Assessing market demand for Private Equity and Venture Capital initiative for emerging Small- and Medium-Sized Enterprises in Namibia

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FULL REPORT
Prelude:

Private equity and venture capital finance represent critical components of any financial sector as they provide support to business ventures which would generally be too risky for normal commercial banks.

This report:
1) provides a short summary of the nature of private equity and venture capital finance;
2) Brings together Namibia’s experience to date with this kind of finance;
3) Examines Namibia’s policy, regulatory and tax environment;
4) Looks at exit options available;
5) Reviews which international and domestic providers of finance are active;
6) Identifies different models of private equity finance provision; and
7) Summarises relevant data and research conducted in Namibia.

The results of a ground-breaking survey of 100 Namibian medium-sized businesses are presented which suggest that the need for “patient capital” is especially acute for start-ups and during the first three or four years of existence. The challenge for any private equity manager will be to profitably invest and manage relatively small amounts of capital over a larger number of businesses. If this challenge can be overcome, the eventual rewards are likely to be high.
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1. Introduction

Namibia's private business sector is overwhelmingly dependent on bank finance for investment and working capital. The country's four commercial banks follow orthodox bank lending practices towards the business sector which means businesses are generally required to put up collateral on a one-for-one basis for loans extended to them (a practice known as secured lending). Such bank debt financing forms the bedrock of any financial system and capital market. Given the critically important role played by banks as intermediaries between savers and borrowers and the potentially disastrous consequences of bank runs, banks are highly regulated entities. This raises the cost of finance (since meeting regulatory requirements costs money) and limits the types of finance banks can offer (since regulations limit the risks banks can take).

Bank finance typically suffers from two major shortcomings when it comes to business finance, especially for Small and Medium-Sized Enterprises (SMEs) and start-ups. First, collateral is generally required by the bank as security which means that businesses are generally required to possess assets before they can borrow to grow their asset base (leading to the old quip that “a bank will only lend money to those who can prove they don’t need it”). Second, taking a loan requires making regular payments to the bank - generally from the date at which the loan is granted - to meet the principal and interest obligations of the loan. Interest payments are commonly linked to the prevailing level of interest rates in the economy, which can rise and fall in unpredictable ways. This means that an important component of a firm's costs – debt repayments – is effectively beyond the firm's control. Together, the need for collateral and the fixed nature of debt obligations mean that bank finance is often inaccessible or inappropriate for newer businesses embarking on the take-off phase of their development.

In more developed economies, debentures – corporate bonds – form an integral part of the capital market and provide an alternative to bank finance for the larger more established businesses. But even unsecured (or “naked”) debentures are unsuited to the needs of smaller, newer businesses for much the same reasons as bank loans. Namibia’s debenture market is small and illiquid.

Given the dominance of commercial bank financing in Namibia's business sector, the question naturally arises whether there is a need for a different more “patient” form of business finance which is better suited to the needs of smaller, less well-established businesses that require significant amounts of capital to attain rapid growth. Furthermore, given also that, for historical reasons, the majority of Namibia's population have only in the past two decades been in a position to fully grasp business opportunities and are unlikely to have accumulated significant collateral, the demand for this different kind of finance can be expected to exist. There are, therefore, good grounds a priori for assuming that demand for such finance exists.
This is where private equity finance comes in. A private equity investor will identify a company with good growth potential and become a shareholder in the business. By providing equity capital, helping to raise the required debt finance, and bringing in valuable business expertise, a private equity investor helps grow the company over a period of years without generally demanding dividend or other payments until such time that the business starts generating significant profits. At that stage the private equity investor generally sells the shareholding in the business (or “exits”) making a significant profit by doing so in the form of a capital gain. In more extreme cases, the target business may not actually be in existence or be operational to any meaningful degree when the private equity investor identifies its potential and the decision to invest is based on little more than a convincing business plan (“greenfield projects” or “start-ups”). In these cases, the term venture capital is normally applied to the investor’s funds. The terms ‘private equity’ and ‘venture capital’ are often used interchangeably and quite loosely but venture capital focuses on the extreme end of the risk spectrum.
2. Fundamental Characteristics of Private Equity and Venture Capital Funds

Despite their importance in supporting entrepreneurial activity and economic growth, private equity and venture capital is a relatively small area within the financial markets of most countries. Private equity has achieved maturity as an industry in only a small number of countries. It is, therefore, not well known to most business and financial professionals and often misunderstood. Below are some of the fundamental principles of private equity and venture capital, distilled from the past 50 years of international experience, which must be understood prior to any discussion about creating a Namibian private equity or venture capital industry.

Private equity investors and venture capitalists are specialised professional investors.
Private equity and venture capital is a highly specialised area of finance significantly different in nature from commercial banking as well as from asset management. The development of private equity and venture capital industries in the US, Europe, and elsewhere has centered on the identification and appropriate incentivisation of these specialised financial professionals. Such professionals are currently few and far between in Namibia.

Private equity investors and venture capitalists invest for long-term capital gains, not for current returns.
Private equity and venture capital is also significantly different from project finance, which is intended to produce near-term revenues. Private equity and venture capital is relatively patient capital, dependent for most of its profitability on realising long-term capital gains from the sale of equity securities after three to seven years. Most private equity and venture capital funds are unable to distribute dividends to their shareholders before the fourth or fifth year of investment. The orientation in Namibia toward near-term income will need to change in order to support a private equity and venture capital industry.

Private equity investors and venture capitalists back growth-oriented entrepreneurs.
Given that the success of private equity and venture capital investment is based on realising capital gains, private equity and venture capitalists are only interested in backing entrepreneurs whose interests are in growing a company. Life-style businesses, in which the owners’ primary objective is to create a predictable stream of near-term income for themselves, are inappropriate targets for private equity and venture capital. There seem to be many worthy life-style enterprises in Namibia in need of investment. However, given the dependence of private equity and venture capital on income from capital gains, any medium-sized enterprise-related

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1This section draws heavily on “Venture Capital for Medium-Scale Enterprises in Namibia: Report and Recommendations”, USAID, 15 September 2001
general private equity or venture capital fund should be targeted to businesses whose entrepreneurs are capable of focusing on growing share value.

**Private equity investors and venture capitalists are active investors.**
The business of private equity and venture capital, particularly in the Namibian context, may be not so much one of picking good deals as of building good companies. The skill of successful private equity investors and venture capitalists is not only that of financial engineering and negotiation. Nor is it merely the ability to identify promising enterprises. The most important skill in private equity and venture capital is the ability to add non-financial value to young companies in order to contribute to their capital growth. In other words, in successful private equity and venture capital, business skills are often even more important than financial skills.

**Private equity investors and venture capitalists take significant risk, investing on a “risk-adjusted” basis.**
Private equity investors and venture capitalists invest in smaller, younger, or unproven companies, taking little or no collateral security, and generally forgoing any significant income for several years after investment. Therefore they invest at a relatively high level of risk. In order to be compensated for this level of risk, private equity and venture capital funds, in Namibia as elsewhere, should generally look to invest in companies for which projections indicate the realistic potential for an internal rate of return (IRR) over the life of the investment is at least 25%, even in the case of medium-scale investments. While returns on some investments will generate far higher returns than those achieved by bank lenders or by portfolio investors in the stock market, a number of investments in a risk capital portfolio will also end in bankruptcy or sale at a loss. The 25% to 35% “hurdle rate” for a private equity or venture capital investor is therefore necessary to compensate for the significant losses which risk capital entails.

**Private equity and venture capital depends for its success on “exits”**
Many private equity and venture capital investors will use a combination of instruments in a single investment, including loans, loans and other debt instruments convertible to shares, royalties or revenue participations, and preferred shares. However, in the vast majority of cases, the success of private equity and venture capital investment ultimately depends on the eventual sale of the fund's ordinary shares (or common stock) in the investee company. The three fundamental ways in which this is done are:

- selling the shares on the stock market in an initial public offering (“IPO”);
- selling the shares to another company with a strategic interest in acquiring the investee or in acquiring an interest in the investee (a merger, acquisition, or “trade sale”); and
- selling the shares back to the principal owners and/or managers of the company (a management buy-out or “MBO”).
This last element of private equity and venture capital cannot be overstated. Indeed, the most common reason for the failure of private equity and venture capital funds in emerging markets and developing countries, particularly funds targeting SMEs (or medium-scale enterprises) has been the assumption that a majority of investments will be exited through listings on local or international exchanges. The ability to realise capital gains through trade sales and MBOs, in addition to IPOs, is generally the deciding factor in the success of a venture capital fund. Selecting, structuring, and adding value to investments should, in the end, be seen as activities which constitute a prelude to the exit.

**Private equity and venture capital is not a wholesale financial activity.**

In mature private equity and venture capital markets, private equity and venture funds with capital in the range of USD20 million to USD50 million generally invest in a maximum of four to six companies per year. In the US, venture capital-backed companies constitute only about 3% of businesses. Namibia should be cautioned against entering into the creation of a private equity and venture capital industry with the expectation that thousands, or even many hundreds, of businesses will receive venture capital financing.

However, despite its limitations, the impact of a functioning private equity and venture capital industry in an emerging economy extends far beyond the profitability of its investments. Private equity and venture capital succeeds by taking companies with good potential and making them into extraordinary and highly visible companies with realised success. There is immeasurable value in the demonstration effect which private equity and venture capital-backed companies in an economy such as Namibia’s can provide. Indeed, almost by definition, successful venture capital-backed companies:

- operate with a high degree of transparency;
- demonstrate the financial benefits of operating formally and transparently;
- operate according to high international standards of business practice;
- raise the standards of other businesses with which they deal by exhibiting high standards of business practice;
- occupy prominent places in their industries; and
- encourage other potential entrepreneurs to undertake business creation or expansion.

In addition to the powerful, positive demonstration effect produced by the behavior of individual private equity and venture capital-backed enterprises, a functioning private equity and venture capital industry produces other systemic benefits within the economy.

2.1 The J Curve

The cash flow of a fund engaged in equity investment is subject to what is often referred to as the "J curve" as illustrated below. In the early years, the expenses of a fund will exceed income from investments. The fund will generally not attempt to receive dividends on its investment or will reinvest dividends in the business. While some current income may be received through interest payments on shareholder...
loans and fees, total annual revenues are unlikely to exceed management fees and 
other expenses of the fund until the third year or later.

Net income from investments

2.2 Financial Structure of a Private Equity Venture Capital Fund
At the heart of any private equity or venture capital deal is the proper selection and 
incentivisation of the fund managers. The work of fund managers is distinctly 
different from that of bankers, investment bankers, or asset managers. The private 
equity or venture fund manager’s job is to work closely with entrepreneurs in 
virtually every aspect of their businesses. The fund manager’s success depends 
upon the ability to increase the share value of the investee business to the point 
where it becomes appropriate for listing on the Namibian Stock Exchange (NSX), or 
an attractive candidate for acquisition or merger, or capable of generating cash flow 
sufficient for the entrepreneur to repurchase the fund’s shares. Attracting the most 
capable fund managers is fundamental to success. Funds and the fund manager’s 
compensation must therefore be properly structured if the chances of success are to 
be maximised.

The most typical formula for compensating fund managers involves an annual fund 
management fee (paid out of funding raised from third party investors), plus a 
“carried interest”. The fund management fee provides for modest salaries for the 
fund manager’s team and sufficient money to conduct the operations of the fund. In 
the carried interest arrangement, after the investors in the fund receive a minimum 
return on their investment (most typically 8%), the investors then share the profits 
of the fund with the fund manager, often with 80% going to the investors and 20% 
to the fund manager. Thus, the fund manager has the greatest incentive for the fund 
to succeed. If the fund performs poorly, then the fund manager receives only the fee 
and all profits go to the investors.

Two highly simplified worked examples show that below a certain size it is difficult 
to make private equity transactions work.

Example 1: Investors finance a PE Fund Management Company to invest NAD10 
million of equity in a business worth NAD100 million. The business grows in value 
by 25% every year for five years after which it is sold for NAD244 yielding a capital 
gain of NAD134 million. The PE Fund incurs costs of NAD5 million every year for 
five years, a total of NAD25 million. The total net gain after costs are then NAD109 
million which typically get shared between the investors and the PE Fund
Management Company 80:20 which gives NAD87 million to the investors and NAD22 million to the PE Fund Management Company. The investors therefore receive NAD87 million having contributed NAD10 million in equity and NAD25 million in costs giving a return of 149% over a five-year period.

**Example 2:** Investors finance a PE Fund Management Company to invest NAD5 million of equity in a business worth NAD20 million. The business grows in value by 40% every year for five years after which it is sold for NAD77 million yielding a capital gain of NAD52 million. The PE Fund incurs costs of NAD3 million every year for five years, a total of NAD15 million. The total net gain after costs are then NAD37 million which typically get shared between the investors and the PE Fund Management Company 80:20 which gives NAD29 million to the investors and NAD7 million to the PE Fund Management Company. The investors therefore receive NAD29 million having contributed NAD5 million in equity and NAD15 million in costs giving a return of 47% over the five-year period.

The examples show that, even though the PE Management Company managed to increase the value of the second business by 3.8 times compared to 2.4 times for the first business, the small starting size of the business and the high annual costs resulted in a lower overall return over the five-year period. Given that it often takes as much effort to grow a small company as it does a larger one, it is likely that there is a size threshold below which it does not make sense to employ expensive private equity finance.
3 The Importance of the SME Sector

Orthodox opinion, and indeed opinion across the political spectrum in both developed and developing countries, place special emphasis on SMEs as “job creators” and “engines of the economy”. While this is not necessarily false, recent research by several economists from the US throws a more nuanced light on the role small businesses play in the economy. Although it is important to bear in mind that the US and Namibian economies are very different, it is likely that this more nuanced view holds lessons for Namibia too. Everyone loves small firms and one of the reasons why is that people believe they create more jobs than big ones.

However, it is important to note that many small firms stay small indefinitely and that the link between small firms and jobs growth relies entirely on new start-ups (which are usually small) and which by definition create new jobs (as they did not previously exist). The US studies show that the link between company size and jobs growth disappears once the age of firms is controlled for. Politicians in the US like to say that small companies create two out of every three jobs in any given year. However, that is less impressive when it is understood that 99% of the 6 million companies that exist in the US are small businesses with fewer than 500 workers (the US definition of small). The “two out of three” statistic masks the fact that most small businesses eliminate more jobs than they create in a given year either through layoffs, closures or bankruptcy. Many of the rest – businesses such as florists, hardware stores and barber shops - tend to grow with the population not faster.

The economic researcher Haltiwanger is quoted as saying “I don’t want to pick on dry cleaners and restaurants and small manufacturing firms, but they’re not a big source of job creation.” Think rather of Bill Gates and Paul Allen huddled together late at night developing Microsoft not the corner liquor store. Most small business owners just want to be their own boss and never expect to hire more than a few employees. In a study of 32,000 companies over 30 years (such a study is not possible in Namibia), Haltiwanger and his associates showed that small businesses no more than five years old (around 40% of them) are the only ones that create more jobs each year than they cut. The 60% of small businesses that had been around for more than five years cut about 0.5% more employees than they added in a typical year. By contrast, big businesses hire more than they cut – by about 0.1% in a typical year. It is net employment creation that counts.

The important conclusion is that it is not small businesses per se that are key to generating employment growth but rather a smaller subgroup of innovative start-ups which have high growth potential. The implication for Namibia is that, while it might look as if there are many small businesses (and therefore huge potential for

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3See “Why Talk About Small Business as Job Creator is Overblown”, USA Today, 23 February 2012.
business growth), the actual growth potential may in fact only be limited to a very small number of innovative enterprises. The challenge for any private equity fund is to seek out these “SME needles in the SME haystack”. The challenge for policymakers is to come up with ways that allow entrepreneurs with ideas to easily start companies in the knowledge that the best of them will grow fast but the worst are quickly swept aside. Size is not the key. Growth is.
4 A Short History of Private Equity Finance in Namibia

As stated in the introduction, bank finance has traditionally been the primary source of finance for business growth in Namibia and private equity finance remains very much in its infancy. However, in considering whether there is a market for a new private equity fund in Namibia, it is worth briefly highlighting that there have been several initiatives in the past from which lessons might be learned.

4.1 Namibian Harvest

Namibian Harvest was and remains Namibia’s only experience with a stock-exchange listed investment fund. It was not, formally speaking, a private equity fund since it did not necessarily aim to exit its investments after a defined period of time with the intention of realising a capital gain. Namibian Harvest was the result of the Black Economic Empowerment drive that was happening in South Africa at the time. Through a strategic partnership between South Africa’s Coronation Fund Managers and South African trade unions, African Harvest was created in South Africa. African Harvest was listed on the Johannesburg Stock Exchange. Capital was raised with the idea of taking strategic stakes in various quality businesses in the South Africa and the plan was to roll out this model into the rest of Africa. In 1998, Namibian Harvest Investments Limited was formed and listed on the Namibian Stock Exchange. The IPO raised NAD200 million, which was intended to fund Namibian Harvest’s participation in Namibia’s financial sector and beyond. The hoped for investments failed to materialise and Namibian Harvest ended up giving back 60 cents out of every NAD1 of the NAD200 million raised. Namibian Harvest did invest in three companies in the financial sector but these did not prove successful. Namibian Harvest reverted to focusing on asset management and in 2002 Namibian Harvest delisted to be replaced on the NSX with Namibia Asset Management in 2003.

4.2 GIPF and the Development Capital Portfolio

In 1996 the Government Institutions Pension Fund (GIPF) – by far Namibia’s largest pension fund with assets under management now exceeding NAD50 billion – initiated the Development Capital Portfolio (DCP) whereby investments were made directly into a wide variety of unlisted entities, some of which were start-ups. An independent asset management company (first Sanlam and then Investec) was brought in to manage these investments. After a while it became clear that many of the projects were ill-conceived and poorly managed while asset managers simply did not have the skills required to make a success out of these kinds of investments. The DCP was finally wound up in 2003. The GIPF states that “all in all some NAD660 million was committed to this portfolio. Although many of the projects failed desperately, some performed well. As a portfolio, the DCP did make a profit – which of course cannot justify the failures of the many unsuccessful projects.” The opportunity cost in terms of forgone investment opportunities was estimated at a far higher NAD2.5 billion. An independent investigation was carried out at the request of the Prime Minister but its results have so far not been made public. The political fallout from the DCP continues to impact on private equity initiatives currently underway.
4.3 Stimulus Investments
Stimulus Investments is the oldest formally constituted private equity fund in Namibia. In 2004, the South African company Pointbreak Equity and IJG Corporate Finance identified the opportunity to establish a private equity fund in Namibia with a view to “acquiring stakes in established, high cash-yielding business in Namibia which require empowerment credentials while also targeting traditional private equity opportunities in promising businesses with the potential to deliver superior returns”\(^4\). Together with a number of black business professionals, Stimulus Private Equity (Pty) Ltd was established with Pointbreak and IJG Corporate Finance each owning 24.5% and the remaining 51% being held by Hosea Angula (10%), Sebastian Kamungu (10%), Monica Kalondo (10%) and the Stimulus Trust (21%). Stimulus Investments Limited ("Stimulus"), which held the underlying investments, was owned 51% by the same group of investors and 49% by Stimulus Private Equity (Pty) Ltd. Preference shares in Stimulus Investments Ltd were listed on the Namibian Stock Exchange after the launch of the company on 4 November 2004. Stimulus raised NAD123.68 million from Namibian institutions and individuals. In 2011 Stimulus was allocated NAD160 million by the GIPF but decided to hand this back. During November 2011 Stimulus redeemed the original preference shares and issued a new round of 10-year preference shares, totaling NAD250 million. In the process, the lifespan of Stimulus’ funding arrangement was extended to 2021 and Stimulus gained approximately NAD100 million in new capital to invest. Stimulus is currently invested in prominent Namibian companies such as Cymot, Plastic Packaging, Walvis Bay Stevedoring, Joe’s Beerhouse and Nashua. These companies would be classified as medium-sized enterprises by Namibian standards, all employing between 10 and 100 people at the start of private equity involvement by Stimulus. Stimulus recently finalised a transaction in which it bought 50% of DMH, Namibia’s largest media company, which is already 50% owned by South Africa’s News24, owned by JSE-listed Naspers. Some of the original investors in Stimulus have changed.

