

REPORT OF THE CHIEF EXECUTIVE OFFICER

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– Ms Philisiwe Buthelezi – Chief Executive Officer



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A DEMONSTRATION OF EXCEPTIONAL ACHIEVEMENTS

Introduction

The year under review has seen the National Empowerment Fund (NEF), an agency of the dti, mandated to grow Black participation in South Africa's economy, registering what we believe to be a demonstration of exceptional achievements in its three core areas of focus, Fund Management, Asset Management and Strategic Projects, with equally significant gains in its various support functions.

In retracing these steps and in paging through the diary of excellence which the NEF has continued to author, I am inspired by what the writer, Margaret Barber, says about memory: *"To look backward for a while is to refresh the eye, to restore it, and to render it the more fit for its prime function of looking forward."*

The operative theme for this period, *Into the Hands of Many*, is an apt narrative for a Development Finance Institution (DFI) whose ethos is to bridge the divide by providing financial and non-financial support for, as well as in engendering a culture of savings and investment among the Black multitudes who were previously excluded from the national economic life before the advent of freedom and democracy in 1994.

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Macro-Economic Environment

This review takes place against the backdrop of a year when our national economy began experiencing challenges which were primarily a result of the global economic crisis.

The NEF is acutely aware of the fact that the current financial crisis has had a profoundly negative impact on many Black Economic Empowerment (BEE) transactions. The significant decline in market values of many JSE-listed companies has reduced the value of the collateral that is typically provided to financiers as part of the financing structure. In some cases the trigger prices set by funders have been breached, resulting in remedial measures having to be taken by BEE parties and vendors to ensure the continued sustainability of transactions.

The other critical factor is that the crisis has led to a slowdown in economic growth and a tightening in credit markets, which hampers the ability of companies to expand their businesses and grow their earnings.

Fortunately, the NEF typically funds medium-sized BEE transactions in an unlisted environment and thus has not had the same exposure to the fall in listed equity prices. The NEF has, however, had to put in place measures to support investees with increased cost of borrowings and worsening economic conditions in general. The NEF has done this primarily through the post-investment and business mentoring functions.

The organisation has: (i) adhered to sound risk management practices; (ii) taken a longer term investment view; and (iii) restructured balance sheets when necessary, all in the interests of ensuring the sustainability of its clients.

Fund Management

The NEF's Fund Management Division (FMD) is structured into three funding operations, namely: (i) the Corporate Fund; (ii) the iMbewu Fund; and (iii) the newly created Rural and Community Development Fund (RCDF).

The Corporate Fund offers several products aimed at improving access to capital for Black entrepreneurs, namely Acquisition Finance, Project Finance, Expansion Finance, Capital Markets and Liquidity and Warehousing finance. Funding generally ranges from R5 million to R100 million in the Corporate Fund environment.

The iMbewu Fund is a suite of products aimed specifically at Black entrepreneurs wanting to start new businesses as well as supporting existing Black-owned businesses with expansion capital. iMbewu, which is Nguni for "seed", is buttressed by funding products such as entrepreneurship finance, procurement finance, and franchise finance. Here funding generally ranges from R250 000 to R20 million.

Of particular interest is how this fund focuses on the national priority of rural development as articulated by President Jacob Zuma this year. The RCDF, established during the year under review following Board approval in April 2008, is mandated to facilitate the ownership and management by workers, cooperatives and other collective enterprises in sustainable investment projects in local and rural communities.

The investment focus is on early-stage opportunities as well as on investments by community groups in existing companies. The Fund seeks to champion economic empowerment of community groups by providing access to finance as well as technical support to community beneficiaries to build capacity. Funding generally ranges from R1 million to R25 million.

The NEF set itself specific objectives in the Business Plan of 2008/9 relating to concluding investment transactions. Fund Management aimed to approve and disburse a large portion of 13 transactions of R300 million for the Corporate Fund and 50 transactions of R160 million for the iMbewu Fund and six transactions of R65 million for the Development Fund.

