

HOW THE NEF CREATES VALUE

The NEF seeks to promote transformation, broad-based participation, industrialisation of black people by means of the funding provided. Our strategy strives to make use of the forms of capital to achieve the said strategic objectives and maximise the outputs that create value. Only four of the six forms of capital are significant in the NEF's business model as described below:

Capitals	Value adding activities in response to Strategic objectives	Key Risks/ Material Issues	Value to Stakeholders	Beneficiaries of value created
<ul style="list-style-type: none"> Financial Capital: The main use of financial capital is the disbursement of funds to approved investees, it drives the NEF's developmental goal of providing financial and non-financial support to black owned businesses, directly and indirectly respectively. 	<ul style="list-style-type: none"> Analysis and assessment of applications for funding through our Pre-Investment unit and the five Funds Funding approval Non-financial support: business incubation; entrepreneurial training Post investment monitoring and support: Mentoring, back-office support 	<ul style="list-style-type: none"> Recapitalisation risk Credit Risk / Asset quality Market Risk 	<p><i>Approved funding deals</i></p> <ul style="list-style-type: none"> Approved funding for the year of R1.2 billion (2015: R895 million) – R7.6 billion on 770 transactions since inception Disbursements for the year: R819 million (2015: R562 million) – R5.1 billion since inception 33% of our portfolio is in the Manufacturing, Mining, Tourism, Agro-Processing and Construction sectors in support of government's priority sectors. <p><i>Value add through post investment monitoring and providing:</i></p> <ul style="list-style-type: none"> Mentorship support Financial management support Business rescue support Back office support provided to 278 (250 prior year) investees. <p><i>Non-financial support</i></p> <ul style="list-style-type: none"> Pre investment support: <ul style="list-style-type: none"> includes business incubation: 36 businesses successfully incubated entrepreneurial training and business planner support: 26 training sessions <p><i>Investment returns and financial performance</i></p> <ul style="list-style-type: none"> Our debt collection ratio increased to 97% in the current year from 84% of prior year. We have managed our active portfolio risk with only 27% being high risk clients. At R541 million, total portfolio collections were 20% higher than prior year. Pre impairment ROI at 9.5% within targeted range of 9-10% Portfolio impairment however slipped to 24% from 19% in the prior year. 	<p>Government- mandate to empower and enable black owned business to participate and contribute to economic growth is achieved.</p> <p>Business- funding provided to clients across all provinces.</p>

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<p>Human Capital being the knowledge, habits, skills and experience embodied by staff, leadership of the Board of Trustees and its sub-committee members, used to create labour to produce economic value drives the NEF's developmental goal. The Human Capital is required to galvanise the other forms of capital and bring the business model to life.</p> <p>161 permanent employees</p>	<ul style="list-style-type: none"> We reward and incentivise our people at market related remuneration Invest in our people through training and development opportunities. A succession plan and a talent management strategy are in place. 	People Risk	<ul style="list-style-type: none"> Of the total 161 staff members, 60 (37%) are professionals with masters & honours degrees, chartered accountants, admitted attorneys and qualified engineers. R1.3 million spent on training and development interventions. 	<p>Employees:</p> <ul style="list-style-type: none"> Training and development opportunities received. Succession planning. Employees wellness and health.
<p>Social and Relationship Capital with employees, communities, business, government (through the NDP), the dti and National Treasury being used to strike partnerships that further the NEF and South African agenda.</p> <p>Social and relationship capital is most important to the NEF in connecting the providers of funding to those black owned businesses needing it.</p>	<p>Socio-economic development activities</p> <p>Investor education seminars</p> <p>External bursary scheme initiative</p>	Reputation Risk	<p><i>Empowerment dividend value created</i></p> <ul style="list-style-type: none"> Of the disbursed deals, 29% was attributed to Women shareholding. Increased investment across all provinces – 55% of invested portfolio outside Gauteng <p>Number of job opportunities supported: 4 938 (68% of which are new) – Over 86 000 job opportunities supported since inception (70% of which are new). These jobs have potential to support over 260 000 beneficiaries.</p> <p><i>Value added through entrepreneurial development and Social facilitations</i></p> <ul style="list-style-type: none"> The NEF has facilitated 44 Investor Education seminars and 25 Social Facilitation sessions in the current year. 31 learners awarded tertiary funding from the external bursary scheme 	<p>Communities:</p> <p>Socio-economic development and implementation of initiatives benefiting communities</p>
<p>Intellectual Capital is used to design and implement innovative ways in which the NEF mandate can be better fulfilled. It refers to our human resources, our brand & reputation, stakeholder relations</p>	<ul style="list-style-type: none"> Enterprise risk management Governance structures and processes Building a strong brand, reputation and stakeholder relationships Recruitment of qualified professionals 	Reputation Risk	<ul style="list-style-type: none"> Regulation and risk compliance Improvement to processes and services Effective internal control management 	<p>Influencers</p> <p>Opinion Formers</p>

Products and Services

The NEF provides business funding from R250 000 to R75 million across a range of sectors, for start-ups, expansions and equity acquisition purposes. One of the key requirements for NEF funding is for the investees to be involved in the operation of their business.

The NEF executes its mandate through its headquarters in Gauteng and well as its regional offices in the other eight provinces of South Africa.