4.4 GIPF’s Unlisted Investment Programme
In the wake of the perceived failure of the DCP, the GIPF reassessed its role in promoting development through investments in unlisted entities and came up with a new policy in 2009. Under this new framework, calls were made for companies with specific private equity and venture capital experience to bid for a limited portion of GIPF assets. Successful bidders were announced later that year. Although the GIPF then suffered from a change of heart and tried to revoke the allocations, two funds, VPB Namibia, IJG and African Alliance Partnerships ended up receiving NAD160 million each while the BFS Namibian Procurement Fund also received NAD160 million. Although Stimulus Investments was also allocated NAD160 million, it decided to return this money in 2011 and raise funding in the form of a second preference share issue on the NSX instead in November 2011.

Table 1: GIPF’s Unlisted Investments Awarded by Board on 14 May 2009\(^5\)

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\(^5\)Information on the Fund, the Development Capital Portfolio and the Unlisted Investment Programme, GIPF, 17 September 2010.
<table>
<thead>
<tr>
<th>Company</th>
<th>Amount</th>
<th>Mandate</th>
<th>Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>IJG African Alliance Private Equity</td>
<td>NAD160 million</td>
<td>Venture capital and private equity in Namibia</td>
<td>M Hamutenya, M Spaeth, CC Klein, DT Mahony (SA), PA O’ Flaherty (SA)</td>
</tr>
<tr>
<td>Stimulus Private Equity</td>
<td>NAD160 million</td>
<td>Venture capital and private equity in Namibia</td>
<td>PF Koep, M Kalondo, S Namandje, ER Katjimune, SH Moir</td>
</tr>
<tr>
<td>VPB Namibia Private Equity</td>
<td>NAD160 million</td>
<td>Venture capital and private equity in Namibia</td>
<td>A Siwawa (Bot), N Mpfu (Zim), M Mwinga, P Stevenson (Bot)</td>
</tr>
<tr>
<td>OMIGNAM Tunga Infrastructure Fund</td>
<td>NAD200 million</td>
<td>Infrastructure transactions in Namibia</td>
<td>J! Gawaxab, L du Toit (SA), G MacIntyre (SA), L Matthews</td>
</tr>
<tr>
<td>Investec</td>
<td>NAD400 million</td>
<td>Mezzanine loan funding in Namibia</td>
<td>K Ndilula, R Graig, F Tait</td>
</tr>
<tr>
<td>Business Financial Solutions</td>
<td>NAD160 million</td>
<td>Procurement financing and support in the form of contract guarantees and working capital</td>
<td>K Ndilula, R Graig, F Tait</td>
</tr>
<tr>
<td>Enablis</td>
<td>NAD80 million</td>
<td>Venture capital, private equity and entrepreneurial support in Namibia</td>
<td>P Lamontagne (Can), E Bester (SA), V Flanagan (SA)</td>
</tr>
<tr>
<td>FNB</td>
<td>NAD100 million</td>
<td>Loan funding to agribusiness, venture capital, property and private equity in Namibia</td>
<td>K Ndilula, R Graig, F Tait</td>
</tr>
<tr>
<td>SMEs Compete</td>
<td>NAD11.5 million</td>
<td>Venture capital and private equity in Namibia</td>
<td>D Meyer, C Mouton</td>
</tr>
<tr>
<td>Kongalend Financial Services</td>
<td>NAD150 million</td>
<td>Funding for renewable energy systems for household and small commercial use with focus on micro-financing for electrification</td>
<td>TJ Ndadi, IT Puleinge</td>
</tr>
</tbody>
</table>

4.5 Development Bank of Namibia
The Development Bank of Namibia (DBN) was established in 2004 following the passing of the Development Bank of Namibia Act in 2002. Its mission is to contribute to the economic growth and social development of Namibia and the welfare of the Namibian people through the provision of development funding. Government, as the DBN’s sole shareholder, has steadily increased its capitalisation through transfers from the national budget so that by the end of December 2010 it had total assets of NAD1.2 billion (of which loans and advances were NAD885
The DBN's primary focus is debt finance and it has no special expertise in private equity or venture capital finance (although there appears to be some interest in developing venture finance capacity). It advertises that it has the ability to subscribe to ordinary share capital in a company with a minimum share of NAD3 million but this is intended more as a long-term investor rather than an investor looking to make capital gains. It has, however, made a single direct equity investment in Ohorongo Cement in which it holds a 10% stake. The other direct equity holdings, such as the Nest Hotel in Lüderitz in which it has a 23.25% stake, have come about mainly as a result of loan defaults.

4.6 Namibia Development Corporation
The Namibia Development Corporation (NDC) was established under the Namibia Development Corporation Act of 1993. Its mission is to promote economic growth and development, through entrepreneurial support on a sustainable basis through the provision of financial and related services. The Government of Namibia is the sole shareholder but the Corporation is controlled by an autonomous Board of Directors. The NDC has a troubled financial history and was due to be dissolved and its functions taken over by the DBN but in 2007 Cabinet resolved to restructure it and there was talk of South Africa's IDC taking a 30% stake in it, something which is still being discussed. The NDC stopped making financial disbursements of any kind after the DBN was established and has moved out of providing funding altogether to concentrate on business infrastructure development and state-run development projects.

4.7 SME Bank
Cabinet took a decision in 2004 to transform the Small Business Credit Guarantee Trust (SBCGT) into a self-sustaining financial institution and decided that such an institution can be sustainable only if it can take deposits from the public. Cabinet agreed to establish an SME Bank and money to capitalise the bank has been allocated in the national budget. Zimbabwe's Metropolitan Bank was chosen as its technical partner ahead of five other banks. At this stage it is not clear whether the SME Bank will take equity stakes in companies but at this stage it appears its target market will be micro and small businesses.

4.8 Other Investment Vehicles in the Namibian Market
Although there are currently only three formally constituted and operational private equity funds in Namibia (Stimulus, the Desert Stone Fund, and VPB Namibia), other entities exist which may be potential competitors for the same investment opportunities. The most obvious example is Bidvest Namibia Ltd, the Namibian-based holding company for the South African Bidvest Group Ltd's interests in Namibia. The Bidvest Group Ltd is an international services, trading, and distribution company listed on the JSE, operating on four continents and employing over 110,000 people worldwide headed by Brian Joffe. Bidvest Namibia primary listed on the NSX in 2009(NSX:BVN) with the express intention of making strategic acquisitions. Bidvest Namibia remains 52% owned by the parent company in South Africa. It owns a wide variety of companies including Namsov,

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7See BIDVest Namibia Ltd Listing Prospectus 2009.
Blue Marine Interfish, Budget Rent-a-Car, CN Business Furniture, Glove Windhoek, Kolok (Namibia) Manica Group Namibia, Konica Minolta, HRG Rennies Travel (Namibia), and Waltons Stationery Company although profits rely disproportionately on Namsov’s horse mackerel business. Since listing, Bidvest Namibia has made just one acquisition (of the distribution company Tauber & Corssen in 2011 for which it paid NAD189 million in cash and shares). By the end of June 2012, Bidvest Namibia was sitting on a cash pile of NAD785 million ready to use for further acquisitions. Although Bidvest Namibia is not strictly speaking a private equity fund (and does not necessarily plan to exit its investments once they have been made), it arguably competes for similar investment opportunities. In contrast to private equity funds, which typically only take a significant minority shareholding, Bidvest Namibia has the ability to buy businesses outright.

In a similar way to Bidvest, the Frans Indongo Group of companies remains an active and apparently cash-rich investor in the Namibian market with interests in a diverse range of businesses including Bokomo Namibia, Consolidated Sugar Industries, Wispeco Namibia, Indongo Toyota, the Original Continental No 1, the Protea Hotel in Walvis Bay, the FransIndongo Gardens building in Windhoek, the Frans Indongo Lodge at Otjiwarongo, and Ongwediva Spar in Ongwediva’s Indongo Mall, Shell Select at Ondangwa, and the Guesthouse Indongo at Swakopmund. The company is privately held and no information is available on earnings or the quality of its balance sheet.

4.9 Conclusions
Although it is commonly argued that private equity finance is something that is new to the Namibian economy, this is not quite the case. Starting with the GIPF’s ill-fated Development Capital Portfolio in the mid-1990s, private equity finance (or something similar) has been on available to the Namibian business community for the best part of a decade-and-a-half. The advent of Stimulus and the restructuring of the way in which the GIPF promotes investment in unlisted entities implies that there is now a limited but flexible range of private equity and venture capital finance providers in what remains a relatively small market. Any new fund would have to recognise that competition for the larger deals with the most potential will be stiff and that there are other cash-rich buyers in the market too.
5 The Namibian Policy Environment for Private Equity

The practice of publishing policy documents, be they national development plans, medium-term expenditure frameworks, white papers, or even political party manifestos, is well established in Namibia. This section highlights recent policy initiatives relevant to the issue of private equity finance. Four main policy documents are examined: Vision 2030, the Fourth National Development Plan, the Industrial Policy, and the Financial Sector Strategy. The exact wording of the relevant passages of these policy documents can be found in Appendix 1.

5.1 Vision 2030 (2004)

Vision 2030 provides a policy framework for long-term national development and was published in 2004 by the Office of the President. SMEs are mentioned explicitly in Chapter 4 (People's Quality of Life) under Macroeconomic Environment (page 64), where it states “Substantial investment in rural infrastructure, with flourishing SME and EPZ sectors” and Production Technology (page 86) “Things To Do” it is stated “Promote new SME industries and improve financing schemes for new businesses by reworking current banking system”. Under “Things To Avoid”, the same Chapter states “Insufficient financial and mentor support to SMEs”. Under “Worst Case Scenario” it states “Insufficient financial support for SMEs and entrepreneurs in the industry so that they remain at their current level or even decrease in number”. On page 74 dealing with the Objective: To Ensure that All Factors of the Economy are Fully Utilised, one strategy is “Promoting Self-Employment by creating the enabling environment for the SME sector, including access to loans for micro and macro enterprises.”

5.2 National Development Plan 4 (2012)

Namibia’s Fourth National Development Plan, was launched by His Excellency President Pohamba on 20 July 2012. NDP4 is a government-wide initiative coordinated by the constitutionally mandated National Planning Commission in the Office of the President. NDP4 recognises the constraints faced by SMEs in Namibia in particular access to finance (especially for start-ups) and the public tendering system. In terms of concrete action, NDP4 proposes that support to the SME sector will come mainly through the implementation of the Namibian Financial Sector Strategy (NFSS).

5.3 Industrial Policy (2012)

Namibia’s Industrial Policy, approved by Cabinet in April 2012, makes extensive mention of SMEs which are expected to account for “not less than 30% of Namibia’s GDP” by 2017. Again in terms of concrete action, the Industrial Policy’s main proposals are the creation of an SME Bank, promoting research and innovation, improving protection for intellectual property rights, improving access to regional markets, improving the general business environment and “making an efficient Namibian venture capital market a reality” without saying exactly how this is to be achieved.
Namibia’s Financial Sector Strategy was launched by Minister of Finance Saara Kuugongelwa-Amadhila on 16 August 2012. The document again stresses the need to improve access to finance for SMEs and proposes consideration of a “national venture capital fund (risk facility)” which will “help increase the financing options for start-up projects in the economy, including feasibility studies.”

5.5 Conclusions
It is clear from the four recent key policy documents mentioned above, the challenge of improving access to finance by viable high-growth businesses receives significant policy attention. There is no shortage of moral support for the establishment of private equity and venture capital initiatives by either the public or private sector. Promoters of private equity initiatives can, therefore expect to receive at least the moral support of policymakers whose thinking appears to have moved on considerably from the 1997 White Paper which proposed only that the Namibia Development Corporation establish a venture capital fund (which as far as can be determined never took place since the NDC was effectively replaced by the Development Bank of Namibia). However, while this progress in policy thinking is to be welcomed, the policy documents lack concrete proposals that go beyond moral support. Discussions about a government-backed venture capital fund (which took place in 2001 and led to the report noted in footnote 1) ran into the sand. There is no proposal currently on the table, which commits government resources to supporting a private equity or venture capital fund. Instead hopes are being pinned on the new SME Bank to facilitate lending to SMEs through smaller loans than those currently being offered by the DBN. It is likely that any new initiative will have to be driven by a private sector sponsor with either the active or tacit support of government or government agencies.

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8 “The NDC will also be responsible for venture-capital, the other need of small businesses in order to encourage the injection of both equity and loan financing into small businesses.” Taken from Chapter V (a) Finance in Namibia: Policy and Programme on Small Business Development, Ministry of Trade and Industry, 1997.
6 The Namibian Regulatory and Tax Environment

Private equity finance is relatively new to Namibia and there is almost no specific legal or regulatory provision in existence. At the same time, however, Namibian company law poses no significant obstacles to private equity finance, it being based on South African company law (which in turn has its roots in UK company law). Having said this, however, there are a number of features of company law, regulation and taxation that have an important bearing on private equity and venture capital finance in Namibia and which should be noted.

6.1 Corporate Entities in Namibia

Companies in Namibia are regulated under the Companies Act 2004\(^9\). The Act covers domestic companies and those incorporated outside Namibia but trading through local branches. The liability of shareholders is limited to the issued share capital. Company registration is administered by the Registrar of Companies in the Ministry of Trade and Industry. As far as the different forms of corporate entity are concerned, several corporate entities are provided for in Namibian company law as follows:

1. Public company
2. Private company
3. Branch of a foreign company
4. Close corporation
5. Partnership
6. Sole proprietor
7. Business trust

Public companies are characterised by the fact that the number of shareholders is unlimited, there are no restrictions on the transfer of their shares and they must file a copy of their annual financial statements with the Registrar of Companies. Public companies may offer their shares for sale to the public although they do not have to be listed on the Namibian Stock Exchange nor is it necessary that the public hold shares. There is no minimum share capital or any restriction on activity.

Private companies are characterised by the fact that the number of shareholders is limited to 50, there are restrictions to the transfer of their shares, and they are not permitted to offer shares for sale to the public. Private companies are not required

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to file their annual financial statements with the Registrar and must include the word “proprietary” at the end of the registered name immediately before the word “limited” - hence (Pty) Ltd. Again there is no minimum share capital or any restriction on activity.

Both public and private companies are legally obliged to carry out an annual audit by a registered Namibian accountant and auditor. Companies that are incorporated in Namibia must have a registered office in Namibia and must maintain certain statutory and accounting records in Namibia.

Directors and shareholders do not have to be resident in Namibia but many foreign holding companies appoint local directors to their Namibian subsidiaries. Nominee shareholders are also permitted so that the identity of the beneficial ownership does not have to be disclosed. No local equity requirements are laid down by the Companies Act although it may be required by other pieces of legislation depending on the sector.  

**A foreign company** which establishes a place of business in Namibia is known as an “external company” and is required to register with the Registrar of Companies. It must appoint a local registered accountant and auditor and maintain statutory documents.

**A close corporation** is a simplified and less expensive form of a limited liability company created by the Close Corporations Act. Close corporations are suitable for enterprises owned and run by up to ten people. Members are protected from any liabilities of the corporation. There is no statutory audit requirement but an accounting officer must be appointed to fulfil certain responsibilities. A close corporation cannot become the subsidiary of a company or another close corporation. Furthermore, close corporations have certain tax and foreign exchange disadvantages which make it an unsuitable vehicle for foreign investment.

**Partnerships and sole proprietors** are not subject to any specific registration or statutory reporting requirements except that each must produce financial statements in sufficient detail to accompany the annual return of income to the Receiver of Revenue to enable tax assessments to be made.

**A business trust** is a legal arrangement for the conduct of business or the holding of assets for the benefit of defined beneficiaries. Business trusts are subject to even fewer requirements than close corporations. Liability is limited to the magnitude of the trust's assets.

Many of Namibia’s smaller companies are either close corporations or sole proprietorships, neither of which permit shareholders which are not individuals. Thus, a common precondition for private equity deals is that the target business must become a private company. This can often take several months due to the slowness of the Registrar of Companies.

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10For example, the Communications Act of 2009 requires telecoms companies to be 51% Namibian-owned.
A bewind trust is a trust that is established on the basis that ownership of the trust assets vests in the beneficiaries of that trust, while the management and control over trust assets remain with the trustees. In practice, a bewind trust is used as a business trust where the trust is involved in some form of trade.

6.2 Regulations 28 and 29
Government is currently in the process of passing two regulations of direct importance to the private equity business. Under the Pension Funds Act of 1956 (Act No. 24 of 1956), pension fund investment in unlisted securities has historically been limited to 5% of total assets for prudential reasons. When the Minister of Finance previously tried to introduce minimum requirements for unlisted investments in 2008, it was discovered that she was acting *ultra vires* which meant that primary legislation had to be changed. This was effected by the passing of the Pension Fund Amendment Act of 2011 (Act No. 5 of 2011). The new Regulation 28 now reads as follows:

(4) Despite sub regulation (2) a fund must invest in unlisted investments in Namibia a minimum of 1.75 per cent of the market value of its investments, within a period of 12 months from the publication date of this notice in accordance with Regulation 29: provided that unlisted investments may cumulatively not exceed 3.5 per cent of the market value of the investments of a fund.

NAMFISA estimated pension assets in Namibia to be approximately NAD63.9 billion in 2010\(^{11}\). This implies that pension funds will have to invest a minimum of NAD1.085 billion and a maximum of NAD2.17 billion in unlisted investments.

In addition a new regulation, Regulation 29 (“Regulations for Investment of Pension Fund Assets in Unlisted Investments”), will cover unlisted investments. As it currently stands, Regulation 29 stipulates that pension funds must invest in unlisted investments through a Special Purpose Vehicle (SPV). An SPV must be either a public or private company (under the Companies Act 2004) or a Trust and meet a number of further conditions including having its investment plan and directors approved by NAMFISA. An SPV may issue debentures. An SPV must enter into a Management Agreement with the Unlisted Investment Manager. Part IV concerns the regulation of Unlisted Investment Managers who cannot be a trustee or principal officer of a pension fund. Section 45 requires Unlisted Investment Managers to co-invest a minimum of 1% of the contributed capital of investors in any SPV. SPVs are required to report to NAMFISA every six months on a range of issues including valuations for new portfolio investments and submit audited financial statements within 180 days after the end of its financial year according to IFRS.

