

# FUNDING PRODUCTS AND SERVICES

## Funding from R250 000 to R75 million

The NEF is an agency of **the dti** mandated to grow black economic participation. Accordingly, its funding mandate is directed by the Codes of Good Practice on Broad-Based Black Economic Empowerment (B-BBEE), and by the Industrial Policy Action Plan. The NEF provides business loans from R250 000 to R75 million across a range of sectors, for start-up, expansion and equity acquisition purposes. One of the key requirements for NEF funding is for the investees to be involved in the operation of their businesses.

## Initial Assessment Criteria

The NEF provides funding to black entrepreneurs and groups with the aim of facilitating access to finance in support of B-BBEE in terms of Government legislation. The investment activities of the NEF are guided by an investment policy that seeks to ensure that investments create real economic empowerment for black people without deviating from sound economic principles.

Each application for funding is assessed in terms of the following criteria:

- Minimum percentage of black ownership or interest required
- Meaningful participation by black women is viewed more favourably
- There must be operational involvement by black people at managerial and board levels
- Commercial viability of the business case being presented
- Specific product criteria
- The business must create a reasonable number of jobs
- Geographic location of the business is also important, with the focus on rural or economically depressed areas
- Rural and Community Development Projects must have meaningful benefit for the communities
- The business must comply with all relevant laws and regulations
- Return on investment
- The business must be able to repay NEF funding
- Possibility of co-funding with private or public sector institutions is encouraged in larger projects.

Once your application has been received and found to meet the above conditions, it will then go through different stages for a detailed commercial assessment.

## How to apply for Funding

Completing the application form

Having read and understood how the NEF is structured to assist black entrepreneurs and businesses, the next logical step is to do a self-needs analysis to see how the NEF is able to assist you and your business needs. To engage them is as simple as taking the first step of filling in an application form that will present your business case for assessment based on the criteria described above.

Your proposal needs to contain comprehensive information to support the commercial viability and the financial position of your business. A business plan guideline has been provided on the application form, to highlight the various topics you need to cover when making your submission.

## Non-financial business support

### a. Pre-Investment Unit (PIU)

Applicants for funding may be excellent entrepreneurs, but often struggle to navigate the necessary application procedures and to manage their businesses. The NEF therefore assists with funding advice, business planning and general assistance to help ensure that applications are of sufficient quality to complete all steps in the application process.

The first point of contact for many potential clients, the PIU's primary functions are to:

- Provide information on NEF products and procedures
- Control and assist in drawing up funding applications
- Identify applications that will qualify for funding
- Keep clients informed on the progress of their applications
- Advise applicants and assist with drawing up business plans

### b. Post-Investment Unit (POIU)

Black businesses need to be robust and self-sustaining for B-BBEE to succeed. Recognising this fact, the NEF established structures to monitor its clients for risk and provide advice when needed. Although start-ups are inherently higher risk, the rewards for success are jobs and increased capital for further start-ups.

The unit is responsible for:

- Regular portfolio monitoring
- Regular collections management and credit control
- Mini restructure of distressed investments
- Turnaround and rescue of highly distressed investments
- Legal and workouts
- Active board seats on larger investments
- Mentorship and technical assistance
- Valuations of investee companies
- Impairments of investments; bad debt write off
- Legal Compliance
- Portfolio Management
- Portfolio Risk Management
- Additional funding on existing investments
- Exits on matured investments
- Knowledge Management
- To provide a superior customer relationship management channel for all NEF's Investees »



## iMBEWU FUND

### iMbewu Fund product information

This Fund is designed to support black entrepreneurs wishing to start new businesses as well as support existing black-owned enterprises with expansion capital. The Fund supports these entities by offering debt, quasi-equity and equity finance products with the funding threshold ranging from a minimum of R250 000 to a maximum of R10 million.