Five funds through which the NEF discharges its mandate, are briefly described below:

Fund	What it does
iMbewu Fund	<p>This fund is designed to support black entrepreneurs wishing to start new business as well as support existing black owned enterprises with expansion capital. The fund supports entities by offering debt, quasi-equity and equity finance products with the funding threshold ranging from minimum R250 000 to a maximum R10 million.</p> <p>Main products offered through this fund include Franchise funding, Contract/procurement funding and Entrepreneurship funding.</p>
Rural and Community Development Fund	<p>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.</p> <p>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.</p> <p>The fund has three products: New Ventures Finance, Business Acquisition and Expansion Capital with the funding threshold ranging from minimum of R1 million to R50 million.</p>
Strategic Projects Fund	<p>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.</p> <p>The fund facilitates the development of various strategic projects through 6 stages of the project development phases, namely, Scoping and Concept study, Pre-feasibility study, Bankable feasibility, Financial closure, and Construction phase & technical completion.</p>
uMnotho Fund	<p>This fund is designed to provide access to Acquisition Finance; New ventures Finance, Expansion Finance, Capital Markets, Liquidity and Warehousing as well as Property Finance. These products provide capital to black owned and managed enterprises, black entrepreneurs who are buying equity shares in established white-owned enterprises, new ventures and BEE businesses that are or wish to be listed on the JSE.</p> <p>Funding Ranges from R2 million to R75 million.</p>
Women Empowerment Fund	<p>This fund was established in 2013 and is aimed at accelerating the provision of funding to businesses owned by black women.</p> <p>Funding is provided from R250 000 to R75 million across all existing NEF product suite.</p>

“If we want a strong economy that is inclusive and sustainable, we must address the challenges that black businesses face. In so doing, we will broaden the industrial foundation together, as a diversified nation.”

Minister of Trade and Industry, Hon. Dr. Rob Davies keynote address at the launch of the Botshabelo Industrial Park, 09 March 2016

Non-financial support is provided in the following main forms:

Pre-Investment Unit (PIU)	Post Investment Unit (POIU); Turnaround Workouts and Restructuring (TWR); and Legal Service Unit	Socio-Economic Development and Asset Management Unit
<p>Applications for funding may be from excellent entrepreneurs, who lack the ability to put together a basic business proposal and financial information. The NEF therefore assists with funding advice, business planning and general assistance to help ensure that the applications are of sufficient quality to complete all steps in the application process.</p> <p>PIU and the regional offices are the first point of contact for many potential clients, their primary function are:</p> <ul style="list-style-type: none"> • Provide information on NEF products and application procedures • Assist applicants with the submission of application documents and ensure completeness of the submission • Identify applications that will qualify for funding and refer them to the relevant NEF Fund • Keep clients informed on the progress of their application • Advise applicants and assist drawing up a business plan • Refer qualifying entrepreneurs for business incubation and entrepreneurial training 	<p>Black business needs 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 reward for success are jobs and other socio-economic benefits.</p> <p>The units are responsible for:</p> <ul style="list-style-type: none"> • Regular portfolio monitoring • Regular collections Management and credit control • Restructure of distressed Investments • Turnaround and rescue of highly distressed investments • Business Workouts • Active board participation on larger investments • Mentorship and technical assistance • Valuations of investee company • Impairment of Investment and write off • Legal Compliance • Portfolio Management • Portfolio Risk Management • Additional funding on existing investment • Exits on matured investments • Knowledge Management • To provide a superior customer relationship management channel for all NEF's investees 	<p>Social interventions in transaction deals which have broad-based groups or communities as beneficiaries are facilitated through this unit. The unit main services include to:</p> <ul style="list-style-type: none"> • Foster a culture of savings and investment through its Investor Education programme • Promote and facilitate Enterprise Development • Educate beneficiaries about roles and responsibilities in business. • Ensure that schemes (eg trusts and co-operatives) are formally registered • Identify opportunities for beneficiaries in transactions and develop market linkages • Develop social plans that describe how funds are to be used by beneficiaries

Bursary Scheme Initiative

The NEF started a bursary scheme during the 2016 financial year with the aim of providing financial assistance biased towards under-privileged black learners from rural areas, towards their education at tertiary level. The students eligible for this funding had to meet specific criteria, which included demonstrating a financial need, academic merit, and have matriculated with an average mark of 60% in Mathematics, Science and English.

An amount of R1.6 million was advanced to educating 31 learners across seven provinces. These learners took up studying degrees in Engineering, Accounting Sciences, Medicine, Bachelor of Science and Bachelor of Arts. It is important to note that 61% of the learners supported in our inaugural year are female.

Responsible Disposal of Electronic and Other Waste Material

The NEF has during the current financial year disposed 15 laptops, 12 desktops, five desk phones and one projector that had become obsolete. These assets were in poor quality and could not be repaired nor donated. It was decided and approved that they be disposed of in an environmentally responsible manner. As such a reputable IT equipment scrapping and recycling company was procured to dispose of the assets in compliance with environmental regulations.

The NEF further partnered with a black owned waste recycling company to promote constant and responsible disposal of waste by reducing and re-using waste to reserve natural resources for our environment. All waste papers including newspapers should now be placed in the containers provided in strategic areas within the building. Eco bags for unused plastic, cans, glass and batteries have also been provided. Employees are further encouraged to bring any recyclable items from home to promote a holistic eco-friendly behaviour within the NEF family.