



TRUSTEES' REPORT ON PERFORMANCE INFORMATION FOR THE YEAR ENDING 31 MARCH 2012

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“

We are... concerned that the developing world, especially Africa, has a limited voice and participation in the decision and policy-making processes of the global trade, economic and financial institutions.

”

Deputy President Kgalema Motlanthe,
Address to the Council of Foreign Relations in Berlin,
08 May 2012.



1. NEF's approach to reporting on performance information

In order to achieve its mandate, the NEF has agreed to a number of organisation-wide key strategic objectives which are linked to specific and measurable key performance indicators. These are allocated and measured against targets for each of the NEF's core business units.

The NEF measures and assesses its impact not only on the basis of financial return, but in accordance with what is referred to as the Empowerment Dividend which is the developmental impact of the NEF's investment activities that has to manifest itself in measurable results over and above financial return alone.

As an agency of the dti, the NEF is tasked with a mandate for the successful implementation of B-BBEE. The overall B-BBEE score, as calculated in terms of the B-BBEE Codes of Good Practice, is therefore used as a principal measure of the contribution that the black empowered business under consideration for funding is going to make to the furthering of B-BBEE. This score, along with subsequent progress in meeting B-BBEE targets in the transaction, are evaluated at the date that funding is approved as well as subsequent to this through the post investment monitoring function of the NEF.

Overall targets in respect of B-BBEE are not specifically set for the NEF for the year as this score is used in order for these transactions to qualify for the minimum eligibility criteria that are in place for each product offering.

The elements of the Empowerment Dividend are then further measured as follows:

- **Participation by black women** – the NEF emphasises the empowerment of women by providing for an additional weighting for participation by black women. The target and KPI for women's participation is 40% of the BEE ownership level supported in each transaction.
- **Job Creation** – The contribution to employment creation and the number of jobs created per rand invested or jobs sustained through investment in expansion-type activities. The NEF had set a target of 8 800 jobs for the 2011/12 year.
- **Investment in Priority Growth Sectors** – The number of investments facilitating black ownership and control of existing and new enterprises in the priority sectors of the economy as identified by the New Growth Path and the National Industrial Policy Framework (NIPF) and Industrial Policy Action Plan (IPAP).

The current invested portfolio as presented in Figure 5 on page 26 demonstrates the alignment to the policy targeted sectors listed above.

The NEF continues to spread its investment across a wide range of sectors, including the priority growth sectors. There have been very slight movements in investments across each sector. The NEF's largest investment is in the services sector (14%), followed by construction and materials (13%), transportation (8%) and manufacturing (7%). The investment in agro-processing is 6% of disbursed funds.

- **Geographic Spread** – Geographic spread of investments and contribution towards increased economic activity in areas of regional economic disadvantage. Targets in terms of geographic spread are set to attempt to increase investment in areas of regional economic disadvantage.
- **Investment Return** – The real return that each Fund realises on capital employed, after the impairment ratios experienced for that fund, as a combined measure of debt, equity and quasi-equity invested. Targeted investment return targets are 12%. It is planned to contain the impairment ratio to 17% in 2011/12 for the portfolio life to date.

The overall impact as measured against the Empowerment Dividend has decreased as a result of the declining participation by women shareholders and due to the decrease in the number of jobs supported. This is despite the NEF providing for additional weighting for these elements.

The NEF will increase its marketing efforts in order to encourage black women to apply for funding from the NEF. With regards to job creation, the NEF has noted an increase in the average job investment ratio over the last few years and compared to budget, which translates into more money being invested per job created. This is a function of the nature and operational requirements of the transactions being funded. The NEF is aware of the need to focus on job creation and sustaining investments and it is anticipated that the number of jobs created should be higher for transactions in employment intensive sectors, such as the priority growth sectors identified by IPAP2 and the New Growth Path. These sectors will therefore continue to be targeted for funding going forward.

The opening of the regional offices, has broadened the NEF's footprint which has resulted in a relative increase in investment in KwaZulu-Natal, Mpumalanga, and Limpopo. The NEF will continue to encourage investment in economically disadvantaged regions.



Fronting and tender abuse is an unintended consequence of an emphasis on diversity of ownership and senior management in implementing broad-based black economic empowerment.

President Jacob Zuma,
New Amendment Bill Launch,
GCIS Offices, Pretoria, 26 June 2012.



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The NEF's organisational structure was revised in the 2011/2012 financial year. The re-organisation improved operational efficiencies of its core Fund Management Division and follow best-practice governance structures. The revised organisational structure is now as depicted below:

Figure 1: NEF Organisational structure

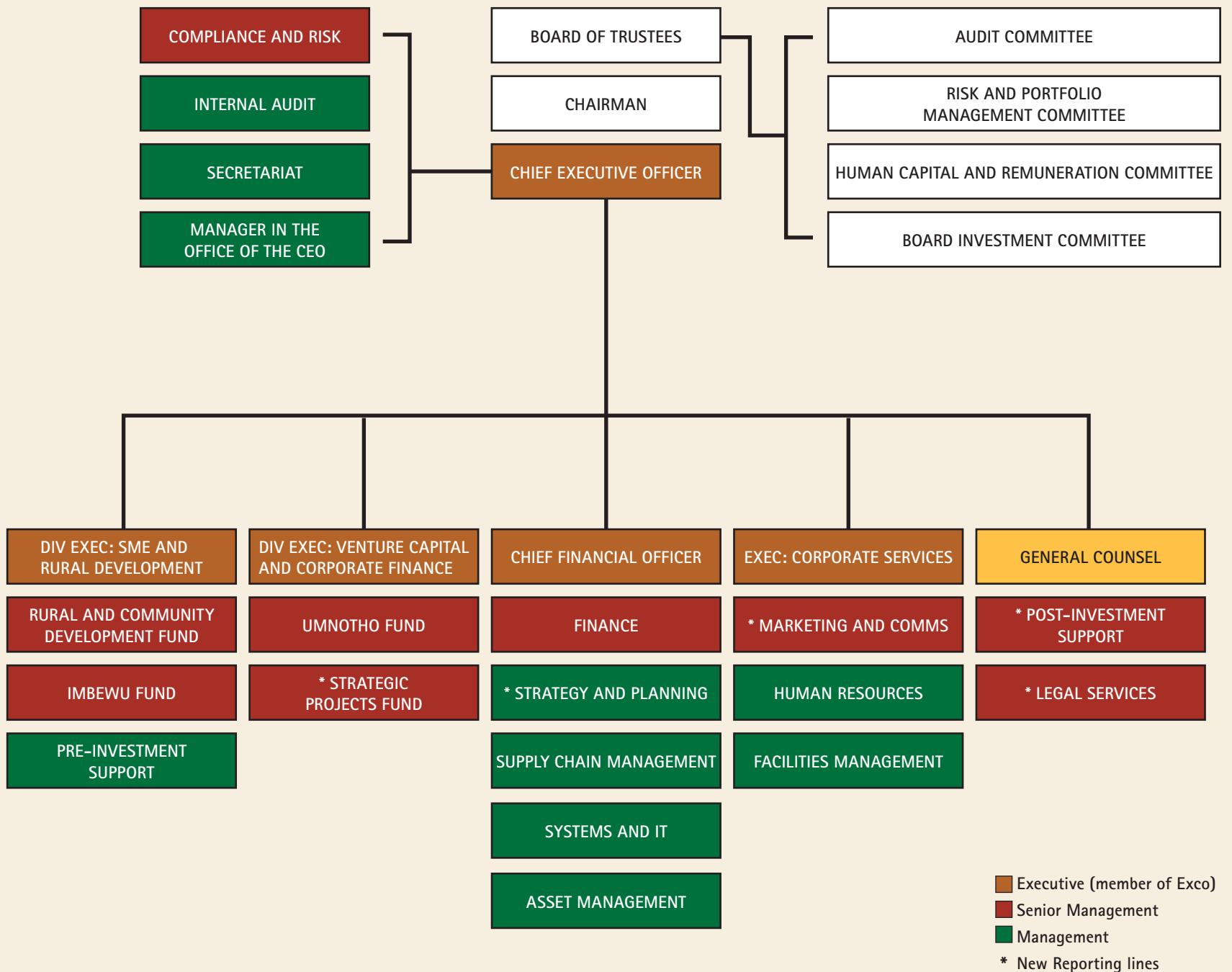




Table 1: NEF Investment Performance: Approved Deals

Period	NEF APPROVED DEALS					
	Value Approved in Period	Target Value of Approvals for Period	Cumulative Value Approved as at relevant date	Number Approved	Target number of Approvals for period	Cumulative Number Approved as at relevant date
March 2004	R 5 million	-	R 5 million	1	-	1
March 2005	R 30 million	-	R 35 million	16	-	17
March 2006	R 357 million	-	R 393 million	54	-	71
March 2007	R 205 million	-	R 598 million	23	-	94
March 2008	R 128 million	R 587 million	R 726 million	23	75	117
March 2009	R 329 million	R 687 million	R 1,055 billion	46	74	163
March 2010	R 749 million	R1,020 billion	R 1,804 billion	61	77	224
March 2011	R749 million	R835 million	R2,553 billion	62	70	286
March 2012	R1,162 million	R897 million	R3,716 billion	98	115	384

Table 2: NEF Investment Performance: Disbursement Facilities

Period	NEF DISBURSEMENT FACILITIES					
	Value Disbursed in Period	Target Value of Disbursed for Period	Cumulative Value Disbursed as at relevant date	Number Disbursed	Target number of Disbursed for period	Cumulative Number Disbursed as at relevant date
March 2004	R 5 million	-	R 5 million	1	-	1
March 2005	R 20 million	-	R 25 million	10	-	11
March 2006	R 251 million	-	R 276 million	52	-	63
March 2007	R 219 million	-	R 495 million	23	-	86
March 2008	R 203 million	R 450 million	R 698 million	31	60	117
March 2009	R 279 million	R 525 million	R 977 million	43	69	160
March 2010	R 549 million	R 950 million	R 1,526 billion	48	67	208
March 2011	R552 million	R 710 million	R 2,078 billion	49	62	257
March 2012	R620 million	R750 million	R2,698 billion	73	95	330

Please note: The disbursement values listed here are the disbursement facilities during each financial period. This will differ from the actual advances made against disbursement facilities.

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Figure 2: NEF Approved and Disbursed deals by value from inception to 31 March 2012

