. The production facility relocated to Meyerton in the 1950s with the Atomized Ferrosilicon production facility being commissioned in 1967.

In 1975, Amcor merged with SA Manganese and started trading as Samancor. A stand alone business entity for Ferrosilicon was created in 2000 with the formation of the now black-empowered DMS Powders a division of Samancor. In April 2006 an independent company, Dense Medium Separation Powders (Pty) Ltd, was established under new ownership as a fully black-empowered company. DMS boasts expertise coupled with experienced product technical support, long term customer relationships and intimate knowledge of global logistics. »



## On the Shores of a Lake, A Jewel Glitters

Nestled within indigenous evergreen yet colourful flora, Jozini Tiger Lodge is ideally located for domestic and international tourism. The hotel overlooks Lake Jozini, which is the third largest lake in South Africa, and is easily accessible from both Durban and Gauteng.

The facility boasts 60 upmarket executive rooms with the capacity to accommodate 144 guests. There is no other accommodation in the vicinity that can match the spectacular positioning, size and the experience offered by the lodge. Crocodiles and hippos live in these waters and one can stay near the waters with accommodation varying from houseboats to lodges to private game reserves.

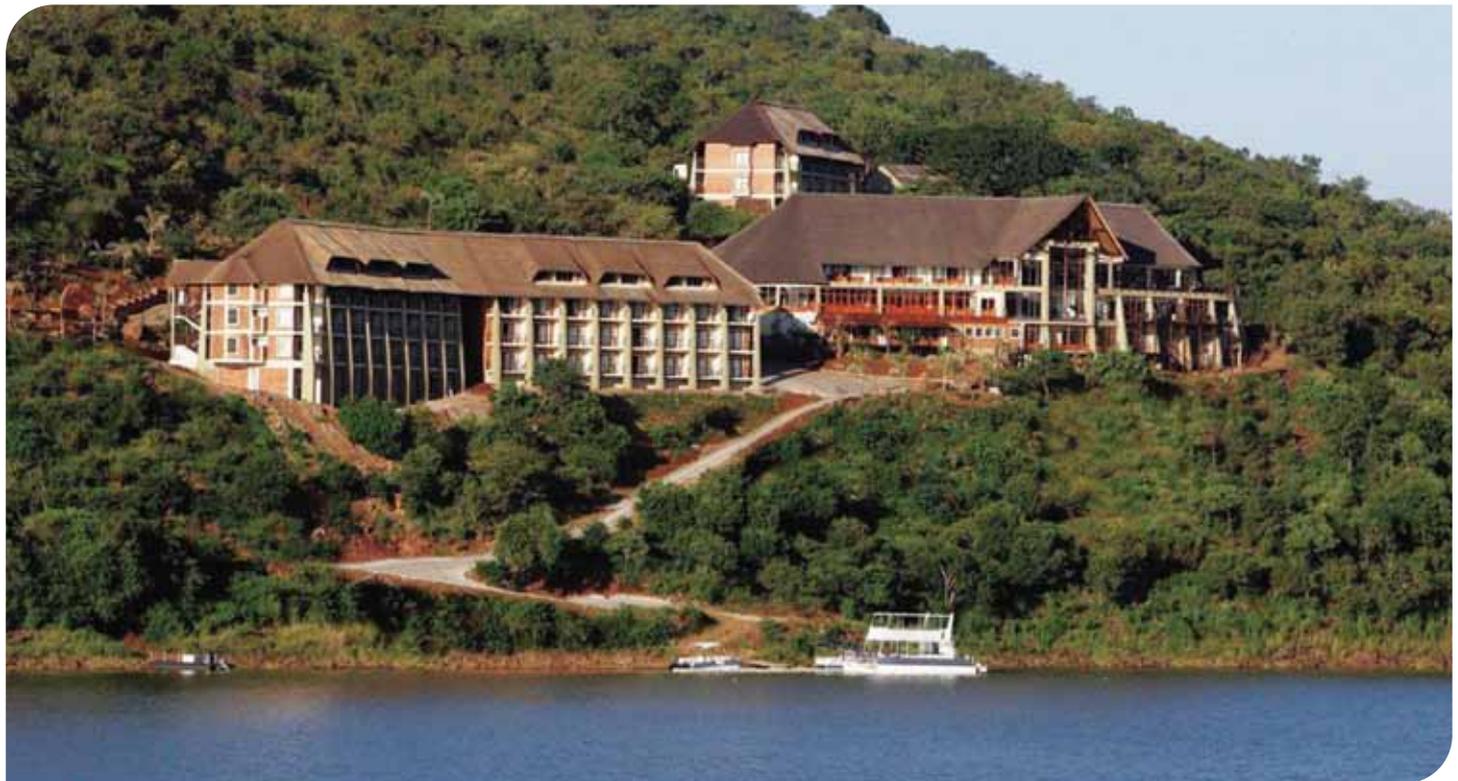
Lake Jozini combines the best beach holiday with the natural beauty of a game reserve in fresh water. Jozini Tiger Lodge is ideal for weekends away, extended family holidays, conferencing,

