

FEATURES



Frenzel Gillion Going solo

NATIONAL EMPOWERMENT FUND

State pulls finance plug

The National Empowerment Fund (NEF) will have to start fending for itself as government is no longer providing it with financial support, but it is confident it can stand on its own feet.

The NEF was established in 1998 to provide financial support for black entrepreneurs struggling to access funding for their business ventures. In the past few years government has pumped R2bn into its coffers, but there are no plans to provide it with further support.

The fund is not worried about its future. NEF chief investment officer Frenzel Gillion says it has enough funds to keep going for up to five years.

It has R5bn in assets, of which R2bn is cash. It has annual expenses of R100m — which amounts to 2% of its capital under management — and is on track to distribute R1,6bn in support for the year to end-March 31.

Gillion says the NEF plans to establish a self-funding structure similar to that of the Industrial Development Corp (IDC) and the Development Bank of Southern Africa.

In many ways the NEF already resembles the IDC with its portfolio of blue-chip companies. It has a 1,5% share in MTN and a 5% holding in the previous lottery operator, Uthingo.

It also has shareholdings in 33 unlisted companies. Gillion says as these companies mature, the NEF will replenish its funds by disposing of its holdings in them.

"In some ways we are like a private equity fund: we invest in companies and sell our stake in them when the time

comes," he says.

The developmental focus of the NEF means it is more open to taking risk — but this appetite comes with a price. Its impairments for 2009 were 16%. The recession has seen this figure rise to about 22%.

Gillion says the NEF's immediate goal is to reduce its impairments by restructuring its funding deals to ease the cash flow of the companies it supports.

He says one of the advantages about being in development finance is that it has "slow capital" and, unlike a listed company, it is happy to wait for a lengthy period to get return on its investments.

Besides its portfolio of investments it is also looking at accessing funding in international funding markets.

This, however, will require a change in legislation that prevents the NEF from getting nonstate funding. Gillion says they are talking to the trade & industry department about changing this.

The NEF has often been compared with the IDC in its development goals. Gillion says while the IDC also has a mandate to support black economic empowerment, it concentrates on industrial development. Another crucial difference is the scale of support they offer — the NEF's average deal is about R6m, a lot smaller than the IDC's.

Gillion says that for a young organisation — it received its first funding in 2004 — the NEF has had some success. To date 17 203 jobs have been created in 53 projects that it has supported.

But as well as it has done, Gillion says it still faces problems. One of the biggest is poorly thought-out business plans. "The quality of applicants is poor," he says.

Potential business people's lack of experience in running a business is also a problem. The NEF is trying to surmount these challenges by providing business support planning online and creating a mentorship panel to assist applicants with running their businesses.

One the biggest hurdles applicants face is conceiving of imaginative business concepts. "We have not been presented with enough bankable innovative ideas," Gillion complains.

Larry Claasen

NEF IN A NUTSHELL

- The National Empowerment Fund is an agency of the department of trade and industry
- It is tasked with facilitating the ideals of black economic empowerment by enabling entrepreneurship
- Its net asset value was R4,6bn at the end of 2009
- By March 2009 the NEF approved 177 transactions worth more than R1,4bn

SOURCE: NATIONAL EMPOWERMENT FUND