Given the above, the best way of structuring a private equity fund will depend largely on how it is financed. A less formal business angel financed fund may seek to reduce costs to a minimum and may dispense with formal arrangements in the form of a trust or SPV altogether. A fund that seeks to tap into Namibian pension funds,

\(^{11}\)NAMFISA Annual Report 2011.
however, is obliged to be Regulation 29 compliant and create an SPV or a trust, a
bewind trust being the optimal structure if the aim is to ensure the pension fund
remains the ultimate owner of the underlying investments.

6.3 Taxation
Namibia operates a modern and relatively simple system of corporate taxation
which includes no special consideration for private equity finance. One significant
advantage of the tax regime is that there is no capital gains tax which means that
private equity companies pay no tax on capital gains realised once investments have
been exited. It appears that the Receiver of Revenue has never challenged this
practice by arguing that, since this is the main income of a private equity fund, it
should attract the standard rate of corporate tax of 34%. Following the tabling of
the 2012/13 national budget, the Minister of Finance announced her intention to
re-examine the case for a capital gains tax which is due to be undertaken some time
during the next five years. An equally attractive characteristic of Namibia’s tax
system is that losses may be carried forward and set against profits indefinitely.

Stamp duty of 0.2% of transaction value is paid on any exchange of shares but this is
not considered to be a major obstacle to deal-making. Government is currently in
the process of introducing an amendment to transfer duties so that a transfer duty
of 12% applies to the alienation of shares in a property owning company. Although
this is purportedly designed to close the loophole whereby properties registered in
the name of a close corporation avoid the payment of transfer duties, the
amendment appears likely to apply to all companies that own property and may
also apply to trading of companies on the NSX.

New legislation was brought in at the end of 2011 to allow the imposition of a 25%
withholding tax on payments by Namibian companies to a broad range of non-
resident service providers. The expectation is that non-resident service providers
will simply gross up their invoices by 33% so that a 25% withholding tax yields
what they would have received in the absence of the tax. There is a debate about the
possibility of using Double Taxation Agreements (DTAs) to avoid paying this tax the
burden of which is likely to fall on Namibian operations.
7 Exit Options in Namibia

Three distinct exit options exist for private equity investors in Namibia:

1. Selling the shares on the stock market in an Initial Public Offering (IPO);

2. Selling the shares to another company with a strategic interest in acquiring the investee or in acquiring an interest in the investee (a merger, acquisition or “trade sale”); and

3. Selling the shares back to the principal owners and/or managers of the company (a management buy-out or MBO).
The obvious stock exchange for an IPO is the Namibian Stock Exchange (NSX), which has been in existence since 1992, although the JSE may also be an option. The NSX has formulated listing requirements for both its main board and its development board (or “DevX”). Currently some six local companies are primary listed on the NSX (FNB Namibia Holdings, Namibia Breweries, Namibia Asset Management, Bidvest Namibia, Oryx Properties plus Stimulus preference shares – Trustco recently moved its primary listing to the JSE). Two factors may discourage listings as an exit mechanism. The first is the lack of liquidity on the NSX (especially since regulations encourage “buy and hold”) and the second is that asset managers tend to prefer companies above a certain size. It is important to understand that even in the US, only a very small minority of exits are achieved through IPOs. The market capitalisation of local companies primary listed on the NSX ranges from NAD4.2 billion (FNB Namibia Holdings) to NAD34 million (Namibia Asset Management) in October 2012. Asset managers form by far the largest group of traders on the NSX and, given the choice on offer, they are not interested in small caps whatever the listing requirements of the NSX might be.

The NSX was established in 1992 and has grown to a stage where now 25 companies are listed on the main board of which five are primary listed local companies and the rest dual-listings. The Development Board (or DevX) was established in 1998 and has grown to include 6 dual-listed companies, all mining and oil & gas companies. The NSX main board requires a satisfactory 3-year audited profit history with the latest year’s pre-tax profits being at least NAD500,000, a minimum free float of 20% and at least 150 public shareholders. The DevX requires only a business plan and a 10% free float.

### Box 1: NSX Listing Requirements

<table>
<thead>
<tr>
<th></th>
<th>Main Board</th>
<th>DevX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribed capital</td>
<td>NAD1,000,000</td>
<td>NAD1,000,000</td>
</tr>
<tr>
<td>Number of shares in issue</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Satisfactory audited profit history</td>
<td>Preceding 3 financial years</td>
<td>Business plan only</td>
</tr>
<tr>
<td>Audited profit before tax in last financial year</td>
<td>NAD500,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Percentage of securities held by members of the public</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Number of public shareholders for equity shareholders</td>
<td>150</td>
<td>25</td>
</tr>
<tr>
<td>Number of public shareholders for preference shares</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Number of public shareholders for debentures</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>
Selling to another company with a strategic interest in acquiring all or part of the investee is an option. Given the small size of the Namibian economy, this may mean looking for buyers outside Namibia which could potentially face challenges, from both a political and regulatory point of view. The acquisition would have to gain approval from the Namibian Competition Commission (NaCC). Two recent high profile cases are instructive. In the first, South Africa’s Massmart sought approval to purchase PupkewitzMegabuild but eventually withdrew after the NaCC imposed the condition that local shareholders also be brought on board. In the second, international commodities trader Glencore sought approval to purchase Rosh Pinah Zinc Corporation. The NaCC has approved the deal subject to Glencore setting up a refinery to process Rosh Pinah’s zinc concentrate, which is produced in quantities which are simply too small to justify a refinery.

At this stage all Merger and Acquisition deals in Namibia, however small (even including close corporations), are subject to approval by the NaCC although work is ongoing on size thresholds. The NaCC’s fee structure for filing a merger ranges from NAD1,500 for values below NAD50 million to NAD125,000 for values above NAD1 billion. The arrival of the NaCC and the lack of any threshold for deals requiring approval have highlighted the attractiveness of Namibian businesses as takeover targets by South African companies suggesting there is potential for greater local involvement in M&A activity. Such entities could potentially be recipients of private equity finance.

Selling the shares in an MBO may be the more common exit mechanism in Namibia. This is likely to avoid competition issues. All three of the exits completed to date by Stimulus Investments, Namibia’s oldest PE vehicle, have been MBOs (Westair, One Africa, and Joe’s Beerhouse).

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8 International Development Finance Institutions and Private Equity

In principle, there is a wide range of Development Finance Institutions (DFIs) available to support the development of private equity finance in Namibia and these are presented in the table below. Contact was made with each of these DFIs which resulted in the following conclusions being reached.

Table 2: Summary of Development Finance Institutions and Private Equity

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Country</th>
<th>Private Equity Involvement</th>
<th>Namibian Equity Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. AfDB</td>
<td>Africa</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>2. CDC</td>
<td>UK</td>
<td>Yes</td>
<td>1 company</td>
</tr>
<tr>
<td>3. DEG (KfW)</td>
<td>Germany</td>
<td>Yes</td>
<td>None (1 company)</td>
</tr>
<tr>
<td>4. DBSA</td>
<td>South Africa</td>
<td>Yes</td>
<td>1 company</td>
</tr>
<tr>
<td>5. EIB (EIF)</td>
<td>Europe</td>
<td>Not in Africa</td>
<td>None</td>
</tr>
<tr>
<td>6. FMO</td>
<td>Netherlands</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>7. IDC</td>
<td>South Africa</td>
<td>No</td>
<td>3 companies</td>
</tr>
<tr>
<td>8. IFC</td>
<td>International</td>
<td>Yes</td>
<td>1 company</td>
</tr>
<tr>
<td>9. NORSAD</td>
<td>Nordic + SADC</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>10. Proparco</td>
<td>France</td>
<td>Yes</td>
<td>None</td>
</tr>
</tbody>
</table>

All but two of the DFIs have mandates to support private equity initiatives either as direct equity investors or as a “fund of funds” (such as the CDC). The EIF is mandated to work only in EU member states and partner countries and Africa is outside its geographical scope (although the EIB lends to Namibia for infrastructure projects). KfW (the owner of DEG) may also invest in equity but only in certain financial businesses such as microfinance institutions (for example, microfinance banks) or in SMEs but in coordination with DEG.

Most were flexible about the kind of support they could provide and pointed to the information available on their websites as a guide to potential partners (this information and the relevant contact details are presented in Appendix 2).

Some, such as the DBSA and Proparco, are in the process of fundamental corporate change and were unable to make any commitments at present. The DBSA is currently in the process of rethinking its operations in South Africa and in the rest of Africa. Mr Mo Shaik was appointed in August 2012 to head up a new subsidiary Development Bank International (DBI). The new operational structures of the DBSA may be in place by March 2013.

Only four DFIs currently have direct equity exposures to companies in Namibia and all are in large companies by Namibian standards. The CDC has one legacy investment in Namibia (in Cadilu Fishing) which is not representative of its current business model. The DBSA has provided a blend of debt and equity to Ohorongo.
Cement. South Africa’s IDC was a founder shareholder of Rössing Uranium in the early 1970s in which it took a 10% stake. In the past two years, the IDC has invested in a 20% stake in Ohorongo Cement and a 30% stake in Namibia Poultry Industries. The IFC currently has only one investee company in Namibia (Trustco) but is currently investigating other opportunities, not only in financial services. DEG has no equity investments in Namibia but KfW has a single investment in FIDES, a microlender with a fully-fledged banking licence.

All DFIs were open to the idea of providing further support to Namibia but they raised a number of potential problems. First Namibia is now an upper middle income country. Most DFIs outside of South Africa are mandated to help lower income countries as the most pressing priorities. Second, as an upper middle income country, Namibia has relatively high levels of savings and a relatively well developed financial system. Third, Namibia is a small country and their preference might be to rather support a regional private equity initiative rather than one which focuses exclusively on Namibia.


9 Local Providers of Private Equity Finance

9.1 Stimulus Investments
Stimulus Investments is the oldest private equity fund in Namibia. In 2004, Pointbreak identified the opportunity to establish a private equity fund in Namibia. Together with a number of black business professionals, Pointbreak established Stimulus Investments Limited ("Stimulus"). Preference shares in Stimulus listed on the Namibian Stock Exchange after the launch of the company on 4 November 2004. Stimulus raised NAD123.68 million from Namibian institutions and individuals. During November 2011 Stimulus redeemed the original preference shares and issued a new round of 10-year preference shares, totaling NAD250 million. In the process, the lifespan of Stimulus’ funding arrangement was extended to 2021 and Stimulus gained approximately NAD100 million in new capital to invest. Stimulus is currently invested in prominent Namibian companies such as Cymot, Plastic Packaging, Walvis Bay Stevedoring, Joe’s Beerhouse, and Nashua, all of which would be classified as medium-sized businesses in the Namibian context. Stimulus is currently finalizing a transaction which would see it buy 50% of DMH, Namibia’s largest media company, which is already 50% owned by South Africa’s News24, owned by JSE-listed Naspers. In 2011 Stimulus was allocated NAD160 million by the GIPF but handed this back.

9.2 The Namibia Procurement Fund
The Namibia Procurement Fund (NamPro Fund\(^{13}\)) was launched in May 2010 with the objective of offering bridging finance to SMEs in Namibia. The NamPro Fund, established as a joint venture between Business Financial Solutions (BFS) (a wholly Namibian company), Trans African Capital Partners (a South African based company) and EFFCO (owned by the Southern African Enterprise Fund, a Botswana International Financial Service Centre registered financial company), is managed by BFS NamPro Fund Manager, which has committed to investing up to 1% of its own funds to match the NAD160 million of capital committed by GIPF. The main focus of the NamPro Fund is to provide short-term working capital in the form of bridging finance to Namibian SMEs who are awarded supply contracts by reputable larger corporates, government ministries, State-Owned Enterprises (SOEs) and viable local government authorities. In addition, the NamPro Fund provides asset based financing (lease finance) to these SMEs to help them meet their plant and equipment requirements. Within 30 months of operation, the NamPro Fund had provided finance in excess of NAD160 million to over 50 companies. The NamPro Fund also offers comprehensive business support and on-the-job training under its Enterprise Development Programme to SMEs.

BFS is ready to go to the market and raise capital for a second venture capital fund in addition to the NamPro Fund. The new fund is intended to make equity investments in young high growth enterprises that have the potential to become market leaders in their respective sectors. The Fund will have a non-discriminating approach and will invest in a variety of industries. The Fund capitalisation will be

\(^{13}\) See www.namprofund.com.na
NAD250 million.

9.3 The Desert Stone Fund
The Desert Stone Fund was established in 2010 by IJG Securities, one of four NSX-linked stockbroking houses, and African Alliance, which until 2012 held a significant stake in IJG. The following is taken from the IJG website:\(^{14}\):

**IJG African Alliance Private Equity** is the dedicated manager housing the joint private equity activities of IJG and African Alliance. **IJG African Alliance Private Equity** focuses on investments in unlisted Namibian companies which are at various stages of their growth cycle and require not only a capital injection but also an inflow of financial management, market or other expertise. **IJG African Alliance Private Equity** is responsible for the identification of investment opportunities, the actual due diligence and investment process, and for identifying and completing the appropriate exit mechanisms for portfolio investments, leading to a realisation of the Fund’s investments. The **IJG African Alliance Private Equity** team has over sixty five years of combined experience in the private equity industry, with notable successes in southern Africa flowing from the team’s world-class systems and transactional knowledge. **IJG and African Alliance** enjoy a strong franchise with international institutional investors. This presents significant co-investment opportunities for local investors and an extensive pan-African resource base to draw on for investment opportunities, human capital requirements and exit opportunities.

In 2010 the Desert Stone Fund was allocated NAD160 million by the GIPF which it is currently in the process of investing under the direction of IJG Director and shareholder Herbert Maier. The Fund has a broad private equity mandate not restricted to any particular size or sector and includes start-ups. At the time of writing no deals had been announced.

9.4 VPB Namibia Growth Fund
VPB (Venture Partners Botswana) was the first dedicated professional private equity fund manager in Botswana. Founded in 2002 by Anthony Siwawa, VPB is the largest and leading Private Equity fund manager in Botswana. VPB’s investment team combines domestic private equity investment skills with the experience of managing international and regional private equity capital. VPB will form and manage its third private equity fund (VPBIII). The fund will make significant minority equity and equity related investments in companies located in the SADC region. VPB is a member of the African Venture Capital Association and the South African Venture Capital Association SAVCA. The following is taken from the VPB website:\(^{15}\):

*The VPB Namibia Growth Fund was established in May 2010 as a 10-year closed-end fund. The Fund provides capital for the purpose of investing by way of equity risk capital into private sector companies in Namibia. The objectives of the Fund are to among others:*

- **Invest funds in such a way as to make a tangible and visible contribution to the Namibian economy;**
- **Generate acceptable long-term returns for the investors;**

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\(^{14}\) See [www.ijg.net](http://www.ijg.net)

\(^{15}\) See [www.venture-p.com](http://www.venture-p.com)
Support the creation of social and economic upliftment in Namibia.

The philosophy of the Fund is to seek for investments that:
- Provide and create momentum for continuing economic growth in the country of Namibia, and the participation of previously disadvantaged citizens in the mainstream economy;
- Provide traditional equity investment returns that ensure the long-term viability of the Fund;
- Promote enterprise capacity building;
- Provide opportunities for strategic or technical partnerships with established industry players;
- Achieve, where appropriate, leverage through syndication, co-financing and / or institutional partnering.

In 2010 VPB Namibia Growth Fund was allocated NAD160 million by the GIPF which it is currently in the process of investing under the direction of Jeremy George, previously of IJG. Like Desert Stone, the Fund has a broad private equity mandate not restricted to any particular size or sector and includes start-ups. Siwawa was part of a team at Deloitte that established a US Government regional private equity fund capitalized at USD100 million. He later joined the fund and was involved in the conclusion of transactions in Zimbabwe, Namibia, Zambia, and Angola. At the time of writing, no deals had been announced.

9.5 Venture Capital Namibia Pty (Ltd)

SMEs Compete was established by Danny Meyer and Claudine Mouton as a social entrepreneurship entity and commenced operating on 1 March 2012. The need to address two significant challenges, other than access to funding, faced by the SME sector, resulted in the introduction of two distinct activities: property development and venture capital. The third leg of SMEs Compete’s capacity building support, being venture capital (the other two being training and SME support activities as well as property and the provision of secure workspace for SMEs) was launched in 2009 with two investments realised. To further expand its venture capital arm, in 2010 a separate firm, Venture Capital Namibia (Pty) Ltd was registered. Venture Capital Namibia was allocated NAD11.5 million by the GIPF but ended up deciding not to accept the allocation. The intention now is to bring other “angel investors” in to provide funding rather than relying on Namibian pension money and thereby avoid politics and the costs associated with adherence to Regulation 29. The company will look for opportunities in services and manufacturing with a strong regional component using Meyer’s extensive contacts with other entrepreneurs in the southern African region. The company is, however, presently dormant.

9.6 Namibia Venture Capital (Pty) Ltd

Namibia Venture Capital (Pty) Ltd (NamVC) was registered in order to bid for GIPF funding allocated under its unlisted investment programme in 2010. The company is headed by Ben Bertolini, previously Chief Executive of Namibia Asset Management. Bertolini’s view is that the real financing gap that exists in Namibia is much more at the higher risk start-up phase. Although there remains a need for capital to grow established businesses, established business owners are far less

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16 See www.smecompete.com
likely to be attracted by the demands for transparency and accountability that PE investors require. According to Bertolini, there is need for “smart capital”, which is a combination of capital, expertise and networks. Capital alone is not the answer. Some years ago Bertolini took venture capital exposure in Kavango Block Brick, an innovative Namibian-developed technology that allows for rapid, safe home construction. Bertolini’s involvement in Kavango Block Brick was motivated by a desire to illustrate to pension funds that venture capital investing can be both financially and economically successful in Namibia. NamVC is not currently active but the aim is to flip Kavango Block Brick into NamVC when NamVC is in a position to raise pension fund money once Regulation 29 is gazetted. In September 2012 Bertolini announced a deal had been negotiated which would see South Africa’s AngelHub support this project\textsuperscript{17}.

\textbf{9.7 Namibian Diamond Fund (IHN and PSG Capital)}

The Namibian Diamond Fund was founded in 2008 through an initiative between Investment House Namibia (Pty) Limited, one of four NSX-linked stockbroking houses, and PSG Capital (Pty) Limited of South Africa (which is a shareholder of IHN). The Namibian Diamond Fund does not operate on the dedicated basis of Stimulus or the DSF or VPB Namibia private equity initiatives and it has never bid for GIPF funds. Rather it is available to raise funding when opportunities present themselves through other parts of IHN’s business. To date no deals have been executed.

