

**CELEBRATING BLACK
BUSINESS EXCELLENCE**

**BRIEFING ON THE NEF STRATEGY AND
ANNUAL PERFORMANCE PLAN 2018/19**

**Presentation to the Portfolio Committee on
Trade and Industry**

**Ms Philisiwe Mthethwa
6 February 2018**



Contents



	Section	Slide
1	About the NEF	3
2	Strategic planning framework & objectives	11
3	Life to date performance milestones	15
4	Key priorities	19
4	NEF annual performance plan 2018/19	23
6	Empowering farmworkers to become entrepreneurs	34
7	Organisational structure	37
8	Project Kopano Update	39

About the NEF



NEF Mandate...

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 owned and managed businesses, as well as by promoting a culture of savings and investment among black people.

The NEF is an agency of the dti and is the only DFI exclusively mandated to grow B-BBEE

NEF Mandate

Grow black economic participation

Financial & non-financial support

Culture of savings & investment

- #### Fund Management
1. Fund black-empowered businesses
 2. Business plan toolkit
 3. Mentorship support
 4. Early-stage investments
 5. TWR services

- #### Asset Management
1. Investor Education
 2. Public Share Offers
 3. Enterprise Development
 4. BEE Repository



Funding across the economic spectrum

	Fund	Focus	Threshold
1	iMbewu Fund (SMEs)	SME Fund providing Entrepreneurship, Procurement & Franchise Finance	R250 000 – R15 million
2	Women Empowerment Fund (WEF)	Achieve minimum 40% of enterprises owned and managed by black women	R250 000 – R75 million
3	Rural & Community Development Fund	Supporting rural economic development through New Ventures, Acquisition, Expansion & Greenfields Finance	R1 million – R50 million
4	uMnotho Fund	Funding of New Ventures, Acquisition, Project Finance, Expansion, Capital Markets, Liquidity & Warehousing	R2 million – R75 million
5	Strategic Projects Fund	Early-stage investment in industrial / manufacturing transactions	Up to R75 million

**5
specialist
funds**

“The Empowerment Dividend”

The assessment of impact is not driven only by financial returns but by measurement in terms of “The Empowerment Dividend” made up as follows:

- Broad Based Black Economic Empowerment
- Ownership, management control, employment equity etc.
- Black Women Empowerment
- Job Creation
- Growth Sectors
- Geographic Spread
- Investment Return

Challenges/Market Failures

MARKET FAILURES	NEF SOLUTIONS
Limited own capital	Funding of between R250 000 and R75 million for start-up, expansion and equity transformation purposes as well as use of concessionary facilities. Non-descriptive on % of own contribution.
Limited management skills, including financial, marketing and technical expertise	Entrepreneurship Development tools and dedicated mentorship support.
Access to affordable capital	Competitive cost of finance with a higher risk appetite as well as requirement for operational involvement (sweat-capital) reduces the need for collateral payment.
Lack of accurate and reliable financial information	Dedicated pre-investment mentorship support and technical assistance with our partners.
Poor Quality Business Plans	Collaboration with other Government agencies like seda , incubation, entrepreneurial training and general pre-investment support and NEF Online Business Plan-Tool Kit.
Lower bargaining and strong competition power from established businesses with entrenched market dominance	Linkages and emphasis on the implementation of the codes of good practice (B-BBEE). Wholesale Franchisor Facilities (Engen, Nandos, etc.)
Lack of access to local and international markets	Linkages with off-takers. Relationships with franchisors and corporates for access to markets.

Non-Financial Support

Pre-investment



As the first-point-of-contact the unit provides product advisory services, manages the online business-plan solution, manages the administration of applications, incubation and entrepreneurial training.

Socio Economic Development



Empower black people in existing NEF transactions and other **broad based groups through various interventions such as promotion of saving and investments**, social facilitation, entrepreneurial training, investor education, corporate governance training and market access for the acceleration of meaningful participation.

Post-investment support



Monitor investments, provide ongoing portfolio management, manage mentorship support and collections as well as legal compliance

Turnarounds, Workouts and Restructuring



Rehabilitate distressed transactions and reduce impairments Through a combination of measures including balance sheet restructuring, equity and /or working capital injection, operational restructuring, introduction of a strategic equity partner and / or turnaround specialist and business rescue.



NEF Positioning as a B-BBEE Funder...

“The NEF provides the funding solutions for the implementation of the B-BBEE Codes of Good Practice.”

CODE OF GOOD PRACTICE	NEF FUNDING PRODUCT	OTHER DFI's & BANKS
Ownership <i>Weighting 25 points</i>	Acquisition Finance Capital Markets Fund Liquidity and Warehousing Fund Strategic Projects Fund Indirect: Start up; Expansion Capital	IDC – Higher value threshold Sefa – Lower value threshold DBSA – Infrastructure focused Land Bank – Agri focused Banks – Security focused
Management Control <i>Weighting 15 points</i>	Acquisition Finance Indirect: Capital Markets; Start up; Expansion Capital	As above Department of Labour
Skills Development <i>Weighting 20 points</i>	Indirect: All products via approval process	SETAs
Enterprise & Supplier Development <i>Weighting 40 points</i>	Start up and Expansion Capital: Procurement Contracts Funding Start up and Expansion Capital establishes “Beneficiary Entity”	Sefa – Overlap R250k to R5mil Other DFI's & banks as above
Socio-Economic Dev. <i>Weighting 5 points</i>	Rural & Community Development Funding - “Contribution Beneficiaries”	SEDA to provide NFS to co-ops Land Bank – Agri focused



