

NEF tackles recession by driving BB-BEE higher

In fulfilling the mandate to provide innovative financial solutions to black-empowered entrepreneurs, the National Empowerment Fund (NEF) has achieved the highest level of investment activity in its history, with annual approvals at R684-million (2009: R495-million) and disbursements of R506-million, says **CEO Ms Philisiwe Buthelezi**.

“Over the last five years we have witnessed a very significant improvement in the results of the National Empowerment Fund (NEF). Our systems have matured to the point where the NEF is approaching being a self-financing organisation, steadfastly pursuing its twin objectives of providing innovative financial and non-financial solutions to Black-empowered entrepreneurs, on the one hand, as well as the entrenchment of a culture of savings and investment among Black people, on the other. The organisation is now poised to chart a new path in terms of encouraging more and more black entrepreneurs to create real value by establishing new enterprises. The quest for an inclusive and transformed economy now demands that equity acquisition be a thing of the past,” says **Mr Ronnie Ntuli, Chairman of the Board of Trustees**.

Capitalisation by Government

The NEF was capitalised by Government in 2004 through funding allocation of R2.2-billion to be drawn-down over a five-year period up to 2009.

A portion of the NEF’s transfer received from Government is earmarked to finance the operational costs associated with execution of the NEF’s mandate. The operational expenditure of the NEF has, over the years, progressively increased to just above R100-million annually, which equates to 2 percent of the NEF’s capital under management as at 31 March 2010.

In order to begin to address the mandate of entrenching a culture of savings and investment amongst black people, government initiated the transfer of equity stakes in State Owned Enterprises. To date the NEF has received the 1.5% allocation in MTN, 0.8% of which was offered through the successful NEF Asonge Share Scheme, plus allocations in Connex Travel and Gidani, the current National Lottery Operator. The NEF continues to work closely with government to secure the transfer of the remaining many equity allocations for this purposes.

Performance highlights

Established by the National Empowerment Fund Act No 105 of 1998, the NEF is a driver and a thought-leader in promoting and facilitating Black economic participation through

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.

As a leading empowerment agency, the NEF has continued to produce an array of achievements in its three core areas of Fund Management (*financial and non-financial support*), Strategic Projects (*early-stage investments*) and Asset Management (*Asonge and related savings and investment products*), adds **Ms Buthelezi**.

According to the CEO, notable high-level achievements for the NEF during the 2009/10 financial year include:

- The approval of a total R 749 million (2009: R495 million), and the disbursement of 48 (2009: 43) new transactions worth R549 million (2009: R279 million) by the organisation during the 2009/10 financial year.
- The Fund Management Division has approved a total of 54 new transactions worth R 685 million (2009: 46 new transactions worth R495 million). This is achieved against the targets for the year of 77 approvals worth R560 million (2009: 74 approvals worth R687 million).
- The Fund Management Division has disbursed 44 new transactions worth R502.4 million (2009: 93 disbursements worth R279 million). This is achieved against a target of 67 disbursements worth R490 million (2009: 69 disbursements worth R525 million).
- The Strategic Projects Fund has invested a total of R46.5 million during the year under review, bringing the total invested by this fund to R52.5 million since inception in transactions expected to be currently worth R615 million to the NEF at equity closure. The unit has 10 projects in the pipeline and is currently working on eight active projects. This was achieved against a budget set-aside for transactions worth R460 million for 2009/10 financial year.
- Transactions included in work in progress total 85 deals worth R 2.323 billion (2009: 50 deals worth R1 077 million).
- This brings the NEF to a total value approved since inception of 228 transactions worth R1 804 million and 208 transactions of disbursements of R1 527 million. The organisation is fast approaching the approval of deals worth R2 billion. In addition, the NEF's R1 527 million invested portfolio has leveraged a further R2 787 million worth of third party funding for investees.
- The successful conclusion of the NEF Asonge Share Scheme with the issue in September 2009 of 1,112,412 Asonge MTN bonus shares worth a total of R139 million to 82,000 Asonge MTN shareholders was another milestone in the NEF's history. One bonus share was issued for every ten Asonge shares held, thus rewarding investors for holding onto their shares and in so doing, encouraging a culture of savings and yielding an overall return of 69% over the life of the scheme.
- The launch of the Mentorship Panel consisting of 70 mentors around the country, conducting 290 site visits, recovering R8.1 million on transactions at the legal collections stage, restructuring 27 investees companies and investing more than R4.1 million in mentorship. The main objectives of the mentorship programme are:

- To assist in the development and maintenance of sustainable businesses, which will in turn contribute to the sustainable growth of the economy in accordance with ASGISA and IPAP.
- Assistance in due diligence for new deals and further advances on existing deals.
- Turn around management.
- The national rollout of the NEF's Business Planner toolkit. The Business Planner tool is an online software tool that has been developed to enable entrepreneurs to be able to write their own business plans and financial projections. The tool is accessible free of charge to all entrepreneurs (not only entrepreneurs wanting to apply for funding from NEF) to develop their business plans in an easy and user friendly manner. The tool prompts the development of the business plan through the answering of questions which will eventually culminate in a completed business plan. The tool is web-based which makes it easily accessible and also provides the functionality to store the business plan in a secure environment. It further allows repeated access to the business plan to revise the information contained therein which allows one to continuously update the business plan and financial projections to reflect changes within both the macro and micro environments.
- The initiation of the Investor Education campaign implementation which will be rolled out in all nine provinces of the Republic, with a total of 74 seminars at eight educational interactions per province. The investor education program started in the Northern Cape in March 2010, moved to the Eastern Cape in May 2010 and will end in 2012 in Gauteng.

