

# REPORT OF THE CHIEF EXECUTIVE OFFICER



Ms Philisiwe Mthethwa

## An enduring commitment to excellence

### Creating real economic value

This Integrated Report 2016 of the National Empowerment Fund (NEF) is an account of how a small organisation with a big mandate has bucked the trend of a global economic slowdown, defying the tide of a distressed national economy that has had to downscale its growth projections amid the face of rising unemployment and falling commodity prices.

This is the story of a development finance institution that has continued to create jobs and real economic value, bringing hope to many who are driven by the knowledge that because they are still disadvantaged economically on the basis of race, gender and geography, they have nowhere else to run to but to the funder with a soul.

### Performance Highlights

The year under review saw the matter of the NEF's recapitalisation continuing to be a critical priority for implementing the mandate of providing financial and non-financial support to black entrepreneurs.

The primary architecture of this report rests on the following pillars:

- Highlights of the year's performance,
- The work in progress with the Department of Rural Development and Land Reform (DRDLR) to empower farmworkers to become entrepreneurs,
- Reflection on the Performance per fund and the related consolidated analyses,
- Lastly we will focus attention on the organisation's Recapitalisation Initiatives.

## 2016 Highlights

Approved

**R1.2 billion**  
39% up on 2015

Approved

**R154 million**  
partnership with the DRDLR

Launch of  
the **Black  
Industrialist  
Programme**

I wish to acknowledge the entire staff compliment of the NEF across all the levels who are the glory behind the NEF's performance excellence. These patriots are the jewel on the crown of the Empowerment Dividend

The total value of approvals since inception to the 2015/16 financial year is R7.6 billion towards 770 black businesses; while R5.1 billion has been disbursed into the national economy.

It is pleasing to report that in the year under review the NEF approved 127 deals worth R1.2 billion against a target of 111 deals worth R880 million. The annual disbursements amounted to R819 million against a target of R691 million.

In accordance with national priorities job-creation remains one that is central to our purpose, and in this regard the NEF supported 4 938 job opportunities, of which 3 377 were new. This brings total job opportunities geared to be supported since inception in excess of 86 859.

The NEF's performance in advancing the frontiers of black women empowerment this year was reticent, but this remains an area that receives dedicated attention through the Women Empowerment Fund.

30% of commitments made in the year were towards businesses partially or wholly owned by women, against a target of 45%. Total women ownership disbursed in the year is 29% vs target of 40%.

The NEF is a key role player in the Black Industrialists Programme which aims to promote and ensure the participation of black entrepreneurs in key strategic sectors of the economy.

The commitment to developing black industrialists saw the NEF increasing its tally on this important national imperative. As a result, the NEF can today speak of 31 strategic and industrial projects worth R29 billion, with the potential to support over 86 500 jobs.

The launch of the Northern Cape regional office in the third quarter of the financial year means that the NEF is now a fully-fledged national organisation with an office network that cuts across the length and breadth of our beloved republic.

In relation to geographic activity we can report that since inception to financial year end, Gauteng now comprises 45% of the NEF's total invested portfolio, which is a great improvement from the days when the NEF's presence in Gauteng accounted for over 60%. The point must however be made that this is not as a result of a reduction of funding in Gauteng. This is a direct consequence of planned, targeted and increased funding in the other 8 provinces because they too are integral to South Africa's economy. Over 76% of the country's population resides collectively in the Northern Cape, the North West, Limpopo, Mpumalanga, Free State, Eastern Cape, KwaZulu-Natal and the Western Cape, and the point cannot be overemphasized that our national office network is indeed a historic achievement.

**Business Sector:**  
Pharmaceutical

**Core Business:**  
Vaccine  
Manufacturing

**Jobs:**  
90

#### Investee Profile:

## Strategic Projects Fund

### iVAC BIO(PTY) LTD

iVac Bio (Pty) Ltd's vision is to establish a biotech Advanced Pharmaceutical Ingredient (API) and vaccine manufacturing facility using plant production system, instead of the conventional (animal) production methodology, which results in lower capital expenditure and production costs. In the short term iVac Bio will be a bulk antigen manufacturing company involved in the production of vaccine API used to manufacture zoonotic animal and human health vaccines and in the long-term the company will become a vaccine production facility. The NEF has invested R7 million, in this black woman-led transaction, towards the bankable feasibility studies towards the production facility, which will be completed by December 2016.