This brief overview shows that there is already a range of private equity providers in the Namibian market. Stimulus is the established player while Desert Stone and VPB Namibia have yet to announce deals. All three have enormous freedom to decide on what deals they can participate in apart from the requirement to make adequate returns. However, it appears that they are competing for similar deals in businesses that can be categorised as medium-sized businesses by Namibian standards. The larger, more obvious and relatively easier deals, however, are few and far between. As a result of the dearth of deals, there has been some criticism of GIPF’s unlisted equity investment portfolio in the press because of payments of fees to private equity managers despite the fact that few if any concrete investments have been forthcoming\textsuperscript{18}. The NamPro Fund, on the other hand, is already fully committed at NAD160 million and is raising additional capital to meet market demand. This unique model has quickly found resonance in the Namibian market. At the smaller level a couple of new players are biding their time waiting to enter the market. Thus it appears that private equity finance for Namibian SMEs is steadily becoming a reality. Of course, just because there are already players in the market, it does not automatically follow that there is no room for new players if they can do a better job.

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\textsuperscript{17}See Kavango Block Bricks Finds Angel Financier, \textit{New Era}, 18 September 2012.

\textsuperscript{18}See, for example, GIPF Sweetener Very Sweet, \textit{Namibia Economist}, 26 October 2012.
Private Equity Fund Models in Namibia

In the Namibian context, private equity funds can be established according to a number of different models. Each model must essentially address four key sets of issues:

1. Who provides the investment capital?
2. Who decides on which investments to make and how they are managed and exited?
3. How are the investment managers incentivised to perform?
4. Can the model benefit from empowerment credentials?

Model 1:
CAPITAL RAISED THROUGH PREFERENCE SHARES
This model is currently used by Stimulus whereby a privately held private equity fund manager raises money for investment from preference shares listed on the NSX. Because the public company owns the underlying investments, the investee companies can enjoy empowerment credentials if the shareholders of the public company are empowerment shareholders.
Model 2:

**FUND RAISING THROUGH IPO**
Namibian Harvest used this model where a private equity fund raises funds through an IPO on the NSX. The long-term nature of private equity funding, however, especially at the beginning, and the lack of regular “news” and low liquidity would probably make this an unattractive proposition for asset managers until such a time as the fund can show an established track record and a larger ongoing portfolio of investee companies.

Model 3:

**INVESTMENT CAPITAL RAISED THROUGH PENSION FUNDS**
The Desert Stone/VPB utilises this model where pension funds provide the investment capital through a BEWIND TRUST, but the funds are managed by specialised private equity fund managers under an incentivised contract with the trustees who remain the owners of the underlying investments.

Model 4:

**STATE-OWNED VENTURE CAPITAL FUNDS**
This completely state-owned and -operated model is along the lines of the one proposed in the 1997 White Paper which suggested that Namibia Development Corporation establishes a venture capital fund. South Africa’s IDC shows that state-owned models need not be a recipe for losing vast amounts of taxpayers’ money. However, without the requisite skills, the right incentives and good corporate governance, this model should be treated with caution, especially in the light of past experiences with state-owned and -operated business finance.
Model 5:
DIRECT EQUITY INVESTMENTS BY GOVERNMENT
This model was put forward by the USAID-funded report in 2001 where Government (or an agency of Government), through a direct equity investment, a loan or a guarantee, supports a fund which is managed by an independent fund manager who also has to provide a small portion of capital but is incentivised to perform through management fees and participation in profits.

Model 6:
PRIVATE WEALTH AND BUSINESS ANGELS
In contrast to the models which directly or indirectly rely on pension funds or taxpayers’ money, this model has the possibility of tapping into the private wealth of individuals and business angels, possibly in cooperation with a DFI, either through a company or a trust.
### Data and Research on Namibia’s Medium-Sized Business Sector

In an attempt to gauge the size distribution of Namibia's private business sector and its possible financing needs, a comprehensive assessment was made of all available data and research in Namibia. The categories of business identified by the terms of reference are summarized in the table below.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Services and Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Deployed</td>
<td>NAD250,000 – NAD3 million</td>
<td>NAD3 million - NAD10 million</td>
</tr>
<tr>
<td>Turnover</td>
<td>NAD1 million – NAD20 million</td>
<td>NAD20 million – NAD150 million</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>1-10</td>
<td>10-50</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Deployed</td>
<td>NAD3 million – NAD10 million</td>
<td>NAD10 million – NAD50 million</td>
</tr>
<tr>
<td>Turnover</td>
<td>NAD5 million – NAD30 million</td>
<td>NAD30 million – NAD300 million</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>5-20</td>
<td>20-100</td>
</tr>
</tbody>
</table>

An attempt was made to evaluate data from as wide a range of sources as possible to quantify the size and characteristics of Namibia’s business universe. These sources included the following:

- Population and Housing Census 2001
- Namibia Household Income and Expenditure Survey 2009/10
- Social Security Commission
- Employment Equity Commission
- Receiver of Revenue
- Registrar of Companies
- Institute of Chartered Accountants of Namibia

In addition, a comprehensive review of research on SMEs conducted since 1990 in Namibia was undertaken. However, none of these sources yielded any useful information about the size or characteristics of Namibia’s business sector. Appendix 3 contains a summary of data sources and research review. The only two sources of useful information identified were the National Enterprise Establishment Census of 2009 and lending data from the Development Bank of Namibia.

#### 11.1 National Enterprise Establishment Census 2009

In 2009, the Ministry of Trade and Industry conducted Namibia's first National Enterprise/Establishment Census (NEEC) which was designed to enumerate all the enterprises in the country\(^\text{19}\). The results of this exercise have still not been made public but this study has gained access to some data. The Census questionnaire asks each enterprise for information on activity, employment, location, turnover, legal status and more. The table on Page 69 below presents details of the numbers of

\(^{19}\)A Census of Manufacturing Establishments was conducted in 1994/95.
enterprises by legal status for each region of the country. Unsurprisingly perhaps, it suggests that the overwhelming majority of enterprises in Namibia are in fact unregistered (or informal). However, the total number of public and private businesses, close corporations as well as the regional distribution of enterprises appears highly questionable. The number of public companies outnumbers the number of private companies while the number of close corporations appears remarkably low. Ohangwena and Oshana host an astonishingly high number of public companies. In addition, the legal status of many enterprises is unspecified. It does not appear as if these numbers can be used as a basis to ascertain the size of the private business sector in Namibia.

The NEEC also contains information about enterprises according to initial capital investment and turnover. The chart below shows enterprise numbers according to initial investment classified according to bands ranging from less than NAD50,000 to more than NAD5 million and suggests there are 464 enterprises - only a very small proportion of total enterprises – which started with capital of more than NAD5 million. As a clue to the size of Namibia’s medium-sized business sector, this figure may be a misleadingly small since many businesses with lower starting capital may now be far larger and in need of larger amounts of capital to expand.

The chart below shows the number of enterprises by turnover. Clearly the vast majority of enumerated enterprises are micro or small businesses but 494 enterprises have a turnover between NAD5 million and NAD25 million while 260 have a turnover greater than NAD25 million.
Given the small size of Namibia’s domestic market, it is possible that the enterprises with the greatest growth prospects are those that are export-oriented. The NEEC finds a total of 611 enterprises that export goods and services, of which 37% export less than a quarter of their production. It is possible that potential lies in helping these 228 businesses export a greater share of production.

Finally, the NEEC identifies some 1,886 enterprises which employ between 10 and 19 people, a further 1,324 enterprises which employ between 20 and 99 people and 175 enterprises which employ more than 100 people.

11.2 Development Bank of Namibia
The Development Bank of Namibia provided information from its database about its
track record of lending for the seven years between 2005 and 2011 and this is presented in the table below. The DBN database only includes key information on loans actually extended (rather than anything on applications made).

<table>
<thead>
<tr>
<th></th>
<th>'05</th>
<th>'06</th>
<th>'07</th>
<th>'08</th>
<th>'09</th>
<th>'10</th>
<th>'11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Loans (NADm)</strong></td>
<td>110.7</td>
<td>118.6</td>
<td>314.3</td>
<td>467.8</td>
<td>427.4</td>
<td>365.2</td>
<td>616.7</td>
</tr>
<tr>
<td><strong>Public Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of Loans</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total Lending (NADm)</td>
<td>50.0</td>
<td>30.0</td>
<td>81.1</td>
<td>186.9</td>
<td>160.0</td>
<td>40.0</td>
<td>236.6</td>
</tr>
<tr>
<td>Average Loan Size (NADm)</td>
<td>16.7</td>
<td>30.0</td>
<td>20.3</td>
<td>26.7</td>
<td>80.0</td>
<td>40.0</td>
<td>78.9</td>
</tr>
<tr>
<td><strong>Private Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of Loans</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>19</td>
<td>17</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td>Total Lending (NADm)</td>
<td>60.7</td>
<td>50.8</td>
<td>198.1</td>
<td>125.3</td>
<td>228.8</td>
<td>163.1</td>
<td>92.9</td>
</tr>
<tr>
<td>Average Loan Size (NADm)</td>
<td>15.2</td>
<td>12.7</td>
<td>12.4</td>
<td>6.6</td>
<td>13.5</td>
<td>7.8</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>SMEs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of Loans</td>
<td>0</td>
<td>5</td>
<td>14</td>
<td>55</td>
<td>46</td>
<td>146</td>
<td>296</td>
</tr>
<tr>
<td>Total Lending (NADm)</td>
<td>0.0</td>
<td>37.8</td>
<td>35.1</td>
<td>155.5</td>
<td>38.6</td>
<td>162.0</td>
<td>287.2</td>
</tr>
<tr>
<td>Average Loan Size (NADm)</td>
<td>0.0</td>
<td>7.6</td>
<td>2.5</td>
<td>2.8</td>
<td>0.8</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

The table shows the DBN has managed to increase the value of loans extended over the period. The loans made to public sector entities are fewer but far larger than the loans made to private sector companies and SMEs (for loans up to NAD3 million). The average loan size to private sector companies has ranged from NAD6.6 million in 2008 to NAD15.2 million in 2005. The average loan size to SMEs appears to have declined over time from 7.6 million in 2006 to NAD1 million in 2011. This data suggests that demand for finance from private sector companies is on average around NAD10 million rather than NAD20 million or more.

### 11.3 Conclusions
To conclude, there is as yet no reliable comprehensive source of company information in Namibia. The Ministry of Trade and Industry's National Enterprise Establishment Census should have provided the required information but appears to be seriously flawed. It is therefore impossible to say with any precision how many medium-sized companies exist which employ between 10 and 100 people and which may be appropriate targets for private equity finance. Lending data from the DBN suggests there appears to be demand for loans from private companies of on average approximately NAD10 million. Despite the relative profusion of research, virtually all the research conducted on the SME sector in Namibia has focused on the needs and characteristics of the micro and small business sector while medium-sized businesses employing between 10 and 100 people seem to have largely escaped the attention of researchers.

### 12 Results of Private Equity Survey
A critical component of this study included carrying out Namibia's first ever survey of medium-sized businesses employing between 10 and 100 people and interrogating their views on private equity finance. Most previous research in Namibia has focused on micro and small enterprises. A number of clear conclusions
can be draw from the survey:

1. Namibia’s medium-sized business sector, defined as those employing between 10 and 100 people, comprises a wide range of enterprises of very different ages across a wide range of sectors from relatively small unsophisticated businesses to larger, fairly sophisticated businesses.

2. Most have the appropriate legal status and a certain amount of corporate infrastructure and most are located in Windhoek or Namibia’s major towns.

3. The vast majority are owned by small numbers of individual shareholders who take all the strategic business decisions.

4. Many depend to a great extent on the public sector while relatively few are export-oriented and this limits their growth potential.

5. The vast majority of businesses started off with very few employees and depended greatly on the business owner’s own savings for capital.

6. Most are optimistic about their growth prospects but many have not made serious attempts to try and grow their businesses by, for example, trying to raise finance, even though they are committed to their businesses.

7. This optimism is borne out by estimates of returns to initial investment with significant numbers of businesses achieving average annual returns in excess of 20% and a smaller proportion achieving spectacular returns. Clearly, in terms of profitability, the start-up phase and the first three or four years of existence are the most difficult before the goal of sustained profitability is achieved. It is therefore likely that financial and other assistance will bring the greatest results during this early phase.

8. The survey intentionally did not ask about Black Economic Empowerment (BEE) and only one business mentioned this as an issue without being prompted. This is because BFS, the promoter of the survey, aims to provide financial products to a wide range of businesses in a non-discriminatory way rather than limiting itself to being a niche provider of financial services exclusively to enterprises with BEE credentials.

9. Access to and the cost of finance are significant issues for medium-sized businesses (although not overwhelmingly so as businesses face a very wide range of constraints) and, although bank loans have been the traditional form of finance, there is an openness towards new shareholders who bring in finance and expertise provided they only take minority shares.

However, the amounts of capital required by the medium sized businesses are relatively small with the majority of businesses requiring NAD10 million or less to finance their growth strategies. This implies that a NAD250 million fund is more likely to be involved in 25 deals of NAD10 million than, say, ten deals of NAD25 million each. This will provide a challenge to private equity providers since there is
likely to be a threshold below which it will be difficult to carry out profitable
business and competition will be stiff for the relatively few larger deals that
potentially exist. Given the importance of own savings in financing start-ups, the
potential for higher risk venture capital, which may require relatively small
amounts of capital, appears significant.

13 Further Considerations and Overall Conclusions

In examining the case for private equity finance, it is worth noting some of the
characteristics that may present additional challenges and opportunities within the
Namibian business landscape.

Namibia is a country of 2.1 million people, many of whom are poor. Its Gross
Domestic Product in 2011 was approximately NAD91 billion (about USD13 billion)
and it is classified as an upper middle-income country by the World Bank. It should
be noted, however, that Namibia’s income distribution is extremely skewed, the
latest data showing the country has a Gini coefficient of 0.6020. It has achieved an
average rate of economic growth of 4% since 2000. The small size of the economy
and the domestic market coupled with the relatively modest rates of growth
achieved to date mean that private equity opportunities are likely to be less
abundant than in a larger faster growing economy while at the same time Namibia’s
income status is likely to count against it in the eyes of many DFIs as far as
assistance is concerned. Namibia’s export performance has not been particularly
strong which, in the absence of meaningful regional integration, looks set to
continue, and this explains the country’s relatively modest growth performance.

Namibia’s economy has other characteristics, which make it more challenging for
private equity. Most of the country’s largest businesses are either State-Owned
Enterprises (SOEs) or foreign multinationals and only a handful of local businesses
are listed on the NSX. Most of the country’s smallest businesses are informal,
unregistered micro businesses that are essentially subsistence businesses owned
and run by people with few other opportunities. In between these extremes there is
a layer of medium-sized formal businesses which are privately held but it is not
possible to say much about them because of an almost complete lack of research.

Black Economic Empowerment and the need to radically change the balance of
business ownership towards the historically disadvantaged provide the impetus for
the lion’s share of private equity transactions in South Africa. However, Namibia has
not yet enacted policies to accelerate change and appears unlikely to do so any time
soon21.

On the other hand, given its history, there should be opportunities arising from the
trend whereby Namibia’s entire population is being brought into the economic
mainstream. This should bring with it lots of new entrepreneurial talent and drive
as well as new markets. Furthermore, because Namibia’s financial sector has

20See the Namibia Household Income and Expenditure Survey 2009/10.
21The New Equitable Economic Empowerment Framework (NEEEF) was introduced in Parliament in October 2011.
historically neglected large parts of the north, there may be plenty of reasons why
good business opportunities have been overlooked.

Added to this, given the dominance of smaller businesses in the economy, there is
every chance that good entrepreneurs exist who have some sort of specialised skill
or talent but who lack general business skills. This is the ingredient that private
equity can contribute most usefully since it is unlikely that private equity investors
will know an area of business better than the entrepreneur.

Speaking to those currently active in private equity in Namibia, a number of
constant themes are worthy of note.

Opportunities exist in the Namibian market but the larger businesses are often cash
rich and comfortable and not necessarily hungry for growth. In many cases capital
is not a problem as the larger companies are sitting on significant cash reserves and
bank finance is easily available and cheaper than private equity finance. This is
supported by findings from recent Namibian Business and Investment Climate
Surveys (see Appendix 3). The bigger more attractive deals are hard to come by
although it may come down to "how well you hunt". Many of Namibia's established
businesses are run by older people and private equity may offer an attractive option
as part of a succession plan. Furthermore, larger businesses often lose sight of the
entrepreneurship that started the business in the first place and this creates
potential for value addition by private equity investors.

Private equity is still a relatively new concept, even to the more sophisticated
business people in Namibia. There has not yet been any appreciable demonstration
effect from private equity experience to date.

Namibia has made greater efforts to promote private equity finance than any other
country in SADC outside South Africa. No other country has something similar to the
GIPF’s unlisted investment programme or Regulations 28 and 29. However,
Namibia’s efforts have been largely inward-looking and done little to attract private
equity interest from outside the country.

Given the effort and resources required to make any private equity deal work, it is
generally unrealistic to consider deals that are too small. Opinions differ on what
constitutes “too small” but NAD5 million as a minimum level of initial profitability is
referred to. The worked examples on page 10 above shows why there might be a
threshold below which it does not make sense to deploy private equity finance.

Private equity finance takes time. Stimulus estimates that the average period
between identifying and executing deal is three years while the exit can take many
more years. With a carry period of seven years, private equity investors can easily
wait a decade before seeing the fruits of their labours.

Getting the balance right between putting in enough resources into successfully
closing a deal and ensuring that profits are made on exiting after all costs have been
accounted for presents an enormous challenge. There is a limit to the amount of
hand-holding that any fund is willing to undertake given that it costs money. To
maximise the chances of success, the business must be scalable which may be a challenge if it is built around a single talented individual.

Personal chemistry is an absolutely critical but often under-rated element of success. Many of the most suitable target businesses are run by strong personalities used to running their own show and it can be difficult to accept new and active shareholders. Succession from the founding owner or family in an established business to a new owner could, however, present opportunities.

The role of the private equity investor generally involves an intimate role in shaping a business plan. It is rarely a question of finding readily packaged deals. It is possible for the private equity investor to “like the entrepreneur but hate the business plan”. This can test personal relationships to the limit in cases where the entrepreneur is wedded to the business plan.

Namibia’s private equity business currently relies almost entirely on pension fund money and there is little sign that private wealth is being attracted as a complementary source of capital. Anecdotal evidence suggests Namibia’s high net worth individuals (black and white) are generally risk-averse preferring instead to invest in property and money market funds. Pension fund money can be used prudently but many businesses are sceptical of getting involved with GIPF money given its controversial history.

The Development Bank of Namibia and possibly the Ministry of Trade and Industry’s Directorate of Industrial Development (as well as the nascent SME Bank) can usefully pass on requests it receives for funding which are not suitable for bank finance to private equity funds. Likewise, there now exists in Namibia a wide range of foundations and organisations which focus on business development at the micro end of the spectrum. It is possible that some of these businesses may be in a position to graduate in size.