Strategic planning framework & objectives

Broad Based Black Economic Empowerment The Codes of Good Practice

NEF Act:
Objectives

The dti
Objectives

Sectors

NEF

- Tourism; Biofuels; Construction; Agri-processing; Transport; ICT & Media; Mining services; Franchising

Industrial Policy Action Plan:

- Automotives, components, medium and heavy commercial vehicles
- Plastics, pharmaceuticals and chemicals
- Biofuels
- Strengthening linkages between cultural industries and tourism
- Business process servicing

Government Priorities:

- 1) Acceleration of economic growth and transformation, creating decent work and sustainable livelihoods;
- 2) Infrastructure development to achieve social and economic goals and rural development;
- 3) Skills and human resource development;
- 4) Build a developmental state and improve public service.

NEF Sectors in line with national industrial objectives



Key Strategic Objectives...

- Provide finance to business ventures established and managed by black people;
- Invest in black empowered businesses' that have high employment creating opportunities;
- Black economic empowerment is advanced through commercially sustainable enterprise; and
- Encourage and promote savings, investment and meaningful economic participation by black people.



The NEF's strategic outcome oriented goals are to:

1. To provide finance to business ventures established and managed by black people.
2. Invest in black empowered businesses that have high employment creating opportunities
3. Support the participation of black women in the economy
4. Facilitate investment across all provinces in South Africa
5. Encourage and promote savings, investment and meaningful economic participation by black people
6. Advance black economic empowerment through commercially sustainable enterprises
7. Establish the NEF in the South African economy as a credible and meaningful DFI
8. Establish the NEF as a sustainable DFI.





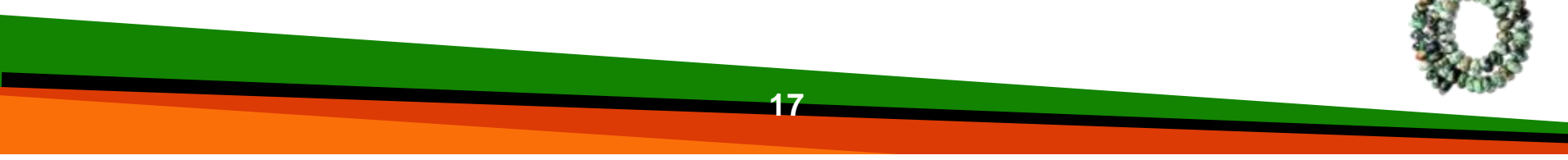
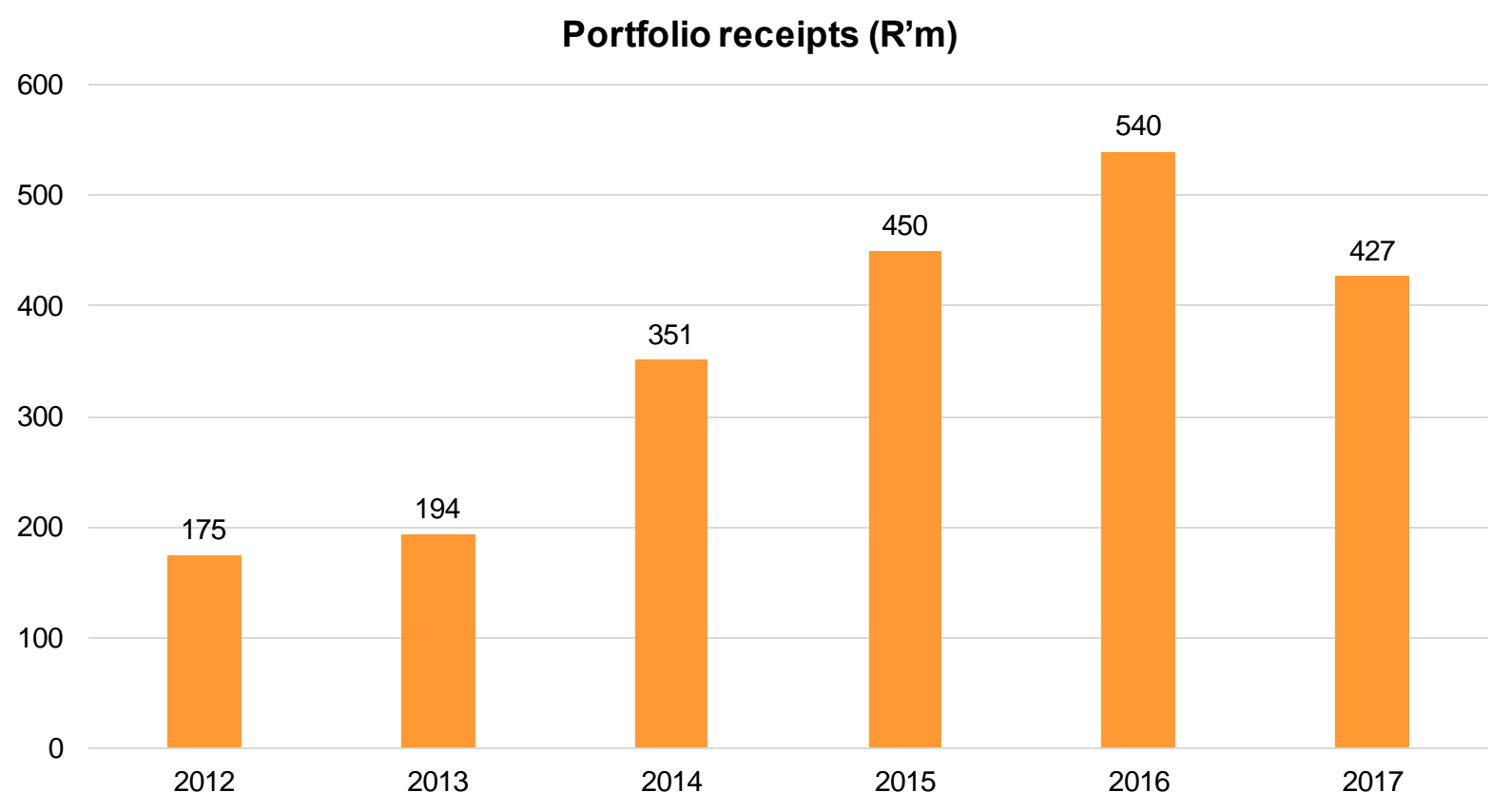
Life to date performance milestones