incentives, team building and international tour groups - this is a must visit picturesque property which offers truly breathtaking scenery.

The National Empowerment Fund's involvement in Jozini Tiger Lodge is for funding the participation of communities in the hotel establishment by purchasing a direct stake on their behalf and also holding a direct investment in the hotel company.

In addition, the NEF will be the sole provider of senior debt funding in the project estimated at R18.8 million. The shareholding in the hotel company is split according to the individual investment contribution by all shareholders.

The community's interest will be held in the holding company, named Ntsinde Royal Jozini Holdings (Pty) Ltd. The company shareholding is 70% community trust and 30% BEE sponsors. The trust represent the interests of approximately 22 000 beneficiaries residing in the Jozini area of Northern KwaZulu-Natal. ♠



## A Sweet Deal for the People

In 1963, a rural community in Charlestown, KwaZulu-Natal, was forcefully removed by the apartheid government and resettled in various areas. Like most communities in South Africa that had borne the brunt of forced removals, the Charlestown community was soon beset with extreme poverty, joblessness and social dislocation.

In 1998, the community began the long road back to its ancestral lands, lodging a claim for restitution. The claim bore fruit in 2004, resulting in the community regaining ownership of its land. Today, the community has developed a successful farming enterprise, with one of the sweetest parts of the story being a fruit farm named Amajuba Berries. The farm boasts the production of a variety of berries for consumption within South Africa and for the export market. The sweet success story is truly broad-based. The community has 1 100 beneficiaries, who are all black. Most of them have moved back to Charlestown. The land is owned by the Charlestown Community Trust and has been leased to Amajuba Berries for 25 years. The Trust has a Board of Trustees with 11 elected members representing the beneficiaries, and it owns 12 farms totalling 8 054ha in Charlestown.

According to Bheki Kubheka, a community leader and a director of a community farming project in the area, while the restoration of the land to its rightful owners was a major achievement, it was only the beginning. The community is now faced with the challenge of turning the land into a successful commercial enterprise comprising several farming projects, breeding beef cattle, a commercial timber project and a dairy project. But it is the berry growing project that has become the prize of the Trust. Kubheka says one of the reasons behind the choice of berries as an ideal crop was that it is a quick return crop. During the 2008/2009 farming season, which was Amajuba Berries' first harvesting season, 25 tons were produced. The company aims to produce 170 000 tons during the 2009/2010 season. The company has already seen significant returns since there is a high demand for berries, particularly in Europe, the UK and the United States. The fruit is high in anti-oxidants, contributing to an even higher demand. All the temporary staff was sourced from the community and they have an option to work for the company during harvest time. At fortyhectares, the project is estimated to employ 800 people and all these temporary positions are filled by the community.

One of the key factors that led to the success of the project is the NEF's mentor system. The system saw the community receiving guidance from the early stages of the project, when soil tests were conducted and climate conditions assessed. The NEF's mentoring guidance continued throughout the project to cover the creation of farm management structures, the creation of marketing and distribution systems and ongoing monitoring systems.

