



# HUMANITARIAN CRISIS RELIEF FUND NATIONAL EMPOWERMENT FUND BUSINESS RECOVERY PROGRAMME

## Impact Report

BENEFICIARY	AMOUNT ALLOCATED	AMOUNT DISBURSED (SF)
National Empowerment Fund (NEF)	R273m	R273m
NEF Contribution	R583,8m	-
<b>Total allocated to programme</b>	<b>R856,8m (R273m Solidarity Fund + R583,8m NEF)</b>	

01

### HCRF RESPONSE MANDATE

The Humanitarian Crisis Relief Fund (HCRF) was established in response to the civil unrest in Gauteng (GP) and KwaZulu-Natal (KZN) Provinces in July of 2021. Given the experience of the Solidarity Fund in mobilising a rapid response, the HCRF was well- positioned to provide urgent funding support to people, projects, organisations, and programmes that were providing relief to communities damaged by the unrest.

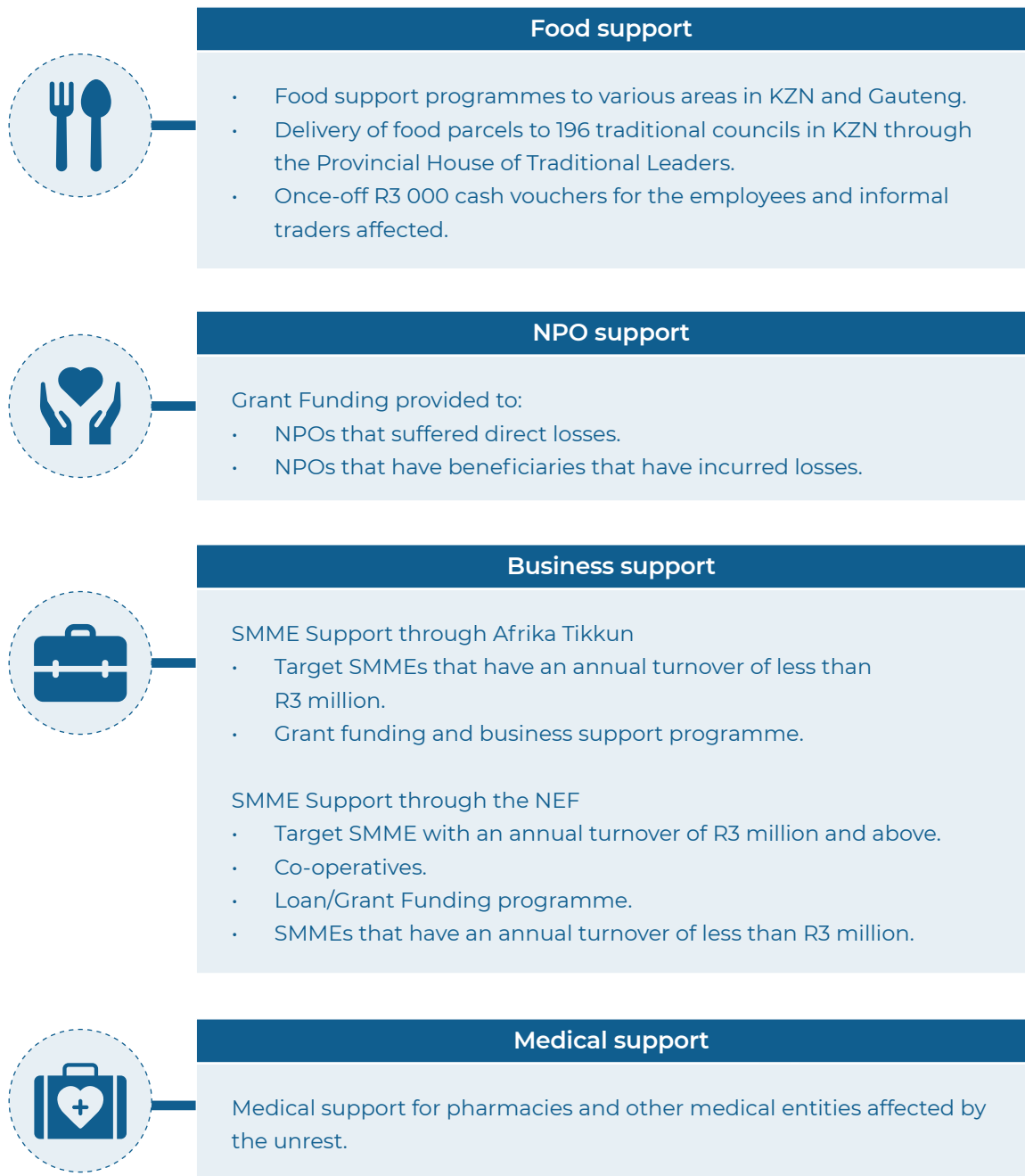
The extensive looting and disrupted supply chains devastated small, micro, and medium sized entities (SMMEs) as well as big business establishments across Gauteng and KZN, with stock being stolen, shopfronts destroyed, and business premises severely damaged. It also impacted the employees of businesses, and informal traders leaving them without an income.