Life to date performance milestones

	Output	Achievements
1	Approvals	<ul style="list-style-type: none"> Approved 904 transactions worth more than R9.0 billion across the country
2	Disbursement	<ul style="list-style-type: none"> Approximately R6.0 billion has been disbursed to these companies since inception
3	Integrity	<ul style="list-style-type: none"> Secured clean external audit opinions for 12 years running
4	Supporting jobs	<ul style="list-style-type: none"> Since inception, the number of job opportunities supported is 93 052 of which 64 727 were new
5	Industrialisation	<ul style="list-style-type: none"> 26 strategic and industrial projects worth R28.6 billion, with the potential to support over 85 000 jobs Since inception 3 600 jobs opportunities have been created
6	A culture of savings & investment	<ul style="list-style-type: none"> In a transaction worth over R1 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
7	Investor education	<ul style="list-style-type: none"> Reached over 35 000 people in villages and townships through 163 community seminars on how to save and invest, personal financial discipline, shares, dividends, bonds, the property and money markets
8	Entrepreneurship training / incubation	<ul style="list-style-type: none"> Business skills training provided over 2 959 potential entrepreneurs who attended 128 seminars from 2012 to date
9	National footprint	<ul style="list-style-type: none"> Approximately 75% of the number (68% by value) of approved transactions emanated from the regional offices and Pre-Investment Unit for year as at 30 September 2017
10	Collections	<ul style="list-style-type: none"> Over R2.5 billion has been repaid by investees

Cash collected

Since inception, over R2.5 billion collected cumulatively from loans disbursed across the country, in black-owned and managed businesses across virtually all sectors of the economy.



Projected unencumbered cash position

	Actual	Projected	
	Month	12 months	12 months
	30-Sep-17	31-Mar-18	31-Mar-19
Inflows			
Unencumbered cash at beginning of period	87 010 423	369 386 148	229 223 241
Inflows	39 648 518	580 292 634	655 106 199
	<u>126 658 941</u>	<u>949 678 782</u>	<u>884 329 440</u>
Outflows			
Approvals	44 180 000	600 000 000	1 046 000 000
Commitments withdrawn	-	180 142 308	
Opex & Capex	18 562 931	300 597 850	379 847 058
	<u>62 742 931</u>	<u>720 455 542</u>	<u>1 425 847 058</u>
Balance			
Unencumbered cash	63 916 010	229 223 241	-541 517 619
Disbursements	21 964 947	500 000 000	915 000 000
Actual/Projected cash	1 302 788 671		

Notes:

- Actual cash at 30 September was R1.3 billion
- R64 million uncommitted cash at hand
- To manage 2017/18 strategy, approval targets were reduced. We project that the NEF will still have R229 million at year end
- However to discharge 2018/19 strategy, at least R540 million cash will have to be injected.

Key Priorities

Key priorities (1)

Recapitalisation:

- **IDC**
- The business combination process with the IDC is still progressing with various structures and work streams working on implementation process.
- A R500 million facility which was secured from the IDC for 2017/2018 financial year remains undrawn due to outstanding conditions precedent.
- These include:
 - Obtaining a cabinet endorsement for the IDC and NEF business combination process;
 - Obtaining a PFMA section 66 approval for the limited borrowing powers that is currently with the National Treasury; and
 - Pledge and session MTN shares.
 - The facility is scheduled to expire on 31 March 2018.
- As indicated on slide 18, this facility will have to be extended to allow application during the 2018/19 financial year.

Key priorities (2)

Credit risk:

- Due to the high-risk mandate of the NEF, credit risk is considered a critical-to-high exposure area.
- The tough economic conditions and low growth rates have negatively impacted on businesses supported by the NEF, subsequently resulted in an increasing number/value of transactions in distress.
- Other initiatives to ensure the sustainability of the portfolio include:
 - Enhanced screening, due diligence and credit assessment;
 - Monitoring and portfolio management;
 - Improved mentorship and non-financial support; and
 - Engaging with various government departments identified as source of cash crunch experienced by investees.



Key priorities (3)

Continued alignment to National priorities:

- **Harnessing economic growth potential & job creation** Explore growth sectors and identify possible opportunities for the NEF.
- **Black Industrialists Programme** – to continue the development of black industrialists through the Strategic Projects Fund.
- A lack of funding could potentially negatively impact on the successful implementation of the mandate.