To increase economic activity in the Northern Cape, North West, Limpopo, Mpumalanga and Free State the NEF aimed to disburse a minimum of 25% of its disbursement target of R691 million in these provinces. This was exceeded with R361 million disbursed instead of R173 million.

Regional Offices and the Pre-Investment Unit achieved approval of 60 deals worth R427 million against the broader organisational target of 111 deals worth R880 million. Similarly, we are pleased that regional offices were instrumental in the collection of R33.94 million, representing a 98% collection rate of the regional portfolios.

Rural and Community Development remains a cornerstone of our development and funding philosophy, and we are pleased that since inception, rural deals are geared to empower 30 communities and over 1.8 million individuals.

Entrepreneurial Development has continued to gain momentum, with 26 business training sessions having been provided countrywide, and 36 entrepreneurs having been successfully incubated.

Another achievement worthy of mention is that as a result of the enterprise-wide focus on collections, over R1.7 billion has been repaid by investees. The litigation pipeline increased by 17 transactions with a value of R84.3 million, signalling a robust commitment to collect more. R48.5 million was collected on deals in litigation during the year.

In terms of active portfolio management, impairment has increased to 24%, while ROI at 9.5% is within the targeted range of 8 to 10%. Collection ratio stands at 97% against a target of 80%. The are 26 successful exits at 1.25 times money back and repeat business to the value of R135 million has been created.

In terms of **Preferential procurement** it gives us pleasure to report on improvement in procurement from black women-owned entities at 29.18% as compared to 14.53% in 2014/15. The NEF management continue to keep a close watch on this key performance indicator to ensure meaningful and continuous improvement.

On the **Socio-Economic Development** front we are pleased to report on 44 Investor education seminars that were held across the country, which include 8 Industrial Theatre presentations. The Industrial Theatre production is targeted primarily at youth in Universities and other educational institutions, who have a hunger for knowledge and inspiration on entrepreneurship and aims to further inculcate the culture of savings.

Since the Investor Education campaign began some eight years ago, the NEF has now reached over **30 000 people** in villages and townships through 120 community seminars on how to save and invest, personal financial discipline, shares, dividends, bonds, the property and money markets.

### Supporting Black Industrialists

The NEF has for the past eight years been hard at work carving a space for the development of black industrialists through the Strategic Projects Fund

(SPF). This makes the NEF a pioneer in the space identified by the new Black Industrialist Policy.

Through SPF, the NEF has made important steps in seeking competitive opportunity for the South African economy and the inclusion of black participation in opportunities at the outset of projects, as opposed to doing so during equity closure.

SPF approved 12 new projects during the year under review which was a remarkable achievement as it happens under slowing economic activity.

These Industrial projects typically undergo an extensive and rigorous development cycle prior to reaching a bankable stage at which point they can be evaluated for commercial viability and for funding by investors.

The NEF's commitment to black industrialisation saw the NEF progressing a total of 10 SPF projects to subsequent development stages. Our commitment is ultimately to commercialise the SPF portfolio so that the NEF may contribute towards the reindustrialisation and growth of our economy, with black people at the centre.

### Partnership with the Department of Rural Development and Land Reform (DRDLR)

Among achievements for the year under review is the NEF's partnership with the DRDLR after the Hon. Minister Gugile Nkwinti invited the NEF to become a partner in the pilot implementation of the programme called *STRENGTHENING OF RELATIVE RIGHTS OF PEOPLE WORKING THE LAND*, also known as the 50/50 project.

There are a number of key strategic and patriotic considerations that attracted the NEF to this partnership. These include:

- The Department of Rural Development and Land Reform plays an important role in terms of redressing the injustices of the past in the areas that were devastated more severely by apartheid.
- The objectives of the pilot project that we have partnered on with the Department, are at the heart of the existence of the NEF, because they seek to empower farmworkers to become entrepreneurs.
- We value the potential progressive outcomes of this historic programme, which include objectives such as:
  - economic development;
  - job creation;
  - enhancing food security;
  - broadening entrepreneurship; and
  - growing women's economic participation.

