National Empowerment Fund (NEF)

Presentation to the Parliamentary Select Committee on Trade & International Relations

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Presented by

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DIVISIONAL EXECUTIVE, SME & RURAL DEVELOPMENT

Wednesday, 30 May 2012
10h00 – 17h00
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 empowered businesses, as well as by promoting a culture of savings and investment among Black people.
Unpacking the NEF Mandate ...

**NEF Mandate**
Grow black economic participation

**Fund Management**
1. Fund black-empowered businesses
2. Business plan toolkit
3. Mentorship support
4. Early-stage investments

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

**Financial & non-financial support**

**Culture of savings & investment**
SME Market Failures

The NEF seeks to address the following market failures:

§ Lack of access to finance
§ Lack of access to markets
§ Lack of specific industry-knowledge and/or management experience
§ Limited or no equity contribution
§ SMEs have low bargaining power with suppliers and customers (they are price-takers)
§ SMEs compete with well-established businesses
§ They are often undercapitalized and have low asset base
§ SMEs are characterised by lack of accurate and reliable information, and lack of business-planning skills
§ Lack of management depth – small and multifunctional, and often lack a range of business-management skills
NEF Funding

R250 000 – R75 million

- Start-up
- Expansion
- Equity Acquisition
# Offerings in line with Re-engineered Processes

<table>
<thead>
<tr>
<th></th>
<th>iMbewu Rapid Loan Solutions</th>
<th>iMbewu Growth Capital Solutions</th>
<th>iMbewu Equity &amp; Structured Solutions</th>
<th>iMbewu Wholesale Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Instruments</strong></td>
<td>Debt only</td>
<td>Debt only</td>
<td>Equity &amp; Quasi-Equity</td>
<td>Debt only</td>
</tr>
<tr>
<td><strong>Degree of customisation</strong></td>
<td>Very Low</td>
<td>Medium</td>
<td>Very High</td>
<td>Very Low</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>Franchises</td>
<td>Working capital</td>
<td>Venture capital</td>
<td>Products under RLS and GCS</td>
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<tr>
<td></td>
<td>Receivables finance</td>
<td>Factoring</td>
<td>Expansion</td>
<td></td>
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<tr>
<td></td>
<td>Asset/lease finance</td>
<td>Asset/lease finance</td>
<td>M&amp;A</td>
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<td></td>
<td>Working capital</td>
<td>Contract financing</td>
<td>Balance sheet financing</td>
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<td></td>
<td>Bridging finance</td>
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<td></td>
<td>Contract finance</td>
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<tr>
<td><strong>Advantage for iMbewu</strong></td>
<td>Rapid turnaround</td>
<td>Mix of speed and customization.</td>
<td>Customise risk and capital growth</td>
<td>Rapid turnaround</td>
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<tr>
<td></td>
<td>Caters for volumes</td>
<td>Lowered risk</td>
<td></td>
<td>Caters for volumes</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Wholesale partners shares risk</td>
</tr>
<tr>
<td><strong>Amounts &amp; invested period</strong></td>
<td>R250k&lt; and &lt;R3M</td>
<td>R1m&lt; and &lt;R10M</td>
<td>R1m&lt; and &lt;R10M</td>
<td>R250k&lt; and &lt;R3M</td>
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<tr>
<td></td>
<td>Up to R10M</td>
<td>3 to 7 yrs</td>
<td>5 to 7 yrs</td>
<td>Up to R10M</td>
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<tr>
<td></td>
<td>3 mths to 5 yrs</td>
<td></td>
<td>Possible MBO extension</td>
<td>1 to 5 yrs</td>
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<td></td>
<td></td>
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<td>Up to 7 yrs</td>
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</table>
### NEF Funding Products in detail

On average, the NEF’s business loans are repayable over 4 to 7 years, and up to 10 years where marked with an asterisk (*) below:

<table>
<thead>
<tr>
<th>Product / Fund</th>
<th>Description</th>
<th>Funding amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship Finance</td>
<td>For starting a new business</td>
<td>R250 000 – R10 million</td>
</tr>
<tr>
<td>Procurement Finance</td>
<td>For tenders and contracts</td>
<td>R250 000 – R10 million</td>
</tr>
<tr>
<td>Franchise Finance</td>
<td>For pre-approved franchise licenses</td>
<td>R250 000 – R10 million</td>
</tr>
<tr>
<td>Acquisition Finance</td>
<td>For black investors acquiring a stake in medium to large companies</td>
<td>R2 million – R75 million</td>
</tr>
<tr>
<td>Expansion Capital</td>
<td>For growing an existing business</td>
<td>R250 000 – R75 million</td>
</tr>
<tr>
<td>*New Ventures Finance</td>
<td>Participation in green-field projects</td>
<td>R5 million – R75 million</td>
</tr>
<tr>
<td>Capital Markets</td>
<td>Listing on the JSE or its junior Altx markets</td>
<td>R2 million – R75 million</td>
</tr>
<tr>
<td>Liquidity and Warehousing</td>
<td>The NEF has Black Facilitator status, which can help black shareholders and companies wishing to sell a stake while keeping the shareholding black</td>
<td>R2 million – R75 million</td>
</tr>
<tr>
<td>*Rural and Community Development Fund</td>
<td>for agri-processing, tourism, mining &amp; beneficiation, manufacturing etc</td>
<td>R1 million – R50 million</td>
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<tr>
<td>*Strategic Projects Fund</td>
<td>Venture-capital fund investing in early-stage projects for the purpose of developing strategic industrial capacity in poverty nodes, in renewable energy, business process outsourcing, tourism, manufacturing, mining and mineral beneficiation etc.</td>
<td>R1 million – R75 million</td>
</tr>
</tbody>
</table>
NEF Funding Criteria

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,
- job creation,
- specific product criteria,
- 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.
Successes To Date

Over R3.7 billion approved for black businesses
More than R2.7 billion disbursed
Over R680 approved for 233 SMEs
R108m approved for 7 rural community deals
Over 29 000 jobs supported and created

21.5% of the NEF’s portfolio comprises women-owned businesses
NEF Approvals & Disbursements by Value

NEF approved & disbursed deals by value since inception to 31 March 2012

Value Approved (R million)  Disbursed Facility Value (R million)  Draw down Value

Apr-03  Apr-04  Apr-05  Apr-06  Apr-07  Apr-08  Apr-09  Apr-10  Apr-11  Jul-11  Oct-11  Jan-12
NEF Invested portfolio by sector by value since inception - 31 March 2012

- Services: 14%
- Manufacturing: 7%
- Media: 9%
- ICT: 5%
- Engineering: 7%
- Construction and Materials: 13%
- Education: 0%
- Energy: 5%
- Environmental: 0%
- Financial Services: 1%
- Food and Beverage: 7%
- Motor Industry: 1%
- Printing and Publishing Services: 2%
- Property: 2%
- Maritime: 0%
- Mining Industry: 4%
- Textiles: 1%
- Tourism and Entertainment: 4%
- Wood and Paper: 1%
- Agro Processing: 6%
- Arts & Culture: 0%
- Chemicals & Pharmaceuticals: 5%
- Retail: 1%
Business Planning?

www.nefbusinessplanner.co.za

- Simple to use
- Free to the public
- Step by step question & answer process
- Helps with financial projections
- Formats into a Word document
- Confidential (password-protected)
- Download and print
- Submit to any funder
Mentorship

Ongoing mentorship support across the country

§ Globally, 30% of start-ups fail in the first 2 years,
§ Less than 50% survive beyond 4 years
§ Mentors across the country to help businesses
§ Expert advice on strategy and operations
§ Improve the chances of the business succeeding
§ Provided for free to NEF investees
Examples of NEF funding

Sale’s Hire

Sale’s Hire is a Cape Town based company that specialises in the hire of builder’s equipment and other related tools. The company has 20 company owned outlets in the Western Cape. The company intends to franchise 9 of their branches to the current black management in those branches.