Given the existence of three fully active private equity funds and a further two or three less active funds which plan to start operating at some stage in the not-too-distant future, any new fund would have to assess its chances of success in an increasingly competitive but probably rather small market. The potential client base is possibly between 500 and 1,000 medium-sized businesses of which (typically) less than 5% are likely to be suitable for private equity funding (so possibly 25-50 companies). This assessment should give particular attention to the level of hurdle rates and returns as well as the size of the investments made and it could be that the opportunities, such as they are, lie in lowering the hurdle rate and the deal size. The challenge of making an attractive risk-adjusted return in such a market should not be underestimated. The harsh reality is that Stimulus has only exited three deals since 2004 while DSF and VPB have yet to clinch their first deals two years after signing up with the GIPF. The survey, however, which is a critical complement to

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22Namibia’s mining sector, for example, is actively engaged in trying to stimulate business development through mines’ procurement programmes as well as through foundations such as the Rössing Foundation, the Namdeb Foundation (the Oshipe Fund), the Skorpion Foundation, and the Swakop Uranium Foundation.
this first phase study, suggests there is potential for and interest in private equity finance and venture capital. The survey suggests the need is especially acute for start-ups and during the first three or four years of existence. The challenge for any private equity manager will be to profitably invest and manage relatively small amounts of capital over a larger number of businesses. But given the reluctance of others to enter this more challenging market, if the challenge can be overcome the eventual rewards are likely to be high.
Appendix 1: The Namibian Policy Environment

Namibia’s Fourth National Development Plan, was launched by President Pohamba on 20 July 2012. NDP4 in a government-wide initiative coordinated by the constitutionally mandated National Planning Commission in the Office of the President. Under Section 2: Basic Enablers, Chapter 5 deals with the Institutional Environment and states the following (page 36):

Challenges relating to the business environment can be broadly categorised as those facing start-up firms and those facing existing businesses, especially micro, small- and medium-scale enterprises (MSMEs). Under each of these two broad categories, a number of issues needs attention. These issues often cut across all existing businesses, and include the following:

- Ease of doing business in Namibia
- Access to finance and land
- Access to skills
- R&D and innovation
- Labour flexibility and productivity
- Public service delivery
- Unemployment
- Public and private sector cooperation, and
- The Government incentive regime

Access to finance
Access to finance for enterprises remains a key challenge, particularly for start-ups and for micro and small-scale enterprises. High bank user charges and fees, high transaction costs, low levels of financial literacy, and, partly, a lack of appropriate and innovative finance products (e.g. microfinance) and instruments (e.g. venture capital, bridging finance) are key factors limiting access to finance. In addition to these, small- and medium-scale enterprises often lack the necessary collateral to qualify for bank loans. This implies that MSMEs are unable to buy equipment to invest in or expand their businesses in order to produce more goods and services, and to employ more people. Their source of capital for expansion is often limited to profit and inputs from family and friends.

And on page 38:

Finally, the current public tender system is regarded as being non-transparent, too cumbersome, and difficult to access, in particular for MSMEs.

And on page 39:

Access to finance
Regarding access to finance, especially for start-ups, the overall strategy will be to support the implementation of the Namibia Financial Sector Strategy (NFSS). Among other things, the NFSS aims to:
increase the resilience of the Namibian financial system to various types of shocks
• deepen the financial sector by introducing new instruments, including risk capital
• increase access to finance for small- and medium-scale enterprises (SMEs) and the general public, and
• significantly enhance consumer financial literacy.

And page 42:

Limited access to finance
There will be inadequate growth in the economy and little innovation, particularly in respect of SMEs.
Support the implementation of the NFSS

**Industrial Policy (2012)**
Namibia's Industrial Policy, approved by Cabinet in April 2012, makes extensive mention of SMEs.

Under “Objectives”, the Policy states the following (paragraph 4):

The specific objectives of industrialisation are also outlined in Vision 2030. In this connection, Vision 2030 emphasises the importance of a change in production structure, a change in export structure and the contribution of SMEs to wealth creation. It also emphasise the need for job creation and labour intensive growth strategies. More specifically, Vision 2030 states that by the year 2030 the following targets with respect to industrialisation should have been achieved:

- Manufacturing and the services sector constitute about 80 percent of the country's gross domestic product;
- The country largely exports processed goods, which accounts for not less than 70 percent of total exports;
- Namibia has an established network of modern infrastructure such as rail, road, telecommunications and port facilities; and
- Namibia has a critical mass of knowledge workers and the contribution of **small and medium-sized enterprises** to GDP is not less than 30 percent.

Under “Industrialisation and Small Business Development”, the Policy states the following (paragraph 32):

The development and promotion of SMEs will therefore form a core component of Namibia's industrial policy framework. Some of the specific issues to be pursued by the Government of the Republic of Namibia in this regard include:

- The establishment of Namibia’s first **SME bank**.
- Advocating for the development of second tier banking regulation that will make it easier for **SME banks** to set up business in Namibia.
- The promotion of training and development programs for **SME entrepreneurs**.
The focus of our R&D and innovation policy should be closely linked to challenges facing our society and that of the region at large. These include for instance: the provision of basic amenities such as affordable housing; access to affordable and quality health services; access to affordable financial service; as well as overarching issues such as climate change and energy and resource efficiency. Every link should be strengthened in the innovation chain from blue sky research to commercialisation of products and services. In this regard, the Ministry of Trade and Industry in conjunction with other line Ministries and partners will spearhead the following initiatives:

- Propose an innovation research agenda focused on strategic research in the areas of resource efficiency, energy, transport, climate change and environmentally friendly production methods and land management.
- Improve framework conditions for businesses to innovate, including through modernising the framework of copyright and trade marks, improved access by SMEs to intellectual property protection, improve access to capital and full use of demand side policies, through public procurement and smart regulation.
- Launch nation-wide innovation partnerships to speed up the development and deployment of technologies to meet identified challenges.
- Strengthen and further develop existing innovation programs through closer collaboration with development finance institutions and streamline administrative procedures to facilitate access to funding, particularly for SMEs and to bring in innovative incentive mechanism for fast movers.

Under the Section “Financing for Industrialisation”, the Industrial Policy states the following (paragraph 38):

We need to find ways of increasing the impact of the national budget, so that while small it can have an important catalytic effect when carefully targeted. In this regard, the Ministry of Trade and Industry in conjunction with the Ministry of Finance and other role players, will propose innovative financing solutions to support attainment of our industrial development goals by:

- Fully exploiting possibilities to improve the effectiveness and efficiency of the existing national budget through stronger prioritisation and better alignment of expenditure with industrial development goals.
- Designing new financing instruments, in particular in cooperation with the Development Bank of Namibia, the SME bank and the private sector to better respond to the unfulfilled needs by businesses. An important aspect will be to raise additional capital for funding innovative and growing businesses.
- Making an efficient Namibian venture capital market a reality, thereby greatly facilitating direct business access to capital markets and exploring incentives for private sector funds that make financing available for small start up companies and for innovative SMEs.

Under the Section “Regional Integration and Industrialisation”, the Policy states the following (paragraph 41):
To gear a common single market to serve our Vision 2030 goals requires well-functioning and well-connected markets, where competition and consumer access stimulate growth and innovation. Access for our SMEs to a single African market must be improved. Entrepreneurship must be developed by concrete policy initiatives, including simplification of company law and initiatives allowing entrepreneurs to restart after failed businesses. Our citizens must be empowered to play a full part in the common market, through strengthening their ability and confidence to buy/sell goods and services cross border.

And (paragraph 43):

The Ministry of Trade and Industry will propose actions to tackle bottlenecks in our common market SACU and the SADC free trade area by:

- Reinforcing structures to implement single market measures on time and correctly, including network regulation, effective enforcement and speedy conflict resolution.
- Improving the business environment in particular for SMEs, through pursuing market monitoring, reducing administrative barriers, removing tax obstacles and supporting entrepreneurship.


Namibia's Financial Sector Strategy was launched by Minister of Finance Saara Kuugongelwa-Amadhila on 16 August 2012. Under Access to Financial Services and Products (paragraph 50), the Financial Sector Strategy states the following:

Apart from individuals, small and medium enterprises also face serious access problems. The predicaments faced by the SMEs are twofold: they are considered too small for lending by the commercial banks, in the sense of their ability to repay the money borrowed and too large for lending by micro-lenders, in the sense that the amount required often exceeds the available credit limits.

Financial service providers (banks in particular) have initiated efforts in order to address the lack of access to finance. The Development Bank of Namibia has been channelling funds for SME development through commercial banks. Moreover, commercial banks have established specialised branches dedicated to SME lending and have also initiated mentoring programmes in order to assist SMEs. Furthermore, the NFSC also addresses access issues and has defined principles related to products and contains commitments by financial institutions in respect of access.

However, there are challenges that hamper access to financial services especially relating to rural people and SMEs. These include, but are not limited to: high transaction/information costs; unmitigated risks, e.g. risk of default by borrowers; lack of appropriate collaterals; regulation, e.g. laws that do not allow financial institutions to offer certain products; oligopolistic bank market structure that inhibits innovation due to limited competitive pressure; and a land tenure system that does not recognise assets such as houses in rural areas as collateral.

In recognition of the need to overcome barriers to financial access, such as collateral
requirements, ways and methods that have proven successful elsewhere will be explored. For example, the possibility of registering movable collateral as done in countries such as China as well as the successful financial support for SMEs in India and Bangladesh would be investigated. Furthermore, the current land tenure system that renders land in communal areas not to qualify as collateral security (mainly due to insecure land rights) could be reviewed with a view to enhance access to credit.

A national venture capital fund (risk facility) would be considered to help increase the financing options for start-up projects in the economy, including feasibility studies. Once established, this fund would also take advantage of the regulations 15 and 28 that intends making funds available for unlisted investments.

Outcome 4(b):
Namibia shall have effective institutions in place that will provide sufficient support to SMEs and offer adequate products, services and knowledge to increase access to finance.

Strategies to achieve the outcome
The following shall be put in place to ensure SMEs get the necessary support and access to financing:

The creation of a one-stop unit for SME support that would spur the development of SMEs by providing advisory services, and other support programmes; and thus fill the existing gap with respect to the necessary business support for SMEs in terms of skills required to run a successful business. This unit would therefore serve as a “one-stop shop” for information and advisory services for all SMEs in Namibia.

There shall be consideration given to whether there is a need to revise the 1997 SME Development Policy so as to strengthen implementation and enforcement and to ensure improvement in SMEs’ access to finance. A revision to the policy might also be necessary to ensure that it is in line with the new thinking encompassing all facets of SME enterprise development, i.e. to be in line with the new paradigm with respect to SMEs’ financing and business support. As such, the revised policy could for instance, cover among others:

A study will be undertaken to determine the viability of a Credit Guarantee Scheme in Namibia as there may be a need for such to guarantee loans and improve access to finance for SMEs as well as shield the credit providing entities against the perceived/inherent default risk associated with SMEs.

There shall be legislation created to enable the establishment of a credit bureau. The creation of the law will be preceded by a study that will look at how such a credit bureau can be organized. The credit bureau will be an avenue for information about both positive and negative credit track records of individuals and SMEs and will thus allow a platform for information sharing among all entities supporting SMEs. As such, financiers and other credit grantors shall be able to retrieve credit information and ratings for credit evaluation which will lead to the reduction of the credit risk of lenders and prevent over-indebtedness on the side of borrowers. The
Bureau could also incorporate an Invoice Clearing function to enable a platform for validating invoices flowing into the Namibian economy. Entrepreneurs, especially SMEs that engage in tender based activities, will stand to benefit from invoice clearing as it will enhance and facilitate easy access to working capital.

A specialised SME bank shall be created to cater for the financial needs of viable SME projects/businesses.

It will be investigated how best the existing various initiatives (such as the existence of funds/programmes, which are housed under several ministries, aimed at vulnerable groups of the society including micro, small and medium enterprises (MSMEs) in different sectors), can be coordinated so as to yield optimum results and continue to serve the poor and low income people better.

The mandate of the Namibia Post Savings Bank (NAMPOST Bank) could be reviewed to enhance its contribution to financial inclusion. This will be done to enable the NAMPOST Bank to extend the required services, given its already established extensive branch network countrywide.

All credit providing entities such as DBN and commercial banks, as well as other financial institutions shall be encouraged to provide SME advisory services and/or make use of other bodies that provide such services and lend to priority sectors.
Appendix 2: Development Finance Institutions and Private Equity

African Development Bank (www.afdb.org)

As a multilateral development finance institution, the African Development Bank (AfDB) Group seeks to further the social and economic well-being of its regional member countries (RMCs). To attain this objective, the Bank uses the leverage afforded by its AAA rating to on-lend to its borrower countries, at favorable terms, resources raised in international capital markets. The AfDB offers the following financial products:

- Loans to sovereign and non-sovereign borrowers – including Enhanced Variable Spread Loan (EVSL) and the Fixed Spread Loan (FSL)
- Risk management products - including interest rate swaps, currency swaps, commodity swaps, index swaps, caps and floors, and collars. These instruments are provided at prevailing market conditions. All the borrowers having a loan from the African Development Bank are eligible for a risk management product in relation to that loan.
- Guarantees – partial risk and partial credit guarantees
- Equity

The AfDB’s overriding objective in undertaking equity and quasi-equity investments is to promote the emergence of a dynamic private sector in the RMCs. It also seeks to play a catalytic role through equity investment in attracting other investors and lenders to financially viable projects, as well as promoting African participation. As risk capital is scarce in Africa, this is an important developmental role.

The Bank may invest in equities either directly or indirectly - through appropriate funds and other investment vehicles. Moreover, the Bank may also choose to invest in quasi-equity instruments. These occupy a hybrid position in corporate capital structures, ranking junior to senior debt but ahead of pure equity. Examples include redeemable preference shares/preferred stock, subordinated loans and convertible subordinated loans.

Eligible Companies
The AfDB undertakes equity and quasi-equity investments in financially viable private sector companies (both start-ups and established entities) in any sector, public sector companies in the process of being privatised (so long as government provides assurances about the timeframe in which private shareholders will gain majority control), and regional/sub-regional institutions. Special consideration is given to financial intermediaries; due to their important macroeconomic role, the access they provide to otherwise difficult-to-reach smaller companies and their complementary fit with the Bank’s activities.

Approach to Ownership
The AfDB seeks to be an active and constructive owner; accordingly, it aims for board representation in any company where it becomes a shareholder. Board representation will enable it to provide valuable advice and insights to company management from its deep and broad experience – both geographically and by
industrial sector, in the aim to safeguard its investment. As a matter of policy, however, the Bank will not seek majority ownership of the companies in which it invests. No Bank shareholding normally exceeds 25% of a portfolio’s equity capital. Conversely, no direct participation of less than UA 23 50,000 will normally be undertaken.

Divestment
The Bank’s preferred exit strategy is through a sale of its shares to local private investors via the local stock exchange. Sales to foreign or public sector investors may also be considered. Exit is particularly challenging in RMCs that lack developed capital markets, where a market sale is unlikely, an alternative mechanism must be agreed at the time of the original investment. The Bank may also grant the other shareholders the right of first refusal on its shares.

Cancellation
To the extent practicable, the Bank will withdraw its investment if any portfolio company fails to perform satisfactorily or otherwise fails to fulfil the conditions for its participation.

According to the AfDB’s 2011 Annual Report, the Bank approved 7 direct equity investments worth UA53.4 million in 2011.

In 2005 the AfDB established the Fund for African Private Sector Assistance (FAPA). The overarching objective of FAPA is to support the implementation of the Bank’s Private Sector Development (PSD) Strategy. FAPA resources provide untied grants for technical assistance and capacity building to governments, regional economic communities and similar intergovernmental organizations, business associations, market regulatory institutions, business development service providers, business training and research institutions and public/private enterprises.

Commonwealth Development Corporation (www.cdcgroup.com)
Founded in 1948, CDC is the UK’s Development Finance Institution (DFI). Wholly owned by the UK Government’s Department for International Development, it is the world’s oldest DFI. CDC is a self-financing organisation that reinvests its profits into the business and its operations. The organisation has had no new money from government since 1995. The CDC currently has capital at work in over 1,126 companies in 74 countries, working with 80 different fund managers. CDC’s portfolio of investments in valued at £1,913m (year end 2011) and includes 1,126 investee businesses. CDC invests primarily as a fund of funds. A list of CDC fund managers is available on:


From 2011 CDC intended to make direct equity investments and will only invest in countries in Africa and South Asia. CDC has one legacy investment in Namibia (in Cadilu Fishing) which is not representative of its current business model. The CDC’s focus is now very much on frontier markets and, although countries such as

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Namibia and Botswana will be considered, a Namibia-only fund would be hard to justify.

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Deutsche Entwicklungsgesellschaft (www.deginvest.de)
DEG, a subsidiary of KfW, is one of the largest European development finance institutions for long-term project and company financing. For 50 years, DEG has been financing and structuring the investments of companies in developing and transition countries in order to contribute to sustainable progress. To date, DEG has worked together with more than 1,600 companies. DEG’s current portfolio of more than EUR5.6 billion has contributed to an overall investment volume of around EUR39 billion.

DEG offers private enterprises investing in developing countries the appropriate long-term finance: risk capital (including equity capital and mezzanine finance), loans and guarantees. Equity participation in the company in the investment country generally involves taking a minority stake and negotiating variable arrangement of the risk components. In certain cases, voting rights and seat on the board of the company will be required as well as clearly defined exit strategies. In FY11, DEG took equity stakes in enterprises with €273.6 million.

Development Bank of Southern Africa (www.dbsa.org)
The DBSA is wholly-owned by the Government of South Africa and its aim is to advance development impact in the southern African region by expanding access to development finance and effectively integrating and implementing sustainable development solutions. The DBSA’s strategy is underpinned by two major themes:
1. Generating investment in assets, hard (physical) and soft (human and institutional), that serve the poor, directly and indirectly, and that support broad-based wealth creation (infrastructural and productive capital);
2. Mobilising, developing, applying and sharing knowledge in support of greater development effectiveness, innovation and an enabling developmental environment.

The DBSA offers a number of products and services:
- Grants
- Loans
- Direct investments
- Underwritten guarantees
- Arranging of finance
DBSA makes direct equity investments, indirect equity via BEE structures, and also invests in private equity funds. Since 1999, the DBSA has committed approximately R2.8 billion to 15 private equity funds in South Africa and throughout the SADC region, which are largely focused on infrastructure in sectors aligned to the Bank’s priorities. In the past two years, the DBSA has provided a blend of debt and equity to Ohorongo Cement.

The DBSA is currently in the process of rethinking its operations in South Africa and in the rest of Africa. Mr Mo Shaik was appointed in August 2012 to head up a new subsidiary Development Bank International (DBI). The new operational structures of the DBSA may be in place by March 2013.

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European Investment Bank (www.eib.org)
The European Investment Bank (EIB) is the EU Bank. Its shareholders are the 27 Member States of the Union, which have jointly subscribed its capital. The EIB’s Board of Governors is composed of the Finance Ministers of these States. The EIB’s role is to provide long-term finance in support of investment projects.

In 2011, some 90% of the total EIB financing of EUR 61 billion went to projects in the EU. Outside the EU, the EIB is active in over 150 countries (the pre-accession countries of South-East Europe, the Mediterranean partner countries, the African, Caribbean and Pacific countries, Asia and Latin America, Central Asia, Russia and other neighbours to the East), working to implement the financial pillar of EU external cooperation and development policies (private sector development, infrastructure development, security of energy supply, and environmental sustainability).

The EIB, the largest international non-sovereign lender and borrower, raises the resources it needs to finance its lending activities by borrowing on the capital markets, mainly through public bond issues. Its AAA credit rating enables it to obtain the best terms on the market. As a not-for-profit institution, the EIB passes on this advantage in the terms it offers to the beneficiaries of its loans in both the public and private sectors.