The HCRF was therefore designed to address four key areas, namely Food support, Medical support, Business Recovery support, and support to Non-Profit Organisations (NPOs) that were affected by or who's beneficiaries were affected by the unrest. Figure 1 below outlines the focus areas of the HCRF.

## OVERVIEW OF THE HCRF

Figure 1: HCRF programme overview

### TOTAL DISBURSEMENTS: R600M



03

**BUSINESS RECOVERY SUPPORT**

The civil unrest of July 2021 devastated large and small businesses, informal traders, and entrepreneurs, causing billions in damages and losses, and leaving thousands without an income. The Solidarity Fund was requested by government to help mobilise funding to help with the recovery efforts.

In August 2021, in response to the scale of disruption and the ensuing economic hardship, the Minister of Trade, Industry and Competition established the Economic Relief Fund (ERF) which included funds and components managed by the Department of Trade, Industry, and Competition (DTIC); the Industrial Development Co-operation of South Africa; and the National Empowerment Fund.

Within this context, the Solidarity Fund partnered with the NEF to support business recovery, creating a combined facility of over R856m in blended loan and grant funding. An initial amount of R300m was initially made available by the NEF to be used as interest free, five year loans and an amount of R150m was initially made available by the Solidarity Fund to be used as grants.

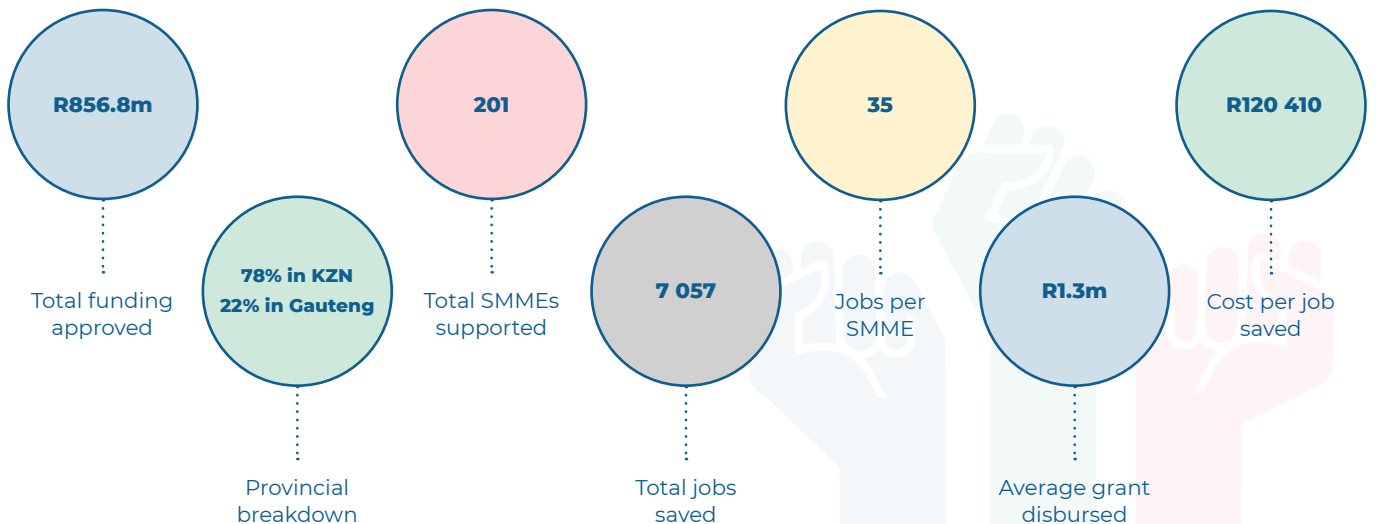
As the programme began to show an impact, both partners made additional contributions to the partnership, increasing the committed fund value to a minimum of R856.8m (including management fees), dedicated to supporting SMMEs, co-operatives, pharmacies and medical services companies through the ERF 1 and 2, the Independent Community Pharmacy Association (ICPA) Pharmacies and Medical Service Companies Grant Fund, and the SMME and Co-operatives Fund. The NEF also provided non-financial mentorship and advisory support to businesses on administration and financial management aspects and turn around strategies for those that were struggling.