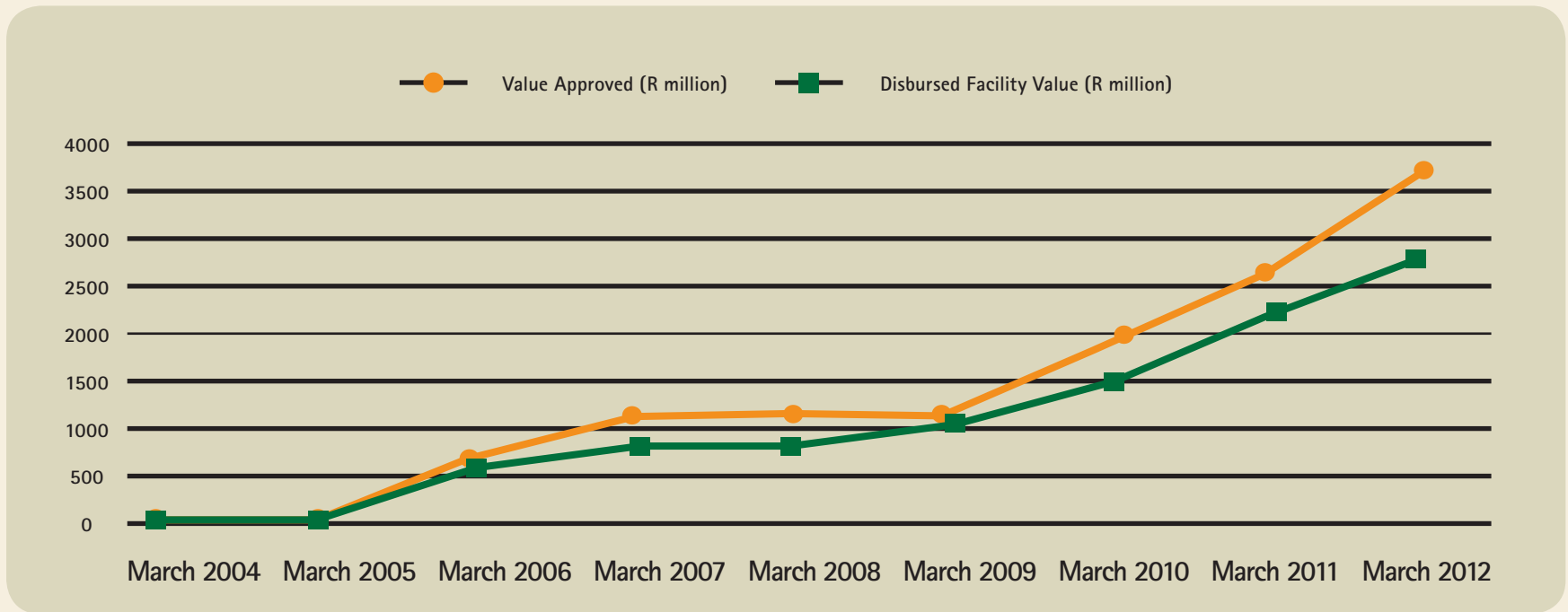


Figure 3: NEF approved and disbursed deals by number from inception to 31 March 2012

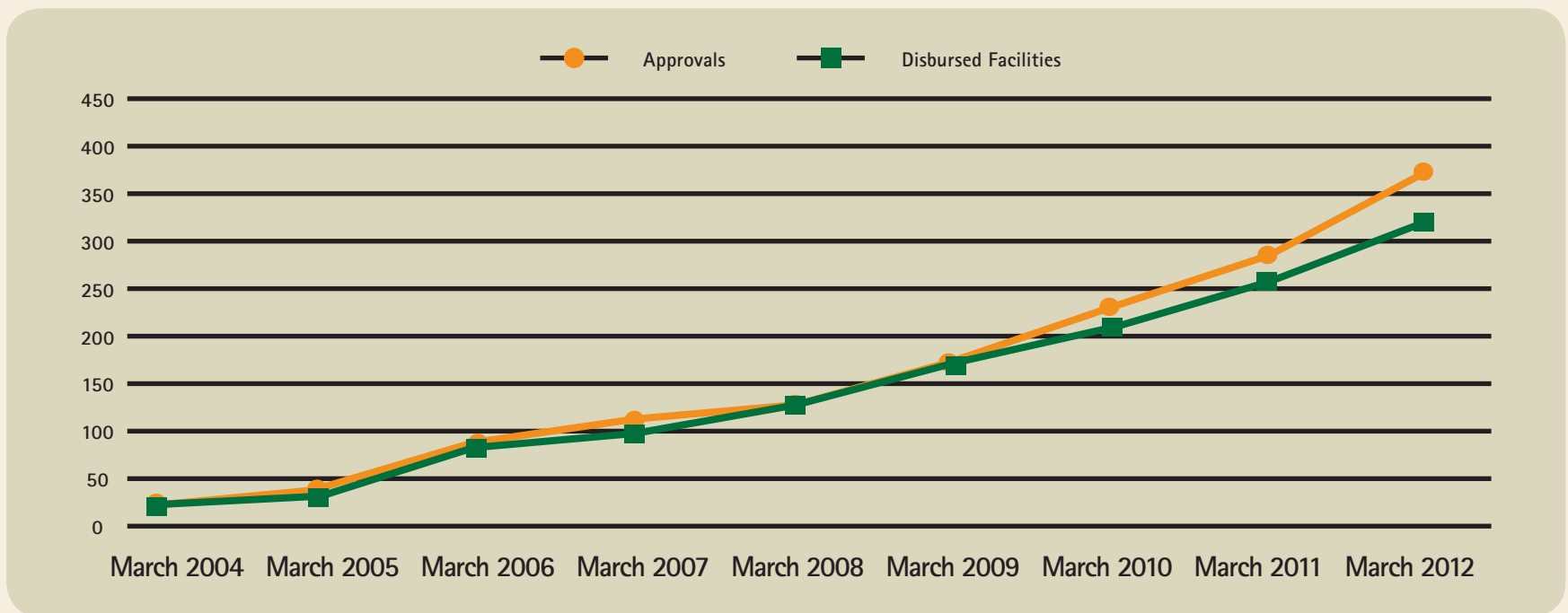
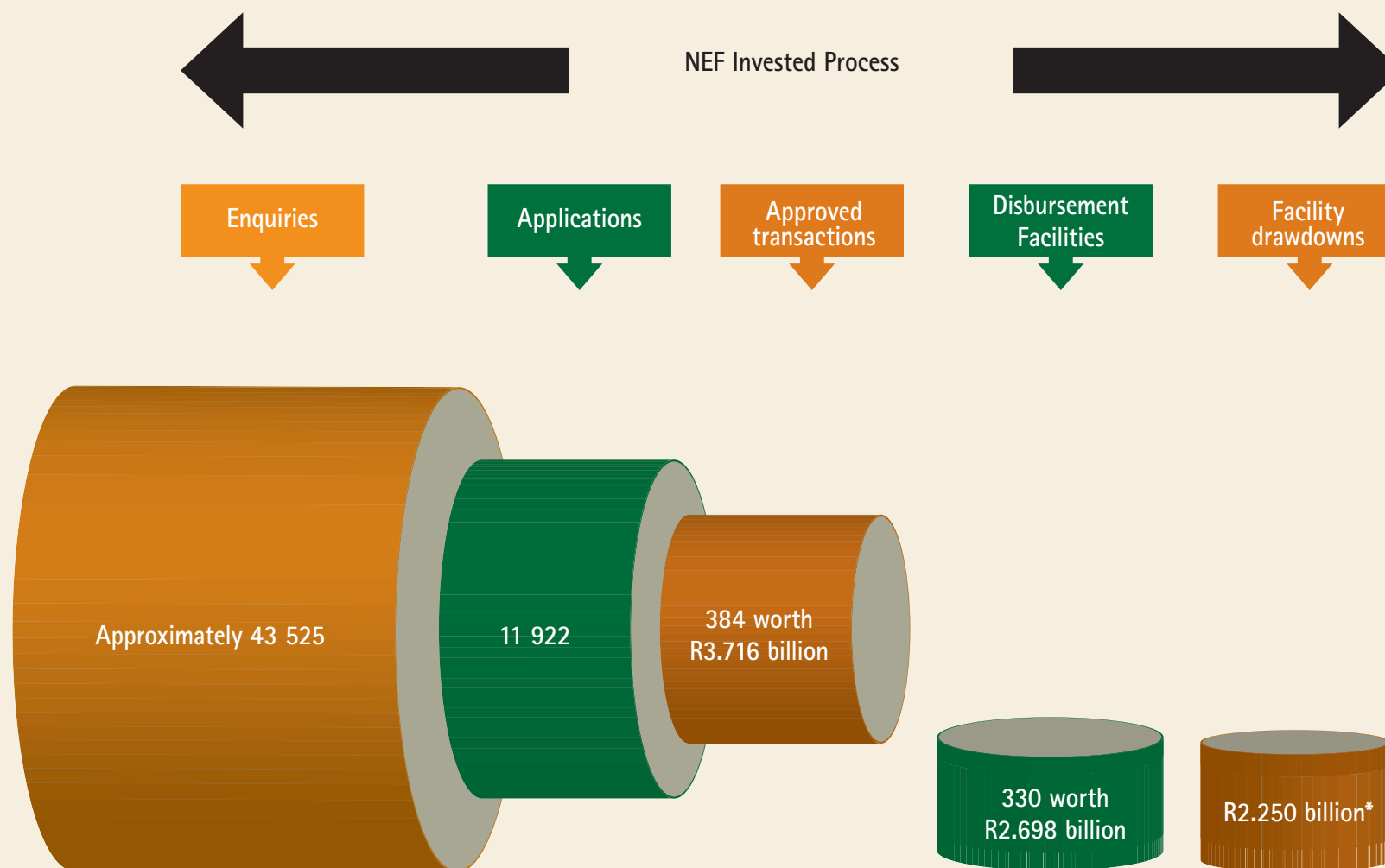