The EIF [part of the EIB] is a leading player in the European Venture Capital market by focusing on the establishment of a sustainable Venture Capital Ecosystem in Europe supporting innovation and entrepreneurship. The EIF concentrates on building the necessary private sector Venture Capital infrastructure to address market gaps and opportunities with the aim to further enhance the attractiveness of
European Venture Capital as an alternative asset class. The EIF works with venture capital funds - acting as our intermediaries – that provide finance to innovative high-tech SMEs in their early and growth phases. It focuses particularly on disruptive early-stage technology enterprises which typically face financing challenges but also provide outstanding investment opportunities. The EIF aims to cornerstone investments in Venture Capital Funds focusing the European market which are managed by established but also emerging teams. The team currently consists of 16 investment professionals who manage a portfolio of over 210 Venture Capital Funds with total EIF commitments of about EUR 3 bn.

However, the EIF is mandated to work only in EU member states and partner countries. Africa is outside EIF’s geographical scope.

**FMO (www.fmo.nl)**
FMO is the Dutch development bank. FMO supports sustainable private sector growth in developing and emerging markets by investing in ambitious companies. FMO boasts a successful strategy of investing in private equity funds and making co-investments alongside these funds. FMO seeks leadership in our focus sectors Financial Institutions and Energy. Through a top-down market approach FMO identifies and pursues strategic deals with the most promising players in a sector. From the very start, FMO focuses on a clear exit strategy as part of negotiations and structure – usually taking a minority interest in a project’s equity to pave the way for more autonomous investment paths. FMO’s private equity model is based on partnerships with fund managers. FMO invests in a wide range of funds and co-invests directly in projects alongside these funds. In FY11, FMO had committed €440 million in direct equity investments in Africa and a further €341 million in investment funds on the continent.

FMO has no direct investments in Namibia but would be prepared to consider Namibia as an investment destination. Because Namibia is an upper middle income country, its case would be improved if the deal was part of a regional initiative of some kind.

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**Industrial Development Corporation of South Africa (www.idc.co.za)**
Established in 1940, the IDC is a national development finance institution set up to promote economic growth and industrial development. The IDC is owned by the South African government under the supervision of the Economic Development department. The IDC has in the past invested in venture capital and private equity funds in South Africa activity has dwindled in the past five years or so. In theory the IDC is prepared to look at equity investments of as little as R5 million but is more
comfortable with deals of R100 million. It was a founder shareholder of Rössing Uranium in the early 1970s in which it took a 10% stake. In the past two years, the IDC has invested in a 20% stake in Ohorongo Cement and a 30% stake in Namibia Poultry Industries. As a matter of approach, the IDC looks for exit mechanisms prior to making an equity investment but has often ended up a long-standing shareholder as the example of Rössing demonstrates.

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International Finance Corporation (www.ifc.org)
The International Finance Corporation (IFC) is a member of the World Bank Group and shares its mission of reducing global poverty. Established in 1956, it is the largest global development institution focused exclusively on the private sector. IFC offers development-impact solutions through firm-level interventions (direct investments, advisory services, and the IFC Asset Management Company); by promoting global collective action; by strengthening governance and standard-setting; and through business-enabling-environment work.

In FY11, IFC invested USD12.2 billion in 518 projects, of which USD4.9 billion went to the poorest countries eligible to borrow from the World Bank’s International Development Association. The IFC also mobilised an additional USD6.5 billion to support the private sector in developing countries. In FY11, IFC was active in 31 countries in Sub-Saharan Africa where exposure was largest in Nigeria, Ghana and South Africa.

IFC offers the following financial products and investment services:
1. Loans
2. Syndicated loans
3. Equity finance
4. Structured finance
5. Risk management products
6. Local currency financing
7. Trade finance

IFC takes equity stakes in private sector companies and other entities such as financial institutions, portfolio and investment funds in developing countries. IFC is a long-term investor and usually maintains equity investments for a period of 8 to 15 years. When the time comes to sell, IFC prefers to exit by selling its shares
through the domestic stock market in a way that will benefit the enterprise, often in a public offering.

IFC invests directly in companies’ equity, and also through private equity funds. In FY11, equity investments accounted for nearly USD2 billion of the commitment IFC made for its own account.

To ensure the participation of other private investors, the IFC generally subscribes between 5 percent and 20 percent of a project’s equity. The IFC encourages the companies it invests in to broaden share ownership through public listing, thereby deepening local capital markets. The IFC also invests through profit participating loans, convertible loans, and preferred shares. IFC’s equity investments are based on project needs and anticipated returns. The Corporation does not take an active role in company management. IFC risks its own capital and does not accept government guarantees. However, to meet national ownership requirements, IFC shareholdings can be treated as domestic capital or local shares.

Private Equity and Investment Funds
IFC has invested in emerging market private equity funds since the 1980s and in 2000 created a group dedicated to investments in funds. IFC has since become a significant player in the emerging market (EM) funds space, having backed around 10% of the funds coming to market since 2000. IFC’s portfolio currently stands at around USD3.0 billion committed to about 180 funds. The portfolio is widely distributed across all regions including Africa, East Asia, South Asia, Eastern Europe, Latin America and the Middle East.

IFC is a significant supporter of emerging managers. Since 2000 around 50% of funds backed by IFC have been run by first time managers. Once funds are successful enough to attract a strong following of commercial investors, IFC sees its role completed and moves on to find the next generation of emerging managers. IFC’s returns on first time funds have been particularly strong and many of the managers supported by IFC when they were starting out are now leaders in their markets. Overall, IFC’s returns on private equity fund investments since 2000 are in the top quartile of the Cambridge EM Benchmark.

IFC backs private equity funds in the emerging markets because funds, with their unique provision of both equity capital and expertise, have a significant impact on company growth and job creation. The majority of private equity in emerging markets is growth equity, using little leverage and depending on sustained growth of companies to generate returns. The private equity fund helps companies to improve focus and negotiate the transformations and risks of rapid growth. Rapidly growing companies create jobs: the average annual rate of job creation within companies backed by IFC-supported funds since 2000 has been 22%, well in advance of regional rates of job growth of 2-3%.

IFC brings its standards and policy requirements to the funds in which it invests. These include its exclusion list, environmental and social sustainability standards, governance, integrity, due diligence and fund terms consistent with best market practice. Owing to its presence in the market and its early support of new funds, IFC has been able to establish standards in the private equity industry in emerging
markets.

Currently IFC is looking to commit up to USD500 million a year in twenty to twenty-five funds globally (so approximately USD20 million per fund). The IFC strategy currently emphasises growth equity funds, climate change, and SME funds. IFC will also selectively support small business funds in frontier regions. As IFC seeks to achieve proof of concept to subsequently attract commercial capital, it is very selective. The twenty or so funds IFC backs each year are selected from over 200 funds seen annually.

IFC sponsors an annual conference in association with the Emerging Markets Private Equity Association (EMPEAwww.empea.org) which has grown from a friends and family gathering to become the premier global emerging market private equity event, attracting over 800 fund managers and investors from around the world.

The IFC currently has only one investee company in Namibia (Trustco) but is currently investigating other opportunities, not only in financial services. The IFC’s private equity fund investment in Africa is carried out by its Nairobi office.

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NORSAD (www.norsad.org)
NORSAD is a Botswana registered international financial services centre with one operational office in Lusaka owned by development finance institutions representing four Nordic and eleven SADC countries. It has the following shareholders:

- Citizen Entrepreneurial Development Agency of Botswana
- Industrialisation Fund for Developing Countries of Denmark
- Finnish Fund for Industrial Cooperation of Finland
- Lesotho Post Bank of Lesotho
- State Investment Corporation of Mauritius
- Development Bank of Namibia
- Norwegian Investment Fund for Developing Countries (Norfund)
- National Industrial Development Corporation of Swaziland
- Swedfund International AB (Swedfund)
- Tanzanian Investment Bank (TIB)
- Development Bank of Zambia (DBZ)
- Infrastructurale Development Bank of Zimbabwe (IDBZ)

Norsad Finance Limited is able to finance private sector activities with a significant development impact. The objective is to contribute to the development of the private sector in the Southern African countries, with a primary focus on Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.
Investment Guidelines
Below are the general investment guidelines. Norsad’s board can vary the individual investment terms as necessary.

Eligible Companies and Financial Intermediaries
Norsad may invest in any sector other than those listed its Exclusion List, which is available on request. Norsad emphasises projects that help in diversifying the local economies and creating sustainable employment, as well as export companies generating revenues in currencies that match the loan currency. Norsad financing is directed mainly at expansion and greenfield investments, but can include components for working capital financing for the start-up phase of an investment.

The primary investment target is medium-sized private sector entities with growth potential and a solid track record. Norsad may also invest in smaller size enterprises and start-ups with a strong management, with a demonstrated track record and integrity. Norsad may also invest in well performing financial intermediaries that have limited access to financing and with business model able to support an acceptable level of return for Norsad.

Commercial Viability
Companies shall:
- have a solid track record (3 years financial statements of which at least the latest ones are audited); or in the case of greenfield investments, the promoter must demonstrate proven ability to implement and manage the company;
- present a business plan and financial projections demonstrating a strong positive cash flow to cover the debt repayments for the duration of the loan and/or acceptable level or total return for Norsad; and
- be adequately capitalised to reflect risk taking by the promoters/main shareholders of the investee company.

Financial Intermediaries (FI) shall:
- have a good performance track record (3 years audited financial statements) and the management of the FI shall have acceptable experience;
- provide evidence that it has in place adequate procedures, internal controls and systems for project appraisal, credit approval, monitoring and risk management;
- be in compliance with the liquidity and capital ratio requirements and/or guidelines of the relevant regulatory authorities in its host country or the international best practice guidelines (e.g. Basel II) in a case of shortcomings in the regulatory authority actions or defects in the regulations for the specific FI (e.g. microfinance, leasing);
- comply with more stringent Liquidity and Capital Ratios set by Norsad Finance based on the risk assessment of the FI or the operating and regulatory environment; and
- have a business/strategic plan that demonstrates acceptable Performance, liquidity and capital ratios, especially if the FI is planning for major expansion in the near future.
Corporate Governance Principles
Good corporate governance is a priority for Norsad because it provides opportunities to manage risks and add value to its clients. In addition to the benefits to individual clients, working to improve corporate governance contributes more broadly to the mission to promote sustainable private sector investment in Southern African Countries. The basic requirement is that the client is duly incorporated and registered in the relevant registry and/or authority of the host country, with a functioning Board of Directors, and relevant shareholders agreements.

Norsad shall apply the anti-money laundering and terrorism financing standards based on the current Financial Action Task Force (FATF) 40 recommendations and 9 special recommendations for financial institutions, as amended from time to time, in its background checking of its potential investee companies and financial intermediaries.

Commitment to Social and Environmental Sustainability
All investee companies and financial intermediaries shall comply or be committed to comply (within an agreed timeframe) with the sustainability criteria outlined in Norsad’s Social and Environmental (S&E) Sustainability Policy as approved by the Board.

Developmental Sustainability
In its investments, Norsad Finance prioritises companies demonstrating positive development impact to the local community and economy of the host country. Norsad measures development impact based on criteria that includes, but is not limited to the following:
- Contribution to government revenues
- Contribution to national income
- Net foreign currency effects
- Employment effects
- Gender effects
- Training effects
- Technology and know-how transfer
- Market and structural effects
- Economic and social infrastructural effects
- Social effects/corporate social responsibility
- Environmental standards

Investment Instruments
Norsad Investment instruments are flexible and innovative and structured based on the financing needs and cash flow projections of the investee company. The repayment profile of the instruments can vary from fixed amortization to balloon or bullet repayment schedules. Norsad provides long-term financing with tenure of up to seven (7) years or more. Norsad can also consider a grace period to match the cash flow of an investment. Norsad may provide local currency financing in the medium term if the return expectations cover the foreign exchange risks and/or local currency re-financing or adequate foreign exchange hedging is available.
Investment instruments provided are as follows:
- Secured/Senior debt instrument;
- Unsecured/subordinated debt instrument;
- Income participation loans;
- Convertible loan; and
- Equity.

Investment Size
Norsad investment size shall match the financing requirement of the investee company and/or expansion project. It will normally range from USD1 million to USD7 million. However, when the return expectations are high and/or estimated transaction costs are low, the investment amount can be below the USD1 million minimum investment size.

Since the above material was downloaded from the Norsad website, the website has changed significantly. Norsad is not involved in private equity. Currently there are no direct debt financing projects in Namibia but a fair amount of indirect financing of SMEs through a line of credit with FNB in its SME portfolio.

Eckard Schleberger
saideas@iafrica.com.na

PROPARCO (www.proparco.fr)
Created in 1977, PROPARCO is a Development Financial Institution partly held by AgenceFrançaise de Développement(AFD) and private shareholders from the North and South. PROPARCO’s mission is to be a catalyst for private investment in developing countries which targets growth, sustainable development and reaching the Millennium Development Goals (MDGs).

PROPARCO is a long term investor and provides a full range of financial products tailored to the specific needs of investors in Southern countries:
- Equity and quasi-equity
- Supporting private equity investment
- Medium and long-term lending
- Developing products in local currency

PROPARCO’s goal is to use its equity and quasi-equity transactions and preferred exit strategies to contribute to the emergence and dynamism of financial markets. PROPARCO always acquires minority investment stakes. After an average period of six years, and when the investee company has reached a sustainable level of maturity, these are sold either to other shareholders or on the financial market. The types of financing vary and include equity and quasi-equity transactions in all forms permitted by company law and regulations: shareholder current accounts, convertible bonds/notes, participating loans, subordinated loans. PROPARCO’s direct and indirect equity investments reached an historic high of €204 million in 2010. PROPARCO also acquires stakes in the equity of national and regional investment funds which specialise in equity and quasi-equity financing. These funds may be based on a single country or a larger region, and may or may not be multi-sectoral. To assist with PROPARCO’s diversification strategy, it is acquiring stakes
both in investment funds dedicated to venture capital and in investment funds that favour capital transfer and capital development. In 2010, PROPARCO invested €120 million in 19 funds which have in turn financed the development of 248 businesses.

The gross value of PROPARCO’s paid-in equity portfolio (including third-party transactions) was €278m at December 31, 2011. Unpaid equity investments totaled €164.8m at the same date, bringing the total portfolio to €442.7m, versus €405.3m at December 31, 2010. The total portfolio includes 114 equity investments in 34 banks and financial or insurance companies, 58 investment funds, 6 infrastructure companies and 16 corporations.

At this stage, PROPARCO is in the process of finalizing a new strategy. Although PROPARCO is actively looking for funding and direct investment opportunities in Namibia, no commitments can currently be made regarding private equity involvement in Namibia.
Appendix 3: Data and Research

Population and Housing Census and Household Income and Expenditure Surveys

The broadest datasets which provides some useful information on Namibia’s business sector can be found in the Labour Force sections of the Population and Housing Censuses (1991, 2001, 2011 – the full version of the latest Census is not yet available) and the Namibian Household Income and Expenditure Surveys (1995/96, 2003/04, 2009/10). A census is a complete count of the entire population while the Survey is based on a statistically drawn sample of the population. Employment Status provides an interesting breakdown of the employed labour force over the age of 15. Data from all sources are presented in the table below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>As paid employee of private sector employer</td>
<td>162,802</td>
<td>192,792</td>
<td>174,972</td>
<td>n/a</td>
<td>294,011</td>
</tr>
<tr>
<td>As paid employee of government or state enterprise</td>
<td>78,186</td>
<td>n/a</td>
<td>76,941</td>
<td>n/a</td>
<td>94,222</td>
</tr>
<tr>
<td>As an employer</td>
<td>7,860</td>
<td>3,096</td>
<td>14,924</td>
<td>n/a</td>
<td>4,285</td>
</tr>
<tr>
<td>As a self-employed or own account worker</td>
<td>79,936</td>
<td>69,289</td>
<td>20,362</td>
<td>n/a</td>
<td>85,154</td>
</tr>
<tr>
<td>In subsistence farming activities</td>
<td>n/a</td>
<td>n/a</td>
<td>80,827</td>
<td>n/a</td>
<td>113,073</td>
</tr>
<tr>
<td>Other unpaid family worker</td>
<td>83,311</td>
<td>78,587</td>
<td>50,671</td>
<td>n/a</td>
<td>15,310</td>
</tr>
<tr>
<td>Other</td>
<td>562</td>
<td>n/a</td>
<td>1,896</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Not stated</td>
<td>1,208</td>
<td>6,544</td>
<td>21,229</td>
<td>n/a</td>
<td>1,949</td>
</tr>
<tr>
<td>Total</td>
<td>413,820</td>
<td>350,280</td>
<td>409,591</td>
<td>n/a</td>
<td>608,003</td>
</tr>
</tbody>
</table>

Unfortunately, due to the inconsistent collection of data, it is hard to get any sense of how employment status has changed over the years. The two most recent datasets are from the 2001 PHC and the 2009/10 NHIES. Rather puzzlingly, these suggest that while private and public sector employment and in subsistence agriculture have risen over the period between 2003/04 and 2009/10, the number of employers has fallen dramatically. At the same time the number of self-employed and own account workers have increased fourfold suggesting a rise in SME employment but predominantly in one-man businesses micro-enterprises.

Social Security Commission

In theory, the Social Security Commission should be a good source of data on the number and size of employers in Namibia as the Social Security Act\(^\text{24}\) obliges all employers and employees to register with the SSC and to pay monthly contributions of 0.9% of the employee's basic salary up to a maximum of NAD$54 per month to the Maternity, Sickness and Death benefits Fund which can then be drawn upon for these purposes. Unfortunately, the SSC database requires considerable attention and the data obtained is clearly flawed (the number of parastatal employers appears to be on the high side!).

<table>
<thead>
<tr>
<th>Business Type</th>
<th>Number of Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>6,001</td>
</tr>
</tbody>
</table>

\(^{24}\)Social Security Act of 1994 (Act No of 1994)
The SSC’s 2009/10 Annual Report provides information about registered employers and employees suggesting there are some 37,585 registered employers and 348,141 employees in the country. Noteworthy is the extent to which the Khomas region dominates both categories. If the SSC database improves in future it could become a useful source of company data by size (according to employment).

**Employment Equity Commission**

The Employment Equity Commission (EEC) represents another potentially useful source of company data. The EEC was established following the passing of the Affirmative Action (Employment) Act of 1998 to “eliminate employment barriers against persons in designated groups and to ensure that all categories of employment within the workforce of every relevant employer reflect Namibia’s national demographic profile”. This is done through the monitoring of Affirmative Action reports which must be submitted every three years. Initially, the EEC assessed all organisations employing 50 people or more but since 2006, this threshold has been reduced to 25 people. The most up-to-date list of registered employers was obtained from the EEC in August 2012 and is presented below. It contains a total of 871 employers (not just businesses). However, the EEC openly admits the list is incomplete. Since administrative capacity is limited, the list tends to contain the names of those companies which voluntarily register with the EEC in order to obtain a certificate of good standing (which is necessary for Government and SOE tenders). It therefore presents a very incomplete picture of the number of companies employing 25 people or more in the country. However, it is likely that the data for organisations employing 50 people or more is somewhat more accurate since these organisations have been monitored for a longer period. It is possible therefore that there are approximately 243 medium-sized employers in Namibia employing between 50 and 100 people, most of which are likely to be privately-owned businesses.

