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Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Natgrowth Presentation

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NATIONAL
EMPOWERMENT
FUND

Growing Black Economic Participation

Presenter

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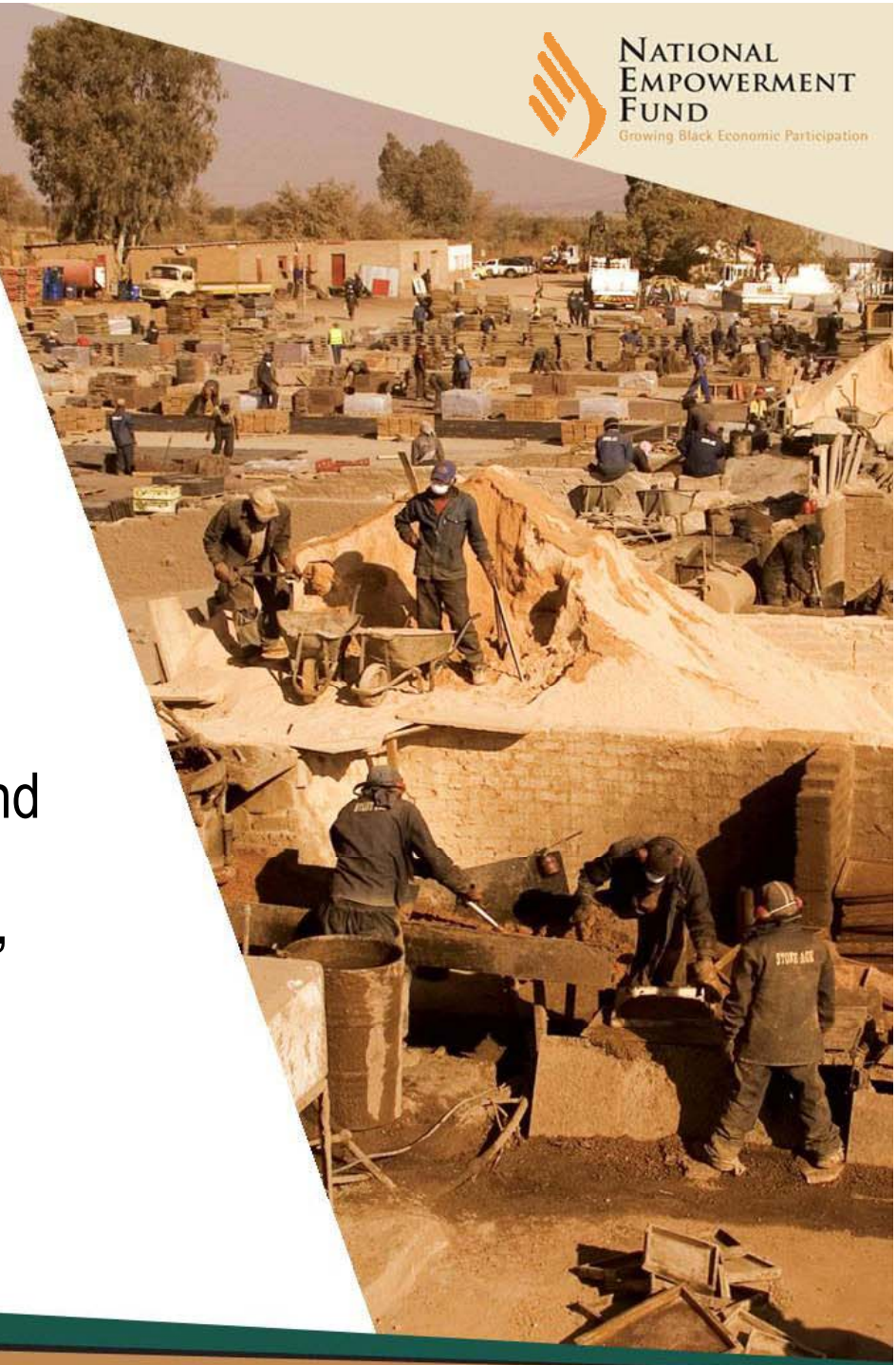
- Fund Manager



Mission Statement

“The National Empowerment Fund (NEF) is the **catalyst of broad-based Black Economic Empowerment** in South Africa.

We enable, develop, promote and implement **innovative investment and transformation solutions** to advance **sustainable Black economic participation.**”



NEF Mandate

Main objective

To be a catalyst in facilitating economic equality and transformation

Driven by

- Current market needs
- Broad-based empowerment charters
- Government policy and sectoral charters (Industrial Policy)
- Addressing past failures of BEE structures
- BB BEE Codes of Good Practice

Development focus

Maximise the empowerment dividend

NEF Mandate

KEY OBJECTIVES OF THE NEF:

- Promote and support business ventures pioneered and run by black people;
- Promote the understanding of equity ownership among black people;
- Provide black people with direct and indirect opportunities to acquire share interests in State Owned and private business enterprises;
- Encourage and promote investments, savings and meaningful economic participation among black people.