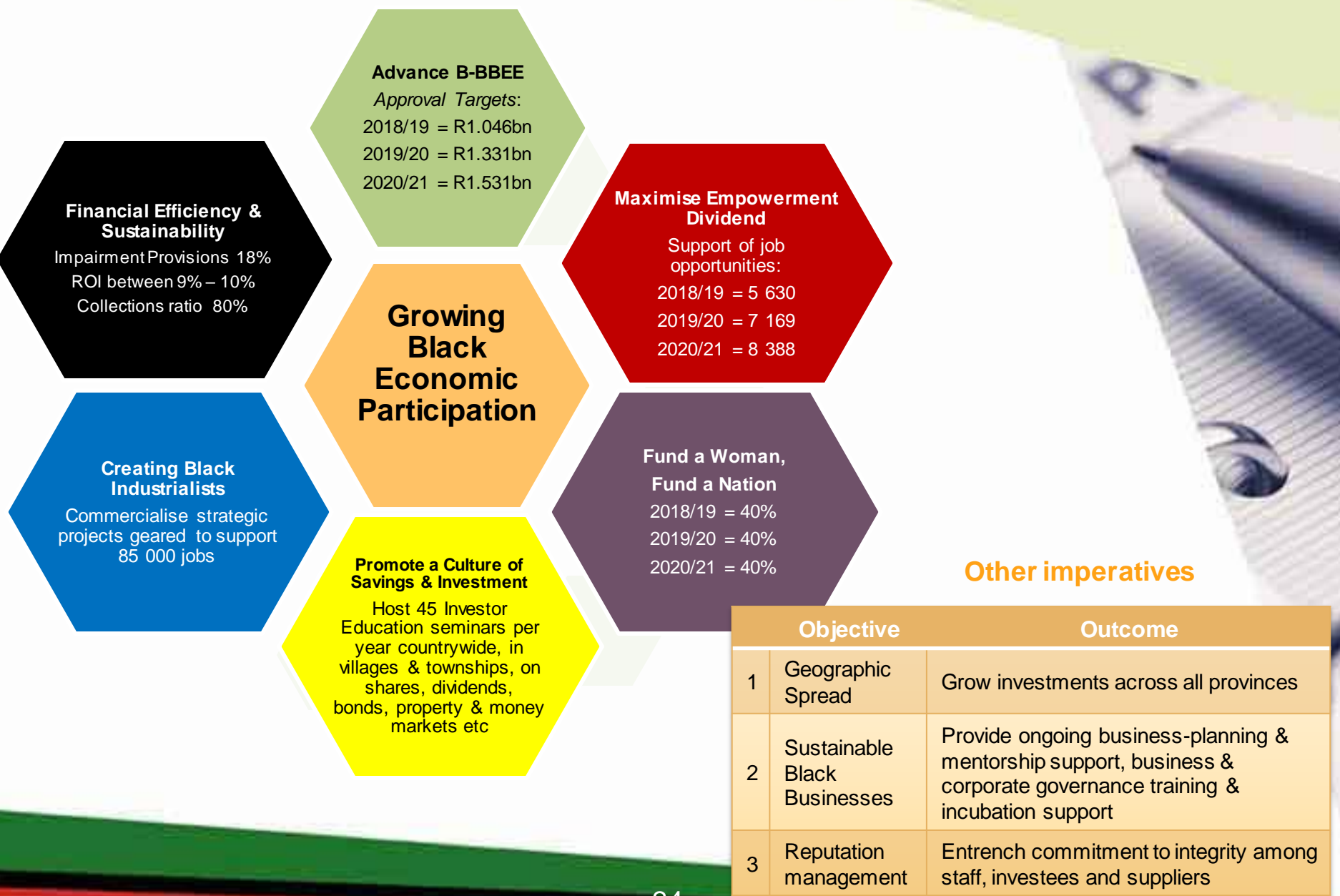
People risks:

- The NEF is losing key personnel and specialist skills due to uncertainty regarding outcome of recapitalisation and business combination processes.
- Interventions are required in order to quell uncertainty and stabilise attrition levels – The Board has prepared a retention scheme which cannot be rolled out due to resource constraints.