Funding is delivered through the following products:

1. Entrepreneurship Finance
2. Procurement Finance
3. Franchise Finance

### 1. Entrepreneurship Finance

The Entrepreneurship Finance product is aimed at providing startup and expansion capital to new and early-stage businesses which are owned and managed by black people.

The key criteria of this product are:

- BEE applicants should be actively involved in the day-to-day management of the business
- Minimum black ownership of 50.1% is a requirement
- Business and/or industry experience by black entrepreneurs is also considered
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme where there is lack of business and/or industry experience



- The business should be able to repay NEF's investment
- Business must have a clear value-add with a sustainable business case
- Business should preferably employ minimum of 5 people
- Maximum NEF funding is R10 million
- The NEF will exit from the investment in 5 to 7 years

### 2. Procurement Finance

The Procurement Finance product is aimed at assisting black-owned SMEs that have been awarded tenders or contracts by public and private sector entities. The product's main objective is to ensure that qualifying SMEs have the capacity to carry out the contracts.

The key criteria of this product are:

- Repayment terms must match the contract term
- NEF funding is generally limited to R10 million
- There must be active participation by black individuals in the operations of the business
- Minimum black ownership of 50.1% is required
- Industry knowledge by management or clear evidence of skills transfer through relevant partnerships
- The NEF will seek to co-finance with commercial banks to share risk where possible
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme



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### 3. Franchise Finance

The Franchise Finance product is aimed at assisting black entrepreneurs who wish to acquire a franchise license. The product is aimed at entrepreneurs who wish to start their own businesses by buying a franchise linked to a particular brand to reduce risks associated with start-up businesses lacking a track record.

**The key criteria of this product are:**

- The NEF prefers to fund recognised franchise concepts
- Active management involvement by BEE parties is required
- Minimum BEE shareholding of 50.1% is a requirement
- Transactions will be structured with sustainable capital structure
- BEE party must have been pre-approved by the franchisor before approaching the NEF
- NEF funding generally limited to R10 million
- The NEF will exit from the investment in 5 to 7 years



### UMNOTHO FUND

#### Umnotho Fund product information

This Fund is designed to provide access to Acquisition Finance, Project Finance, Expansion Finance, Capital Markets, and Liquidity and Warehousing. These products provide capital to black-owned and-managed enterprises, black entrepreneurs who are buying equity shares in established white-owned enterprises, project finance and BEE businesses that are or wish to be listed on the JSE.

**Funding ranges from R2 million to R75 million and details of the five products are provided below:**

1. Acquisition Finance
2. New Ventures Finance
3. Expansion Finance
4. Capital Markets
5. Liquidity and Warehousing

### 1. Acquisition Finance

**The key criteria of this product are:**

- BEE applicants seeking to fund equity purchases of between R2 million and R75 million in existing businesses
- Focus on medium to large companies
- Focus on partnerships with existing management teams and other equity investors
- Minimum BEE ownership of 25.1% post NEF investment
- Active BEE management participation
- Active BEE involvement in investee companies
- BEE Financial contribution determined on case-by-case basis
- Investment instruments can include a combination of debt, equity and mezzanine finance
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme
- Typical investment horizon of 4 to 7 years
- Security to include personal suretyship



### 2. New Ventures Finance

This product provides capital of R5 million to R75 million per project for BEE parties seeking to participate in medium-sized greenfields projects with total funding requests of between R10 million and R200 million.

**The key criteria of this product are:**

- Minimum 25.1% BEE shareholding
- Investment instruments can include a combination of debt, equity and mezzanine finance in support of BEE
- BEE-specific financial contribution assessed on a case-by-case basis
- NEF exposure to the project generally not to exceed 50% of total project costs
- Proven management experience within consortium
- Active BEE involvement in investee companies



- Debt funding raised from the market to match equity funding provided by NEF and other project sponsors
- NEF funding limited to R75 million per project
- The NEF investment horizon is 5 to 10 years
- Security to include personal suretyship

### 3. Expansion Capital

The NEF will provide funding of R5 million to R75 million to entities that are already black-empowered, but seek expansion capital to grow the business.