The partnership with the NEF helped to effectively and efficiently support businesses in the aftermath of the unrest, providing significant support to entities that would otherwise have been lost and with their demise, countless jobs lost to our flailing economy.

04

**IMPACT AT A GLANCE**

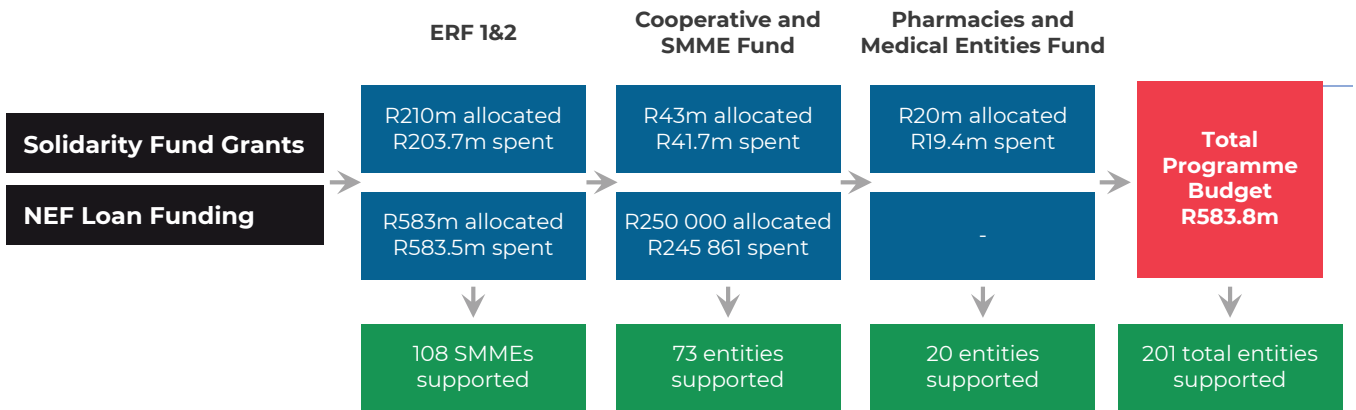
Figure 2: HCRF impact



**NEF PARTNERSHIP**

The partnership with the NEF included three components, ERF 1&2 blended finance support to SMMEs, pharmacy and medical entity grants, and co-operatives and SMME emergency relief fund. All components were implemented by the NEF. The details of each are described below.

**Figure 3: Summary NEF business recovery support partnership**



**ERF 1&2 Blended Finance Support:** R210m was made available from the Solidarity Fund for grants that were blended with concessionary loans from the NEF of over R583m. Grants could be up to R5m per transaction, and up to 50% of each transaction. The Fund’s contributions were disbursed in two tranches of R150m and R60m and included a 3% management fee for the NEF who managed the transaction process.

While it was initially envisaged that this partnership would include a minimum of 60 beneficiaries with the majority of the beneficiaries based in KZN, once implementation commenced, it became apparent that the need far outweighed the initial projections. The additional budget of R60m from the Fund, matched by a further R120m from the NEF enabled the programme to aim to reach a revised target of at least 100 beneficiaries.

