New regulations to boost private equity in Namibia

The implementation of new regulations requiring institutional investors to invest a minimum percentage of their assets into unlisted assets in Namibia, is set to provide a significant boost to private equity in the country, as well as benefiting investors and the local economy as a whole.

Erika van der Merwe, CEO of the Southern African Venture Capital and Private Equity Association (SAVCA), spoke at a SAVCA event held in Windhoek this week, themed around the changing regulatory environment and its impact on local investors.

"While research points to significant fundraising success for private equity funds in sub-Saharan Africa, with deal-flow picking up as a result, the private equity market in Namibia is relatively untapped. The new regulations will now provide Namibian long-term insurance companies and pension funds with the incentive to take advantage of this still-underutilised alternative asset class."

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Daudi Mtonga, Director at the private equity firm VPB and a SAVCA member, explains that the new regulations prescribe that long-term insurance companies and pension funds must now invest a minimum of 1.75% of their market values domestically into unlisted investments, with a maximum investment of 3.5%. This is a new asset class introduced by Regulations 28 and 29, since exposure to this asset class was not previously regulated. Some pension funds nevertheless had direct or indirect exposure to this alternative asset class.

"These new regulations provide a framework for the regulatory authority to regulate the unlisted investment asset class. "This gives investors comfort that the capital allocated will be under the Regulator's supervision. Furthermore, the regulation formally defines the nature of the asset class and creates appropriate benchmarks for fund management responsibilities in the market place," says Mtonga.

He adds that these regulations also form part of the Namibian government's efforts to curb the outflow of capital and provide access to capital for domestic investment opportunities, which currently struggle to get access to funding - be it risk capital or debt funding.

Van der Merwe adds that the new regulatory regime will provide an opportunity to increase economic activity in the Namibian economy by channelling institutional capital into the unlisted private company market.

"Given the now increased availability of funding for local private enterprises, this asset class will act as a catalyst for the growth of the economy. As is the case in many African jurisdictions, supportive policies are necessary to encourage asset owners, including pension funds, to consider the valuable role that private equity can play in supporting economic development and growth, while providing the returns and diversification required in a diversified, long-term institutional portfolio."

Because of the change in regulation, the industry has seen a number of Special Purpose Vehicles (SPVs) set up as private equity funds with related fund management companies, and these managers are in the process of raising capital. According to the Namibia Financial Institutions Supervisory Authority (NAMFISA) 2015 Annual Report, it is estimated that close to N$3bn will be allocated to this new asset class. The market expects the allocation by 31 December 2015.

Mtonga says he expects that the asset class will offer life-giving opportunities for investors in the coming years. "The private business market represents the largest economic activity in the region, but, in many markets, formal channels for the flow of capital to fund these activities are still limited. There definitely is a growing requirement for growth capital, with demand currently exceeding supply.

"Private enterprise therefore is significantly undercapitalised in the region, and there is an untapped market for domestic risk capital to be used and for local fund management capacity to be developed," Mtonga concludes.