These targets were set within the context of the approval of capital for the year for Fund Management purposes of R313 million and cash reserves of just over R1 billion for Fund Management purposes.



Further targets were set for non-financial support in the area of Pre- and Post-Investment Unit, specifically with respect to the implementation of a customer relationship management system (CRM), and further professional assistance to investment applicants by Investment Associates with a view to improving the overall application to approval ratio of 3%.

Further, at the pre-investment level, a business planning toolkit and solution was made available online to those entrepreneurs requiring assistance with drafting bankable business plans. The toolkit is institutionally agnostic and thus budding entrepreneurs can utilise the NEF business plan toolkit and seek funding from other financial services institutions.

The targets set for the Post-Investment Unit were largely around improved monitoring systems through the CRM with direct access to information on the investee's loan servicing performance as well as the finalisation of a post investment management methodology captured in a procedure manual.

Overall, the performance impact of the NEF remains as measured by the assessment of Fund Management activity against the Empowerment Dividend, which aims to quantify the impact of investments against key criteria as follows:

- BB-BEE
- Women's participation
- Job creation
- SME development
- Regional development
- Sector specific support
- Portfolio return

On the transaction level the Corporate Fund achieved 10 new approvals of R297 million and disbursed eight transactions of R230 million. The iMbewu Fund and the RCDF collectively achieved 18 new approvals of R197 million and disbursed 35 transactions of R49 million. The iMbewu disbursement activity exceeds the approvals activity significantly because the reported disbursements include 24 investments undertaken through a bulk finance facility.

Despite reaching its highest ever value of approved and disbursed transactions, the Corporate Fund did not meet its overall targets as set out in the business plan for this fund. The investment levels of the Corporate Fund of R230 million, however, exceed the investment values achieved in 2007/08 of R101 million by 128%. The disbursed volumes represents a 33% increase on the 2007/08 levels.



The iMbewu Fund was again able to implement a large portion of its bulk financing product strategy with 35 transactions worth R49 million being disbursed, the highest number of loans ever advanced in a year and largely (over 60%) being attributable to the bulk financing facilities e.g. the Daimler Chrysler facility. The volumes of investment activity increased by 40% against the disbursed volumes achieved in 2007/08.

In aggregate, FMD achieved 28 approvals of R495 million and 43 disbursements of R279 million. This represents the highest rand value of investment activity in the five-year operational history of the NEF as well as a 37% increase in disbursement values and 39% increase in disbursement volumes over that achieved in 2007/08. The Division has also developed a pipeline of transactions that are at the legal stage, and that will be disbursed in the first quarter of the 2009/10 financial year.

It was during this period that the NEF cemented its reputation as a leading empowerment funder, having recorded the important milestone of cumulative approvals totalling more than R1 billion since its inception.

The cumulative approvals of R1.4 billion as at 31 March 2009 to Black businesses and Black entrepreneurs is an exceptional achievement in the NEF's commitment to growing BB-BEE.

This important accomplishment further demonstrates the NEF's commitment to contributing meaningfully to Black economic participation and indirectly to the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) initiatives by investing in sectors such as transportation, tourism and entertainment, ICT and media, food and agri-processing, construction and textiles, as prioritised by **the dti**.

The Pre-Investment Business Unit continued to provide a dedicated and professional customer interface amid challenges such as the poor quality of business plans received. The Unit processed 2 560 enquiries during the financial year, and screened 916 applications out of a total of 1 115 received. The Unit prides itself on the fact that it has adhered to the contracted turnaround times, and has kept complaints to below 3% of applications received.

The Pre-Investment Unit developed the business planning toolkit during the year. This was launched in the 2009/10 financial year. The toolkit allows for a highly interactive business planning system with substantiated assumptions, in multi languages and is Internet based for wide access by the public, at no fee. The strategic intention is for this system to assist with improving the overall approval rate being achieved by FMD from its current average of 3% (2% in 2008) of applications received. It will do this by assisting the entrepreneurs to compile well thought out and substantiated funding plans.