Sale hire specialized in hire and sale of tools and equipment in the construction industry. Their product offering ranges from access platforms, breakers, cleaning equipment, compacting and concrete, compressors, drills, generators and power tools etc. These products service both the DIY and construction industry.
Examples of NEF funding

My Stores

- My store is a convenience store that aims at empowering entrepreneurs, creating employment and developing skills of individuals from within the informal market of South Africa.

- The franchisor developed a container store model and offered this as a business opportunity within the informal market.

- The aim of the convenience store is to offer the basic needs of the surrounding community.

- The My Store container business is fully equipped to provide services such as Take Aways, spaza (groceries, tabaco, sweets, health & beauty, diary, cooldrinks), ATM, Lotto, Internet, prepaid electricity and airtime, copy/fax/scan/print and public phones.
Franchises Funded to Date
Pre-approved Franchise Agreements
Examples of NEF funding

R3,6 million in the Northern Cape

Richmond Opomende Boere Co-operative is a start-up primary agriculture entity which focuses on free-range merino sheep farming for the purpose of lamb and wool production.

The business is a start-up co-operative consisting of 48 members.

Over R13 million in the North West

A 100% black-owned start-up primary agriculture enterprise focusing on grain (maize and sunflower), groundnut and soybeans crop production. Lantek SA (precision farming experts) provide technical assistance over a 3yr period. NWK (major grain and soybeans buyer) and the New Nut Company (the third largest groundnuts buyer in RSA) will uplift 100% of the produce based on contracts and a signed off-take agreement.
Examples of NEF funding

**R50 million in the Eastern Cape**

Just On Cosmetics (Pty) Ltd (JOC) is a black-owned cosmetics retailer whose operations commenced in 1991. To date, the company boasts 38 outlets in the Eastern Cape, Kwa-Zulu Natal and the Free State, 2 warehouses, 36 vehicles more than 50 suppliers and over 600 employees. NEF has committed R50m in funds to the expansion of JOC. This has the potential of creating in excess of 200 jobs in the above mentioned provinces whiles growing a black-owned company.

LA Crushers (Pty) Ltd is a mining contracting company based in Phalaborwa with operations in Limpopo and Mpumalanga. Having operated for more than 20 years, their client base includes blue chip companies like Phalaborwa Mining, BHP Billiton, Foskor and Exxaro. LAC’s Head Office is in Phalaborwa, and the company employs some 500 personnel. The NEF’s R45 million investment was to enable an acquisition of a 46% by a BEE Consortium, including the surrounding communities as well as for the business’ working capital requirements.
Examples of NEF funding

Desert Oil is a fuel branded marketing company. Institution of the company comes a result of Chevron divesting in Retailing in the industry in line with the regulation. The company began its operations in March 2010 before securing full funding. The assets acquired include supply agreements for 28 sights, pumps and tanks on all sites, and land and buildings for 4 sites. The entrepreneurs are strong individuals with 40 years experience in the industry indicating firm commitment to the transaction through a R2m contribution and 2 of the three directors moving from the Western Cape to the Northern Cape.