<table>
<thead>
<tr>
<th>Size of Organisation by Employment</th>
<th>Number of Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;50</td>
<td>291</td>
</tr>
<tr>
<td>50-100</td>
<td>243</td>
</tr>
<tr>
<td>100-500</td>
<td>240</td>
</tr>
<tr>
<td>&gt;500</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: EEC

**Receiver of Revenue**

A request was made to the Receiver of Revenue for the current number of active businesses (ie. those submitting a tax return) broken down by category: public

---

company, private company, and close corporation. At this point in time, the Receiver cannot put together information of this kind without processing large numbers of paper returns. It cannot distinguish between different types of company and between active and dormant companies. This is expected to change at some point in the future as new systems are brought into operation.

**Registrar of Companies**

At the time of writing it had not proven possible to contact the Director of Internal Trade in the Ministry of Trade and Industry. Although it is understood that the Registrar of Companies is now fully computerised, it has not been possible to obtain national data on the size and characteristics of Namibia’s businesses.

**Institute of Chartered Accountants of Namibia (ICAN)**

A request has been made to the Institute of Chartered Accountants of Namibia (ICAN) for the current number of active businesses (ie. those submitting tax returns) broken down by category: public company, private company, close corporation and business trust. At the time of writing no data had been received.

**Other Data and Research**

Since 1990, a number of business surveys have been conducted in Namibia but for the purposes of this report, they all suffer from severe shortcomings and fail to provide clues regarding the size profile of the Namibian business sector and therefore the potential size of the market for private equity finance from medium-sized businesses. All the studies on the SME sector identified for this report concentrated on the micro and small business sector.

<table>
<thead>
<tr>
<th>Study/Survey</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Census of Manufacturing Establishments 1994/95</td>
<td>Identified and provided data on 278 manufacturing establishments nationwide employing more than 21,000 people.</td>
</tr>
<tr>
<td>Small Scale Enterprise Needs Survey – Greater Windhoek, NEPRU, 1996</td>
<td>n/a</td>
</tr>
<tr>
<td>Small Business Baseline Survey Volume 1: Ohangwena, Omusati, Oshana and Oshikoto Regions, MTI, Windhoek, 1998</td>
<td>Established numbers and characteristics of small and micro businesses employing less than 10 people in four northern regions.</td>
</tr>
<tr>
<td>Pilot Survey of Upscale Indigenous Businesses in Namibia – Need Analysis Report, USAID, 1999</td>
<td>n/a</td>
</tr>
<tr>
<td>Small Business Baseline Survey Volume 2: Erongo and Otjozondjupa, MTI, Windhoek, 1999</td>
<td>Established numbers (4,287) and characteristics of small and micro businesses employing less than 10 people in two central regions.</td>
</tr>
<tr>
<td>Small Business Baseline Survey Volume 3: Khomas Region, MTI, Windhoek, 2000</td>
<td>Established numbers and characteristics of small and micro businesses employing less than 10 people in Khomas region.</td>
</tr>
<tr>
<td>Namibia Business Climate Survey, NEPRU and NCCI, 2002</td>
<td>A general business climate survey covering businesses of different sizes and legal status including 420 formal businesses.</td>
</tr>
<tr>
<td>Business Incubation – A Means to Support LED in the NCR?, Katrin Goetzky-Kolsch, DED/GTZ Oshakati, 2002</td>
<td>n/a</td>
</tr>
<tr>
<td>SME Development and Impact Assessment,</td>
<td>A detailed analysis of Namibia’s SME sector</td>
</tr>
<tr>
<td>Reference</td>
<td>Title</td>
</tr>
<tr>
<td>-----------</td>
<td>-------</td>
</tr>
<tr>
<td>Poverty Alleviation in Rural Namibia through Improved Access to Financial Services, Jonathan Adongo and Mariama Deen-Swarray, NEPRU, 2006</td>
<td>Poverty Alleviation in Rural Namibia through Improved Access to Financial Services, Jonathan Adongo and Mariama Deen-Swarray, NEPRU, 2006</td>
</tr>
<tr>
<td>Namibia Investment Legislation, Incentives, and Institutions: Recommendations for Reform Namibia, FIAS, 14 December, 2006</td>
<td>Namibia Investment Legislation, Incentives, and Institutions: Recommendations for Reform Namibia, FIAS, 14 December, 2006</td>
</tr>
<tr>
<td>SMEs in Namibia: Recommendations to Address the Challenges and Constraints Faced by Small and Medium Enterprises in the Namibian Economy, Nangula Shejavali, Research Paper, September 2007</td>
<td>SMEs in Namibia: Recommendations to Address the Challenges and Constraints Faced by Small and Medium Enterprises in the Namibian Economy, Nangula Shejavali, Research Paper, September 2007</td>
</tr>
<tr>
<td>Survey on the Business Climate in the Northern Regions of Namibia, GTZ, 2008</td>
<td>Survey on the Business Climate in the Northern Regions of Namibia, GTZ, 2008</td>
</tr>
<tr>
<td>Enhancing the role of factoring and leasing companies in providing working capital to Small and Medium Enterprises (SMEs) in Namibia, Florette Nakusera, Gerson Kadhikwa, Postrick Mushendami, BoN Occasional Paper, OP 3-2008</td>
<td>Enhancing the role of factoring and leasing companies in providing working capital to Small and Medium Enterprises (SMEs) in Namibia, Florette Nakusera, Gerson Kadhikwa, Postrick Mushendami, BoN Occasional Paper, OP 3-2008</td>
</tr>
<tr>
<td>Namibian Business and Investment Climate Survey, NCCI and NMA, 2009</td>
<td>Namibian Business and Investment Climate Survey, NCCI and NMA, 2009</td>
</tr>
<tr>
<td>SME Development in Namibia, 12th Annual Symposium, Bank of Namibia, 2010</td>
<td>SME Development in Namibia, 12th Annual Symposium, Bank of Namibia, 2010</td>
</tr>
<tr>
<td>Fees and Charges for Financial Services in Namibia and their Effect on the Access of the Poor and the MSME to these Services: A Report for the Namibian Ministry of Finance, the Bank of Namibia and NAMFISA, Feasibility (Pty) Ltd, June 2010</td>
<td>Fees and Charges for Financial Services in Namibia and their Effect on the Access of the Poor and the MSME to these Services: A Report for the Namibian Ministry of Finance, the Bank of Namibia and NAMFISA, Feasibility (Pty) Ltd, June 2010</td>
</tr>
<tr>
<td>Namibian Business and Investment Climate Survey, NCCI and NMA and IPPR, 2011</td>
<td>Namibian Business and Investment Climate Survey, NCCI and NMA and IPPR, 2011</td>
</tr>
<tr>
<td>Reference</td>
<td>Summary</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Member Survey 2011, NCCI Swakopmund Branch, November 2011</td>
<td>General survey of 22 companies of varying size including perceptions of NCCI and needs but nothing specific on financing needs</td>
</tr>
<tr>
<td>SME Access to Finance and Support Business Action Plan, DBN and Bank of Namibia, 2011</td>
<td>Lays out a comprehensive action plan to help SMEs and proposes a National Venture Capital Fund lead by DBN.</td>
</tr>
<tr>
<td>Bridging the Economic Divide in Urban Areas of Namibia: Townships within the Local Economic Development framework, Johannes Laufs, Masters Thesis, May 2011</td>
<td>Examines the legacy of apartheid on economic development and finds that township economies remain largely isolated from the wider economy.</td>
</tr>
<tr>
<td>Promoting Entrepreneurship in Namibia: Constraints to Microenterprise Development, World Bank, June 2011</td>
<td>Examines possible improvements to microenterprise policies based on a sample survey of 800 microenterprises from four regions of the country and makes the distinction between “active” and “involuntary” enterprises with active enterprises found to be more growth oriented.</td>
</tr>
<tr>
<td>Progress Report (March-April 2011) of the JICA Expert in SME / Industrial Development to the Ministry of Trade and Industry in Namibia, JICA (unpublished)</td>
<td>A review of the Namibian Government’s policies for promoting the development of industry and SMEs, an analysis of MTI’s key areas of engagement, and proposals and support actions for overcoming the Ministry’s major challenges to achieving its objectives within its Business Support Services Programme.</td>
</tr>
<tr>
<td>Progress Report for the Second Mission (May-August 2011) of the JICA Expert in SME / Industrial Development to the Ministry of Trade and Industry in Namibia, JICA (unpublished)</td>
<td>A review of the Namibian Government’s policies for promoting the development of industry and SMEs, an analysis of MTI’s key areas of engagement, and proposals and support actions for overcoming the Ministry’s major challenges to achieving its objectives within its Business Support Services Programme.</td>
</tr>
<tr>
<td>Namibian Business and Investment Climate Survey, NCCI and NMA and IPPR, 2012</td>
<td>Survey of 246 companies of different sizes and legal status. Suggests medium and large companies do not see access to finance and the provision of collateral as problematic although the cost of finance is negatively perceived.</td>
</tr>
</tbody>
</table>
### Appendix 4: Experts Interviewed and Consulted

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tian Bazuin</td>
<td>NSX</td>
</tr>
<tr>
<td>Ben Bertolini</td>
<td>Namibia Venture Capital</td>
</tr>
<tr>
<td>Jeremy Cleaver</td>
<td>CDC</td>
</tr>
<tr>
<td>Alwyn Coetzee</td>
<td>DBSA</td>
</tr>
<tr>
<td>Jeremy George</td>
<td>VPB Namibia</td>
</tr>
<tr>
<td>David Holloway</td>
<td>IDC</td>
</tr>
<tr>
<td>Monica Kalondo</td>
<td>Stimulus Investments</td>
</tr>
<tr>
<td>Katja Klein</td>
<td>DBN</td>
</tr>
<tr>
<td>Cameron Kotze</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>Jack Le Roux</td>
<td>Receiver of Revenue, MoF</td>
</tr>
<tr>
<td>Herbert Maier</td>
<td>IJG</td>
</tr>
<tr>
<td>John Mandy</td>
<td>NSX</td>
</tr>
<tr>
<td>Danny Meyer</td>
<td>SMEs Compete</td>
</tr>
<tr>
<td>Ndaba Mpfou</td>
<td>IFC</td>
</tr>
<tr>
<td>Daudi Mtonga</td>
<td>VPB Namibia</td>
</tr>
<tr>
<td>Wessel Nanuseb</td>
<td>NDC</td>
</tr>
<tr>
<td>Tom Newton</td>
<td>Grant Thornton Neuhaus</td>
</tr>
<tr>
<td>David Nuyoma</td>
<td>DBN</td>
</tr>
<tr>
<td>Andriette Richards</td>
<td>Proparco</td>
</tr>
<tr>
<td>Anthony Siwawa</td>
<td>VPB Namibia</td>
</tr>
<tr>
<td>Mark Spaeth</td>
<td>IJG</td>
</tr>
<tr>
<td>Thokoane Tsolo</td>
<td>IDC</td>
</tr>
<tr>
<td>Ewout van der Molen</td>
<td>FMO</td>
</tr>
<tr>
<td>Brian van Rensburg</td>
<td>IHN</td>
</tr>
<tr>
<td>Adrianus Vugs</td>
<td>NAMFISA</td>
</tr>
<tr>
<td></td>
<td>Enterprises</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------</td>
</tr>
<tr>
<td>01-Caprivi</td>
<td>5880</td>
</tr>
<tr>
<td>02-Erongo</td>
<td>3099</td>
</tr>
<tr>
<td>03-Hardap</td>
<td>1251</td>
</tr>
<tr>
<td>04-Karas</td>
<td>1521</td>
</tr>
<tr>
<td>05-Kavango</td>
<td>5598</td>
</tr>
<tr>
<td>06-Khomus</td>
<td>8687</td>
</tr>
<tr>
<td>07-Kunene</td>
<td>1261</td>
</tr>
<tr>
<td>08-Oshana</td>
<td>4248</td>
</tr>
<tr>
<td>09-Omaheke</td>
<td>2593</td>
</tr>
<tr>
<td>10-Oshikoto</td>
<td>8877</td>
</tr>
<tr>
<td>11-Oshana</td>
<td>6124</td>
</tr>
<tr>
<td>12-Oshikoto</td>
<td>5784</td>
</tr>
<tr>
<td>13-Otjozondjupa</td>
<td>1262</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>56185</strong></td>
</tr>
</tbody>
</table>
The table above gives the number of enterprises by legal status by region (see Page 34).

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Individual</th>
<th>Pty (Ltd)</th>
<th>Ltd</th>
<th>Listed</th>
<th>Partnership</th>
<th>cc</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-Caprivi</td>
<td>235</td>
<td>163</td>
<td>2</td>
<td>21</td>
<td>0</td>
<td>4</td>
<td>45</td>
</tr>
<tr>
<td>02-Erongo</td>
<td>1504</td>
<td>736</td>
<td>130</td>
<td>128</td>
<td>1</td>
<td>32</td>
<td>477</td>
</tr>
<tr>
<td>03-Hardap</td>
<td>395</td>
<td>322</td>
<td>9</td>
<td>32</td>
<td>1</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>04-Karas</td>
<td>583</td>
<td>366</td>
<td>26</td>
<td>93</td>
<td>0</td>
<td>9</td>
<td>89</td>
</tr>
<tr>
<td>05-Kavango</td>
<td>161</td>
<td>80</td>
<td>0</td>
<td>45</td>
<td>0</td>
<td>0</td>
<td>36</td>
</tr>
<tr>
<td>06-Khomas</td>
<td>2020</td>
<td>736</td>
<td>190</td>
<td>410</td>
<td>3</td>
<td>36</td>
<td>645</td>
</tr>
<tr>
<td>07-Kunene</td>
<td>166</td>
<td>97</td>
<td>8</td>
<td>10</td>
<td>0</td>
<td>3</td>
<td>48</td>
</tr>
<tr>
<td>08-Ohangwena</td>
<td>1155</td>
<td>121</td>
<td>6</td>
<td>950</td>
<td>0</td>
<td>1</td>
<td>77</td>
</tr>
<tr>
<td>09-Omaheke</td>
<td>234</td>
<td>101</td>
<td>1</td>
<td>90</td>
<td>0</td>
<td>6</td>
<td>36</td>
</tr>
<tr>
<td>10-Omusati</td>
<td>265</td>
<td>76</td>
<td>2</td>
<td>168</td>
<td>0</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>11-Oshana</td>
<td>2663</td>
<td>1631</td>
<td>18</td>
<td>827</td>
<td>0</td>
<td>13</td>
<td>174</td>
</tr>
<tr>
<td>12-Oshikoto</td>
<td>308</td>
<td>129</td>
<td>7</td>
<td>127</td>
<td>0</td>
<td>2</td>
<td>43</td>
</tr>
<tr>
<td>13-Otjozondjupa</td>
<td>472</td>
<td>334</td>
<td>11</td>
<td>33</td>
<td>0</td>
<td>5</td>
<td>89</td>
</tr>
<tr>
<td>Total</td>
<td>10161</td>
<td>4892</td>
<td>410</td>
<td>2934</td>
<td>5</td>
<td>115</td>
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</tr>
</tbody>
</table>
Results from the Private Equity Survey  
(Appendix 5)

A survey was conducted by the Institute for Public Policy Research (IPPR) of 100 randomly selected medium-sized Namibian businesses employing between 10 and 100 people. Since there is currently no census of Namibian businesses, the sample was drawn from the following sources:

- BFS client list
- Team Namibia directory
- SME Expo participants
- World Economic Forum (WEF) survey participants
- NamBIC survey participants
- Employment Equity Commission (EEC)-registered businesses
- Hospitality Association of Namibia (HAN) membership
- Namibia Chamber of Commerce and Industry (NCCI) chambers
- SMEs Compete database
- Namibia Manufacturers Association (NMA) membership

The IPPR emailed out 290 survey questionnaires with a covering letter from the director of the IPPR to the business owners once it had been determined that the business employed between 10 and 100 people.

The survey questionnaire was designed to be as simple and concise as possible since previous business surveys conducted by the IPPR showed that 1) Namibian businesses are often reluctant to share detailed financial information; 2) Namibia businesses are often not well acquainted with their own financial statements; and 3) the survey had to be suitable for telephonic interviews. HAN, the NCCI, the NMA and SMEs Compete mailed out the survey to their members with follow-up conducted by the IPPR.

A number of types of business was deliberately excluded from the sample:

- State-Owned Enterprises
- Listed companies
- Commercial or communal livestock farmers
- Mining exploration companies
- Security companies
- Subsidiaries of South African or other multinational companies

Participants were given the choice of completing the survey through a face-to-face interview, through a telephonic interview or via email. Completion of the survey was entirely voluntary and it is therefore possible that this resulted in a certain amount of “sample selection bias” since it is likely that businesses which were more interested in exploring private equity finance responded to the survey. Unfortunately, the degree of sample selection bias, which may be present is impossible to determine. Responses were obtained from 100 businesses but in some cases participants were unwilling or unable to answer all the questions contained in the questionnaire.
In the following analysis, the term “private company” is used to denote Proprietary Limited companies as defined by the Companies Act while the term “close corporation” is used to denote close corporations as defined by the Close Corporations Act. As described elsewhere in this report, the close corporation is a less expensive and smaller form of private company suitable for up to ten shareholders.

**Regional Distribution**

The regional distribution of responding businesses is heavily concentrated on the Khomas Region, which consists almost exclusively of the City of Windhoek. Out of 100 respondents, 77 were from the Khomas Region (all from Windhoek), 9 from the Erongo Region, and 4 from Otjozondjupa. It is possible that the sample is biased towards Khomas and Windhoek. However, the Namibia Enterprise and Establishment Census conducted by the Ministry of Trade and Industry in 2009 shows that, once unregistered and micro businesses are excluded, the locations of formal businesses in Namibia are heavily skewed towards Windhoek and the Erongo Region. The survey results suggest a large number of Namibia’s medium-sized businesses are in close proximity to actual and potential private equity providers.

**Business Location**

The responses to the question on business location reflect the regional distribution of businesses highlighted above. However, although 52 respondents stated they were based in a city (overwhelmingly Windhoek), 20 said they were based in multiple locations around the country. These locational characteristics should make it easier for any private equity provider to enjoy regular and close contact with target businesses.

**Legal Status**

Out of 100 respondents, 52 businesses were close corporations, 36 were private companies, 8 were sole proprietorships, 3 were partnerships and only one was not registered with the Registrar of Companies. This suggests that Namibian medium-sized businesses are reasonably sophisticated and that much of the legal and possibly financial infrastructure may already be in place as far as medium-sized Namibian businesses are concerned. However, it also suggests that many close corporations would have to be converted into private companies before corporate private equity investors could buy in.
Audit

Only a small minority of 16 respondents reported that they were not audited by a chartered accountant. These included 9 close corporations (for which there is no statutory audit requirement), 5 sole proprietorships and the single unregistered business as well as one private company (which are obliged to be audited by a registered Namibian accountant).