Mr Kubheka says the NEF's model has ensured that the Charlestown community realises its dream of not only getting its land back, but also turning it into a commercial success. The NEF's empowerment funding of R24.9 million, coupled with the IDC's R14.8 million, will enable broad-based community ownership in a project with strong social benefits aimed at poverty alleviation. The participation of a technical partner will see to the transfer of skills. Other local economic benefits will be electrification of houses and provision of land for new houses. ♦



## OTHER SME AND COMMUNITY DEVELOPMENT AGRO-PROCESSING INITIATIVES

### Sha Jes Poultry

Sha Jes Poultry CC, funded for R9 514 750 is a poultry business that is owned 100% by Mr Sajesh Aungunu based in Westonaria, south of Johannesburg. This is a broiler farm that rears one day old chicks to fully grown chickens over a six week period and supplies to wholesale clients. The business has been operating

since its inception in 2004. Mr Aungunu has been both Broiler Production Manager and Poultry Technical Manager for Early Bird Farms and Meadow Feeds northern region respectively for a period of 11 years prior to establishing his own poultry business.

"With the assistance of the National Empowerment Fund, the business has grown from 30 000 chickens per cycle (6 weeks) to 80 000 per cycle," says Mr Aungunu.

The funding from NEF is essentially used for the development of two broiler houses and machinery that will serve to meet the demand from clients. "The farm is now operating at 40% capacity, meaning that our target of 200 000 chickens per cycle is a reality," says Mr Aungunu. ↗



## Mat Kat Trading

Mat Kat Trading CC T/A News Café Emperors Palace funded at R8 811 197 34 is a food and beverage franchise outlet that operates from the Emperors Palace Casino in the Gauteng Province. The News Café outlet is the third Grade A in the News Café Franchise brand. The restaurant is owned by Mr N Naidoo.

The attraction to the transaction was based on the following facts:

- The brand prides itself in the fact that News Café is a premium brand.
- In the past 16 years that the brand has been in existence, there has not been a single News Café franchise that has closed down.
- The reason behind the success of the brand is the commitment of the franchisor.

Once the franchisor has identified a dip in the turnover of any one franchise outlet, they personally send out a team "surprise visit" that will investigate the problems in the store and implement strategies to bring that store up to acceptable trading levels.

The News Café Emperors Palace is not only one of the top restaurants at Emperors Palace Casino, but one of the top News Cafés in the country.Ⓢ



## Red Cherry Productions

Red Cherry Productions was funded at R5 242 500, and is a production company that specialises in interactive marketing.

Interactive marketing is an advertising medium which allows for realtime interface with the target market. This medium is mainly used by advertisers of new or complicated products, or in promoting brand awareness, for example, through competitions. The medium requires viewers or listeners to interact with the marketer by calling, SMS, e-mails etc. This medium is mainly used in new product launches or the activation of a media campaign.

Red Cherry operates from well-equipped and modern premises. The facilities have been upgraded to align it with modern technology and to ensure compatibility with the latest technology.Ⓢ



## Middledrift Dairy

Middledrift Dairy was funded at R9 920 000. The three parties to the project all possess the key factors necessary to implement a sustainable dairy farming production.

The factors and their owners are:

- Agricultural Land - Middledrift Community
- Labour - Middledrift Community
- Capital - National Empowerment Fund and Amadlelo Agri (Pty) Ltd.
- Technical Skills - Amadlelo Agri (Pty) Ltd

The community of Middledrift formed the Gwebindlala Trust, through which they provided land for dairy farming. A company, Middledrift Dairy, was established with the NEF, Gwebindlala Trust, and Amadlelo as shareholders. Through funding provided by the NEF to the value of R9 920 000 and R8.2 million by Amadlelo Agri, Middledrift Dairy has been empowered to establish a commercial dairy farm.

Amadlelo Agri has also provided 600 cows and additional operational and working capital required for development of the farm. The funds have been utilised for start-up costs, acquisition of assets, machinery and working capital. Development of the farm included bush clearing, fencing and irrigations network and other infrastructure requirements.

The farm started production in November 2008 and has produced 2.1m litres to date and is projected to produce 3.0 million litres per year once it reaches full production. It employs 30 workers from the community and is managed by black graduates from the Amadlelo/Fort Hare training initiative.

Middledrift Dairy has an off take agreement with Clover and is currently supplying all of its milk production to Clover.

The objectives of the project are:

- To create a sustainable milk producing enterprise.
- To contribute to alleviating poverty and unemployment in Middledrift.
- To transform the milk-farming sector and develop black farming expertise.
- To empower community members with ownership of a modern commercial farming operation.

