

CAPITAL POOL COMPANIES IN NAMIBIA AND BOTSWANA EASE FOREIGN INVESTMENT IN SOUTHERN AFRICA

Overseas project sponsors and investors looking for opportunities in Namibia and Botswana may be unaware of the availability of capital pool companies which can be utilised to procure local equity for co-investment in infrastructure projects.

CAPITAL POOL COMPANIES

The Namibian Stock Exchange recently listed the first capital pool company in Namibia. A capital pool company is in essence a shell company with no assets, which raises money from the local market (pension funds and other local sources) ahead, and in contemplation, of the financial close of a deal. If the deal does not materialise within two years, the raised funds are simply returned to the local investors.

The Botswana Stock Exchange is currently adopting similar rules to regulate the listing of capital pool companies within its jurisdiction.

Capital pool companies share many characteristics with "SPACs" (i.e. special purchase acquisition companies) which have become increasingly prevalent in the US and Europe in recent years. Since the beginning of 2017 there have been 23 IPOs of SPACs on NASDAQ and 12 in London. A SPAC is a listed buyout company that raises capital through an IPO with an investment strategy of buying unspecified assets or other companies in the future. If the SPAC does not make an acquisition within a specified time period following the IPO (typically within two years), the funds raised are returned to investors or shareholder approval is required to allow the SPAC a longer period to make an acquisition. Notable successes include the global advertising giant WPP.

LIQUID MARKETS

Pension funds in both Namibia and Botswana are cash-rich and have appetite to co-invest in local infrastructure projects. Due to recent regulatory changes, pension funds in Namibia are now required to invest up to 45% of their funds locally. The capital pool structure is an attractive vehicle to local pension funds, as the listing makes the investment more liquid.

Key issues

- Listed capital pool companies can be used to raise local equity for various projects and may be of interest to foreign investors who wish to co-invest along with local equity
- Markets in Namibia and Botswana are liquid, with an appetite to invest in local infrastructure projects

ADVANTAGES TO INVESTMENT

Foreign investors in the Namibian and Botswana markets should consider the option of raising local equity through capital pool companies. Procuring local equity has the following advantages to foreign investors considering investment in those jurisdictions:

- It provides quasi-political risk cover;
- It reduces the extent to which applicable tariffs, products or services that are intended to be sold locally, need to be dollarized or indexed to the euro (i.e. it reduces foreign exchange exposure); and
- The local pension funds' return expectation may be lower than that of most foreign investors so foreign investors may be able to increase their returns by charging higher fees. The local pension funds in turn have the advantage of relying on the foreign investors' due diligence.

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CONTACTS



Anthony Giustini
Partner

T +33 1 4405 5926
E anthony.giustini
@cliffordchance.com



Edmund Boyo
Partner

T +971 4503 2614
E edmund.boyo
@cliffordchance.com



Simon Thomas
Partner

T + 44 20 7006 2926
E simon.thomas
@cliffordchance.com



Nicholas Hughes
Partner

T + 44 20 7006 4621
E nicholas.hughes
@cliffordchance.com



Jeremy Connick
Partner

T +44 20 7006 4237
E jeremy.connick
@cliffordchance.com



Coenraad Nolte
Associate

T +49 69 7199 3345
E coenraad.nolte
@cliffordchance.com

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www.cliffordchance.com

Clifford Chance, 10 Upper Bank Street,
London, E14 5JJ

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London, E14 5JJ

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