The Post-Investment Business Unit had an eventful year both in terms of managing the NEF portfolio and in terms of assisting the appointed consultancy to conceptualise the Portfolio Management Solution. The Unit concluded more than 220 site visits and performed risk assessments on nearly all the NEF investee companies as at the financial year end.

The Unit finalised the establishment of a mentorship panel during the year through a public tender process and by adopting best practice in the selection of consultants appointed to the panel. The finalisation of the panel is a landmark achievement for the NEF. The NEF now has the capacity, through the mentorship panel, to assist investee companies requiring technical assistance following the NEF's investment.

To this end, the Unit has already begun to implement mentorship programmes for a number of distressed investee companies to mitigate the effects of the ongoing economic recession. In addition, the team developed a sector position paper for the transport sector incorporating the lessons learnt by the NEF in investing here. Further, the finance and post investment functions have been integrated at a systems level allowing both tracking and the managing of the performance of the NEF loans book.

The Legal Unit has become a key partner and service provider to the Funds and to Post Investment in implementing various important procedures. The Unit provided legal advice on more than 20 due diligence investigations, and has drafted and project managed numerous legal agreements and disbursement compliance processes. In addition, the Unit assisted Post Investment with more than 30 work-out and reorganisation matters.

Asset Management

Targets for the Asset Management Division (AMD) were set in the context of the approval of further retail investment products, the implementation of the investor education initiative and the successful transfer of further identified State Allocated Investments (SAIs). Some work was also planned for the conceptualisation and development of an Enterprise Development fund in line with the principles of the Codes of Good Practice and based on the input from the Board of Trustees in the 2007/8 strategic planning session, for feedback in the 2008/9 strategic planning session.

A number of SAIs were to be housed under custody of the NEF for eventual transfer to Black people to fulfil a key part of the NEF mandate which is to create equity ownership opportunities to Black people from these SAIs.

The first of these transfers took place in July 2007 under the auspices of the highly successful NEF Asonge Share Scheme, which saw about 86 000 investors buying in excess of 12 million shares currently worth R1.4 billion, in a public share offer that was oversubscribed by 13%.

A supplier has been appointed through a public tender process to manage the national investor education campaign which will focus on broader investor education themes such as: (i) illiquid equities; (ii) equities; (iii) unit trusts; and (iv) all manner of debt instruments over and above the Asonge Share Scheme. This campaign will result in 74 workshops nationwide where members of the public, and in particular poorer residents of the townships and villages of our land, will be encouraged to save and invest.

The campaign thus far has resulted in 5.7% of the Asonge investors selling their acquired shares with most clearly awaiting the full two-year term in anticipation of the bonus share award in September 2009, guaranteed at an additional bonus share for every 10 held at the time. In spite of the economic downturn, this investment has grown by 63.9% (as at 7 July 2009) in value.

The AMD has also concluded the design of an additional retail product targeting the transformation of the retail sector with **the dti** and an entrepreneur. Significant progress has been made on the transfer of the South African Forestry Company Limited (SAFCOL) equity allocations with several submissions being made to the Department of Public Enterprises and being largely accepted for the imminent transfer of the forestry stakes into an SPV trust.

Shortly after the end of the year under review, the Cabinet announced the historic and significant decision to increase the NEF's shareholding in the national lottery operator, **Gidani**, from 5% to an allocation of 10%.

The NEF welcomed this important decision as a vote of confidence by government in the ability of the NEF to continue fulfilling its mandate of bringing more South Africans into the economic mainstream, as a means to redress the historical legacies of racially-based economic disadvantage. To date the AMD has engaged **the dti** on this allocation, and is presently at the memorandum of understanding phase and is moving rapidly toward the transfer of the allocated shares onto the books of the NEF.