At the conclusion of the programme, ERF 1&2 component disbursed R787.2m and supported 108 SMMEs.

**Pharmacy and Medical Entity Grants:** Since pharmacies had also been affected by the unrest, the Fund was approached by ICPA for support. The NEF partnership therefore created an additional support component with the Fund allocating R20m in grant funding for ICPA pharmacies and other medical support services. R19.4m of the allocation was disbursed through the NEF, reaching the target of 20 entities from ICPA members and other affected medical services.

**Co-operatives and SMME Emergency Relief Fund:** While conducting its field work and due diligence processes, particularly in KZN, the NEF was approached by numerous support agencies and entities that were also indirectly affected by the civil unrest. Notable amongst these were small enterprises and cooperatives in and around the Mooi River area that had been affected during the blockade of the N3 highway between Gauteng and Durban. The Fund made available R43m to support SMMEs and cooperatives in affected regions, targeting at least 30 SMMEs and 30 cooperatives. The NEF committed just under R250 000 to the component.



**The NEF also imposed the following terms for the loans they provided:**

- The loan would be extended for a maximum period of 60 months.
- All recipients would be advised to have a SASRIA or an equivalent insurance cover going forward.

**Proposals received**

The majority of the applications received fell broadly within the retail sector (including sub-sectors such as food and beverages, clothing, supermarket outlets etc.), automotive (logistics), property (rental and leasing), and healthcare (optometrists and pharmaceutical outlets).

A dedicated focus on the ICPA Pharmacies was extended to medical services businesses. Of the pharmacies referred by ICPA, approximately 90% had a turnover of less than R5m.

The NEF also identified women owned co-operatives who made clothes and household linen in Mooi River in KZN. A total of 30 co-operatives and 30 SMMEs were identified for support.

- ±240 applications received, including pharmacy applications.
- 40% of the applications had a turnover of below R3m.



**IMPACT**

Through this partnership the NEF and the Fund were able to support 201 entities, helping them to rebuild and recover from the devastation of the unrest and saving over seven thousand jobs. The support to pharmacies was significant in enabling them to return to operation within short a period of time so that they could begin to service the communities which depended on them as a first option for healthcare.

A summary of the programme impact is shown in table 1 below.

**Table 1: Funds disbursed and jobs saved**

Fund	Total	SF	NEF	# Entities supported	#Jobs saved	Average jobs per entity	Average cost per job	Average grant
ERF1	R621 135 454	R145 047 524	R476 087 930	82	5 109	62	R121 577	R1 768 872
ERF2	R166 110 241	R58 652 476	R107 457 766	26	1 164	45	R142 706	R2 255 864
ICPA and Med	R19 400 000	R19 400 000	-	20	158	8	R122 785	R970 000
SMME Coops	R41 955 861	R41 710 000	R245 861	73	626	9	R67 022	R571 370
Fund Value	R848 601 557	R264 810 000	R583 791 557	201	7 057	35	R120 249	R1 317 463
Fees	-	R8 190 000	-	-	-	-	-	-
<b>Total allocated</b>	<b>R856 791 557</b>	<b>R273 000 000</b>	<b>R583 791 557</b>	-	-	-	<b>R121 410</b>	-