Figure 4: NEF Invested Process from inception to 31 March 2012



* Facility drawdowns excluding write-off from inception



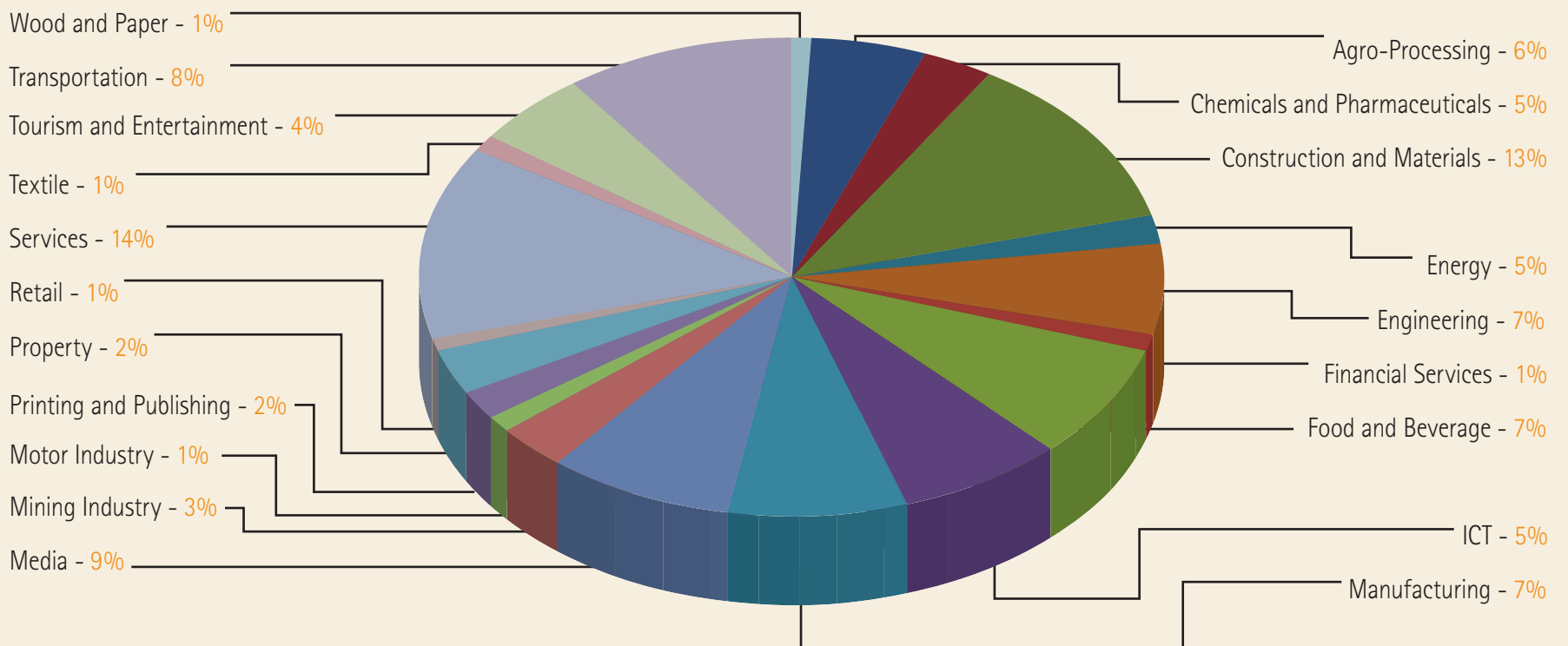
The Government has deployed a range of complimentary and integrated measures to grow the economy and create jobs and IPAP 2012-13 is one of the key pillars of this broader approach.

