Our missed opportunities and need to consider local participation (II)

Last week I urged on the need to consider local content, participation and economic empowerment in policies and laws we make, especially those involving key sectors of the economy or whenever we execute key policies that impact the economic and social aspects of our people.

I indicated that, we as a country have our share of missed opportunities in empowering our people economically through inclusiveness and participation policies in key sectors of our economy. I said, I believe this is largely due to a general lack of or failure in implementing policies that ensure there is local empowerment through ownership. This has significantly seen during our privatization process, but also in the extractive (mining) sector our economy.

As a result of such policies, the local stock market, which was supposed to be the key vehicle of implementing such policies, has not been treated as the primary national engine of long tern capital raising for economic development either by the Government or the donors. For example, instead of driving most privatisations through the Exchange, that was to ensure economic empowerment and inclusiveness and an equitable wealth creation, private/trade sale approach was chosen as the key privatization approach.

The consequences of such policies are an economically weak capital market, with inadequate supply of securities in the local stock exchange. I believe this is a big lost opportunity for financial inclusion, literacy and economic development.

The DSE is almost totally starved of securities other than Government bonds. In particular, out of more than 320 privatized state owned entities, only seven (7) got listed into the stock exchange. The impact of these 7 listed companies has been a wider ownership of Tanzanians – more than 100,000 Tanzanian private individuals and institutions got a chance to own these 7 companies. Collectively they benefit yearly (by way of returns in the form of dividends, capital gains and the accompanied tax incentives – hence wealth creation to our people). The Government also benefits immensely from quality job creation for its citizens, tax payments (the 7 listed companies are among top corporate tax payers), and other economic multiplier benefits.

Despite this lost opportunity -- the Government may still consider facilitating a drive to significantly increase in the supply of securities to the market through privatization and legislative action in some key chosen sectors i.e. mining, telecommunication, financial sector, etc. Without such structured, intended and clearly focused policy choices, the DSE may not become a significant player and facilitator of long term capital raising for public and private enterprises growth and development.

The consequences of a Government and Donor policy that specifically starves the DSE of adequate supply of securities is the loss of an economic multiplier for a broader growth in the economy. An exchange creates an economic multiplier over and above the pure capital raising for an issuer. When a Government does a private sale of a company, the only beneficiaries are the buyer, the seller, the advisors and the employees assuming the entity continues to operate locally.

By contrast when a company is sold via listing in an exchange there are a broader range of stakeholders which create an economic multiplier and also contribute to lower the cost of capital. The public entity is subject to the transparency and scrutiny of the exchange, the CMSA, the investing institutions and retail investors. This means it employs higher corporate governance standards. Research shows public companies out-perform their private company rivals in terms of revenue, profits and employment. Strong corporate governance of a public company also helps an entity to command a higher share price. A wider stakeholder base also creates wealth via trading of the shares and also provides the entity with a currency for future M&A, private equity and venture capital funds activities in its own rights.

Upon development and implementation of policies and laws that focus of enhancing the local content and participation – for example implementation of the Electronic and Postal Communication Act (EPOCA) or Mining Act of 2010 or Privatization through listing into the Exchange – we will definitely see the local Exchange become more vibrant, play a key functioning part of the economy, help businesses to grow, indirectly generate jobs, deepen development and impact lives of many Tanzanians through enterprise growth, jobs and alternative investment opportunities that efficiently priced.

Let me emphasize on this point because its important, if and when the Government decide to take a lead in supporting development of the local exchange through policies that purposely focus on local content and participation in the economy by way of ownership – we envisage to see DSE's inter-connectedness with other financial intermediaries, raise finance for companies and government (even local governments and government agencies) from both domestic and international pools of capital, and facilitate existence of other capital raising vehicles such as venture capital funds and private equities.

As is, the Exchange sits between people who have capital and want to invest and get return on their capital and those who need capital, such as companies that want to expand or government that need to raise money for education, health care, physical infrastructure or other priorities. The Exchange also helps the government to manage country's financial market's price risk by providing a mechanism to raise efficient and effectively priced capital. But for the exchange to be able to performance such role, it has to be intentionally developed by the government, through legislative actions, privatization and listing of its securities.

If our government decides to go this route -- we will not be the first to take such smart action. I was recently moved by the Sri Lankan exemplary courage, after 30 years of their civil war, the government decided to develop the local capital market by passing a legislative action that require all local banks and insurance companies to list into the local Exchange – the argument is, given the nature and business model of these institutions (they mobilise deposits (or liabilities) from the public for the purpose of lending (or investing) to the public. To the Sri Lankan government these institutions qualifies for public ownership and listing into the Exchange, for the purpose, among others: of enhancing corporate governance practices, ensure more transparency and accountability, afford investment opportunities, empowerment and economic inclusiveness to the local population and in developing the local capital market and the economy. As a result of such policies, Colombo Stock Exchange has more than 290 listed companies. We have only 12 domestic listed companies. Sri Lanka is one of may examples -- I recently indicated how Chile, Jordan, Hungary, Iraq, Nigeria, Russia and other may countries that have executed such policies successfully. Most European countries also did this during their industrialization era and are still doing this even to this day.