Figure 4: Provincial impact

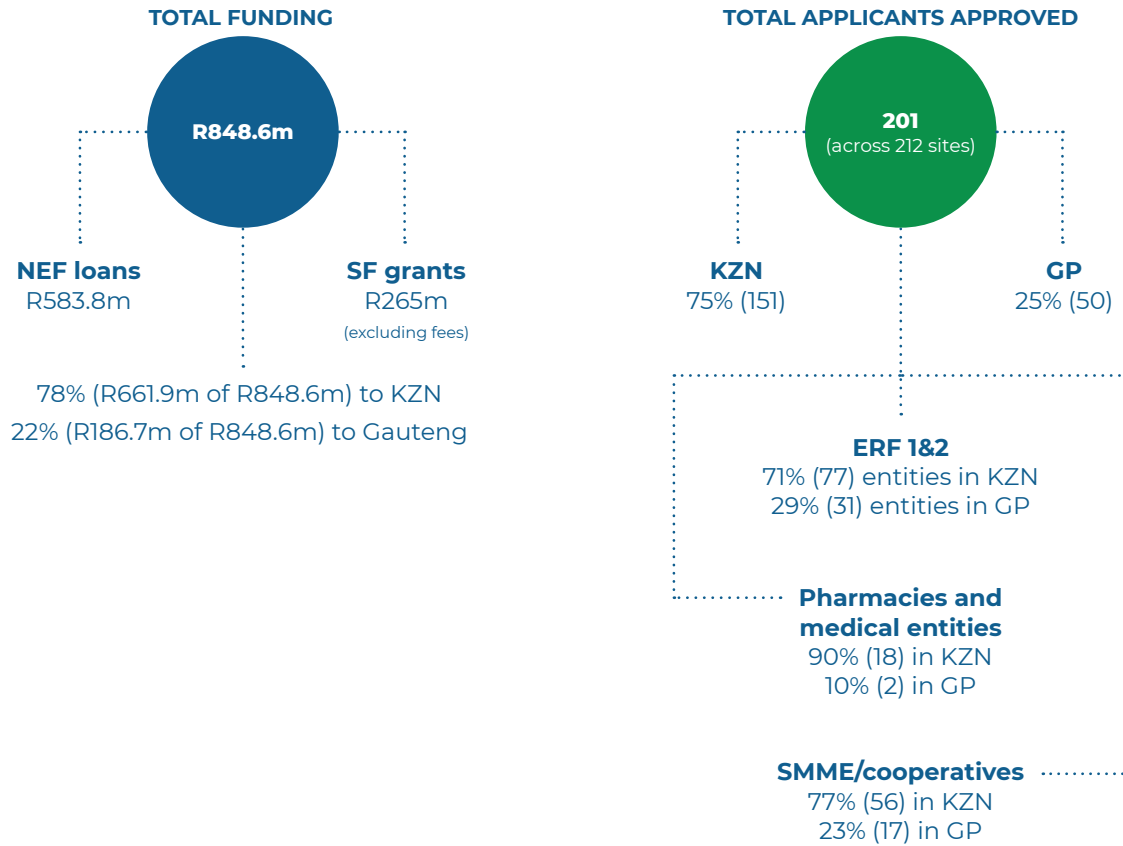
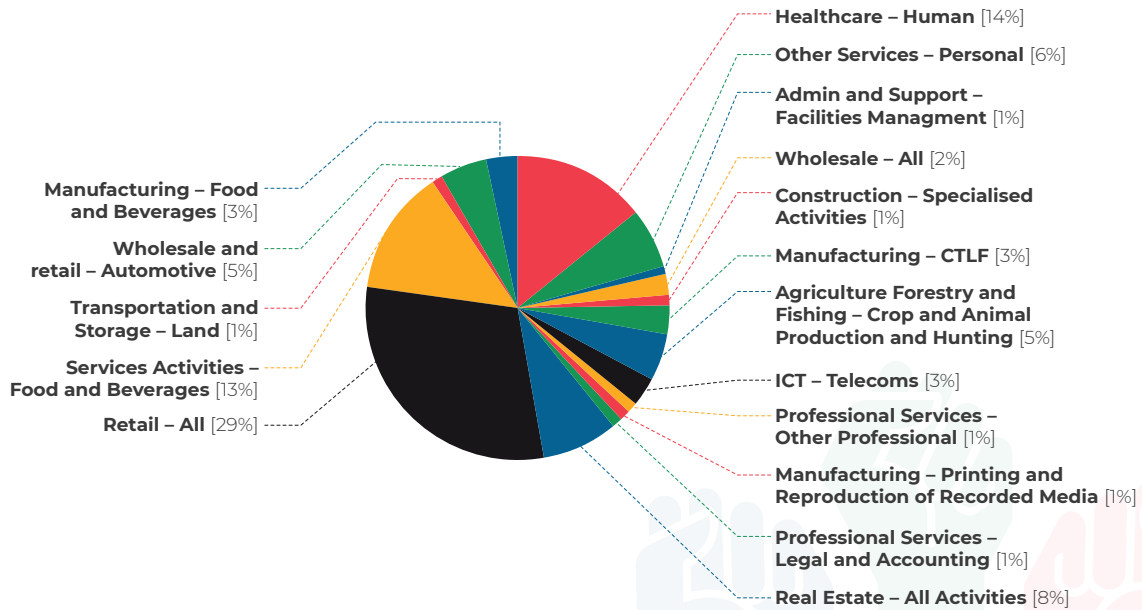