Through AMD's retail product development, the NEF will structure mechanisms around the **Gidani** allocation to facilitate the transfer of real economic benefits of holding this equity stake. These benefits will be destined for broad-based Black beneficiary participation that can significantly improve the lives or prospects of those in our targeted communities through the following three mechanisms:

- Enhancement of Black public share offers distribution network.
- The provision of access to communications technologies in rural areas.
- Provision of bursaries and scholarship funding in support skills development in the Information Communication Technology (ICT) sector.

The Retail Integration Programme is presently at the feasibility stage with strategic partners in place. This programme will see Black consumers acquiring equity ownership in the retail sector. This initiative is aimed at unlocking value and creating wealth for Black consumers through equity ownership as well as assisting the retailers with transformation issues.

The NEF played a key role as a strategic advisor to **SASOL** on its first Black Public Offer, yet another milestone that has confirmed the NEF as an authority and market leader and maker in Black Public Retail Offers.

The AMD, along with Strategy and Planning, has an active research department that will continue to push the boundaries of understanding with respect to the effect economic variables have on BB-BEE, the effectiveness of NEF interventions concerning the Empowerment Dividend and wealth creation for Black people as this relates to Black public share offers, and delving into market trends that can serve as indicators for identification of opportunities for NEF to act as an advisor and/or BEE facilitator.

Strategic Projects Fund

A new and exciting innovation during the year under review was the inauguration of the Strategic Projects Fund (SPF), established with a mandate to increase the participation of Black people (BB-BEE) in early stage projects that are aligned to the **AsgiSA** initiative.

Historically, most BEE deals were concluded via mergers and acquisitions with existing companies, and when transactions are completed, BEE beneficiaries would be left with less value to extract as these companies would either be matured, overpriced or subject to harsh market volatility as we have seen in recent times.

Most wealth is created and earned by those who have the means and ability to participate in projects that are high-risk but still in their infancy. It is in this space that a funding gap exists, particularly for Black people, and especially in transactions that require larger investment quantum, and also have very long timelines before dividends are realised. These would include projects such as the **Coega Aluminum Smelter** or the **PetroSA Coega** project.

The SPF aims to acquire equity in such national strategic projects within South Africa at a stage when the business bankable plan is still being developed. These projects are usually co-financed with other development funding institutions and commercial investors. The SPF aims to warehouse equity for BB-BEE and help drive transformation within the project. Once initial project risks have been reduced, and the NEF has earned its projected returns, the NEF through the AMD or other means, would then transfer its shareholding to selected BB-BEE groups through a transparent process as was the case with the NEF Asonge Share Scheme.

Accordingly, the SPF has been tasked with the responsibility of strategically identifying, initiating and scoping suitable projects that are aligned to the growth and development strategies of the country in a way that enables BEE to play a pivotal role. These projects are almost always of a Greenfield nature and fall into one of the following four sectors: (i) Business Process Outsourcing; (ii) Mining and Mineral Beneficiation; (iii) Renewable Energy, and (iv) Agro-processing and Tourism.

Some of the successes of SPF to date have been:

- A 6.2% equity investment in a R1.2 billion Solar Panel Manufacturing plant. The transaction was approved in the previous financial year and was subject to specific closure milestones that were met successfully after the signing of all business agreements and after the conclusion of financing agreements with other co-financiers. This means the Solar Project has moved from being a project to become a business and construction of the plant has begun. This is important as projects can take anything between two to five years before conclusion on agreements.
- Investment in a R80 million biomass manufacturing company called **Renu Energy** which will produce a renewable energy feedstock for power plants in Europe. The NEF has warehoused 26% equity for BB-BEE. The plant is currently ramping up production.

A further ten key sector transactions are under consideration and three scoping studies have been concluded in other targeted sectors. One pre-feasibility study has been concluded while three joint development agreements are being negotiated.

Through some of these projects, along with the FMD, the SPF are poised to play a vital role in NEF's prospects of reaching the next milestone of R2 billion approved transactions. Overall, the transactions currently under the SPF's consideration have a potential NEF investment value of R1 billion over the next two to three years. I am pleased to announce that the team has also grown from three to four people, with a Projects Investment Associate joining in April this year.