NEF Annual Performance Plan 2018/19

Note: YTD – April 2017-September 2017,
unless otherwise stated

NEF strategic plan 2018/19

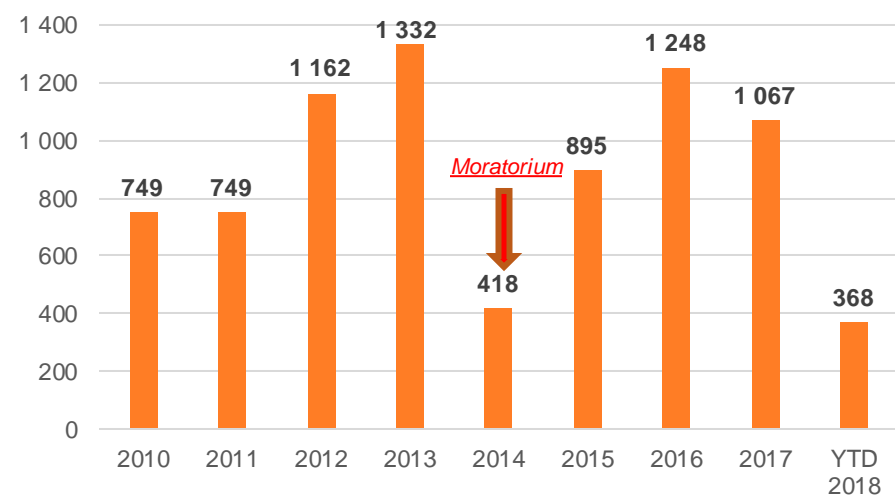


Advancing B-BBEE

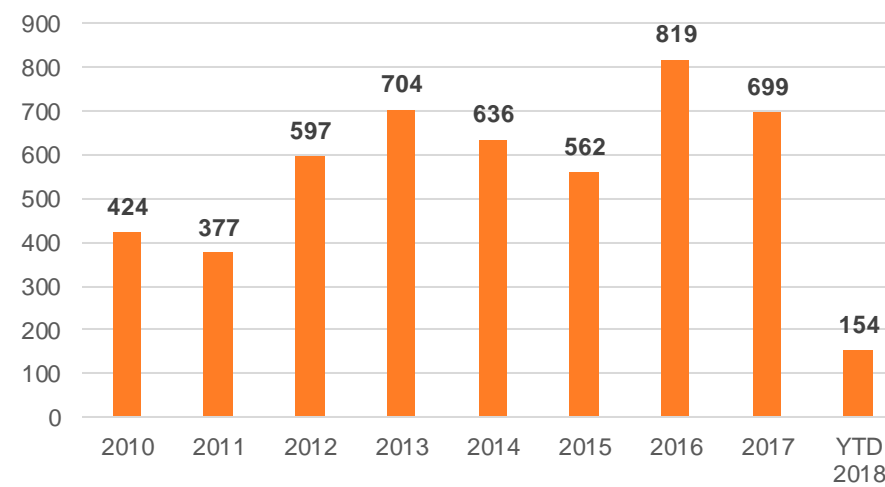
Strategic Objective 1: Provide finance to business ventures established and managed by black people

Approvals & Disbursements

Approved deals (R'm)



Disbursements (R'm)



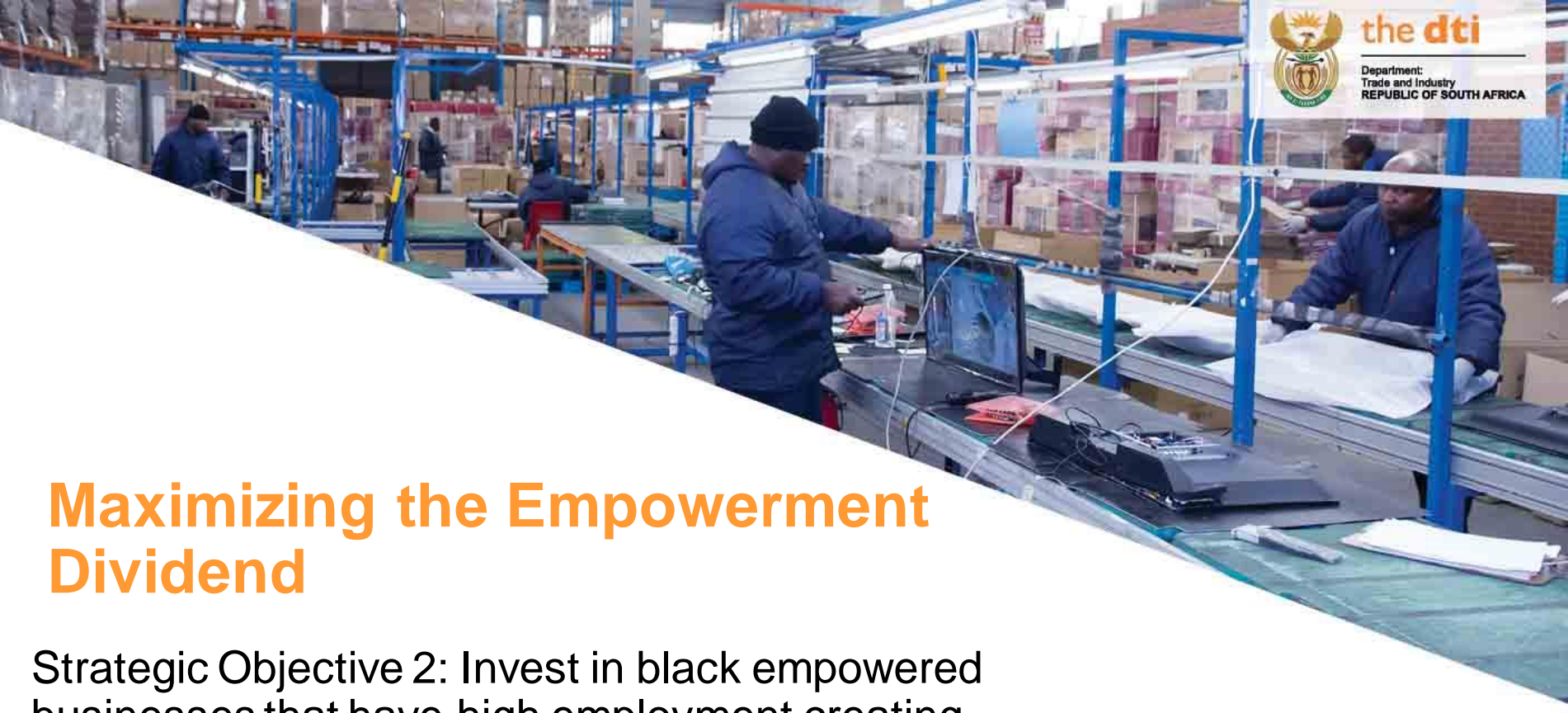
Note:

- Financial year ends March
- YTD: Q2 for financial year ending 2017/2018

Targets over strategic Period in (R'm)

Year	Approvals	Commitments	Disbursements
2017/18	350	475	500
2018/19	1,046	839	915
2019/20	1,331	1,065	1,165
2020/21	1,531	1,225	1,363





Maximizing the Empowerment Dividend

Strategic Objective 2: Invest in black empowered businesses that have high employment creating opportunities.