Figure 5: Breakdown by business sector



### **Supporting business recovery**

As part of the business recovery process, a team of investment associates from the NEF visited the affected areas to conduct interviews with applicants to get an in-depth understanding of the business and to determine how to best resuscitate them.

The investment associates obtained prices and/or quotations from suppliers on the cost of recovery while ensuring that all compliance documents were in place to support a positive outcome of the application.

They also interviewed suppliers and customers of the business to verify information, and negotiated revised leases with the property owners where possible. Where business records were destroyed, the associates were able to reconstruct the financial records from scratch.

### **Non-financial support**

The NEF also provided, and continues to provide, pre and post-investment non-financial support through mentorships that focus on both managerial and technical support. They also assisted with turnaround strategies for the entities that were not performing well.

In addition, all SMME beneficiaries were also provided with back-office (bookkeeping and related services) support at no cost to the client as part of the development support to them. Furthermore, where necessary and appropriate, the NEF appointed and paid for a mentor to assist clients with the business recovery journey.

One of the key criteria for the business recovery support was that recipient companies with a turnover over R3 million must be generally compliant with applicable government regulations, including SARS returns and payments. Beneficiaries considered for funding were therefore assessed as to their level of regulatory compliance, as part of the eligibility assessment, and assisted with reaching compliance where necessary.

The non-financial support included the following:

#### **Pre-investment**

A commercial, financial, and legal due diligence process was conducted which enabled the NEF team to prepare an investment report with recommendations relating to each business. Recipients that were not up to a professional business standard, including for tax compliance, were supported with various interventions such as incubation and entrepreneurial training, social facilitation, enterprise and supplier development investor education, and corporate governance training.

#### **Post-investment**

The NEF provided ongoing portfolio management, management mentorship support, and collections and legal compliance support. The NEF Post Investment Unit (PIU) conducted visits to the business to assess whether the funds were utilised for the intended purposes and assessed areas for development and support based on the investment report and further interactions with the client and its business.

The PIU monitored the portfolio and performed active portfolio management through monitoring of investee operational performance, credit control and collections, and legal and regulatory compliance. They also provided advice and support through mentorship



programmes. These programmes included technical assistance on operations, production efficiencies, etc., and back office support in the form of compilation of financial management accounts, compliance reporting, drafting of annual financial statements, etc.

Through this non-financial mentorship support, the programme is helping businesses to be more commercially viable and helped to rescue businesses that were in decline. To date four recipients have required back-office support and one required mentorship support. This shows the high level of operational strength and compliance in the majority of recipients.

08

## SUCCESS STORIES

### The KPML group tackling a crisis with creativity and help from the NEF and Solidarity Fund



Ms Lebethe owns and operates approximately 30 KFC branches across Gauteng, the North-West and Mpumalanga through two companies she is a partnership in - the KPML group and Yum! Brands franchise.

The KPML group employs more than 1 050 people – 65% are women and 67% are youth. In addition, four employees are disabled.

The civil unrest of July 2021 that hit parts of Gauteng and KwaZulu-Natal caused severe devastation for the company. Fourteen branches were looted and vandalised. The company had to take swift action to come up with creative solutions to reopen these 14 branches and save jobs.

#### Reopening branches

Under their own initiative the company spent more than R2.5 million to get some of their branches up and running again. They also transferred equipment from low performing stores and sourced old equipment from their warehouses to install in their high- profit stores. Through these efforts they managed to successfully reopen four branches in Kagiso Mall, Highpoint, Daveyton Campus, and Daveyton Mall.

