

REPORT OF THE ACTING CHAIRMAN OF THE BOARD OF TRUSTEES

In the service of a nation

Having been among the earliest to call for the development and support of black industrialists, the National Empowerment Fund (NEF) is gratified that this historic call is at last gaining increasing momentum among the patriots and advocates who are inspired and ignited by the constitutional injunction for South Africa to "heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights", as stated in the preamble.

The history of our republic, which is characterised among other manifestations by the exploitation and exclusion of the black majority from the commanding heights of the economy, compels all democrats to work actively for the decisive participation of black people in the economy. The NEF is privileged to be charged with this mandate, whose successes in this regard are the basic narrative of this Annual Report 2012.

Macro-economic environment

The global economy is going through a difficult time. Recovery from the financial and economic crisis that opened in 2008 remains slow and uneven. Developed and developing economies alike confront weaker growth prospects.

In the face of all this, South Africa has demonstrated resilience. Though our economy is growing more slowly than originally expected, there are encouraging signs of employment growth in the formal sector. Household spending is robust and private-sector investment is also gathering pace. The South African economy grew by an estimated 3.1 per cent in 2011. Gross Domestic Product is expected to slow to 2.7 per cent in 2012 before accelerating to 3.6 per cent in 2013 and 4.2 per cent in 2014 as the world economy recovers, and stronger domestic consumption and investment support increasing job creation.

Empowerment through infrastructure

The challenge before us is to build on our strengths, taking the steps necessary to improve the competitiveness and productivity of our economy to grow more rapidly, create jobs, and reduce poverty and inequality. Government's infrastructure investment plans provide a foundation for the fulfillment of these objectives.

In the much acclaimed budget speech earlier this year, Finance Minister, Mr Pravin Gordhan, announced that the Presidential Infrastructure Coordinating Commission had made considerable progress in identifying projects and clarifying long-term investment plans to drive economic change.

The Minister added that the "Budget Review lists 43 major infrastructure projects, adding up to R3.2 trillion in expenditure. Over the Medium-Term Expenditure Framework (MTEF) period ahead, approved and budgeted infrastructure plans amount to R845 billion, of which just under R300 billion is in the energy sector and R262 billion in transport and logistics projects".



Ms Zukiswa Ntlangula
Acting Chairman: Board of Trustees

The NEF believes that a significant volume of this expenditure must accrue to black entrepreneurs, in order to give effect to Government and South Africa's commitment to growing and transforming our national economy.

A credible institution

The NEF has evolved into a credible and reputable development finance institution which promotes and facilitates black economic participation, and now plays a significant role in securing the rights of black people in major transactions alongside other financiers. In doing so, the NEF specifically seeks to support the initiatives of **the dti**, including the Industrial Policy Action Plan (IPAP), by championing and funding the advancement of black industrialists. It is therefore important to highlight a few key issues in order to contextualise the efforts of the NEF.

Looking forward, the first six months of 2012 are going to be tough for the South African economy, based on the impact of the potential recession in the Eurozone as a current key export destination for South Africa. Thus, state intervention into the economy will be a necessity especially in the provision of capital for new business and business expansion. As a development finance institution, the NEF therefore plays an important role by funding projects which have the potential to boost the economy and job creation.

In particular, the NEF recognises the value of industrialisation in job creation. To date, eighteen per cent of the value of funding provided by the NEF has been invested in the manufacturing and related sectors. The potential impact of the projects which have been funded by the NEF's Strategic Projects Fund, makes a valuable contribution towards the industrialisation of South Africa's economy as well as job creation.



Enterprise Development, as an intervention, is also high on the NEF's agenda, given the launch of the NEF Enterprise Development Fund (NEF ED Fund) in 2011. This fund is not merely focused on earning contributors ED points, but is about the role that contributors (which will be especially multi-nationals seeking equity equivalent alternatives) must play in off-take arrangements and identifying opportunities for new enterprise creation in their own value chains, especially in the light of the recently gazetted procurement designations of local content. The NEF will be looking at ways of how to work within the targeted sectors to enable new black empowered enterprise to take up the opportunities created out of these designations made in the Preferential Procurement Policy Framework Act (PPPFA). The NEF will strive to ensure that contributors to the Enterprise Development Fund embrace elements of the Competitive Supplier Development Programme and that they will provide technical support to all entrepreneurs where contributions are made to the NEF ED Fund.

It is believed that the simplification of the NEF's processes, together with this focus on industrialisation, enterprise development and the promotion of the role of corporates in creating opportunities for new enterprise creation, will contribute to growing the South African economy.