The key criteria of this product are:

- Investment instruments can include a combination of debt, equity and mezzanine finance in support of BEE
- BEE shareholding should be a minimum of 50.1%
- Pricing based on instrument, risk matrix, security package, etc.
- Typical investment horizon of 4 to 7 years
- Active BEE involvement in investee companies
- Security to include personal suretyship and security over business assets

### 4. Capital Markets

This product invests in BEE enterprises, particularly those owned by black women, that seek to list on the JSE or its junior AltX market. The Umnotho Fund will also help listed BEE companies to raise additional capital for expansion. All other key features are similar to those of the Acquisition Finance product.

### 5. Liquidity and Warehousing

This product assists BEE shareholders who need to sell a portion or all of their shares (as minority stakes in unlisted firms are hard to sell). Also acquires and temporarily warehouses these shares before on-selling them to new BEE shareholders, and refinances BEE shareholdings where existing financing structures are costly and/or inefficient. All other key features are similar to Acquisition Finance Fund.

## RURAL AND COMMUNITY DEVELOPMENT FUND

Rural and Community Development Fund was designed to promote sustainable change in social and economic relations and support the goals of growth and development in the rural economy, through financing sustainable enterprises. This would be achieved through the mobilisation of rural communities in legal entities or cooperatives, in order to participate in the broader economic activities and realise the economic transformation goals in rural South Africa. The fund has four products: New Ventures Finance, Business Acquisition, Expansion Capital and Start-up/Greenfields with the funding threshold ranging from a minimum of R1 million to R50 million.

Sectors to be funded:

- Forestry
- Agro Processing
- Leisure Tourism
- Primary / Secondary Agriculture
- Manufacturing
- Alternative Farming Methods
- Fishing and Packaging

The key criteria of this fund are:

- Projects must be financially sustainable
- BEE applicants should be actively involved in the day-to-day operations of the business
- Technical partners where applicable should be appointed
- The NEF will invest using debt, equity and quasi-equity instruments
- Minimum black ownership of 25.1% is a requirement
- Joint ventures between black and non-black partners to support skills transfer
- The business should be able to repay NEF's investment
- The business must have a clear value-add with a sustainable business case
- The NEF will exit from the investment in 5 to 10 years
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme



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## STRATEGIC PROJECTS FUND

In the quest to expedite B-BBEE participation, not only in small and medium enterprises or existing businesses through acquisition of equity interest in well established businesses, but also participation in new sector industries which have been built from the ground, the NEF established the Strategic Projects Fund (SPF).

The SPF is at the centre of NEF's investment strategy when it comes to securing the participation of black people in early stage projects. Its core function is to provide Venture Capital Finance aimed at developing South Africa's new and industrial capacity within strategic sectors identified by Government as the key drivers of economic growth.

It all began with a simple strategic question; "How is the NEF going to secure the participation and empowerment of black people in strategic sector projects that are at an early stage?" This required NEF to develop a fund that would become a pioneer in providing Venture Capital Finance which would seek to provide seed capital for feasibility studies.

This fund would embody NEF's truest sense of achieving its developmental finance objectives, most importantly securing the participation of black people. To date that question is being answered and the NEF through SPF takes a leading role and has become the face of B-BBEE in future strategic companies. Established in 2008 as a division within the NEF, the SPF's mandate is to play a central role in early stage projects by identifying, initiating, scoping and developing projects that are in sectors identified by Government as the key drivers to South Africa's economic growth. These projects will be taken through 6-stages of the project development phases.

The phases are: Scoping and Concept Study; Pre-Feasibility Study; Bankable Feasibility Study; Financial Closure; Construction Phase; and Technical Completion.

