

TO ALL NEWS EDITORS AND JOURNALISTS

SLUG: NEF RE-OPENS

Media Statement

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Relief as NEF re-opens funding for black entrepreneurs

In the week that South Africa celebrates 20 years of freedom and democracy, the aspirations of black entrepreneurs were placed at the heart of the country's transformation agenda when leading development financier, the National Empowerment Fund (NEF), announced a Board resolution following consultations with *the dti* and National Treasury "to re-open funding for black-owned and managed businesses requiring financial support for start-up, expansion and equity transformation purposes, using existing reserves and the anticipated new capital," says **Chief Executive, Ms Philisiwe Mthethwa**.

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.

One of the encouraging signs for the NEF's continuity and recapitalisation prospects was when President Jacob Zuma gave the financier unequivocal endorsement in the 2014 State of the Nation Address, as follows: "Many of the aspirant black industrialists complain about the difficulties they experience in obtaining industrial finance, supplier and retail markets, and technical production support. The National Empowerment Fund, the Industrial Development Corporation and the Small Enterprise Finance Agency will continue to provide finance to viable black-owned businesses to promote industrialisation. In addition, we encourage established businesses to support the development of black industrial businesses," said **President Zuma**.

"In May 2013 the NEF was compelled by declining resources and unrealised recapitalisation initiatives to declare a temporary moratorium on new applications, while deliberations with *the dti* and National Treasury were in motion. This we believe was a prudent decision because it was aimed at curtailing the erosion of available resources in light of uncertainty at the time regarding the prospects for recapitalisation. Now that we are confident and certain that new capital is on the horizon, the NEF is comfortable to reopen funding for new transactions in order to meet the huge demand for development finance by black business," says recently-appointed **Acting Chairman of the NEF's Board of Trustees, Mr Rakesh Garach**.

The NEF was capitalised in 2005 by Government to the value of R2.4 billion, all of which was fully disbursed by 2010, as planned. Since then, the NEF has been self-financed with proceeds from dividends and interests from its investments and proceeds from the sale in 2007 through the Asonge Share Scheme of a portion of the NEF's holding in the MTN Group. This resulted in more than 87 000 black South Africans becoming investors in one of the country's leading cellular operators, and generated R1.1 billion revenue. Additional capital was generated from loan repayments, which are still being collected in the normal course, says **Ms Mthethwa**.

R950 million available for black business

She adds that “cash that is immediately available to the NEF for new approvals is R950 million. The NEF has approved over R5.48 billion worth of transactions for 546 black companies, and over the years R2 billion has been repaid and reinvested. Whilst the NEF’s cash position as at March 2014 is R1.48 billion, R529 million of that related to undrawn commitments. As a development financier the NEF is a patient-capital lender with funding horizons of up to 7 years for some products, and up to 10 years in the case of both rural and industrial development transactions. What this means is that the NEF’s loan portfolio is still in the economy, and will eventually be repaid for reinvestment purposes”.

Ms Mthethwa says since recapitalisation talks with Government began in 2009, the NEF has presented various funding scenarios, “which have not yet materialised because the global economic contagion that began in 2008 confronted the country with a range of competing priorities on the social front. As South Africa emerges from a crises that was imposed by a web of global forces, the country can once again direct resources for meeting the challenges of propelling inclusive growth”. The funding scenarios which the NEF has explored with Government are as follows:

1. Financial recapitalisation through the annual Medium-Term Expenditure Framework (MTEF) application to the value of R2,3 billion submitted to National Treasury through **the dti**;
2. A loan facility from the DFI sector to the value of R1 billion, which is now imminent following discussions with **the dti**, National Treasury and the Department of Economic Development;
3. From recent discussions the possibility of equity allocations of Government’s shareholding in non-strategic entities.
4. The NEF’s current classification under the Public Finance Management Act (PFMA) imposes restrictions on the NEF to raise additional capital outside the fiscus. The classification is meant for entities that are substantially funded by the National Revenue Fund, which the NEF hasn’t been since the last capital injection in 2010. Accordingly, the NEF has applied with the National Treasury for reclassification from a Schedule 3A to Schedule 2 entity under the PFMA, and
5. As a long-term initiative an intergovernmental process is underway to explore structural DFI integration.

The next 20 years of freedom and democracy

“The Board is pleased by recent commitments from Government that the NEF will indeed be recapitalised soon, and this affirms the historic validity and importance of its mandate, which is to heal the injustices of our country’s past by bringing more and more black people into the economic mainstream, in order to achieve inclusive growth. The Board has every confidence in management’s ability to return the NEF to its peak as a high-performing organisation that does its work with diligence and integrity. The task of inclusive economic growth, however, is not for government alone, and we want to urge the private sector to also go beyond the tick-box approach by making real and meaningful contributions in terms of preferential procurement, enterprise development, employment equity and social development. That way the next 20 years of democracy will see our country soar to far greater heights among the nations of the world,” says **Acting Chairman, Mr Garach**.

Since operational inception in 2004 to date, the NEF has achieved an array of important milestones, which include the following:

	Output	Achievements
1	Approvals	Approved 546 transactions worth more than R5,48 billion for black-empowered businesses across the country.
2	Disbursement	R4 billion has been committed to 455 of these companies.
3	Strong SME support	Over 60% of the NEF's beneficiaries are SMEs , and these are in virtually all sectors of the economy.
4	Integrity	Secured unqualified external audit opinions for 8 years running.
5	Supporting jobs	To date the NEF has supported in excess of 46 000 jobs .
6	Industrialisation	21 strategic and industrial projects worth R32 billion, with the potential to support over 80 000 jobs, once the projects are commercialised.
7	A culture of savings & investment	In a transaction worth over R1,1 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.
8	Investor education	Reached over 18 000 people in villages and townships through 80 community seminars on how to save and invest, personal financial discipline, shares, dividends, bonds, the property and money markets.
9	Entrepreneurship training / incubation	Business skills training provided to 1 460 potential entrepreneurs who attended 83 seminars before funding stopped.
10	National footprint	Regional offices in all but one province. Plans to open the Northern Cape regional offices were suspended as part of the moratorium on new funding in 2013. 30% of the number of approved transactions emanated from the regional offices during Financial Year 2012/13.

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