

REPORT OF THE CHAIRMAN OF THE BOARD OF TRUSTEES



Mr Rakesh Garach

A beacon of hope for black entrepreneurs

Overview

The year 2015/16 was a momentous one for the National Empowerment Fund (NEF). Not only did it achieve its highest levels of approvals since it lifted the funding moratorium in May 2014, the Fund also achieved record levels in its collections and marked a decade of operational excellence during the period under review. The NEF also forged a ground breaking partnership with the Department of Rural Development and Land Reform (DRDLR) and collaborated with its shareholder the Department of Trade and Industry (**the dti**) to launch the Black Industrialist Programme. The fund also consolidated its national footprint by opening the last of its provincial offices in the Northern Cape.

Despite the challenging economic times and its own testing circumstances, the NEF, continues to serve as a beacon of hope for black entrepreneurs of and plays a leading role in helping create opportunities for black, and especially female, entrepreneurs while

joining other development finance institutions in helping amass then channel resources to an area of important need: that of growing black entrepreneurs to create much needed employment in our economy.

Economic Outlook

The South African economy continues to navigate its way through and recover from the effects of the 2008 financial crisis. GDP growth for 2015 was recorded at 1, 3% while the economy contracted by 1, 2% during the first quarter of 2016.

The two key events that are set to shape the global economic outlook is the decision by the United Kingdom to vote in a June 23 referendum to leave the European Union in an unexpected, semi cataclysmic event that has now come to be known as Brexit. While the other is the outcome of the United States general election set for November with markets keenly watching the threats by one of the candidates to renegotiate key trade agreements. Foreign

Cumulative highlights to date

Approvals

R7.6 billion

Disbursed

R5.1 billion

>R1.7 billion

Received from investees

86 859

job opportunities supported
(61 231 of which are new)

investor's search for yield in the wake of Brexit, meant the rand strengthened by early August, following the conclusion of peaceful local government elections.

Despite the recovery in the rand, economists are still bearish on South Africa's economic outlook with the International Monetary Fund and the July 2016 Beeld consensus forecast at 0.1% GDP growth for this year rising to just above 1% next year. Finance Minister Pravin Gordhan is more optimistic and expects South Africa to still achieve 1% growth this year.

The NEF commends the National Treasury and Government's successful efforts in warding off a threat of a possible sovereign rating downgrade. The truth is that South Africa has a dynamic, well-managed middle-income economy that is in the throes of being modernised through infrastructure investment and industrialisation while being transformed to be inclusive.

The cumulative job losses in the private sector between the fourth quarter 2008 and the fourth quarter 2014 amounted to 338 500, whereas the public sector added 336 800 jobs over the same period. The net effect is that there were 1 700 fewer jobs in the fourth quarter 2014 than in the fourth quarter 2008. Over this period the working age population (15 to 64 years old) expanded by more than 4 million people.

The South African Reserve Bank noted in its June 2016 Quarterly Bulletin that annual average growth in formal non-agricultural employment slowed

continuously from a rate of 2.3% in 2011 to 0.5% in 2015, consistent with the downward phase in the business cycle that commenced in December 2013

This poor jobs performance continued in 2016 with the second quarter Labour Force Survey showing that the number of employed fell by 112 000 year on year in the second quarter 2016 to 15.5 million, while the number aged 15 to 64 grew by 636 000 year on year to 36.5 million. This meant that the unemployment rate rose to 26.6% in the second quarter 2016 from 25% in the second quarter 2015.

This presents the NEF, other development finance institutions, all of government, the private sector and labour with a challenge to offer countercyclical intervention to grow entrepreneurs and help create employment.

Helping to develop black entrepreneurs

The NEF now enjoys institutional maturity and the credibility from its record of accomplishment to help create black entrepreneurs. The NEF monitors global trends to better understand the policy requirements and instruments to help support the creation and sustenance of entrepreneurs.

The Global Entrepreneurship Monitor, one of the most comprehensive studies on entrepreneurship, continues to find that South Africa has a low entrepreneurial participation rate among working age adults compared to other middle-income countries. This is especially surprising, and worrying, when one considers South Africa's level of unemployment.



Investee Profile:

uMnotho Fund

Go2Market (Pty) Ltd (G2M)

G2M is a 100% black woman owned and managed concrete mixing company. The core product of the company is to provide onsite concrete mixing using the mobile OMEGA Volumetric Concrete Mixer (VCM). These mixers are capable of producing a wide range of volumetric mix designs, including standard concrete, high specification concrete, grout mixes, pump mixes efficiently according to complex construction specification. G2M is committed to revolutionizing the industry with new innovations while maintaining the highest quality standards. G2M systems allow for a quick set up and erection of the batch plant, reducing the costs of transport as compared to the conventional drum mixer. G2M has an exclusive contract to supply the VCM within the continent. Among the active projects that the company has completed in the South of Gauteng are 9600 residential units in Fleurhof Ext. 1 an integrated housing project in South Hills Moffit Park and the Jabulani central business district.

The NEF has grown to appreciate that entrepreneurship, beyond survivalist and informal mode, is rarely an immediate solution to escaping unemployment. Entrepreneurship requires skills, work experience and accumulated financial and professional capital as well as networks. This means that the long-term solution to improving entrepreneurship participation is improving skills and education, including introducing formal entrepreneurship education at the appropriate stage at school level.

The NEF can attest to the improving depth and quality of black entrepreneurs who have accumulated a wealth of experience and capital from long distinguished careers in the public and private sectors then branch out with a clear idea of the area of entrepreneurship they wish to break into.