Minister Rob Davies,
On the launch of Industrial Policy Action Plan at NEF offices, 29-March-2012.



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Figure 5: NEF investment by sector from inception to 31 March 2012



“ 2012 must highlight the policies and environment needed within which production, investment, and job creation can flourish. ”

Minister of Finance, Pravin Gordhan, Budget Speech in Parliament, 21 February 2012.



Figure 6: NEF investment by province from inception to 31 March 2012

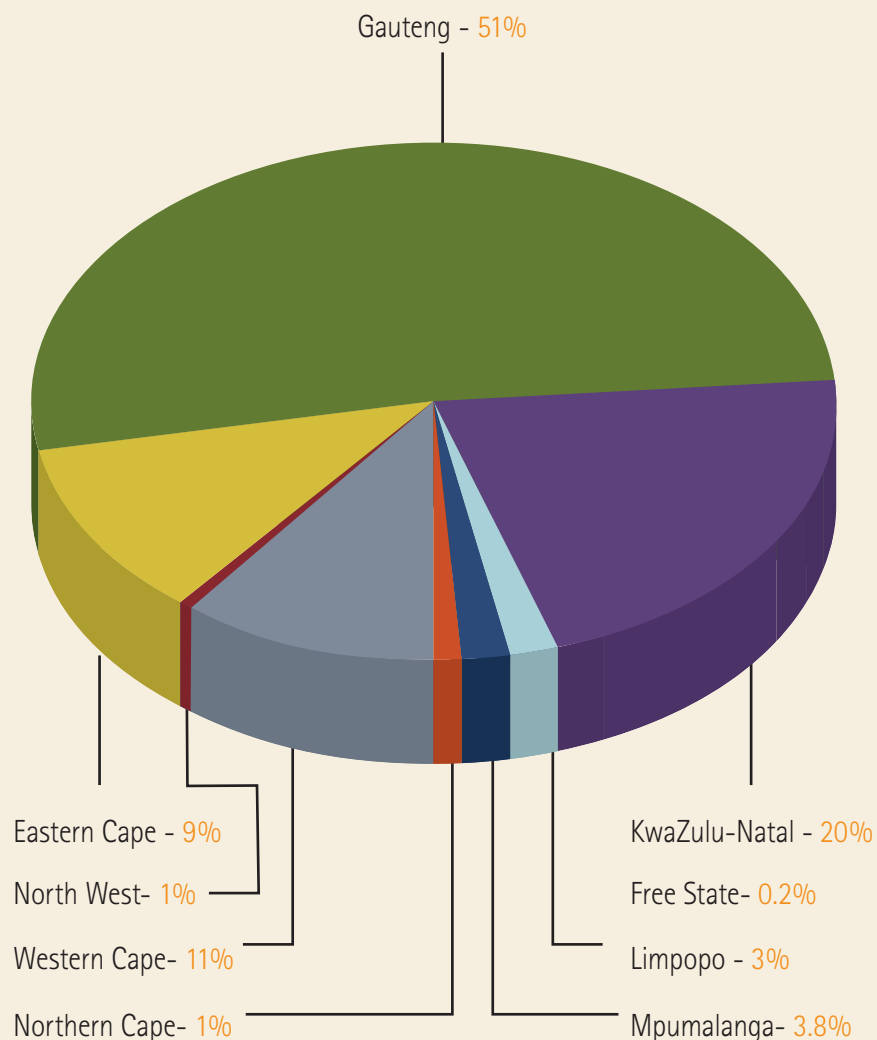
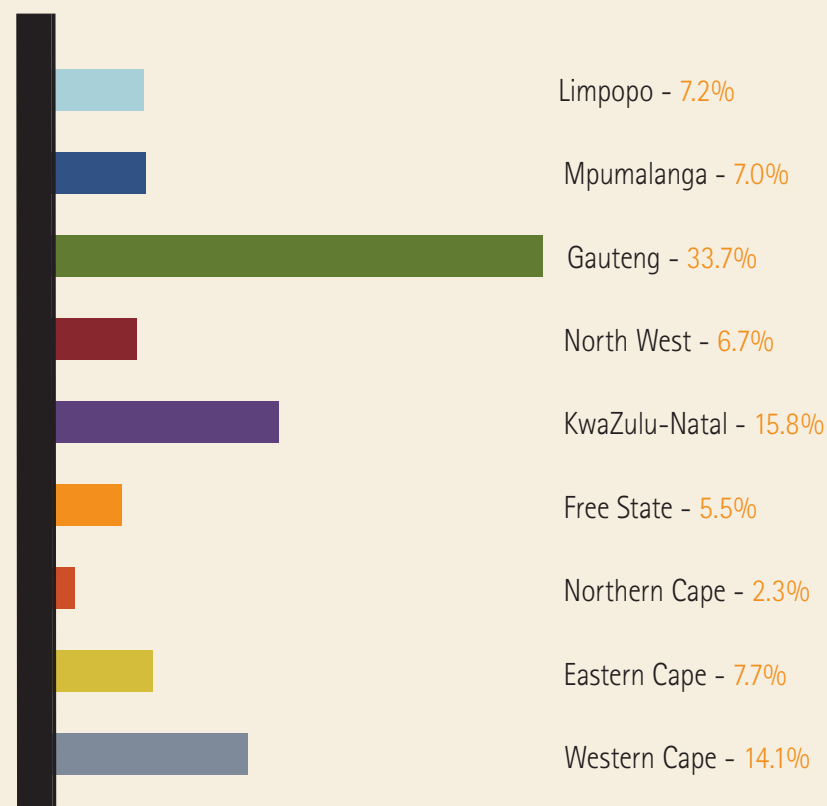