We believe that there were several factors that distinguished the NEF as a worthy partner, and these include the following:

- The NEF has a track-record of success in structuring start-ups, expansion and equity acquisition deals;
- With a dedicated Rural and Community Development Fund the NEF possesses consummate expertise in unlocking economic value in peri-urban and rural areas; and
- The NEF is highly proficient in facilitating community and worker ownership and participation in BEE transactions. Our skills include providing entrepreneurial training, incubation support, drawing up social and labour plans and broadly safeguarding the interests of communities and workers in business.

Through the partnership, the NEF assisted in the facilitation of approving and finalising legal agreements for five deals worth R154 million.

This milestone would not have been possible had we not invested significant time and effort in building relations with the broadest spectrum of stakeholders across the Government sphere, in the private sector and across organised commerce, in civil society, across communities and indeed in the mass media.

I believe that Government, Parliament, the Board and the broader South African public, including our targeted entrepreneurs, can take pride in the phenomenal growth and institutional maturity of the NEF since operational inception in 2004.

### Public Advocacy

The NEF has continued to raise concerns in the public sphere in respect of matters that confront the transformation landscape. Among these we can sight concerns regarding the use of equity calls in terms of how some partners are diluting black shareholders in empowerment transactions. While equity calls are perfectly, normal, universal and widespread in the world of commerce, the NEF has observed situations where equity calls appear to have been carefully designed and calculated to bring about financial leakage against black partners. Due to historical reasons many black entrepreneurs or investors have no capital reserves to tap into in order to follow their rights when equity calls are made, leading to them losing their rights to shareholders with deep pockets. Transformation then gets diluted whilst the enterprise continues to enjoy the benefits of an empowered company.

Another concern of critical national importance relates to the "once empowered always empowered" principle. As the custodian of the implementation of Broad-Based Black Economic Empowerment in South Africa the NEF took a principled stand on the legal dispute between the Department of Mineral Resources and the Chamber of Mines regarding the implementation of the mining charter in order to safeguard and uphold the legitimate aspirations of inclusive growth. We are not at liberty at this juncture to divulge the content of our contestation, but can confirm that the NEF has been admitted in the case as a friend of the court.

While consensus abounds regarding the need to transform the South African economy, from time to time disputes will emerge, and the NEF will continue to uphold its responsibility to lead the path.

### Fraternal relations

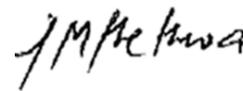
The NEF has continued to cement relations with a range of key stakeholder entities, among whom we acknowledge the Black Business Council, Association of Black Securities and Investment Professionals, Africa Women Chartered Accountants, Business Women Association of South Africa, National African Federated Chamber of Commerce, Black Management Forum, Business Unity South Africa, Progressive Professionals' Forum, South African National Editors' Forum, journalists and many other esteemed stakeholders across the regions.

We acknowledge the BBC for the powerful messages of endorsement and recommendation for the NEF to be entrusted with the management of the funds that have been earmarked for the anticipated public-private SME venture-capital fund.

### Acknowledgements

The NEF is grateful for Government's continued guidance in the implementation of our mandate, in particular the Ministers, Deputy Ministers, Directors General and officials in **the dti**, National Treasury, Economic Development, Small Business Development and many other departments. We also value the esteemed oversight of the committees and chairpersons in the national legislature, as well as the partnerships of provincial governments, Traditional Leaders and municipalities.

We acknowledge the worthy leadership of the Board of Trustees, and congratulate the Chairman on his appointment. We look forward to serving under his wise stewardship. I am privileged to work alongside executives, managers and colleagues whose commitment to excellence is without peer. Your collective values and vision are reflected in our work, and in our performance to date. To the South African entrepreneurs it is our privilege to be at your service.



Ms Philisiwe Mthethwa  
Chief Executive Officer

“Among achievements for the year under review is the NEF's partnership with the DRDLR after the Hon. Minister Gugile Nkwinti invited the NEF to become a partner in the pilot implementation of the programme called **STRENGTHENING OF RELATIVE RIGHTS OF PEOPLE WORKING THE LAND**, also known as the 50/50 project.”

Ms Philisiwe Mthethwa