However, the company did not have sufficient resources to save its other branches and therefore turned to the NEF / Solidarity Fund business relief response for support. **KPML was granted over R40m in support** from the programme to refurbish and reopen badly damaged KFC stores. Beyond the refurbishments, many of the stores had their kitchens re-equipped, stock replaced, and security upgraded.

With the opportunity to repair and upgrade these severely damaged branches, the company decided to move two of the branches, moving the Senaoane branch to a high traffic area in Dlamini, and moving the Mandela Square branch from Sebokeng to Tshipiso in Emfuleni.

### **Saving and creating jobs**

Through this support, the company was able to save jobs and even create new positions.

- The Mayfield Square KFC saw **37 jobs saved – 70% women and 75% youth**;
- The Dlamini KFC saw **23 employees reinstated and five new jobs created – 60% women and 75% youth**; and
- The Palm Springs and Mandela Square KFC branches saw **46 employees reinstated and 12 new jobs created – 65% women and 70% youth**.

Through their quick actions and smart decisions, the KPML group, with the help of the NEF and Solidarity Fund, has been able to save 106 at-risk jobs and create 17 new jobs.

### **Community Centre restored to save jobs**

Demifin is a black-owned South African real estate investment company that is principally engaged in leasing property in under-served emerging markets. The company was started in 2015 for the construction and ownership of Tshepiso Crossing, a small convenience shopping centre, anchored by a Boxer supermarket, Boxer liquor store and Cashbuild. The shopping centre is named after a small township called Tshepiso in Sharpeville, Gauteng province.

During the July 2021 unrest, Tshepiso Crossing was looted, vandalised, and burnt down, resulting in complete destruction of the structure of the shopping centre. **The shopping centre employs 200 employees** through its tenants, most of whom are employed by Boxer (100) and Cashbuild (40). It is therefore critical to rebuild the centre as quickly as possible to preserve the livelihoods of the communities that find employment there.

The company was given **R9.7m support from the NEF / Solidarity Fund** business recovery support programme to rebuild. The funding will cover construction costs for material, flooring, air conditioning, back-office additions and store counters.



## Just Badela – rebuilding a community favourite



Just Badela was established by Mr. Dumile Badela in 2012 and formally registered in 2015. The company was founded after Mr. Badela identified an opportunity to create a boutique butchery in Soweto based on intense market research which pointed to a vacuum between the traditional “shisanyama” set up and that of a formal and conventional restaurant. Throughout the years, it has evolved into a recognisable and iconic brand in Soweto Township and surrounding areas.

The company offers South African inspired cuisine and prides itself on having one of the largest stocks of high quality black-owned South African wine brands such as Siwela, Bayede, Magna Carter, and others. The company is also well known for embracing the South African jazz heritage through regular live performances by notable jazz artists such as Nduduzo Makhathini, amongst others.

The company has experienced tremendous growth since its inception, with a compound annual growth rate of 34,42%. This has enabled it to employ more and more people as it grows. At the time of the unrest the company employed 20 staff (14 South Africans, and six non-South Africans).

The civil unrest completely devastated this community favourite, with its premises badly looted and vandalised. Since it was severely under-insured through its existing business insurance, the company requested support from the NEF / Solidarity Fund business recovery support programme.

### Support to build

Just Badela was granted **R7.6m support from the NEF / Fund partnership** with R5.3m as a loan from the NEF, and R2.3m from Solidarity Fund as a grant. This support is enabling a local community favourite to rebuild and become a hub for the community to meet and enjoy themselves once again.

## Optical Inc



Optical Inc. was founded by Pietermaritzburg optometrist Ncedile Ngobese in 2014 at the Greater Edendale Mall. Through hard work and excellent service delivery, the practice grew until the pandemic hit and the business was forced to close for two months. Following economic setbacks, the practice had to close but was re-opened in February 2021 in Pietermaritzburg.

Then came the riots. The shop was significantly damaged and since it did not have business insurance and Sasria coverage, it was facing the prospect of having to close again, perhaps permanently.