Figure 7: GDP contribution by province - 2010



Source; StatsSA (November 2011);
Gross Domestic Product, Third Quarter 2010



The NEF measures and assesses its impact not only on the basis of financial return, but in accordance with what is referred to as the Empowerment Dividend, which is the developmental impact of the NEF's investment activities that has to manifest itself in measurable results over and above only financial return.

Report of the Trustees, 2012.



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2. Programme Performance

The NEF's mandate is to serve as Government's funding agency in facilitating the implementation of B-BBEE in terms of the codes of good practice. In order to achieve this mandate, the NEF provides financial and non-financial support to black businesses via seven core programmes; the achievements of which are outlined in table 3 below.

Financial support is delivered through the NEF's four funds through which black entrepreneurs can access capital to finance their business ventures i.e.

- Umnotho Fund
- Strategic Projects Fund
- iMbewu Fund
- Rural and Community Development Fund

Non-financial support has comprised mentorship support, investor education, and entrepreneurship development. Mentorship support is provided to investees in cases where the investees need to improve either their general management or technical skills. This programme is managed by the Post Investment Unit, whose role is to monitor the performance of the NEF's portfolio. Investor education has comprised the hosting of over 72 seminars across provinces during the last two financial years. The educational seminars have provided communities with information on savings and investments. Entrepreneurship Development is a new programme being run by the Pre-Investment Unit. It comprises the provision of training to entrepreneurs as well as the referral of qualifying entrepreneurs to incubation programmes, which can help nurture the entrepreneur's business ideas into feasible business opportunities.

The organisation's strategic objectives have been listed in the table on page 30, which provides an overview of the organisation's strategy.

The NEF has not received a budgetary allocation from National Treasury, and relies on current capitalisation in order to achieve its mandate. The key performance indicators set over the medium term will fully utilise current remaining capital under management. Any reduction in this capitalisation will have a negative effect on the targets set for the MTEF period and the ability of the organisation to meet the financial means required to achieve its targets.

Table 3: Key achievements

Programme	Indicator	Approved (R)	Disbursed (R)
		2011/12	2011/12
Umnotho Fund	Value of transactions approved and disbursed	R498.5 million	R253.6 million
Imbewu Fund	Value of transactions approved and disbursed	R175 million	R104.9 million
Rural and Community Development	Value of transactions approved and disbursed	R107.9 million	R59.1 million
Strategic Projects Fund	Value of transactions approved and disbursed	R381 million	R202.6 million
Total		R1,1624 billion	R620,1 million



3. Performance Results achieved against the Annual Performance Plan

The NEF's performance results, together with the targets set for the financial year, are presented in the table on page 30.

Targets for the 2011/12 financial year were set during the strategic planning process which took place in the latter half of the 2010/11 financial year. Approval and disbursement targets, set by the Board of Trustees and agreed to by the funds at the time, were based on an analysis of fund performance together with certain expectations that activity levels would grow in line with the economy. In reality, the average deal size approved has been higher than that originally anticipated, with approval targets being exceeded by value in three of the four funds.

The total number of deals approved has, however, been below target, mainly as a result of the volume of deals anticipated not being realized in the SME and Rural Development Division. Approvals have also been affected by the continuing focus on quality of deals in order to improve the fund sustainability and more time being spent on due diligence of applications. This has resulted in a low approval rate of 4.4% relative to the number of applications received.

Once funds have been disbursed, investees are required to abide by various terms and conditions, including payment terms and reporting requirements, amongst others. The NEF's Post-Investment Unit takes up the responsibility for monitoring the performance of investees in order to, firstly, provide non-financial support to entrepreneurs as required, and, secondly, to monitor portfolio performance. Monitoring and oversight is provided in the form of site visits, during which investment professionals take time to understand the investees business and to discuss the performance of the venture. Should there be a need, non-financial support in the form of mentorship will be provided to the investee. Qualified individuals identified by the NEF will then be assigned to mentor the investee. Mentorship can take the form of technical support, the transfer of general business management skills or relevant support as required by the investee. During 2011/12 the NEF implemented more site visits, and engaged in more mentorship activities than planned. The level of engagement with investees has been more intense than anticipated.

The NEF is mindful of the need to encourage job creation, given the high unemployment rate experienced in South Africa. It is therefore of concern that the NEF supported fewer jobs during 2011/12, than during the previous financial year, even though the total disbursed during 2011/12 was higher. The average job investment ratio for the support of new jobs appears to be rising.