Market Failures

- Constraints and Market Failures
 - ❑ Lack of collateral/security
 - ❑ Lack of specific industry knowledge and/or management experience
 - ❑ Limited or no equity contribution
 - ❑ Limited knowledge of financial markets, financing structures and financial instruments
 - ❑ SMEs have low bargaining power
 - ❑ They face strong rivalry from other SMEs
 - ❑ They compete with well established companies
 - ❑ They have weak financial position due to undercapitalization and low asset base
 - ❑ They are characterized by lack of accurate, reliable financial information and lack of business planning skills
 - ❑ Lack of management depth – small and multifunctional and often lacks range of business management skills
 - ❑ Lack of access to markets

Value Proposition

- NEF is a provider of risk capital and solutions for SME market through:
 - ❑ Provision of Seed and Start-up Capital
 - ❑ Structuring of Equity and flexible loan structures
 - ✓ Provide patient capital
 - ✓ Loans charged at less than prime
 - ✓ Moratorium on interest and capital
 - ✓ Structuring of residual values/ bullet payments to make repayments affordable
 - ❑ Risk-sharing mechanisms and structures – Bulk Financing Solutions
 - ❑ Offering mentorship solutions
 - ❑ Own contribution not a percentage of investment but determined by level of commitment (e.g., salary sacrifice)
- Catalyst of Broad-Based BEE

NEF Restructured into Focused Funds



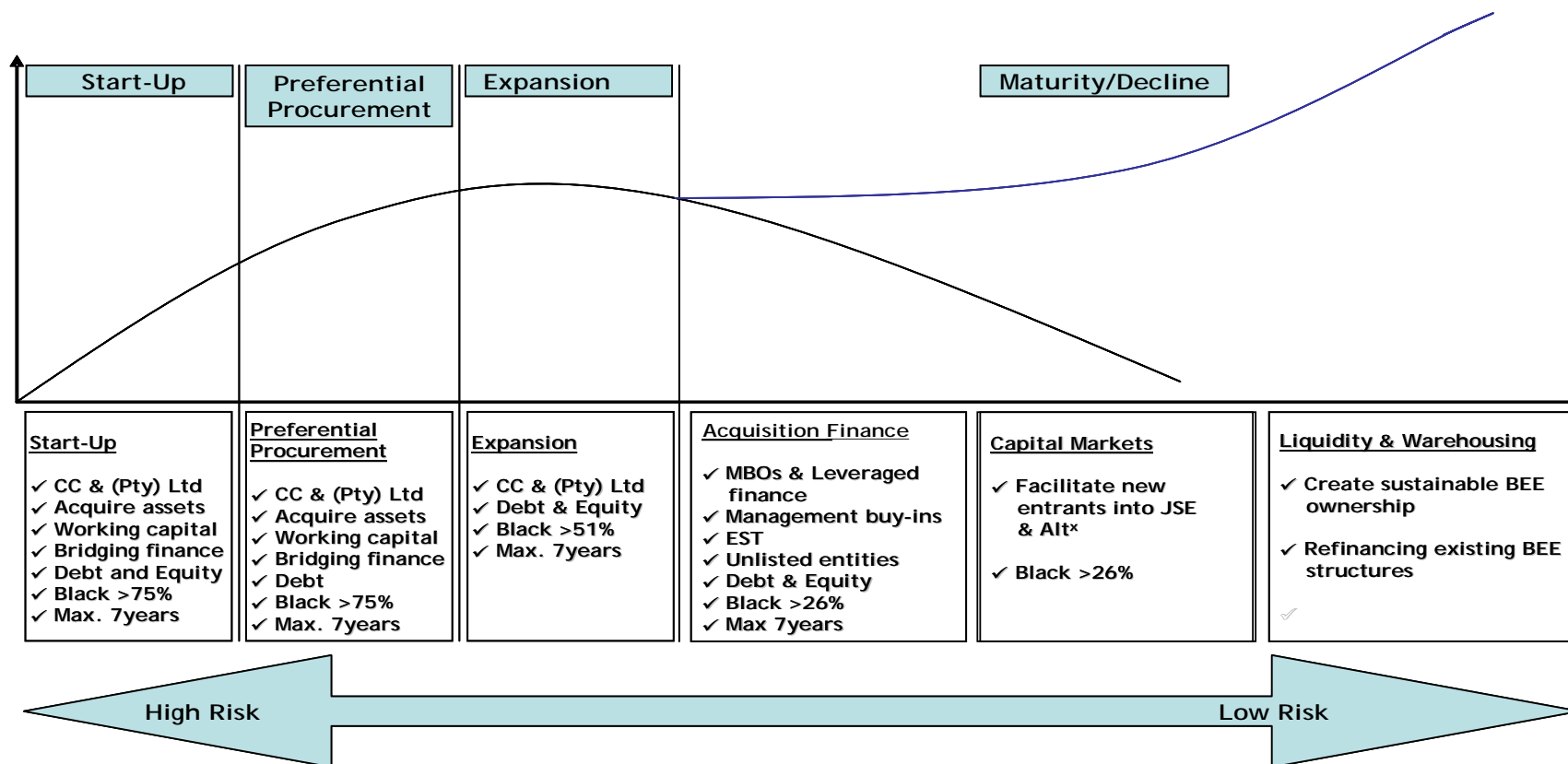
The NEF iMbewu Fund

provides debt finance from R250 000 to R5million (in exceptional cases up to R20 million for procurement contracts)