Job-Creation since inception



31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016	31 March 2017	30 Sept 2017
25 500 jobs	28 624 jobs	44 179 jobs	47 800 jobs	81 618 jobs	86 859 jobs	92 189 jobs	93 052 jobs

Targeted number of jobs expected to be created or supported

Year	No. of jobs
2017/18	Support 3 077 new or existing job opportunities (By Q2 the NEF had supported 406 job opportunities)
2018/19	Support 5 630 new or existing job opportunities
2019/20	Support 7 169 new or existing job opportunities
2020/21	Support 8 388 new or existing job opportunities

Maximizing the empowerment dividend

Strategic Objective 3: Support the participation of black women in the economy

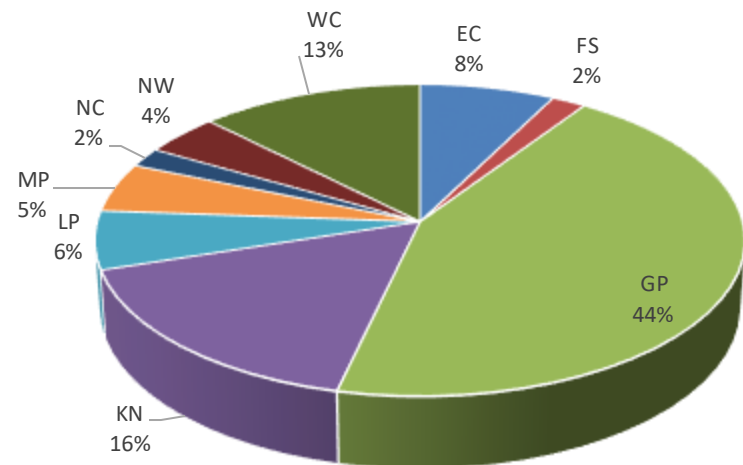
Annual target	2016/17	Q2 2017/18
40% of disbursed funds to benefit women	34% of disbursed funds benefited women	Year to date (Q2), 24% of disbursed funds benefited women

Targeted women ownership	
Year	Percentage of (Annual) Portfolio Disbursed
2018/19	40%
2019/20	40%
2020/21	40%

Maximizing the empowerment dividend

Strategic Objective 4: Facilitate investment across all provinces in South Africa

NEF invested portfolio by region by value since inception as at 30



2016/17	Q2 2017/18
32% of disbursement target were invested in Northern Cape, Free State, Limpopo, Mpumalanga, North West and Eastern Cape.	34% of disbursement target is invested in Northern Cape, Free State, Limpopo, Mpumalanga, North West and Eastern Cape.

Targeted Disbursements in under-represented provinces (NC, NW, FS, LP, MP & EC)	
Year	Percentage of Annual Disbursements
2017/2018	25%
2018/19	25%
2019/20	25%
2020/21	25%

Optimising non-financial support

Strategic Objective 5: Encourage & promote savings, investment & meaningful economic participation by black people

2016/17	Q2 2017/18
48 investor education seminars were held	30 investor education seminars were held

Targeted number of investor education seminars held across the country

Year	No. of Seminars per year
2017/18	32
2018/19	45
2019/20	45
20129/21	45

Optimising non-financial support

Strategic Objective 6: Advance black economic empowerment through commercially sustainable enterprises.

Performance		
Indicators	2016/17	Q2 2017/18
Number of Business Today Training Sessions provided	21	19
Number of entrepreneurs who successfully complete business incubation	30	3
Number of Social Facilitation sessions for NEF investees	42	17

Targets				
Indicators	2017/18	2018/19	2019/20	2020/21
Number of Business Today Training Sessions provided	18	18	18	18
Number of entrepreneurs who successfully complete business incubation	15	15	20	25
Number of Social Facilitation sessions for NEF investees	18	36	36	36

Financial efficiency and sustainability

Strategic Objective 8: Establish the NEF as a sustainable DFI.



Performance			
Indicators	2016/17	Q2 2017/18	
Percentage of Portfolio Impaired	17.55%	19.2%	
Targeted ROI	7.8%	8.8%	
Collections Ratios	101.79%	100%	
Targets			
Indicators	2018/19	2019/20	2020/21
Percentage of Portfolio Impaired	18%	18%	18%
Targeted ROI	9%-10%	9%-10%	9%-10%
Collections Ratios	80%	80%	80%



Empowering farm workers to become entrepreneurs: DRDLR Performance

DRDLR Partnership

- The NEF and DRDLR concluded an MOU in January 2016 to partner in implementing the SRR programme called 50/50.
- The SRR policy entails the government (through the DRDLR) purchasing land used for farming operations from a farmer/s. The farmer and the farm workers then establish a newco that will continue with and continue the previous farming activities. The farmer will own 50% of the newco, and farm workers will own the other 50%. The government then leases the land to newco over 30 years.
- DRDLR has assigned about 36 SRR projects to the NEF since the commencement of the SRR program which consists of 12 projects which were finalised in the 2016 and 2017 financial years, 10 projects which were declined and 14 projects are earmarked for finalisation by 31 March 2018.



