

Media Statement for immediate release to All News Editors

NEF funding application to PIC
2019

Thursday, 11 July

NEF performance is above reproach and has co-operated with the PIC with integrity

The mandate of the National Empowerment Fund (NEF) is to grow black economic participation in South Africa by providing financial and non-financial support to black entrepreneurs, and by promoting a culture of savings and investment among black people. In discharging this mandate, the NEF has approved 988 transactions worth more than R9.8 billion across virtually all sectors of the economy since operational inception in 2005, and together these businesses have supported 99 445 jobs countrywide.

Contrary to the testimony of the former CEO of the Public Investment Corporation (PIC), Dr Dan Matjila, presented to the *Mpati Commission of Inquiry Into Allegations of Wrong-doing at the PIC* on 10 July 2019, the NEF's operational performance is above reproach. Further, the NEF has conducted its application for funding from the PIC with integrity, accountability and transparency. For the record, the PIC has never funded the NEF.

History of NEF capitalisation

Section 18 of the *National Empowerment Fund Act No. 105 of 1998* provides for the NEF to be funded by Government as follows: "The operating and capital expenses of the Trust will be financed by grants, loans, income generated by the Trust or money appropriated by Parliament for that purpose".

In 2004 Government undertook at Parliament to fund the NEF to the tune of R10 billion over the next five years. This, however, did not materialise. Of the total amount of capital committed by Government, NEF was only capitalized to the tune of R2.4 billion. The funds were fully disbursed by 2010 as planned.

Since then, the NEF has been self-financed with repayments from investments made, proceeds from dividends and interest income 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 billion in revenue.

In the effort to secure recapitalization so that it can respond to the overwhelming need for funding from black entrepreneurs, over the past 9 years the NEF has sought the following interventions and solutions:

1. In line with its founding legislation, sought allocations from Government through successive Medium Term Expenditure Framework (MTEF) applications to National Treasury, via its parent ministry, *the dti*.
2. Through *the dti* sought National Treasury approval for Limited Borrowing Rights to enable the NEF to borrow monies from IDC and PIC as stated below. This hybrid funding model would allow the entity to receive direct allocations from the fiscus and to raise funding from the capital markets.
3. Since July 2014 the NEF has been in discussions with the IDC in a process supported by *the dti*, the Department of Economic Development and National Treasury in order to find a sustainable and long-term recapitalisation solution for the

NEF. On two occasions the IDC has approved a facility of R500 million respectively, however, the IDC has not been able to disburse the facility because National Treasury has not approved the NEF's application for borrowing powers.

4. The NEF has also sought capitalization from the PIC through applications that have been reported to and supported by *the dti*, and which have been disclosed to the Parliament and to the public, by the NEF, over the past 3 years.
5. The NEF was fully aware that other DFIs had raised their funding from the UIF and PIC, and in the view of the NEF there was nothing untoward with approaching the PIC for funding because the NEF is also 100%-owned by Government.

Unfortunate allegations

Among the unfortunate and unfounded allegations made to the Commission by Dr Dan Matjila, are the following, as reported in the media:

- The NEF could not be funded because of the quality of the portfolio. The NEF was making losses - this could eat into any new investment the PIC makes unless there was a change in the structure.
- The PIC suggested creating a separate SPV to co-invest or manage together.
- The NEF had requested R1bn from the PIC in 2016. But the NEF did not meet PIC requirements and the request was rejected.
- After Buthelezi was appointed chairperson the NEF request was resuscitated and the amount was increased to R3bn - the PIC made a fresh consideration of the NEF. But the NEF still failed the test. The next time Matjila heard of it was at his meeting with Buthelezi at OR Tambo airport.

NEF engagements with PIC predate appointment of former Deputy Minister Sfiso Buthelezi

The NEF is on record through numerous presentations to Parliament and various other public platforms including its Annual Reports over the past 3 years that as part of efforts to secure recapitalisation, the NEF has been in discussions with a variety of stakeholders including the PIC.

All these engagements predate the appointment of Mr Sfiso Buthelezi in March 2017 as Deputy Minister of Finance, a position that he has since vacated.