Financial Management

The highlight this year in respect of the financial reporting of the NEF was to be able to again report on the basis of an unqualified audit opinion for the year ending 31 March 2009.

This was achieved despite moving into an even more complex accounting environment with extreme difficulties experienced in the area of debating fair values of investments and impairments of loans within our R1 billion portfolio.

As a consequence of the diligent work of the NEF's finance team, our accounting disclosures and policies now compare favourably to local and international best practice for commercial investment banks and funds.

The Net Asset Value of the NEF has increased from R2.1 billion in 2005/06, to R4.6 billion currently. This has largely been a factor of appreciation in fair value of the Asset Management portfolio as well as the capitalisation of the NEF by **the dti**. Expenditure has increased in line with Net Asset Value but remains at an average of 2% of the Net Asset Value, which is an acceptable level for a development finance institution.

The current capitalisation size of the NEF allows it to move forward and make a meaningful contribution to its mandate as demonstrated recently with its investment approvals now exceeding R1.4 billion.

At a finance level, over and above the need for ongoing full regulatory compliance and unqualified audit opinion, the need for the stabilisation and full resourcing of the finance department was identified as an imperative. The finance strategy was developed in conjunction with the Strategy and Planning department to introduce a high level of scenario planning for the NEF in order to project the financial sustainability of the NEF and the level of capital required to achieve this sustainability.

The surplus for the year is R104 million for 2009 versus R952 million in 2008. The 2008 surplus includes R800 million in Asonge proceeds. Impairments and write-offs account for 24% of the originated loan portfolio.

Siyasebenza – Information systems

The entire year under review was taken up by the scoping, design, implementation, training and support around the success of project Siyasebenza, Nguni for "hard at work".

This project involved the implementation of information systems to cover the entire organisation's business processes and management information reporting requirements.

The following modules successfully went live over this year:

- Pre-Investment Customer Relationship Management (CRM)
- iMbewu CRM
- Corporate CRM
- Post-Investment CRM/ Loans Management System (LMS)
- Procurement SharePoint Portal/Business Portal/ ERP
- Finance ERP/ LMS
- Human Resources ERP HR/Employee Self Service

The business process and workflow implementation phase was concluded with only Post Investment and Employee Self Service in the final stages of implementation.

Risk Management, Internal Audit and Compliance

The current global and local economic climate has increased the need for effective risk management practices within organizations. The decline in the global and local economies has negatively impacted on small and medium enterprises. As a result, risk relating to funding of small and medium enterprises has increased. The NEF has a dedicated risk management function reporting directly to the CEO and Finance and Risk Management Committee.

Established in August 2006, the Risk Management department plays a key role in facilitating the management of risks at the NEF. The department is responsible for creating an awareness of risk management, assisting management in creating a strong control environment and ensuring that the NEF adheres to corporate governance practices. During the current year the department has been involved in key initiatives such as establishing the risk appetite and risk bearing capacity of the NEF which is assisting with future planning of the NEF.

The division is also responsible for implementing a fraud prevention plan and has been responsible for the rollout of a fraud hotline.

With the increase in activity in the regulatory environment the division is implementing a formalized approach to compliance, to ensure that the organization adheres to all relevant legislation and all compliance issues are timeously identified.

In addition the division is currently involved in facilitating the Internal Audit process at the NEF, which is currently mainly outsourced.

Thought Leadership

A strategy for the effective positioning of the NEF brand in the market lacked key attributes in previous years' submission of this strategy and the NEF was tasked to apply our efforts to these final aspects of a robust Marketing and Communications Strategy. This target was a necessity despite the ongoing neutral and positive coverage that the NEF had been enjoying in the media, as it would set out the strategic key messages that would need to be continuously relayed in these coverage opportunities in order to effectively and positively position the NEF brand in the public's perception.

The performance of the Marketing and Communications activities of the NEF can best be measured against the level of media coverage it enjoyed over the year and the level of public engagements, which resulted in participation in more than 30 key public events.