The NEF Corporate Fund

provides complex investment debt and equity solutions from R5m to R100m for all products except project finance transactions.

Products to Facilitate Business Growth



iMbewu Fund Product Offering

	Entrepreneurship Fund	Procurement Finance	Franchise Fund	RCDP
Size of Investment	R250k to R5m	R250k to R10m	R250k to R5m	R250k to R20m
Principal goal	To support start-up and early stage black-owned SMEs	To support SMEs that have secured contracts through preferential procurement.	To assist black entrepreneurs with acquisition of franchise licenses.	To facilitate involvement and ownership by communities in projects promoting social upliftment.
Types of businesses	<ul style="list-style-type: none"> • Co's with clear value add • Co's should employ min. of 5 people 	Black owned SMEs	To support franchises that are linked to 30 top franchise brands.	Rural and community projects using entities such as Coops and private companies.
Types of instruments	<ul style="list-style-type: none"> • Equity • Loans • Pref. shares • Debentures 	Line of credit drawn down against secured contract.	<ul style="list-style-type: none"> • Debt • Quasi equity • Equity 	<ul style="list-style-type: none"> • Debt; • Equity • Quasi-equity
Black equity thresholds	Min of 50.1%	Min. of 50.1%	Min of 50.1%	Min of 50.1%
Term of Investments	5 years to 7 years (Self liquidating instruments)	Matched to contract term, but generally not exceed 36 months.	5 to 7 years	Up to 10 years
Expected Pricing	IRR of between 10% and 15%, nominal pre-tax	Linked to prime interest rate	IRR of 12% to 15%	IRR of about 10% to 12% nominal, pre-tax

Corporate Fund Products

	Acquisition Finance	Project Finance	Expansion Capital
Size of Investment	R5m to R100m	R5m to R25m	R5m to R100m
Principal goal	<ul style="list-style-type: none"> To cater for BEE groups seeking to buy equity in existing businesses 	<ul style="list-style-type: none"> To assist BEE with equity contribution to greenfields projects 	<ul style="list-style-type: none"> To provide funding to entities that are already empowered but seek expansion capital.
Types of companies/projects	<ul style="list-style-type: none"> Focus on medium to large companies Partnerships between NEF, BEE, Management and other investors 	<ul style="list-style-type: none"> Medium sized greenfield projects with total funding requirements of between R10m and R200m. 	<ul style="list-style-type: none"> Already empowered companies.
Types of instruments	<ul style="list-style-type: none"> Debt Subordinated debt Preference shares Ordinary equity 	<ul style="list-style-type: none"> Equity and quasi-equity instruments to support BEE. 	<ul style="list-style-type: none"> Term loans Equity Quasi-equity
Black equity thresholds	Minimum of 25.1%	Minimum of 25.1%.	Minimum of 25.1%
Term of Investments / other terms	<ul style="list-style-type: none"> 5 to 7 years Clear exit strategy LBO's and SPV's 	<ul style="list-style-type: none"> Up to 10 years Total project equity \geq 40% NEF exposure \leq 50% of project costs Proven management experience 	<ul style="list-style-type: none"> Up to 5 years
Expected pricing	<ul style="list-style-type: none"> Min. of 15%, nominal pre-tax 	<ul style="list-style-type: none"> NEF IRR – min of 18% pre tax 	<ul style="list-style-type: none"> Linked to overdraft prime rate (debt) Equity priced at target IRR

NEF Investment Criteria

- Commercial Viability
- Compliance with all relevant laws
- Black management and operational involvement
- Risk sharing by entrepreneur
- Black women empowerment
- Community involvement
- Black ownership must comply with NEF product criteria
- Return on investment
- Job creation
- Geographic location of business

NEF'S PERFORMANCE CRITERIA – “The Empowerment Dividend”

The assessment of impact is not driven only by financial returns but by measurement in terms of “The Empowerment Dividend” made up as follows:

1. **Broad Based Black Economic Empowerment**
Ownership, management control, employment equity, skills etc
2. **Black Women Empowerment**
3. **Job Creation**
4. **Growth Sectors**
5. **Geographic Spread**
6. **Investment Return**
7. **Transactions concluded**



We thank you for your attention.

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