On addressing capital raising for SME's

MOREMI MARWA

moremi@dse.co.tz

In this past quarter of a century, globally, public equity markets have been facing increasing challenges. The number of companies listed in public capital markets has roughly halved and the value of new issues has fallen. In Africa according to "PwC Africa Capital Markets Watch" the trend of capital raising via public capital markets' Initial Public Offering (IPOs) for the past few years has decline, from 30 transactions per annum, for example, in 2017 to only eight (8) transactions in 2021. And the value of capital raised via IPOs has declined from an average of $3 billion per annum in 2017 to only about $0.9 billion in 2021.

The trend is the same for post-IPO financing and investment transactions, where the trend of further offering (FO) significant declined, from 95 transactions per annum in 2017 to 38 transactions in 2021. The value of FO decreased from $11 billion per annum in 2017 to $2.5 billion in 2021.

At the largest stock market in the continent – the Johannesburg Stock Exchange (JSE) -- there was not a single IPO recorded in 2021, while the number of delisting (removal of listed companies from the stock exchange) reached 24 in 2021.

Similar situation can be said of the largest and oldest stock exchange in East Africa – the Nairobi Securities Exchange (NSE), where there has not been a single meaningful IPO on the exchange in the past nine years, rather there has been delisting and suspensions from trading for some companies.

According to the recent report by the World Federation of Exchanges (WFE), this general trend across the world is driven by: (i) the rise in alternative sources of capital, especially private equity, and venture capital; (ii) an increase in disclosure requirements for listed companies; and (iii) a structural shift in the banking and finance industry towards scale and technology. This has encouraged larger companies to list into exchanges, however, to the detriment of smaller issuers and the ecosystems that support them. The number of listed SMEs decreasing even further since the Covid-19 pandemic hit. Businesses, particularly SMEs, have further struggled to navigate the impact of Covid-19 on their operations.

SMEs, which are typically seen as the backbone of many economies -- driving growth, leading innovation, and providing a critical source of jobs and economic welfare; and according to the World Bank SMEs contribute up to 60 percent of total employment and up to 40 percent GDP in emerging economies. Now, during the pandemic, SMEs reported declining revenues but also several related issues including: (i) concerns about defaulting on loans; (ii) concerns about their ability to retain employees and sustain their supply chain; and (iii) expectations of reducing their headcount in the aftermath of the pandemic and postponing growth projects.

Public capital markets

Public markets, like the DSE, continue to support listed companies at all growth stages as they raise capital to strengthen their balance sheets and fund their growth and development. That's why we introduced the Enterprise Growth Market (EGM) to enable start-ups and SMEs access capital via public capital market. DSE, as it is for other stock exchange help to finance ecosystems through markets but have had variable levels of success in developing a viable segment for SME funding. Globally, access to capital for high-growth companies is improving, with a variety of capital available to companies across all stages of their development from traditional debt and equity to newer platforms such as crowdfunding and peer-to-peer lending.

As for us – access to capital, outside banking, is a challenge, partly due to lack of awareness, also some of key institutions to support the capital market eco-system. So, despite our introduction of EGM in 2013, as the capital raising and listing platform for start-ups and SMEs which in a way enhanced a "toolbox" of options needed to build a successful SME market that could potentially tap in capital sustainable and patient capital from the capital markets, but results are so far less encouraging.

During the pandemic, there was a clear message from stakeholders within the financial markets ecosystem that highlighted the role equity and debt markets play in providing finance to businesses. Whilst exchanges have a role in encouraging SME listings, they are only part of an ecosystem that offers solutions to SME funding challenges. Other participants such as banks, private equity and venture capital firms must also play their part.

DEAP and ENDELEZA

For us, given that the eco-system is not fully supported i.e., due to the lack of private equity and venture capital funds, the lack of Initial Public Offering (IPO) transactions underwriters, the lack of liquidity providers and market makers, etc --somehow makes it even difficult. However, to partly address the challenges the DSE has undertaken some of the key initiatives involving the exchange, regulator, business leaders, and other participants, and considers some interventions could be utilized to encourage SMEs to list in future. That's why DSE Enterprises Acceleration Program (commonly known as DEAP) was introduced with the fundamental objective of imparting knowledge and skills of running businesses in a sustainable manner for businesses to be able to raise capital finance from both private and public capital markets. The DSE extended this program by introducing the pre-IPO listing platform (known as "ENDELEZA") for the purpose of enhancing visibility and profiling of the pre-IPO listed companies to potential financiers and investors. It has been two-years and DEAP has already trained over 50 business executives on matters such as financial management, strategic planning, capital raising, value creation and value protection, controls, and good corporate governance, etc. On the other hand, ENDELEZA has listed 10 companies. We encourage more entities to leverage on these platforms for their sustainability, expansions, and growth.

Capital-raising measures

The pandemic created cashflow issues for listed companies, particularly for those that required funding to meet debt or contractual commitments. In such situations liquidity could turn also into solvency problems. That's why, governments and central banks intervened with measures such as furlough schemes and, forbearance from banks. A wide range of listed companies also called on existing shareholders through a variety of follow-on equity offerings including rights offers, open offers and placings.

Globally, the number of follow-on offerings increased by 20 percent during the pandemic – according to WFE. As we emerge from the pandemic, alternative capital raising approaches via capital markets present opportunity for both investors and issuers to benefit from capital-raising and

Mr Marwa is chief executive officer of the Dar es Salaam Stock Exchange
Email: moremi@dse.co.tz