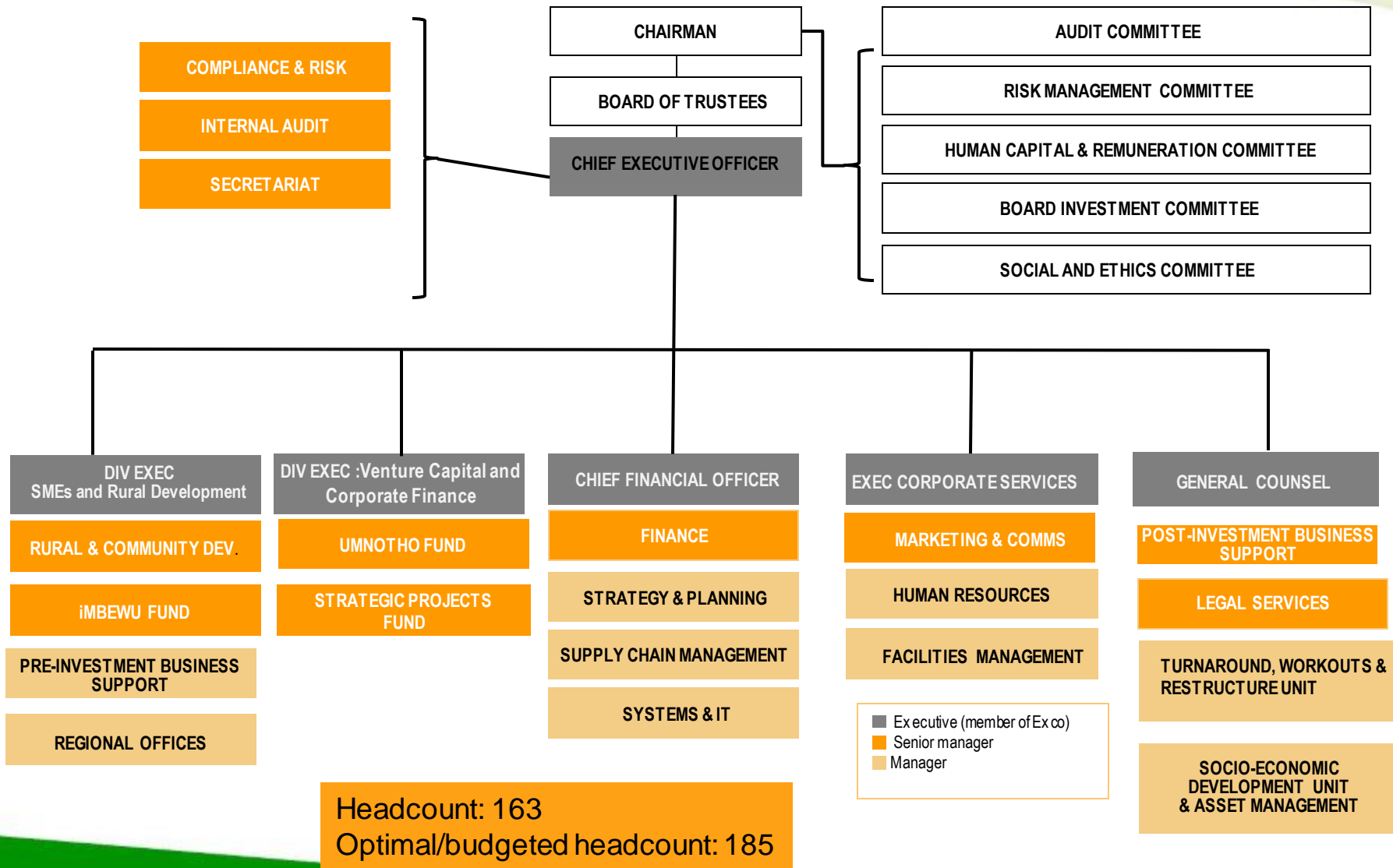
Milestones to date

Name of Farm	Province	Number of beneficiaries	Amount Approved	Industry	Status
Dubchick	Limpopo	6	R21 000 000	Game Farming	Partially disbursed
Kleinmonden Rivier	Eastern Cape	40	R29 500 000	Pineapple farming & Processing	Incomplete
Sun Citrus	Eastern Cape	58	R38 067 000	Citrus Farm	CPs
Solms Delta	Eastern Cape	45	R74 000 000	Vineyards for wine production	Partially disbursed
Birbury Farming	Eastern Cape	29	R8 609 101	Pineapples	Partially disbursed
Westcliffe Farm	KwaZulu-Natal	55	R33 000 000	Vegetables, sugar cane, Timber	Partially disbursed
Hoogland	Western Cape	18 permanent 180 Seasonal	R 75 100 000	Table Grapes, vegetables slice & dice	Partially disbursed
Louie Meyer	North West	10	R55 238 000	Cattle farming	Incomplete
Marolien	Gauteng	102	R29 948 000	Herb Farm	Partially disbursed
Saamstaan	Western Cape	56	R160 491 000	Wine Grape Farming	CPs
Jurgens Boedery	Limpopo	42	R44 300 000	Game Farm	Incomplete
Gannahoek	Free State	253	R52 444 310	Nuts, Sheep, Crop & game	Partially disbursed
Total			R621 697 411		



Organisational structure

Organizational Structure ...