Turning to the NEF / Solidarity Fund pharmacy and medical entity support programme, Ms Ngobese **was supported with R600 000** to finance fittings, optical equipment, stock, and working capital requirements. Her application for funding was approved because her business was profitable prior to the unrest, is **100% black woman-owned and employs 100% women, 75% of which are youth.**

With the funding, Ms Ngobese and her three full time employees and two part-time employees can get back to the business of providing optimal eye care to their patients.

09

## GOVERNANCE

### Due diligence in identifying and approving beneficiaries

The NEF teams spent a significant amount of time on-site, assessing the extent of the damage done by riots and looting at the applicants, gathering the information required for consideration for funding approval by the NEF credit committees. All eligible transactions were submitted to the Economic Distress Fund Committee (EDFC committee) which was specifically established to deal with these kinds of emergency applications.

The EDFC committee members included the executive management of the NEF (including CEO), senior managers of certain key departments, and nominated representatives from the DTIC. The various transactions were presented to the EDFC committee through a series of over 52 separate committee meetings held from the inception of the programme. The EDFC committee held meetings bi-weekly, and the average hours spent on meetings are approximately five to six hours per meeting assessing the various transactions.

### **Governance processes**

Each of the partners in the project observed internal institutional governance processes. No breaches of governance throughout the life of the project have been recorded.

Once an application was assessed and a transaction approved by the investment committee, the NEF concluded appropriate legal agreements with the businesses, including a schedule of disbursements based upon agreed milestones.

Following disbursement of the funds, the NEF Post Investment team conducted site visits to assess the proper use of the funds while also assessing further areas for development and support. This will continue for the life of the loan period as applicable.

10

### **KEY CHALLENGES AND RECOMMENDATIONS**

Despite the obvious and urgent needs of many SMMEs, many potential beneficiaries could not be supported due to non-compliance with the due diligence processes of NEF, including inter alia, tax clearance certificates, complete and coherent business plans, and where appropriate, B-BEEE certificates. Many businesses who were in dire need of support did not have the financial resources, skills, or internet connectivity to ensure they were able to source and provide the required information in a timeous manner.

While such entities may well be supported by the NEF, through its various alternate structures including the Socio-Economic Development Unit (SEDU), Pre-Investment Department and the Township, Rural, and Community Development Department, this is a key issue and one that requires a better solution since this is a severe barrier to opportunities for business growth, development, and sustainability.

The constrained timeline of the Solidarity Fund and the HCRF with its mandated impact, was perhaps too onerous for the normal due diligence processes of the NEF, and accordingly, the pace at which NEF delivered entity authorisations in terms of its own internal processes, may have resulted in unrealistic expectations and commitments to timelines between the parties.

Notwithstanding the above, the NEF did manage to meet its deadlines, not without some guidance and pressure from the HCRF team, and in future, cognisance of the processes of partners may be worthwhile noting and building into programmatic timelines.



## CONCLUSION

The project was borne of a tragedy in South Africa, and the resultant significant need to support SMMEs in KZN and Gauteng, and to ensure that ordinary people were able to access goods and services while also protecting jobs of some of the more vulnerable members in our society. SMMEs do not always have reserves of funding to tide them over in such dire situations.

Whilst the Solidarity Fund – NEF partnership saved over seven thousand jobs, the impact of this regenerative mechanism has been significant, given that each job secured and saved in South Africa supports many others in a household. This partnership has revived many fragile communities across our nation, none more so than the province of KZN, a province that faces significant challenges and where tension brews daily below the surface.

The continued support from the NEF to beneficiaries in the form of mentorship and other practical skills required to operate and ensure business continuity is part of the legacy of this partnership.

Some important lessons were learned. Most notably that where access to finance requires compliance at multiple levels, there is a need to support SMMEs in adhering to and maintaining a credible compliant business. It is evident that many entities have a journey to compliance, the achievement of which will enable growth and prosperity.

The Solidarity Fund also leveraged the expertise of its other HCRF beneficiary partners and entities and adding value in trauma counselling, access to training and mentorship, and add on value such as insurance and non-financial support across the range of business enterprises.

The NEF Solidarity Fund partnership was far more than a lifesaver. It has impacted beyond the pure value of money and provided hope in a time when hope is sometimes all these struggling, yet resilient entrepreneurs have to hold onto.