One of the methods of addressing the unemployment problem is to encourage entrepreneurship, which we do by providing financial and non-financial support, thereby encouraging applications for funding from the NEF. The expansion of the NEF's presence across all provinces is an attempt to facilitate access to funding by black entrepreneurs from anywhere in South Africa. The NEF has expanded its presence to cover seven of the nine provinces in South Africa, and we are committed to increasing the value of the NEF's portfolio in provinces which have a greater social and economic need.

The NEF's Asset Management division has hosted a number of investor education seminars across four provinces in an effort to encourage savings, investment and meaningful economic participation by black people. These seminars focus on educating communities about the

importance of savings, as well as about savings and investment vehicles. The seminars are open to the general public and are held in community centres in order to reach people who may not ordinarily have the advantage of accessing this information. The seminars have been well attended and have served a dual purpose of enabling the NEF to reach new audiences for the purpose of encouraging entrepreneurship.

In addition to hosting the investor education seminars, the Asset Management Division is responsible for developing new products. At the close of the financial year, the division was investigating the feasibility of two new products, which will be presented to Exco and the Board for approval during the new financial year.

Media coverage during the year has far exceeded our expectations due to the launch of the Enterprise Development Fund, together with the publicity received from international engagements and the awards bestowed upon the NEF's CEO, Ms Philisiwe Buthelezi.

The launch of the Enterprise Development Fund took place in July 2011, and the NEF has secured one contribution to the fund. The response to the fund has generally been positive, especially from multinational companies, with private sector organisations being very supportive of the fund in principle. We have found that organisations have been slower to commit funding for various reasons. It is likely that measured entities may be more inclined to commit funding to the NEF ED Fund, based on the proposal to increase the weighting of ED in the Codes of Good Practice.

The NEF strives to improve public confidence and the demand for the NEF's products and services, and to reduce the number of complaints received from our stakeholders. The number of complaints has been limited to only 1.3% of all applications received, against a tolerance level of 3%, even though the number of enquiries has increased during the year. Complaints are mostly related to slow turnaround times and disagreements with the reasons provided for the declining of applications. Trustees have engaged with management to improve systems and processes and, more important, their efficiency within the organisation. This is being implemented in the context of managing the organisation's risk, and by ensuring effective governance across the organisation.

The sustainability of the funds is a key focus area, and Trustees and management have identified the need to reduce impairment levels and improve collections. This together with the management of the portfolio risk through the Post Investment Unit's activities as well as through the focus on improving deal quality and the development of entrepreneurs, laid the groundwork for improving the sustainability of the fund over the longer term. The NEF has been involved in contributing to the development of entrepreneurs through its Business Today training initiatives, as well as by referring promising entrepreneurs to both the Shanduka Black Umbrellas and Aurik Business Incubation programmes. The aim of these activities is to assist in the development of entrepreneurs and to assist them with improving their business ideas into feasible ventures, which could possibly be funded by the NEF in future. This should have the knock-on effect of contributing to increased application approval rates, reducing impairment levels of funded transactions by the NEF in future, and thereby improving the ability of the funds to be self-sustaining.

The NEF recognises that its employees represent the organisation's most valuable asset, and strives to attract and retain the best talent. Various interventions have been implemented by the Human Resource Department to improve recruitment and retention practices, in order to maximize the readiness of our employees. These interventions, together with performance against all the strategic objectives are outlined in the table on page 30.

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The measurement of the Empowerment Dividend has been enhanced through the Balanced Scorecard which measures the NEF's performance against the key elements of the Empowerment Dividend for the 2011/12 year and comprehensive targets set against its elements. The overall result for the year yielded a score of 3.94 on a scale of 1 to 5 and indicates a 78% achievement against targets. The results achieved against detailed core Key Performance Indicators (KPIs) within the Empowerment Dividend and operational KPIs are presented in the following section.

Performance against the Annual Performance Plan

Strategic Objective	Output	Performance Measure/Indicator	Annual Target	Result achieved as at 31 March 2012	Reason for variation
1. Promote and support business ventures pioneered and run by black people	Provide access to finance for viable black-owned businesses	NEF			
		1.1. Number of deals approved	115	98	The focus on improvement of deal quality and sustainability of the portfolio, have resulted in more time and emphasis being placed on due diligence. There has also been a trade-off between average value per deal and deal volumes
		1.2. Value of deals approved	R897 million	R1.16 billion	
		1.3. Number of deals disbursed	95	73	
		1.4. Value of deals disbursed	R750 million	R620.1 million	
1.5. Enterprise development model and strategy approved for implementation by Board	Implementation of the business plan and secure at least three contributors	Board approval Launch of fund 26 corporates engaged. Secured one contributor plus two are in the process of signing up	Corporates have been very supportive in principle but hesitant to commit funding for their own reasons		
2. Contribute to the creation of employment opportunities	Support the creation of employment opportunities	2.1. Number of jobs supported	Support at least 8 800 jobs	The total number of jobs supported for 2011/12 is 3 124 jobs (of which 2 367 are new and 757 are existing) plus the potential to create an estimated 5 000 jobs through various SPF investments	The average job investment ratio has been much higher than budgeted
3. Provide black people with the opportunity of acquiring shares	Acquire equity in SOCEs allocated to the NEF	3.1. Signing of MOU with SAFCOL 3.2. Signing of MOU with priority SOCEs	Transfer of priority SOCE equities to the NEF	Awaiting a ministerial decision	This issue has been escalated to the dti



Performance against the Annual Performance Plan (continued)