■ Executive (member of Ex.co)
 ■ Senior manager
 ■ Manager

UPDATE ON PROJECT KOPANO

Background

- 14 February 2017 Ministers signed the Memorandum for incorporation of NEF as an IDC subsidiary.
- Terms agreed in the Memorandum:
 - Establishment of a Task Team comprising **the dti**, EDD, NT, IDC and NEF.
 - Task Team was to identify steps for IDC/NEF business combination.
 - IDC would consider making a bridging facility available to the NEF.
 - IDC and NEF would propose a transitional arrangement to manage the period until NEF becomes an IDC subsidiary.

- IDC and NEF have prepared a “Transitional Arrangements” document which will govern the relationship of the parties during implementation phase.
- Transitional Arrangements document submitted to Ministers for their assent thereto.
- **Requested Assistance:** Ministers to approve the proposed transitional arrangements.
- IDC and NEF have established two structures to oversee process:
 - (i) Chairpersons and CEO’s Forum and
 - (ii) Executives Forum



Progress on IDC/NEF Executive Forum (cont)

- Executives Forum has met on each month since conclusion of February Memorandum (last meeting Dec. 2017)
- Forum chaired by IDC (David Jarvis) and NEF-appointed Deputy Chairperson (Hlengiwe Makhathini)
- Executive Forum established workstreams to consider aspects of process:
 - (i) Strategy and Mandate Workstream – (Sefa included as part of this stream);
 - (ii) Finance and Accounting Matters Workstream;
 - (iii) Legislative and Governance Workstream

Progress on IDC/NEF Executive Forum (cont)

Issues dealt with by Executive Forum:

- Facilitate bridging facility – IDC has approved a R500 million bridging facility for the NEF.
- Oversee the merger filing to obtain approval of competition authorities.
- Work with **the dti** and EDD on changes to legislation (NEF Act and IDC Act).
- Consider most optimal way of converting NEF into a company.
- Facilitate conversion of NEF financial reporting – GRAP to IFRS

Update on Bridging Facility

- The IDC loan agreement has been concluded by the NEF.
- The NEF is unable to fulfil three of the conditions precedent set by the IDC for any payments that can be made to NEF:
 - (i) pledge of MTN shares and
 - (ii) Cabinet approval
 - (iii) NT s66 approval – Limited Borrowings

Pledge of MTN shares

- The IDC requires NEF to pledge shares it holds in MTN as security for the loan,
- The shares were allocated by Government to the NEF to be used for the benefit of broad based BEE groups and Black People,
- NEF is unable to pledge shares because of the purpose for which the shares were allocated,
- NEF requests Ministers to intervene to request IDC to remove this requirement.

Update on Bridging Facility

Cabinet approval

- IDC requires that Cabinet endorses the incorporation of NEF as an IDC subsidiary,
- **the dti** is working on relevant Cabinet submission to request this approval,
- NEF requires funds urgently (before Cabinet considers the matter),
- IDC undertook to consider allowing NEF to draw-down a portion of the facility before Cabinet approval is obtained and the balance to be drawn down only once approval is obtained,
- NEF requests Ministers to assist in ensuring that the drawdown referred to above can be made.



Update on Bridging Facility

NT s66 – Limited Borrowings Approval

- NEF is a schedule 3A and therefore requires approval of Minister of Finance to Borrow,
- **NEF** submitted the request for Limited Borrowing Rights to the dti and NT on 21 December 2016 (which we further followed up on 7 April 2017),
- This is a legal requirement and the IDC cannot advance any Funds to the NEF without this approval;
- The NEF has not received any feedback on this request.
- NEF requests the Minister to assist with this approval through engaging the Minister of Finance

Competition Commission Approval

- The incorporation of NEF as an IDC subsidiary is a “merger” in terms of the Competition Act.
- Approval of the Competition Commission and Tribunal are required for the merger to proceed.
- IDC and NEF have been working on a submission to the Competition Commission, however, a filing fee of R350,000 is payable when submission is made.
- IDC and NEF are cautious in making the payment without Cabinet approval, in order to avoid wasteful expenditure should Cabinet not approve.
- **Request:** Minister of Economic Development’s intervention for Competition Commission to waive the filing fee.



Conversion of financial reporting to IFRS

- The NEF financial reporting is in accordance with GRAP whilst IDC uses IFRS.
- Should NEF become an IDC subsidiary, the financial reporting will have to be aligned.
- IDC and NEF started a process of facilitating the conversion of NEF reporting from GRAP to IFRS by looking for suitable service provider to assist.
- Due to delays in obtaining cabinet approval, the procurement process had to be cancelled by the IDC.

Requested Interventions

- Ministers are requested to approve the proposed transitional arrangements.
- Intervention of the Ministers is requested to deal with the following conditions precedent for the bridging facility:
 - Pledge of shares held by NEF in MTN.
 - Cabinet approval of NEF/IDC business combination.
 - The dti is requested to assist in speedy appointment of the NEF board.
 - Minister of Economic Development is requested to assist in ensuring that the Competition Commission waives the merger filing fee.

Thank you

Contact Details

	WHERE	TELEPHONE
1	Head Office, Johannesburg	011 305 8000 or 0861843 633 / 0861 THE NEF
2	Eastern Cape	0861 633 327 / 0861 NEF ECP
3	Free State	0861 633 377 / 0861 NEF FSP
4	KwaZulu Natal	0861 633 596 / 0861 NEF KZN
5	Limpopo	0861 633 546 / 0861 NEF LIM
6	Mpumalanga	0861 633 678 / 0861 NEF MPU
7	Western Cape	0861 633 927 / 0861 NEF WCP
8	North West	0861 633 697 / 0861 NEF NWP
9	Northern Cape	0861 633 627 / 0861 NEF NCP

www.nefcorp.co.za