A critical lesson arising from this entrepreneurial initiative is that meaningful partnerships can be developed between skilled white farmers and black land owners. The project provides a win-win solution for all the participants with the community providing land, the farmers providing capital and investment, resulting in ownership of a farm for the community and additional income streams in the forms of salaries and wages, and as the business reaches maturity, dividends in the future. »



# OVERVIEW OF APPLICABLE LEGISLATION

## Broad-Based Black Economic Empowerment Act, 2003

### Objectives and Application

BB-BEE is regulated under South African law by the Broad-Based Black Economic Empowerment Act of 2003 (BB-BEE Act).

The BB-BEE Act establishes the framework for the regulation and facilitation of BB-BEE.

The BB-BEE Act's stated objectives include the facilitation of BB-BEE by:

- promoting economic transformation in order to enable meaningful participation of black people in the economy;
- achieving a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises;
- increasing the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training;
- increasing the extent to which black women own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training;
- promoting investment programmes that lead to broad-based and meaningful participation in the economy of black people in order to achieve sustainable development and general prosperity;
- empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills; and
- promoting access to finance for BB-BEE.

Section 9(1) of the BB-BEE Act enables the Minister to develop codes of good practice on BB-BEE, and pursuant to that, the Codes were promulgated in February 2007.

Section 10 of the BB-BEE Act compels organs of state and public entities to apply the Codes, wherever reasonably possible in:

- determining qualification criteria for the issuing of licences, concessions or other authorisations in terms of any law;
- developing and implementing a preferential procurement policy;
- determining qualification criteria for the sale of state-owned enterprises;
- developing criteria for the sale of state-owned enterprises; and
- developing criteria for entering into partnerships with the private sector.

While section 10 is a mandatory obligation of the public sector, it is not mandatory for the private sector but it has indirect application to private sector business that:

- have or are required to have a regulatory relationship with the public sector;
- provide goods or services to the public sector, or
- provide goods or services to other businesses in a relationship with the public sector. ▶



# Codes of Good Practice

## General Overview

The Codes contain specific provisions relating, inter alia, to the further interpretation and definition of BB-BEE and the beneficiaries of BB-BEE, the specific elements of BB-BEE and their applicable scorecards, the indicators to measure BB-BEE, and the weightings to be attached to such indicators.

**The Codes define the beneficiaries of BB-BEE as black people, being African, Coloured or Indian natural persons who:**

- Are citizens of the Republic of South Africa by birth or by descent; or
- Are citizens of the Republic of South Africa by naturalisation which was completed prior to the coming into effect of the Constitution of the Republic of South Africa Act of 1993; or
- Became citizens of the Republic of South Africa by naturalisation after the coming into effect of the Constitution of the Republic of South Africa Act of 1993, "but who, but for the Apartheid policy that had been in place prior to that date, would have been entitled to acquire citizenship by naturalisation prior to that date".

In terms of the Codes, a business achieves BB-BEE compliance by reference to the overall score which it achieves by measuring itself in accordance with the scorecard set out in the Codes.

There are seven elements of BB-BEE, being ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development:

- The ownership element measures the participation by black people in the economic interest and voting rights of a Measured Entity.
- The management control element measures the degree of participation by black people as executive and non-executive directors, and top management of a Measured Entity.
- The employment equity element measures the participation by black people at junior, middle or senior management of a Measured Entity.

- The preferential procurement element measures the degree to which a Measured Entity purchases goods and services from entities that are black-owned and which have a BB-BEE compliance status.
- The skills development element measures the extent to which a Measured Entity develops the skills of its black employees.
- The enterprise development element measures the extent of the monetary and non-monetary contributions made by a Measured Entity to the development and sustainability of black-owned or women-owned enterprises.
- The socio-economic development element measures the extent of the monetary and non-monetary contributions made by a Measured Entity to the socio-economic development and sustainability of black people.

In terms of the Codes a weighting is attributed to each element. Measured Entities can therefore express their BB-BEE contribution as a score out of 100 total weighting points.

A Measured Entity then receives a BB-BEE status based on its overall performance measured against the generic scorecard. ↗



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