Strategic Objective	Output	Performance Measure/Indicator	Annual Target	Result achieved as at 31 March 2012	Reason for variation
4. Encourage and promote savings, investment and meaningful economic participation by black people	Implement effective investor education programmes country-wide	4.1. Number of seminars held across the country	Roll out of education campaigns to four provinces	Campaign concluded with the rollout to four provinces (North-West, KZN, Mpumalanga and Gauteng)	
5. Pioneer new products	Innovation in order to meet stakeholder requirements	5.1. Launch one new product via the Asset Management Division	Implementation of the business plan	2 options have been developed for an ETF product, which are currently under consideration. In addition, a possible cross border trade facility is in the process of being developed	Significant focus has been placed on promoting the NEF ED Fund
6. Encourage investee sustainability	The provision of non-financial support for black-owned businesses	6.1. Value spent on mentorship interventions 6.1. Number of site visits	R2.8 million 257 site visits and 159 reports	R3 million Total for 2011/12: 385 site visits and 188 reports	The intensity of the engagements with investees has been higher than predicted given the numerous business challenges faced by investees
7. Facilitate investment across all nine provinces of South Africa	Establish co-location offices in all nine provinces	7.1. Number of co-location offices established	Four co-location offices established	Four new offices secured (Eastern Cape, Limpopo, Mpumalanga, Free State). New leases concluded in KZN, Western Cape	
8. Increase public confidence and demand for the NEF's products and services	Increase awareness of the NEF's services	8.1. Value of Media Coverage 8.2. Complaints as a percentage of application received	Advertising Value Equivalent (AVE) of R16.3 million Ensure that complaints are limited to 3% of the applications received	Total AVE: R25.1 million 100% of complaints have been addressed within 30 days. 23 complaints = 1.39% of all applications received	Media coverage is well above that planned for the year due to NEF ED Fund launch and in addition, the awards bestowed on the CEO have generated significant publicity for the NEF

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Performance against the Annual Performance Plan (continued)

Strategic Objective	Output	Performance Measure/Indicator	Annual Target	Result achieved as at 31 March 2012	Reason for variation
9. Maximise financial sustainability	The creation of a sustainable investment fund	9.1. Minimise overall fund impairment levels	17% for total portfolio (21% for originated loans)	Impairment ratio of 12% of the total portfolio (13% for the Loans / Preference Share portfolio) has been achieved	A total of R165 million has been written off as irrecoverable
		9.2. Target ROI	12% gross blended return on the invested portfolio before impairments	The annualized return on investment on the loans portfolio before impairments is 7%	Interest rates were lower than anticipated
		9.3. Book value of investments	Perform valuation exercise as part of annual audit twice a year	Valuation exercises completed as part of year end reporting during the first quarter, and as part of mid year reporting during the second quarter.	
		9.4. Improve collections ratios	65%	97% (73% excluding additional payments)	The actual collection rate is higher than target as it includes additional / catch-up settlements
		9.5. Manage portfolio risk	Active management of the portfolio by POIU	Exposure of the portfolio by value is as follows: <ul style="list-style-type: none"> • High risk clients: 13% • Medium risk clients: 45% • Low risk clients: 27% • 15% of the portfolio by value is in legal and workout stage 	



Performance against the Annual Performance Plan (continued)

Strategic Objective	Output	Performance Measure/Indicator	Annual Target	Result achieved as at 31 March 2012	Reason for variation
10. Strengthen operational efficiencies	Ensure effectiveness and integrity of the CRM system	10.1. Meet project timeline and budget as set in project plan to be approved by 31 March 2011	Refining functionality and processes for the CRM	Project timelines have been met as per project plan, except where the development environment had performance issues.	Upgrades on the development environment were put on hold due to the planned move to a centralized environment.
		10.2. Approved and Disbursed deals information captured on CRM		IT General Controls and Application Control audit concluded.	
			Maximise the use of CRM system by FMD	It was possible to identify 4 of the 4 funds transactions on the CRM system.	
11. Maintain excellent monitoring and governance processes across the organization	Effective governance across the organization	11.1. Achieve an unqualified audit	Achieve an unqualified audit	Unqualified audit achieved for 2010/11 financial year.	
		11.2. Implementation of fraud prevention plan and reports to the Audit Committee			
			Implementation of fraud prevention plan and reports to the Audit Committee	Fraud Prevention Plan has been implemented. Fraud awareness session completed with staff. In addition, instances of alleged fraud and investigations have been reported to the Audit Committee.	
12. Implement Enterprise Risk Management Framework	Effective governance and mitigation of risks across the organization	12.1. Risk registers completed for all divisions in each quarter	Implementation of risk management framework	Risk management framework implemented.	
		12.2. Evidence of implementation of Risk Management Framework. Credit risk assessment reports on deals submitted for approval			

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Performance against the Annual Performance Plan (continued)

Strategic Objective	Output	Performance Measure/Indicator	Annual Target	Result achieved as at 31 March 2012	Reason for variation
			Implementation of credit risk assessment process. Roll-out credit risk assessment process.	Credit risk assessment process has been implemented with credit risk reports being completed for all deals going to FMIC.	
13. Ensure stakeholder satisfaction by complying with stakeholder requirements	Adherence to stakeholder requirements	13.1. Assessment of compliance	Ensure compliance as per the Compliance Calendar	Compliance achieved	
14. Implement improved recruitment practices		14.1. Right start programme implemented 14.2. Implementation of the targeted selection recruitment practices. 14.3. Minimise staff turnover	Ensure that all new recruits go through a detailed induction and right start programme.	44 out of 50 recruits (88%) have undergone a detailed orientation programme.	Not all recruits were able to attend due to work commitments.
			Ensure that all applicants are interviewed using target selection methodology. Minimise staff turnover to within market trends i.e 10%	254 (100%) candidates interviewed for permanent positions using the target selection methodology. 18 exits (14 due to resignation) = 9% of staff complement.	
15. Maximise human capital readiness	Ensuring that we have the best skill set within the organization	15.1. Employees training programme linked to divisional and organizational objectives	Ensure that training is related to individual, divisional and organizational objectives	All training has been provided in accordance with PDP's.	