

**Keynote address by Minister of Trade and Industry, Minister Mandisi Mphahlele, at the National Empowerment Fund launched with a capitalisation of R2 billion**

31 May 2004

I would like to welcome you to the launch of the National Empowerment Fund (NEF). This institution and its products are the latest in a series of mechanisms designed to lead to greater levels of Black Economic Empowerment (BEE) in South Africa. Extensive work and interventions by the government has been called for because after the first ten years of democracy it is clear that the levels of inequality in South Africa are not declining and in some areas have started to widen. The increase in inequality is not acceptable to the government and is not sustainable for the country.

The approach to BEE in the first years of years of democracy led to a number of high profile deals taking place. These deals were and will continue to be necessary as transformation of large corporations needs to take place and is very desirable; however, it is empowerment for the ordinary person that we need to focus on in our second decade of democracy.

In order to extend and deepen black economic empowerment we have a number of interventions that we have planned for BEE in the country, which will continue the transformation of our economy into a globally competitive and dynamic economy. Such interventions will include the formation of the BEE council, releasing of the Codes of Good Practice, a public education campaign on BEE, government procurement practices, support for cooperatives and a review of the incentives of the dti and alignment to BEE.

The Broad Based Black Economic Empowerment Act that we released last year is the policy framework that will be addressing the extension of BEE to a significantly broader base of enterprises and individuals.

The BEE Act does this by taking a holistic approach to black economic empowerment by looking at a wide range of enterprises and individuals and where they fit into the economic value chain. To this end the BEE Act looks at the suppliers to large companies, the downstream beneficiation of goods produced by companies, the development of human resources, the levels of BEE in the ownership in companies, and very importantly the levels of BEE in management.

The impact of the approach that the government has taken is that BEE is now accommodating a broader range of enterprises and is moving away from the narrow focus that was pervasive in the past.

In order to be effective in achieving our goals of being broad based and thereby reducing the levels of inequality in our country, contributing substantially to job creation and further growing our economy, it is necessary that we clearly understand what the requirements are for successful implementation of BEE and have appropriate responses.

The first requirement is that of increasing market opportunities. Such opportunities will be created by companies sourcing more of their products from BEE firms; from the government and state owned enterprises, which have improved spending and procurement from BEE firms; from the expansion of the economy; and the increased levels of domestic demand. Market opportunities have also dramatically increased in the international arena since 1994 where the government has created opportunities through negotiating Free Trade Agreements, signing bilateral trade agreements and encouraging inward investment into the country.

The second requirement would be increasing the levels of business support to enterprises. The government has established several initiatives to provide business development services to businesses, for example by institutions such as Ntsika and the Manufacturing Advisory Centre programme. Such initiatives will be consolidated and expanded in the coming months so as to increase their effectiveness and reach. Business support services help to fill the gap that many businesses have and find ways increase their productivity, improve their use of technology, help with the management of finances and cash flow, and implementation of quality systems. The department of trade and industry's (the dti) Black Business Supplier Development Programme was established with the specific purpose of supporting the development and capacity building of black businesses by subsidising business development costs.

The third requirement is to have skills development. While the South African domestic economy is very competitive; the international economy is extremely competitive and can be unforgiving. Businesses today need to continually look at how to improve their products, improve their marketing strategy, improve their use of technology, and lower their pricing, etc. In order to achieve these things we need to ensure that our people have the right skills and capability.

A fourth requirement for the successful implementation of BEE, and the last which I will discuss today, is that of access to finance - the reason we are present here. When we speak to black businesses one of the overwhelming concerns that they have is the problems relating to access to finance. While I do not believe that this is the only constraint facing black businesses, and I have already mentioned several other areas that need to be addressed, access to finance is a critical component of our support interventions and is necessary if we are to be successful in implementing our broad based black economic empowerment programmes.

While the Financial Service Sector charter is expected to address the problems of access to finance for black firms, we also take into account that one of the issues identified for further work was discussion between the private sector and government on the role and participation of Development Finance Institutions. In this context and as we launch the NEF it is our view that it should be able to enter into partnerships and enable us to leverage further resources from private sector financial institutions.

The launch of the National Empowerment Fund should therefore not be seen by the established financial institutions as a strategy by the government to crowd out the private sector in the provision of finance to black entrepreneurs. On the contrary the NEF is responding to a gap in the marketplace.

The dti has considered this lack of adequate private sector participation in BEE financing, and we understand that the poor private sector institutional response to this new BEE financing market is due to both the perceived and real risk that it poses. Our intervention in this area, which will take place through the NEF, which we are launching today, as well as through other government finance institutions such as the IDC and Khula. The role of the NEF will be to bring down the perceived risk by showing that it is possible to successfully finance BEE businesses and bring down the real risk by developing creative and unique products that respond appropriately to the circumstances faced by black businesses.

I hope that the private sector finance institutions respond positively to the NEF, learn from this institution and find ways to successfully engage in the financing of BEE firms. I look forward to the creation of a vibrant, dynamic and competitive BEE financing market.

The government is placing a large responsibility on the NEF to resolve some of the problems that black businesses are facing in obtaining financing and will therefore be putting substantial resources into the NEF. The dti and National Treasury have agreed on an initial capitalisation of R2 Billion for the NEF. The R2 Billion will be accessed on the basis of a draw down schedule and further work will be done to access additional resources based on the development of new products to the market.

It should be clear from the outset that the NEF will be guided by market principles and that poor business ideas presented to them by entrepreneurs will not be financed. The NEF is not offering free money to BEE firms and will operate with strict principles of recouping loans and other finance. The fundamental difference between the NEF and the existing finance institutions is the approach that they take to evaluating the businesses, the scope of business sizes that it will be financing, and the range of products that it will have.

The products of the NEF will include financing for new entrepreneurs, business expansion, and BEE transformation of existing businesses, as well as financing for empowerment in listed companies and for large projects. The CEO of the NEF, Mr Sydney Maree will speak more about the NEF's products, however, I would like to touch on two of them, the Capital Markets Fund and the Generator Fund, so as to highlight the shift that we are taking from normal business financing. The Capital Markets Fund will invest in BEE enterprises, including those owned by women, which seek to list on the JSE or the Alternative Exchange (AltX) market and support the listing. This will help to increase the number of black and women owned firms on the JSE.

The Generator Fund is part of the NEF's entrepreneur support programme and will be offering finance to new black owned and managed enterprises thereby supporting and encouraging a culture of entrepreneurship amongst black people. Many firms struggle to get access to finance between R250 000 and R1 million and this fund will fill that gap.

In particular I would like to see a strong emphasis placed on extending the reach of financial services to all parts of the country with an emphasis on rural areas and those areas requiring economic regeneration.

The NEF will work closely with other government departments, in particular the Employment and Investment Cluster of Cabinet and has already entered into discussions with the Department of Minerals and Energy where the NEF will be providing advice, recommendations and support under the Mining Charter.

To conclude, black economic empowerment is a priority for South Africa and it needs to be broad based. In order for it to be successful we need to ensure that there is support for black businesses at a number of different levels. In the area of access to finance the significant resources that the NEF will be putting into the marketplace for the financing black firms is very much needed and will make a sizable impact in addressing some of the problems faced by black firms.

Issued by: Department of Trade and Industry  
31 May 2004

Source: Department of Trade and Industry (<http://www.dti.gov.za>)