**A successful implementation of the Fund will see the NEF take the lead in the following:**

- Expanding and creation of new industrial and manufacturing capacity in South Africa
- Investing in economically depressed areas or poverty nodes, and principally in rural areas
- Warehouse equity for the future benefit of B-BBEE in national strategic projects and increasing the participation of B-BBEE in these projects
- Increasing export earning potential for South Africa
- Reducing the dependency of South Africa on imports



## Empowerment Objectives

**Through the SPF, NEF will facilitate B-BBEE in the following ways:**

- Warehouse equity for B-BBEE in early stage projects at valuations with little or no premium paid to access the projects. This enables NEF to distribute its warehoused equity to B-BBEE at lower valuations once a project is operational
- Take early stage risk on behalf of black people as early stage projects have higher execution risks compared to operational companies. The NEF will assume most of the financing risk and devise instruments to carry or transfer equity to B-BBEE once project fatal flaws have been mitigated
- Manage the project and complexities of venture capital finance structuring as it is more complex and difficult to raise capital for new ventures as compared to corporate finance deals where valuations can be ascertained based on historical performance and risks are clearly understood
- Enable project promoters to focus on making projects bankable and operational by giving the B-BBEE status, as NEF is the only DFI gazetted as a B-BBEE facilitator

**Stage 1 - Scoping or Concept Study:** This is the first stage in the development of a project. The key focus is to invest in the generation of ideas at very high level and package options that are technically and economically sound for the idea to become feasible. These options are then presented for Pre-Feasibility consideration which will in more detail test the viability or feasibility of the proposed options.

**Stage 2 - Pre-Feasibility Study (PFS):** This is the second stage in the development of a project. This objective is to test for fatal flaws in any concept and reduce the options to one concept.

The selected option is then developed in more detail to an extent that all assumptions are qualified and verifiable within 30% accuracy. This covers areas such as marketing, technical packages, Environmental Impact Assessments (EIA), financing structures etc. At the end of the PFS, a base case economic model is used to ascertain the viability of the project and the key risks and possible mitigants are defined.

**Stage 3 - Bankable Feasibility Study (BFS):** This is one of the key steps in the development of the project. The key objectives of the BFS are to execute most, if not all, material contracts that will reduce the uncertainty in the project. For example, concluding a "lump sum turn-key (LSTK) contract" for the construction of power plant, concluding a "supply contract for raw material" or "off-take agreement for purchase of services or products" or receiving a "positive EIA record of decision". It is on the back of these executable contracts that project financiers and private equity investors would then consider the project bankable and offer investment finance to financially close the capital requirements for the project to move to construction.

**Stage 4 - Financial Closure:** This stage largely involves capital raising for the project as determined by the BFS and once all financing agreements have been executed, the project is then deemed to have reached financial close. Financing stages 1 to 3 by providing venture capital, SPF will then play a Private Equity or Project Financier role depending on the size of the project. After financial close, the project is then ready to begin construction.

**Stage 5 - Construction Phase:** At this stage the focus is to manage the construction of the project as per plan and budget. Depending on the nature of the project this can be anything from 3-36 months.

**Stage 6 - Technical Completion:** This represents the final milestone for SPF. This represents a stage at which the project has been constructed and tested against the designed operating parameters as signed off in the BFS material contracts. The project will then be handed over the Post Investment Unit to manage and monitor the business operations measured against the business plan.



## STRATEGIC SECTOR ALIGNMENT

Our Investment Strategy is directed towards the following sectors:

- Tourism and Hospitality
- Renewable Energy
- Business Process Outsourcing
- Mining and Mineral Beneficiation
- Agriculture and Agro-processing
- Infrastructure
- Strategic Manufacturing Capacity (new area under development)

## CHALLENGES OR MARKET FAILURES

Facing black business in South Africa

- Limited own capital
- Access to affordable capital
- Limited management skills, including financial, marketing and technical expertise
- Lack of accurate and reliable financial information
- Poor quality of business plans
- Lower bargaining power and strong competition from established businesses with entrenched market dominance
- Lack of access to local and international markets »