Linking the NEF's application to the Deputy Minister is therefore ahistorical at best, and is mischievous, paternalistic and dishonest at worst. The NEF has dutifully and diligently declared any potential political exposure in writing to the PIC.

NEF engagements with the PIC

- The NEF shares unique synergies with the Unemployment Insurance Fund (UIF), and these derive from the respective mandates of the two organisations, both of which are enjoined to contribute towards the National Development Plan, and whose goals are:
 - Poverty alleviation
 - Economic Growth and
 - Job creation.

- It was for this reason that in 2015 the NEF approached the UIF to explore the possibility of partnering with the NEF in investing some of the funds under its management.
- The two institutions agreed on the need for such a partnership, in particular to help address the challenge associated with slow economic growth which leads to the impairment and closure of businesses, unemployment and endangered social security.
- Because the PIC manages UIF funds, the NEF then had various engagements with the PIC dating back to 2015, and applications for a PIC facility were then submitted.
- In early 2017 the PIC concluded a due diligence process and the application went through the relevant approval structures, including the Executive Committee of the PIC.
- In keeping with an established hallmark of the NEF, all interactions were above board, transparent and accountable, and were conducted with integrity.
- The NEF is still awaiting a written response from the PIC and has had no need to appeal for intervention from any quarter, and if such an appeal were ever to materialise it would be channelled correctly through the NEF's shareholder ministry, *the dti*. It is important to note that the NEF has to date never received any response from the PIC to its funding application, and only learnt for the first time through the media (from Dr Matjila's testimony) that its application was declined.
- Any assertions about "nepotistic" representations are therefore false, mischievous and outrageous in the extreme.
- In 2017, at the invitation of Dr Matjila, the NEF advised the PIC on the conceptualisation and implementation of the successful NEF Asongwe Share Scheme, which involved the sale of a portion of the NEF's holding in the MTN Group. The purpose was to explore the possibility of the NEF partnering with the PIC to roll out similar initiatives for the benefit of black investors countrywide.

Integrity and operational excellence

The NEF takes pride in its record of operational excellence, which comprises the following:

- The net asset value of the NEF is R4.25 billion as at 30 June 2019. The cash balance was R1.02 billion and R3.3 billion in investment activities. This means the NEF has been able to leverage a net appreciation of its assets to the value of R1.78 billion. With the R2.47 billion total capitalisation since inception, the NEF has almost doubled its initial capital and delivered meaningful key socio-economic benefits countrywide.
- For 15 years in succession the NEF has reported on the basis of clean external audit opinions, which demonstrates the organisation's integrity and financial management acumen. The standards that the NEF sets for itself are the same that the organisation holds its investees to.
- Regardless of yet-unrealised recapitalisation the NEF has approved 988 transactions worth more than R9.8 billion for black-owned businesses across the country.
- To date through its funding milestone the NEF has supported **99 445** jobs countrywide, with new jobs totalling over 68 191.
- Having pioneered the support of black industrialists since 2008, together with local and international partners the NEF has helped develop 26 strategic and industrial projects across various sectors, including renewable energy, mineral beneficiation, agro-processing, information and communication technology, infrastructure and

tourism. These industrial projects are valued at R28 billion, with the potential to support a further 85 000 jobs.

- Businesses constituting 76% of the portfolio at the time of the NEF's exit, are still active. We believe that given the constrained operating environment where the global economic contagion has wiped out many businesses across the developed and emerging markets, this is indeed an appreciable showing.
- The NEF has made concerted strides to improve recoverability of the portfolio through various post investment support of its investees. These include focused mentorship and proactive turnaround, workouts and restructuring interventions.
- The NEF's audited 3-year impairment ratio of 19% is in line with the combined average audited impairment ratio of 25% for 4 other DFIs over the same period, so Dr Matjila would have to aver a different reason other than the performance of the NEF, which is above reproach.

Conclusion

As a high-performing organisation that is fulfilling its mandate of growing black economic participation in South Africa, and remains committed to operational excellence. The NEF will continue to uphold integrity, good-governance and sound management practices. The NEF therefore rejects the baseless allegations that have been reported in recent weeks.

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