Overall, the NEF obtained coverage in 206 articles and corporate mentions amounting to an average of 20 articles per month, which were largely a positive endorsement (58%) or neutral (38%).

In order to effectively manage the key messages that were being delivered at these interventions and in the media, work commenced on the conclusion of the Marketing and Communications Strategy under the direct leadership of the Executive and which ultimately led to its approval by the Board in April 2009.

The Brand Audit undertaken in the latter part of the year points to the need to position the NEF as a thought leader in economic transformation. This includes the implementation of key anchor projects such as the development of a post-graduate module on BB-BEE with business schools, drawing on the considerable intellectual capital which the NEF has developed as a result of its mandate.

Other opportunities, linked to the need to optimise advertising and media coverage, include the inauguration of regular public roundtables in order for the NEF to lead public discourse on Economic Empowerment and transformation, and to entrench BB-BEE at the centre of the national agenda.

Stakeholder Relations

This year the NEF accompanied or hosted the following delegations at the invitation of the respective stakeholders as an expert-source on the implementation of BB-BEE:

- the Presidential delegation to Qatar,
- the Deputy Presidential delegation to Turkey,
- the dti's delegation to Switzerland and the UK, and
- the African Investor (AI) Summit delegation to the New York Stock Exchange NYSE.

Two presentations were made to Parliament this year. The Strategic Plan was presented in March 2008 and the Annual Report was presented to the Portfolio Committee on Trade and Industry in November 2008, as part of **the dti** joint presentation. Input was made into **the dti** presentation to the NCOP Select Committee on Economics and Foreign Affairs for January 2009.

Of the 31 presentations and exhibitions prepared during the year, several were made as part of and in support of **the dti** agency programme.

Over the year under review the NEF further grew in stature as a DFI with a distinct voice and as a source of reference to other DFIs servicing the South African market. This view became progressively more apparent in the references to the NEF in the media. The NEF has in turn been called upon by **the dti** and the other dominant DFIs to express its view on matters relating to the DFI landscape with special emphasis on the policy supporting its overall mandate, namely BB-BEE.

Human Resources

In the 2007/2008 strategic planning process, the Board of Trustees identified the approval of an HR Strategy required to deal with the attraction, retention and overall wellness of human capital as pivotal.

Firstly the management of the HR portfolio needed to be dealt with, after which the recruitment of staff to support expansion of the NEF became a key operations target. The HR Department played a major role in the compiling a 90-day plan that sought to address mainly the following areas:

- staff resignations, and
- simplifying the recruitment process and finding innovative ways to fill positions efficiently.

The HR Department has been successful in appointing a total of 35 employees until March 2009. To date, the NEF staff complement has grown to 104 employees. In terms of employment equity, the NEF employs 93.5% Black employees, 57% of which are female.

Appreciation

We thank the NEF staff for their generosity in donating clothing, food and other essentials to the victims of xenophobia earlier in the year.

Significant credit goes to the Executive of the NEF who are my key partners in the implementation of the mandate to grow Black participation in the economy. In fulfilling that mandate we are assisted by an able management core, and in no small measure, by a workforce that has come to believe in the vision of achieving an inclusive economy.

We take particular pride in the exceptional and visionary leadership of the Board of Trustees, an esteemed collective of some of corporate South Africa's most reputable minds.

We acknowledge the sterling support and guidance of the government in general, and in particular the Minister, Deputy Ministers, the Directors General and staff of **the dti**, as well as Parliament for the privilege of its wisdom.

We also thank the family of investees whose courage and entrepreneurial spirit is the energy that fuels our mandate, and whose resolve to grow our economy we oblige in daily and patriotic service. You are the empowerment dividend.



Ms Philisiwe Buthelezi –
Chief Executive Officer

"The national policy on BB-BEE also has sound economic as well as constitutional objectives in mind. They are to promote the economic unity of the nation, protect the common market, and promote equal opportunity and equal access to government services."

The Hon. Mr Ebrahim Patel – Minister of Economic Development