R7,950,000 in the Northern Cape

R30 000 000 in the Western Cape

The NEF has supported the introduction of a consortium of black women and the Nozala Trust as shareholders in the Ma-Afrika business, and funded the production of 2 films, namely A Million Colours and Winnie. Through this investment the NEF is supporting transformation in a key industry and has assisted in the facilitation of more than 350 jobs for crew and cast positions.
Examples of NEF funding

R50 million for Orange Farm Shopping Centre

In the peri-urban area of Orange Farm, in Gauteng’s Johannesburg south, the NEF has approved R50 million to support 19% upfront community ownership of a regional shopping centre measuring 39 000m². 46% of the shops will be let to black tenants in a mall whose commercial viability is based on 80% confirmed leases. Between 20 and 30% of project value will be spent in the Orange Farm area, and retail store opportunities

R51.8 million for Umlazi Mega City

The communities of Umlazi and Lamontville townships in KZN, represented by Sizovuna Investments, acquired a 25% stake in Umlazi Mega City shopping centre with NEF funding of r52,8 million. This genuine BB-BEE deal is delivering substantial social returns to community beneficiaries at large, including job creation and skills development.
Turning Villagers into Shareholders

The community owns this 4-Star hotel!

- This is a R50 million project
- The NEF invested R28.3 million
- The Trust represents 22,000 beneficiaries in the Jozini area (Northern Kwa-Zulu Natal)
- Overlooks the third largest lake in South Africa
- The hotel has 60 rooms
- Accommodates 144 guests
A Sweet Deal for the People!

- 60 HA raspberry farm in Amajuba district, KZN
- Farm established on land secured through restitution process
- Supply local and export markets (70% of production)
- Tap into growing popularity of raspberries
- Supplies berries to Europe
- Supplies berries to Woolworths
Enterprise Development Fund

Broad – Based Black Economic Empowerment Codes of Good Practice – Section 9(1) Series 600 provides that companies make monetary or non-monetary contributions either recoverable or non-recoverable for development, sustainability and financial and operational independence of beneficiaries.
Why Enterprise Development?

§ Limited management time to spend on non-core business
§ Insufficient knowledge of BEE ED requirements
§ Insufficient resources and skills to support BEE start-ups, which require significant skills injection to achieve economic viability
§ Poor economies of scale achieved based on number of initiatives
§ Lack of time and resources to identify sustainable Beneficiaries;
§ Lack of a business model to maximise recognition of contribution;
§ Lack of a process to monitor progress on projects and to introduce corrective measures, where necessary;
§ Delaying implementation until the right partner comes along; and
§ Reservation of spending lump sum due to fear that money will be wasted or misused.
Approach

- Direct ED points on scorecard
- Socio-economic return
- Financial returns

MEASURED ENTITY

3% of NPAT

NEF ED FUND

Accounting Entry (No SPV)

Risk Capital (Pref shares)

Up to 40% of funding

IMBEWU

RURAL AND COMMUNITY FUND

- Ease gearing
- Bridge gap for own contribution
- Risk sharing
- Turnaround
Come to the NEF today

- Are you black?
- Do you have a viable business idea and a business plan?
- Does it have financial projections?
- Do you need funding of between R250 000 and R75 million?
- Have you registered a company?
- Do you have a valid RSA ID?
- Will you be directly, operationally involved?
Thank you

Contact Details

<table>
<thead>
<tr>
<th>WHERE</th>
<th>TELEPHONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Head Office, Johannesburg</td>
<td>011 305 8000 or 0861 843 633 / 0861 THE NEF</td>
</tr>
<tr>
<td>2 Eastern Cape</td>
<td>0861 633 327 / 0861 NEF ECP</td>
</tr>
<tr>
<td>3 Free State</td>
<td>0861 633 377 / 0861 NEF FSP</td>
</tr>
<tr>
<td>4 KwaZulu Natal</td>
<td>0861 633 596 / 0861 NEF KZN</td>
</tr>
<tr>
<td>5 Limpopo</td>
<td>0861 633 546 / 0861 NEF LIM</td>
</tr>
<tr>
<td>6 Mpumalanga</td>
<td>0861 633 678 / 0861 NEF MPU</td>
</tr>
<tr>
<td>7 Western Cape</td>
<td>0861 633 927 / 0861 NEF WCP</td>
</tr>
</tbody>
</table>

Northern Cape and North West offices to be opened during 2012

www.nefcorp.co.za