Black Industrialists

The development and implementation of the Black Industrialists Programme is a rational response to the socio-economic development challenges that the country faces. A small base of white industrialists cannot be expected to create the amount and type of wealth that will ensure economic success and prosperity for the majority.

In the realm of economic life, this implies the inevitable need to transform the patterns of asset ownership in a manner that reinforces the national objective of building a society that truly belongs to all who live in it. This derives from the recognition that the bulk of industrial assets in South Africa have been racially concentrated among a few, thereby generating uneven social and economic relations that undermine this national objective.

The NEF is proud to have played a part, with **the dti**, in the launch of the Black Industrialists programme. The NEF pioneered the programme through the launch of the Strategic Projects Fund in 2007/2008. As at year end, SPF had 31 projects, worth R29 billion. The NEF is ready to share its lessons and expertise in this area.

B-BBEE and transformation

The NEF anticipates that, as economic conditions improve, the country is likely to see robust deal activity driven by Black Economic Empowerment and transformation will be a lived economic experience for millions of South Africans. It remains a strategic imperative whose needs remain in its nascent stages.

We look forward to intensified government support for the cause.

Decade of excellence

During this financial year, the NEF also celebrated a decade of operational excellence, growth, investment and, of course, creating entrepreneurs. Since inception, the Fund has approved R7.6 billion worth of transactions through 770 transactions. In the process, the NEF has supported over 86 000 jobs nationwide, which in turn support an estimated 260 000 beneficiaries. In a reflection of the improved quality of its transactions as well as the maturity of its own systems and processes, the NEF investees have repaid R1.7 billion, including a record R541 million for this financial year.

These accomplishments are set on a robust governance framework that has seen the NEF earn unqualified audits for 11 consecutive years. We look forward to the decade ahead with enthusiasm.

Recapitalisation and the proposed SME Venture Capital Fund

In this financial year, the NEF approved R1.2 billion worth of deals in 127 transactions. This is just shy of its record of R1.3 billion in approvals. This, plus a record R541 million in collections is the most compelling case the NEF can present for its recapitalisation. The Board recognises recapitalisation as a strategic imperative and is continually engaged with government to find a long-term resolution. The National Treasury and the Department of Trade and Industry issued directives to help facilitate the NEF's recapitalisation. We remain confident that, if acted upon, these could offer short to medium term stability for the NEF.

The year also witnessed the launch of a proposed Venture Capital Fund aimed at assisting Small and Medium sized enterprises. This followed a meeting between President Jacob Zuma and leaders of business ahead of the State of the Nation address in February in Cape Town. The publicly disclosed amount on the fund of R1.6 billion has been pledged by the private sector, with government expected to announce its contribution at the next budget and the fund is expected to reach R10 billion, ultimately.

Players including the Black Business Council have made a call and observation that the NEF would be better placed to manage the proposed fund.

The NEF concurs with this view and affirms that it has the capacity, track record and expertise to manage the entire value spectrum of a transaction and

“*Fundamental to our economic transformation programme in particular, is the need to broaden the ownership, control and management of the economy. The black industrialists programme falls within this policy framework.*”

His Excellency President Jacob Zuma at the inaugural Black Industrialists Indaba, Gallagher Convention Centre, Midrand 25 March 2015

is open to have scrutiny and have its performance benchmarked against peer organisations within both public and private sector.

Partnership with DRDLR

The NEF's partnership with the Department of Rural Development and Land Reform (DRDLR) solves a number of policy challenges, starting with helping improve the valuation of some of the concluded transactions. It also addresses the long-standing challenge of having re-allocated land lying fallow and not in productive use. Most importantly, it affirms the dignity of the farm workers, one of the most historically exploited and downtrodden.

Rural and Township economies

The NEF is excited by the renewed focus on township economies, most notably by the Gauteng Province. The Fund has long seen value in investing in township economies. Through its Rural and Community Development Fund, the NEF has a portfolio of five shopping malls in various towns across the country with an investment value of R213 million. These are in Orange Farm, Gauteng, Umlazi and Greytown in Kwa-Zulu Natal as well as Qumbu and Willowvale in the Eastern Cape.

Legal framework

The legal and regulatory framework in which we operate continues to evolve and this will hopefully improve the impact of the work that we do.

- This financial year saw the BEE Commission commence formal operations and the NEF played host to one of its sessions. One of the important outcomes of its work is the criminalisation of fronting practices. As an organisation we remain vigilant against this practice,
- The Commission will also play a critical role in the monitoring of BEE transactions,
- It will also help monitor the state of compliance with the B-BBEE Act and highlight any areas of improvement,
- The tax system, while progressive, continues to be simplified to benefit small businesses.

Governance

The NEF Board is committed to sound corporate governance practices and subscribes to the principles of good corporate governance as recommended in the King III Report on Corporate Governance. The Board Continually reviews the organisation's policies to ensure compliance and relevance. The improvement in collections and attaining unqualified audits for the past 11 years is a reflection of the NEF's robust governance framework. The Board works together with the shareholder ministry and the executive to uphold the highest standards of governance.

Appreciation

It would be improper to conclude the report without noting that this is the year in which my appointment as Chairman of the Board of Trustees was confirmed as permanent, after two years of acting. This gives greater urgency and certainty to our work as a Board. I would like to express my gratitude to the Minister and all of Cabinet for having faith in my leadership.



Mr Rakesh Garach

*Chairperson of the Board of Trustees
National Empowerment Fund*

“ “The NEF is proud to have played a part, with the dti, in the launch of the Black Industrialists programme. The NEF pioneered the programme through the launch of the Strategic Projects Fund in 2007/2008. Today, the SPF has 26 projects, worth R29 billion. The NEF is ready to share its lessons and expertise in this area.” ”

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