Financial sustainability

The NEF is no longer allocated capital via the MTEF process and is required to sustain itself over the strategic planning period of three years, out of current capital and internally generated portfolio returns.

The controls implemented to mitigate the risks of not attaining this reality involve the continuous highlighting of the capital adequacy risk to **the dti** and the National Treasury, and continuing with the application for re-classification of the NEF from a Schedule 3A Public Entity to a Schedule 2 Major Public Entity. A reclassification will allow the NEF to present a capital-raising plan for the purpose of funding programmes beyond the current strategic planning period

Contribution to national economic development and growth

By focusing on its core objective, which is to promote and support business ventures pioneered and run by black people, the NEF is directly contributing to the promotion of decent employment through inclusive economic growth. This is achieved by funding the creation of new enterprises and funding the expansion of existing businesses, and in doing so, funding the creation and support of new and existing jobs in black-controlled businesses.

Another strategic objective has been to support vibrant, equitable and sustainable rural communities with food security for all, through the NEF's Rural and Community Development Fund. This fund provides funding to rural communities embarking on sustainable business enterprises, especially in the sectors of agriculture and agri-processing.

The responsibility of co-operatives in South Africa has been transferred to **the dti** from the Department of Agriculture, where a Co-operative Enterprise Development Division is fully functional. In addition to the seed capital that is provided by this unit of **the dti**, the NEF's Rural and Community Development Fund then provides supplementary loan finance, which to date has invested R30 million in four co-operatives.

The NEF has also contributed to raising South Africa's competitiveness through its Strategic Projects Fund, which seeks competitive opportunities in the sectors as identified in IPAP and the New Growth Path for the South African economy and the inclusion of black participation in these opportunities at the outset, during feasibility stages, as opposed during equity closure, when it would be at a premium

Africa calls

An important strategic path approved by the Board during the year under review was the assent for the NEF to look favourably on those existing black enterprises that intend to expand

their business operations into other parts of the African Continent, as opposed to only funding enterprises that conduct business exclusively in South Africa. Africa has a young, fast-growing and fast-urbanising population. Many countries have benefited from a commodities boom and a 10-fold rise in foreign investment in the past decade, notably from China. Africa's productivity is growing by nearly 3% a year, compared with 2.3% in the US.

South Africa's destiny is inextricably bound to that of the African Continent, and the NEF encourages these pan-African linkages among businesses for mutual and collective benefit.

Supporting SMEs and industrialisation

As part of its mandate to transform the economic landscape of South Africa, the NEF promotes meaningful and effective participation of black people in the economic mainstream. Thus, the NEF will continue to provide financial and non-financial support to small and medium enterprises (SMEs), both for start-up and expansionary purposes, because indeed they generate considerable jobs, skills and economic growth. This is supported by a recent study conducted by Abor and Quartey (2010), which estimates that 91% of formal business entities in South Africa are SMEs, and that these SMEs contribute between 52% and 57% to GDP and provide about 61% to employment.

So important is the SME sector that a significant proportion of the R3,7 billion that has been approved by the NEF to date for black empowered enterprises, has been for the benefit of SMEs. While this must indeed continue to grow, what must also grow with equal impetus is the financing of transactions which portend huge industrial capacity and value for the country. In addition to SMEs, therefore, what our country needs today is for black entrepreneurs to dream of bigger industrial-scale projects, or businesses that have this potential. We envisage the current players in the SME space growing their enterprises into sustainable models of success and graduating into industrialists.

This Annual Report 2012 hopes to inspire movement in that direction, described broadly as the industrialisation of South Africa's economy. It tells the tale of an organisation that has truly come into its own. One which continuously compares favourably against international best practice and is committed to upholding the finest principles of corporate governance.

This is the submission of a Board that serves with an eye on the past and the future. It is a board that, armed with diversity, expertise and depth, emboldened by merit and mettle, takes seriously its privilege to guide an exceptionally ineffable executive core and a staff compliment that is sincere in the obligation to heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights.

These efforts, this commitment, would amount to little without the publicly expressed endorsement of both the executive and legislative arms of Government, current and prospective international partners, the support of the mass media and the public, as enjoyed by the NEF.

Integral and material to these efforts is the distinction of former trustees and in particular that of my predecessor, the inimitable Mr Ronnie Ntuli, a man of infinite wisdom and a prototype entrepreneur who previously described the NEF's achievements as attributable to the "black entrepreneurs in pursuit of whose success we are privileged to serve".

This, is our testimony! This, is the NEF! ✨

Ms Zukiswa Ntlangula

Acting Chairman: Board of Trustees