Number of Shareholders

As expected given the size of businesses targeted, the sample was dominated by companies with a small number of shareholders. A total of 40 respondents had just a single shareholder, 30 had two shareholders and 12 had three shareholders. No respondent had more than 9 shareholders. This suggests any private equity finance provider is likely to have to deal with only a very small number of shareholders, which should make deals easier to negotiate and bring to a successful conclusion.
**Decision-Taking**

As a consequence of ownership structure, decision-taking in most businesses was by a single individual (41 businesses) while in a further 35 decision-taking was by a majority of shareholders. Only 23 businesses responded that decisions were taken by a majority of their board of directors. This corroborates the previous conclusion that deals are more likely to be reached because of the limited number of existing shareholders who would have to be consulted.

**Business Activity**

Given the broad sample universe selected, respondent businesses covered a wide range of business activities or sectors. However, the four dominant sectors were manufacturing (excluding food processing) with 24 responses, business services with 21 responses, trade with 15 responses, and tourism and accommodation with 11 responses. This suggests there is a good range of medium-sized businesses in the Namibian market and therefore that private equity finance does not necessarily have to limit itself to particular activities or sectors.
Main Clients

Respondents transacted with a wide range of clients, the most important of which were other Namibian businesses with 73 responses, Namibian households with 48, the Namibian Government with 48, Namibian State-Owned Enterprises with 40, tourists with 28 and outside Namibia with 17. This shows how important the Namibian public sector (Government and SOEs) is to Namibia's medium-sized business sector and how limited is its exposure to export markets currently. Again, however, this result could indicate a certain amount of sample selection bias since the EEC database contains companies that deal with the public sector who require a certificate of good standing from the EEC. This dependence on the public sector and limited exposure to export markets pose a challenge as far as private equity is concerned because the public sector is inherently a market of limited growth opportunities whereas the export market has far greater potential.
Respondents were asked about the year of establishment of their business. The sample included businesses which had been established as far back as 1905 and as recently as 2012. Some 24 had been established at the time of Independence in 1990 while 50 had been established prior to 2001. The sample therefore included a large number of recently established businesses, which suggests enterprise creation has been relatively positive (although it says nothing about enterprise destruction). Nonetheless, the presence of so many relatively new businesses suggests fertile ground for private equity finance.
Number of Employees

Respondents were asked about how many people they employed in their first year of operation. Many older businesses could not respond to this question but out of 87 responses, 67 respondents started with ten employees or less. Only one respondent claimed to have started with more than 45 employees (but these were contract workers). What is clear is that the vast majority of businesses started with ten or fewer employees. Not surprisingly, perhaps, this confirms that medium-sized enterprises in Namibia tend to start as small enterprises and graduate to becoming medium-sized companies.

As far as their current number of employees is concerned, the medium-sized businesses in the sample had workforces (including full-time, part-time, temporary, and seasonal workers as well as contractors) ranging from 10 to 100 employees. However, businesses employing fewer people were more common with 52 respondents employing 25 people or less while 26 employed 50 people or more.

Source of Starting Capital

Businesses were asked about their sources of starting capital. By far the most common source was own savings with 76, followed by bank loans with 36, and family and friends with 13. Many of those who received bank loans had to contribute with own savings. Dependence on own savings does not appear to depend on the age of the business. Of the 18 responding businesses, which had been established prior to 1990, all but one had relied on own savings. Of the 22 responding businesses that had started between 1990 and 2000, all but one had relied on own savings. Of the 48 responding businesses that had started since 2000, all but 10 had relied on own savings. Respondents who specified “other sources” included finance from a sister company, shareholders equity, third
party private investors (presumably not family or friends), and institutions such as foundations. These results suggest that start-ups in Namibia are overwhelmingly dependent on own savings, which is likely to represent a significant bottleneck to business formation given that a large part of the population remains lacking own savings (although this survey takes no account of savings in the form of livestock which may simultaneously be a business activity).

**Source of Starting Capital**

![Pie chart showing the source of starting capital: Own Savings 76%, Bank Loan 36%, Family and Friends 13%, Other 7%]

**Amount of Starting Capital**

Businesses were asked about how much capital they used to start their businesses. Responses ranged from as little as NAD5,000 to as much as NAD85 million. It should be noted that no account was taken of inflation so that what sound like small amounts employed a long time ago may not in fact be that small. However, of the 41 businesses that responded to the question, 29 employed NAD5 million or less, 9 employed between NAD5 million and NAD10 million and only 3 employed more than NAD10 million.
This suggests that today’s medium-sized enterprises started with relatively small amounts of capital, which is consistent with the fact that they start with relatively few employees. It may also suggest that business start-up finance in Namibia requires relatively small amounts of capital. These numbers are also consistent with loan data from the Development Bank of Namibia presented in the phase one report. It is possible that starting capital may be a function of business activity with, for example, trading companies requiring far lower amounts of starting capital than manufacturing companies. Unfortunately the survey data does not bear this out but this may be because data is either missing or has not been adjusted for inflation.

Table: Starting Capital by Activity

<table>
<thead>
<tr>
<th>Activity</th>
<th>&lt;1</th>
<th>1-5</th>
<th>5-10</th>
<th>10-15</th>
<th>15-20</th>
<th>20-25</th>
<th>25-30</th>
<th>&gt;30</th>
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<td>0</td>
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<td>1</td>
<td>0</td>
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<td>0</td>
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<td>0</td>
<td>0</td>
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</tr>
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<td>0</td>
</tr>
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<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
</tbody>
</table>
Current Assets

Businesses were asked about the value of their current assets. Of the 96 responses obtained 21 had assets of less than N$1 million, 25 had assets between N$1 million and N$5 million, and 21 had assets between N$5 million and N$10 million. Only 16 had assets between N$10 million and N$30 million. Although 13 had assets above N$30 million, clearly the asset base of the sample is weighted towards the lower end of the spectrum, relatively small values.

<table>
<thead>
<tr>
<th>Activity</th>
<th>&lt;1</th>
<th>1-5</th>
<th>5-10</th>
<th>10-15</th>
<th>15-20</th>
<th>20-25</th>
<th>25-30</th>
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<td>2</td>
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<td>0</td>
<td>0</td>
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<td>0</td>
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<td>0</td>
</tr>
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<td>0</td>
<td>0</td>
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<td>1</td>
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<tr>
<td>Real Estate</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Business Services</td>
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<td>0</td>
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<tr>
<td>Total</td>
<td>21</td>
<td>25</td>
<td>21</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>13</td>
</tr>
</tbody>
</table>
Value of Business

Many respondents struggled to put a value on their business, a reflection perhaps that they had never tried to sell them or bring in new shareholders. Only 76 respondents out of 100 were able to make a rough estimate. Values ranged from NAD50,000 to NAD180 million. A total of 24 respondents estimated a value of NAD5 million or less, 17 estimated between NAD5 million and NAD10 million, 20 estimated between NAD10 million and NAD25 million, 7 between NAD25 million and NAD50 million and just 8 above NAD50 million. On a more aggregated basis, 31% of the respondents’ businesses are valued up to NAD 5 million, 80% up to NAD 25 million and 20% above NAD 25 million, all of which broadly confirms the size structure of Namibia’s SME sector. An SME private equity fund can then expect to focus either on the upper size segment of the SME sector or, in exceptional cases, invest in small SMEs with a promising growth potential. In any event, the business value estimates, even though rough, appear suitable to the targeted average investment of the envisaged SME private equity fund of around NAD 10 million.

Revenue

Respondents provided information about revenues in their latest financial years. Out of 94 responses, 22 businesses reported a turnover of less than NAD1 million, 24 between NAD1 million and NAD5 million, 14 between NAD5 million and NAD10 million, 12 between NAD10 million and NAD15 million, 7 between NAD15 million and NAD20 million, 1 between NAD25 million and NAD30 million and 14 above NAD30 million. This is consistent with reporting on employment and the value of assets in that the sample appears weighted towards the lower end of the spectrum.
Businesses were asked how many years it took for their businesses to become profitable. Out of 67 responses, 19 reported that their businesses were profitable from the first year of operation while in 40 cases it took three years or less. Only one business (a larger manufacturing business) reported it took longer than 10 years to become profitable. It appears that the majority of start-ups which survive become profitable relatively quickly. The survey provides no information about start-ups that fail to survive.
Return to Initial Investment

The survey provided information on businesses’ starting capital, age, and current value, which allows an estimate to be calculated for the return on initial investment. Of the 71 companies, which provided complete information, 14 achieved an average annual return of 10% or less, 27 achieved a return of 20% or less, and 33 achieved a return of 25% or less. Expressed differently, 57 out of 71 achieved a return of over 10% a year, 44 out of 71 achieved a return of over 20% a year, and 35 out of 71 – nearly half the sample – achieved a return of over 30% a year. A proportion of businesses – 14 out of 71 – achieved spectacular compound returns in excess of 100% a year. This suggests that returns to investment in medium-sized enterprises in Namibia are relatively high, although once again, this says nothing about the proportion of businesses that do not achieve profitability and fall by the wayside.

Significant Losses

Of the 99 responses on the question of whether businesses had ever made a significant loss, 42 respondents reported that they had while 57 reported that they had not. This ratio suggests that business activity in Namibia is associated with a high degree of risk and that financial institutions need to bear this in mind when providing financial support to the business sector. The survey does not deal with businesses that did not survive because of a significant loss.

Potential for Growth

Not surprisingly perhaps, since entrepreneurs have to possess a high degree of self-belief and optimism, 92 respondents believed that their businesses had “significant potential for growth”. The small number of businesses which responded negatively to the question were predominantly older businesses.
Growth Strategy

Although 92 respondents stated their belief that their businesses had “significant potential for growth”, a smaller number—80—reported that they had a long-term growth plan or strategy for their business. However, only 12 stated clearly that they had a formal business plan while 34 simply stated that their plans were documented. Most responding businesses did not have very detailed growth strategies, a characteristic which presents a good opportunity to add value for private equity finance. Most (32) involved an investment period of three years or less. Only four respondents had long-term investment horizons of ten years or more.

Finance for Growth

When asked how much finance they required to implement their growth strategies, 35 responded that they required NAD5 million or less, 10 required between NAD5 million and NAD10 million, a further 8 required between NAD10 million and NAD20 million, while only 9 required more than NAD20 million. Only one respondent required NAD50 million, one NAD200 million and one NAD270 million. Demand for capital by Namibian medium-sized enterprises therefore appears to be weighted towards the lower end of the spectrum below NAD10 million. The average amount required across all respondents was NAD16 million. This corresponds to average lending figures provided by the Development Bank of Namibia in the phase one report.

<table>
<thead>
<tr>
<th>Finance required (NADm)</th>
<th>Revenue (NADm)</th>
<th>Value of Business (NADm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAD50</td>
<td>&gt;NAD30</td>
<td>NAD150</td>
</tr>
<tr>
<td>NAD200</td>
<td>&gt;NAD10&lt;NAD15</td>
<td>NAD91</td>
</tr>
<tr>
<td>NAD270</td>
<td>&gt;NAD15&lt;NAD20</td>
<td>NAD23</td>
</tr>
</tbody>
</table>
Of the 62 businesses which reported needing capital for growth, 55 recognised that they required additional expertise to implement their growth strategies. A very wide range of expertise being required, often very specific to the field of business, was reported. These are mostly the kinds of skills that a private equity partner would not be able to provide themselves but could possibly help finance the acquisition of such. It is likely that many of these skills would have to be imported, something which would run up against the stringent labour market regulations that are currently in place in Namibia and which have been widely documented in numerous business surveys.

**Obstacles to Growth**

Businesses were asked about the internal and external obstacles to growth they faced and offered both pre-defined and open questions (where no defined response was provided). Businesses that did not choose very relevant or somewhat relevant were assumed to consider the obstacle not relevant.

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Very</th>
<th>Somewhat</th>
<th>Not</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No desire to become too big</td>
<td>15</td>
<td>18</td>
<td>67</td>
</tr>
<tr>
<td>No desire to bring in more shareholders</td>
<td>23</td>
<td>19</td>
<td>58</td>
</tr>
<tr>
<td>No resources to develop new products</td>
<td>22</td>
<td>26</td>
<td>72</td>
</tr>
<tr>
<td>Old technology</td>
<td>16</td>
<td>17</td>
<td>67</td>
</tr>
<tr>
<td>Unskilled workforce</td>
<td>33</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>Weak capital base</td>
<td>28</td>
<td>30</td>
<td>42</td>
</tr>
<tr>
<td>Excessive debt obligations</td>
<td>13</td>
<td>23</td>
<td>64</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>3</td>
<td>93</td>
</tr>
<tr>
<td><strong>External</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited number of customers</td>
<td>18</td>
<td>28</td>
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<tr>
<td>Competition from other businesses</td>
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</tr>
<tr>
<td>Cost pressures</td>
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<tr>
<td>Labour regulations</td>
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<td>Government policy</td>
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<td>Corruption</td>
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<td>Exchange rate</td>
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<td>Other</td>
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<td>2</td>
<td>93</td>
</tr>
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</table>
On internal obstacles to growth, the most frequent response was the unskilled workforce with 33 followed by the weak capital base with 28. Only relatively few businesses stated they had no desire to become too big suggesting the actual number of “lifestyle businesses” is not as large as often perceived. Debt obligations do not appear to be a significant obstacle, which is possibly a reflection of the lack of access to loan finance.

On external obstacles to growth, the most frequent response was access to finance with 37 followed by cost pressures with 34, labour regulations with 32 and cost of finance with 32. Of the 37 businesses reporting that access to finance was very relevant, 27 had assets below NAD10 million. Of the 32 businesses reporting that the cost of finance was very relevant, 19 had assets below NAD10 million. Overall the issue of finance is clearly significant for Namibian medium-sized businesses but perhaps not as critical as often perceived. Other issues such as the small market size and the exchange rate were not reported as being significant obstacles but this may be a reflection of the lack of export orientation of the sample.

Raising Finance

Although 92 of the 100 respondents stated they believed their businesses had significant potential for growth and had a growth plan or strategy, a much smaller number of only 50 businesses reported that they had actually tried to raise the capital they said they needed. This suggests there is a significant divergence between ambition and action.

This question made no distinction between debt and equity finance but simply asked which institutions businesses had turned to for the finance they required. Local commercial banks were the most important port of call for businesses seeking capital to grow with 47 businesses reporting that they had approached a
local bank compared to just 16 which had approached the Development Bank of Namibia, 4 which had approached other local institutions, and 2 which had approached foreign institutions (the preserve of larger businesses). A total of 28 respondents reported they had been successful in their application for capital although a small number had subsequently not gone ahead because the cost or the terms of finance were not sufficiently attractive. Almost all successful applicants all had business plans (although so did most unsuccessful applicants).

**Preference for Finance**

When asked about which kind of finance they would prefer to employ to implement their growth strategy, most businesses replied that they preferred loans. However, 25 businesses responded that they preferred equity to loans. These businesses do not appear to display any particular common characteristics. They are not predominantly newer businesses nor start-ups. Nor are they smaller businesses. But they tend to be businesses that recognise they need more than just financial support in implementing their growth strategies.

When asked whether they would consider bringing on board new shareholders who could help finance their growth strategies, 56 businesses responded in the affirmative while 36 responded with a definite no. As stated above, this positive response may be a reflection of sample selection bias in that businesses that were open to private equity finance were more likely to respond to the survey in the first place. When asked further whether they would consider bringing on board new shareholders who could provide only expertise the number of positive responses fell slightly to 49. Nonetheless, these results suggest there is a certain degree of openness towards private equity finance among medium-sized Namibian businesses.

<table>
<thead>
<tr>
<th>Condition</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Must only take minority shareholding</td>
<td>38</td>
</tr>
<tr>
<td>Must be active shareholders</td>
<td>31</td>
</tr>
<tr>
<td>Must only hold limited board membership</td>
<td>17</td>
</tr>
<tr>
<td>Must limit duration of shareholding</td>
<td>16</td>
</tr>
<tr>
<td>Must agree clear exit mechanism up front</td>
<td>33</td>
</tr>
<tr>
<td>Other conditions</td>
<td>5</td>
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</table>
When asked what conditions they would insist on when bringing in new shareholders, the most frequent response was that new shareholders should only take a minority shareholding, that there must be a clear exit mechanism and that they must be active shareholders. No one explicitly mentioned that they were willing to cede a majority stake in their business but of the 56 respondents open to new shareholders, only 38 explicitly stated that new shareholders should only take a minority position suggesting some may be open to bringing in a new majority shareholder. Other conditions mentioned included new shareholders bringing in expertise, that the cost of private equity finance should be clear from the start, and that new shareholders should bring in BEE credentials. Only one respondent mentioned the latter as a precondition.

Sale of Business

Finally, when asked whether they had ever tried to sell their business, an overwhelming majority of 83 responded that they had not. This suggests that a large majority of business owners have a long-term commitment to their businesses or that their businesses are unattractive to potential buyers.

Conclusions

This is the first ever survey to be conducted on medium-sized businesses in Namibia employing between 10 and 100 people. Most previous research has focused on micro and small enterprises. A number of clear conclusions can be draw from the survey:

Namibia’s medium-sized business sector, defined as those employing between 10 and 100 people, comprises a wide range of enterprises of very different ages across a wide range of sectors from relatively small unsophisticated businesses to larger fairly sophisticated businesses.
Most have the appropriate legal status and a certain amount of corporate infrastructure and most are located in Windhoek or Namibia’s major towns.

The vast majority are owned by small numbers of individual shareholders who take all the strategic business decisions.

Many depend to a great extent on the public sector while relatively few are export-oriented and this limits their growth potential.

The vast majority of businesses started off with very few employees and depended greatly on the business owner’s own savings for capital.

Most are optimistic about their growth prospects but many have not made serious attempts to try and grow their businesses by, for example, trying to raise finance, even though they are committed to their businesses.

This optimism is borne out by estimates of returns to initial investment with significant numbers of businesses achieving average annual returns in excess of 20% and a smaller proportion achieving spectacular returns. Clearly, in terms of profitability, the start-up phase and the first three or four years of existence are the most difficult before the goal of sustained profitability is achieved. It is, therefore, likely that financial and other assistance will bring the greatest results during this early phase.

The survey intentionally did not ask about BEE and only one business mentioned this as an issue without being prompted. This is because BFS, the promoter of the survey, aims to provide financial products to a wide range of businesses in a non-discriminatory way rather than limiting itself to being a niche provider of financial services exclusively to enterprises with BEE credentials.

Access to and the cost of finance are significant issues for medium-sized businesses (although not overwhelmingly so as businesses face a very wide range of constraints) and, although bank loans have been the traditional form of finance, there is an openness towards new shareholders who bring in finance and expertise provided that they only take minority shares.

Yet the amounts of capital required by their growth plans are relatively small with the majority of businesses requiring NAD10 million or less to finance their growth strategies. This implies that a NAD250 million fund is more likely to be involved in 25 deals of NAD10 million than, say, ten deals of NAD25 million each. This will provide a challenge to private equity providers since there is likely to be a threshold below which it will be difficult to carry out profitable business and competition will be stiff for the relatively few larger deals that potentially exist. Given the importance of own savings in financing start-ups, the potential for higher risk venture capital, which may require relatively small amounts of capital, appears significant.