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Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

OIL & GAS INDABA - BLOEMFONTEIN

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NATIONAL
EMPOWERMENT
FUND

Growing Black Economic Participation

Presenters

Nhlanhla Nyembe



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

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
 - ☐ SMEs have low bargaining power
 - ☐ 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 BEE business through:
 - ❑ Provision of Seed and Start-up Capital
 - ❑ Structuring of Equity and flexible loan structures
 - ✓ Provide patient capital
 - ✓ Loans charged at rates linked to prime to match cash flow affordability
 - ✓ 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)
- NEF gazetted as a black person in the BEE Codes

NEF Focused Funds

The NEF iMbewu Fund

provides debt finance from R250 000 to R10million (in exceptional cases up to R20 million for procurement contracts)

The NEF Corporate Fund

provides investment debt and equity solutions from R5m to R75m focusing mainly on acquisition and project finance transactions.

The NEF Rural & Community Development Fund

provides investment from R250,000 to R50 million to commercially viable projects that seek to economically benefit communities in rural and peri-urban areas

iMbewu Fund Product Offering

	Entrepreneurship Fund	Procurement Finance	Franchise Fund
Size of Investment	R250k to R5m	R250k to R10m	R250k to R5m
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.
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.
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
Black equity thresholds	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
Expected Pricing	return of between 10% and 15%, nominal pre-tax	Linked to prime interest rate	Return linked to prime

Corporate Fund Products

	Acquisition Finance	Project Finance	Expansion Capital
Size of Investment	R5m to R75m	R5m to R25m	R5m to R75m
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

Rural & Community Development Funding

- Funding threshold: R250k to R50 million
- Principal goal: To facilitate involvement and ownership by communities in projects promoting social upliftment.
- Type of businesses: Rural and community projects using entities such as Coops and private companies.
- Investment instruments: debt, equity & quasi equity (pref. shares)
- BEE shareholding: minimum of 26% in buy-ins and 50.1% in community driven projects.
- Investment duration: up to 10 years.

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


Deals concluded in the sector

Deals Concluded:

- Wasaa Trading – LPG distributor
- R50 million Engen Facility
- Engen Gateway (City Deep)
- BP Mamelodi
- BP Brynston

Deals in the Pipeline

- Funding of acquisition of a distribution license with Chevron/Caltex for Northern Cape
- Sasol Petrol station in Mthatha
- 2 new Engen sites (through the facility)
- 3 existing Engen sites (through the facility)



Thank you for your attention.

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