The Broader Case of Government Intervention in Capital Market Development

As demonstrated in my recent columns, in our country, the capital market is still relatively small and has not played a major role in resource mobilization and long term financing of the economy to date. As is, for example, there are only 12 domestic companies listed in the local stock exchange, compared to over 30 companies in Ghana, Kenya over 60 companies, over 250 companies in Nigeria, over 360 companies in Egypt and over 450 in South Africa.

Why compare ourselves with Egypt, Nigeria or South Africa? Are these relevant comparators? Yes and No – let us narrow our focus into our neighbour, Kenya – there are 61 listed companies in the Nairobi Securities Exchange – of these companies, seven (7) represents the agricultural sector; four (4) from the automobile sector; eleven (11) representing the banking sector; nine (9) companies from the commercial sector; five (5) from the construction sector; six (6) representing the energy sector; six (6) from the insurance sector; nine (9) companies representing the manufacturing sector; four (4) companies representing financial investment sub sector; one companies each from the telecommunication and the enterprise growth segment. So, most of the sectors in the Kenyan economy have used the local capital market to raise long term money from the public to finance their business enterprises expansion and growth which eventually resulted into more growth in job creation, more business prosperity, more economic growth, increased economic and financial empowerment, financial literacy, etc, etc. Apart from capital raising through issuance of shares, there are more than 25 outstanding listed corporate bonds in the Nairobi Securities Exchange – issued by banks, telecommunication companies, housing finance institutions, infrastructure related projects, etc – this also means companies have been using the Kenyan capital market to raise long term financing by taping into public money through issuance of bonds.

Back to us, we have 12 domestic listed companies representing nearly four sectors of the economy: five (5) representing the manufacturing sector, four (4) representing the banking sector, two (2) from the commercial sector and 1 from the agricultural sector. We have only four outstanding corporate bonds listed into our market.

If we use other common comparator that measures the depth and liquidity of stock markets, it is also clearly demonstrate the very small scale of our local stock market. While Kenya's domestic market capitalization to Gross Domestic Product (GDP) is about 40%, we are at 12%, while Kenya's market turnover ratio (as measured by stock turnover to market capitalization) is about 10%, we are at 1%.

What does these statistics tell us? Local businesses have not been using the capital market to drive their enterprises growth, creating jobs and channelling investments growth and economic growth through the use of our stock market, compared to other countries in the region and other frontier or emerging markets. It is also clear that Tanzanians have not been using the stock market for their savings and investment objectives. With such a dim picture, it seems that there is relatively minimal possibility that a highly securitized capital market can be produced in Tanzania in the short to medium term, that for now, the purely bank based financial market seems like the only way to go at least for now unless there is a clearly planned transformation drive to encourage and motivate the government and the private sector to learn to understand how the capital market works and how best it can be utilised to mobilise resources to finance businesses and projects within the economy.

I, in some cases believe, there has to be a champion within the government and the policy making system that clearly understand the need to drive policy framework and legal infrastructure that recognises the potential of capital markets in financial resources mobilization and financing long term projects in the country, with this in place, we can sketch the vision and route map for the long term direction and ambitions of policies that will enable us transform into a proper financial markets with a mix of various instruments to finance our enterprises and economic growth.

Why is important that the government has to actively play a role in the growth of the capital market industry? Why shouldn't the private sector take that leap? – the argument that the government takes a lead is based on the context of our fundamental political, economic and social history. The private sector may be educated and learn to use the capital market once the market is deep, liquid and provides good valuations through a proper pricing mechanism – this approach has mostly been use in the history of capital markets. Let's take an example of the Latin Americas Star Performer, Chile, back in the early 1980s under Jose Pinera Echenique decided to breath a life into the then Santiago Stock Exchange when he introduced privately run pension funds. The monies these funds accumulated enabled Chillen companies to prosper and expand operations far beyond their country's borders to the point where they dominate entire business sectors in Latin America. Currently Chillean Stock Exchange has 268 listed companies and a market capitalization of US$ 290 billion.

Chilean Government can exemplify the good use to which capital markets can be put. As dependable engines for sustained economic growth, importance of well functioning capital markets is hard to overstate. I understand that in many parts of developing world, as is in our own country, this importance is not yet fully grasped or, in deed, understood. In whatever case, we need to do something.

Other countries that are good examples to how best can the country (the Government) put the good use of the capital market into play is Hungary and Jordan – different from Chile that used the demand side, through pension reforms to grow their capital market, Hungary and Jordan increased the depth of their capital market by increasing supply of securities through privatization of key sectors and companies through listing into their local stock markets. We may decide today to learn and use strategies deployed by Chile (addressing the supply side), or Hungary and Jordan or even Sri-Lanka (as I indicated in my last week's column) the demand side to grow our capital market, grow businesses in our economy, create jobs, increase the wider economic welfare of people, increase our financial literacy and grow the economy at large.