Stock markets and sustainable development

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The Dar es Salaam Stock Exchange (DSE) recently launched its new Rules, among others are Rules related to issuance and listing of sustainable financial instruments – the kind of environmental sensitive green bonds, social sustainable bonds, blue economy bonds, or any other sustainable/sustainability-themed/labelled financial instruments. Listed companies are also required to report on ESG (Environmental, Social and Governance) factors as part of their Annual Reports. Meaning going forward entities could issue, and list financial instruments aligned to environmental protection, energy, and water efficiency; social equity and responsibility and human rights; as well as business ethics, compliance, and shareholder's democracy.

Given our status, these issues may seem far-fetched and not our immediate concern, but they are – as long as we are in the global community of capital markets and do compete with others for attracting capital inflows for investment activities within our economy. The world is met with investors who are conscious on ESG issues and could only invest in financial instruments and entities that are compliant with ESG principles.

With this legal/regulatory framework at the DSE entities can issue the said instrument or reporting on the said matters. As a stock market, the DSE is better positioned to encourage and motivate the accommodation of diverse financial products, listing entities and investors within its platform.

Why stock markets? Stock markets are fundamental institutions and market infrastructures in the financial system and markets, offering a variety of financial instruments that enable economic agents to pool, price, and exchange risks. Stock markets are part of the capital market – which is a highly specialized and organized financial market and an essential agent of economic growth because of its ability to facilitate the mobilization of savings for investments.

If well understood and utilized, they could be prime tools that drive the economy on its path to further growth and development.

This is because they are responsible for long term growth and capital formation by mobilizing funds for investments, ensuring efficient and effective allocation of scarce financial resources for optimal benefits to the economy, helping to reduce corporate sector's overreliance on short-term financing for long-term projects and enterprises while encouraging inflows of foreign capital. This means capital market has the potential to occupy an important place in the economic development of a society whose approach to economic development is market-based.

The growing importance of capital markets in the world has reinforced the belief that finance is a crucial ingredient for economic growth, stock markets being one of the key institutions in the financial sector and markets.

Economic growth, to a large degree, hinges on an efficient and inclusive financial sector – catering for the needs of various and different actors both on the demand and supply side, whether short term on long-term form of capital – pooling domestic savings and mobilizing foreign capital for productive investments.

An underdeveloped or poorly functioning capital market, which is illiquid and expensive, deterrers issuance, capital raising activities and investors (domestic or foreign) participation.

The capital market ought to enable the contractual savings industry to mobilize long-term savings from small individual households to larger institutions and channel them into long-term investments and economic productive activities. That

way it fulfills the transfer function of current purchasing power, in monetary forms, from surplus sectors to deficit sectors of the economy, in exchange for reimbursing a greater purchasing power in the future.

Despite the said relevance of capital markets within the economy, but for our country the private and public sector actors do not so much hold a positive attitude towards raising capital finance and listing on the stock market, thus limiting the attractiveness of the capital market as a saving and investment platform for investors, due to few listed companies.

For the past 20-years of DSE's existence only about Sh1.5 trillion has been raised (by public and private entities) via listing into the DSE (where Sh1 trillion has been via issuance of shares and Sh500 billion through corporate bonds). The current DSE domestic equity market capitalization is only about Sh10.5 trillion, i.e., less than 10 percent of the gross domestic product (GDP), indicating that the capital market is not utilized efficiently and effectively as a tool for capital raising and investment.

How can we make the capital market vibrant and play a significant role in the economy by channeling investment into the better use? By sustaining efforts in creating public awareness and enhancing financial literacy; by encouraging and motivating (via fiscal policies and other tools) private entities to consider offloading part of their ownership via public capital markets; by guiding some of the state-owned-entities, especially those with commercial mandates, to recapitalize via better corporatization and list into the stock market – in the process enhance their governance and performance improvement; by establishing (public and private sector) key institutions, also necessary for a vibrant capital market (the likes of investments banks -- for underwriting public capital market transactions, private equity and venture capital funds for financing private capital markets transactions and subsequently feeding into the exchange via exits, fund managers for pension and provident funds as well as collective investment schemes to provide consistent liquidity in secondary market and ensure sustainable/aligned valuations; etc).

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