Strategic Projects Fund

Ms Buthelezi says the Strategic Projects Fund (SPF) “was established with a mandate to increase the participation of Black people in early-stage projects that are aligned to Government’s priority economic sectors. SPF uses a sector-targeted approach, aligned to the Industrial Policy Action Plan of the dti, in developing its portfolio and these sectors include Tourism, Mining, Minerals Beneficiation, Agri-processing, Renewable Energy, Business Process Outsourcing and Infrastructural Projects”.

She says a successful implementation of the fund will see the NEF making the following contributions:

- Expansion and creation of new industrial and manufacturing capacity in South Africa,
- Investment in economically depressed areas or poverty nodes,
- Warehouse equity for the future benefit of BB-BEE in national strategic projects and increase the participation of black people in these projects,
- Increase South Africa’s export-earning potential,
- Reduce the dependency of South Africa on imports.

Rural and Community Development Fund

“The Rural and Community Development Fund was designed to promote sustainable improvements to economically marginalised black communities through growth and development in the rural economy, by financing sustainable community enterprises”.

She says this is achieved through mobilisation of rural communities in legal entities and cooperatives in order to participate in broader activities and realise the economic transformation roles in rural South Africa. The fund has three products, namely project finance, business acquisition, expansion capital and start-up/greenfields with the funding threshold ranging from a minimum of R1-million to R50-million. Its targeted sectors are agro-processing, forestry, tourism, manufacturing, mining beneficiation and aquaculture.

Non-financial support

“In response to the constraints facing some black entrepreneurs, such as the challenge in producing top-quality business plans and the lack of accurate and reliable financial information from applicants, the NEF has since launched a comprehensive online Business Plan tool, which is available for free to the public on the NEF’s website,” explains the CEO of the NEF.

The tool, available on www.nefcorp.co.za, is designed to assist applicants in initiating, improving and refining the quality of their business plans, including completion of financial projections through a step-by-step question and answer process.

“Through our Post-Investment function the NEF also monitors the performance of its growing number of investees for business risk, and provides ongoing business support when required, which includes free mentorship and business coaching to existing clients. The business mentors are deployed across the country and possess a wide spectrum of business expertise, which proved invaluable to NEF investees at the height of the global economic downturn,” she explains.

Codes of good practice

“As a driver of the Codes of Good Practice for Broad-Based Black Economic Empowerment, the NEF has developed finance products ranging from R250 000 up to R75-million for black entrepreneurs,” reports Buthelezi.

“The NEF provides funds to black entrepreneurs and groups with the aim of facilitating access to finance in support of BB-BEE. The investment activities are guided by a policy that seeks to ensure that investments create real economic empowerment for black groups and individuals without deviating from sound economic principles.

Buthelezi says the NEF’s funding is in line with the national economic growth sectors identified by **the dti** through the Industrial Policy Action Plan (IPAP).

Funding criteria

The NEF says each application is assessed in terms of the following criteria:

- minimum percentage of black ownership or interest,
- black women empowerment,
- black managerial and operational involvement,

- commercial viability of the business,
- specific product criteria,
- job creation,
- geographic location of the business (rural/urban/disadvantaged areas,
- community involvement,
- compliance with all the relevant laws and regulations,
- return on investment, and
- the possibility of co-funding with another public or private sector institution.

“The NEF allows five to seven years to repay the funding, depending on the type of enterprise and the risk profile as informed thorough due diligence. However, for rural and community development transactions the repayment period may be extended to ten years,” says Ms Buthelezi.

Asonge bonus shares

In line with the second aspect of its mandate, which is to provide black people with opportunities to acquire equity stakes in entities, September 2009 marked the successful conclusion of the NEF Asonge Share Scheme. The issue of 1 112 412 Asonge MTN bonus shares worth a total of R139-million to 82 000 Asonge MTN shareholders, heralded yet another milestone in the NEF’s history.

“One bonus share was issued for every ten Asonge shares held, thus rewarding investors for holding onto their shares and in so doing, encouraging a culture of savings and investment, and yielding an overall return of 69% over the life of the scheme,” reveals Ms Buthelezi. The NEF will be working on further new opportunities such as these in the future.

Job creation and operational excellence

Job creation, according to Chairman Ntuli, is “one of the country’s strategic imperatives which the NEF, as it continues to grown the empowerment dividend, will continue to make a meaningful contribution towards. For the year under review the NEF created 2 351 new jobs and supported an additional 2 034 existing jobs (2009: 294 new jobs and 398 existing jobs), bringing the total to 20 535 jobs since operational inception in 2004”.

“As a testament of the NEF’s commitment to corporate governance and international best practise, the organisation has once again achieved a flawless audit for five years running. As a Board our injunction is for the NEF to be run with the same distinction as it demands of its investees,” concludes Mr Ntuli.

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