**How young and small enterprises can access capital for their inception & growth**

Over the past few months, we have informed and developed arguments as to why and how private enterprises and the public sector can access funding from the public through an organised local capital markets for their growth, development and welfare. We discussed how equity (or shares), bonds (issued by either the government, government agencies, municipals or corporate) and Real Estate Investment Trust (REITs) products, and whose regulatory framework is in existence and the infrastructure that supports their issuance and trading in the organised market (stock exchange) is available, may be beneficial and may be effectively be used to support growth and development of key sectors of our economy, or facilitate internal savings mobilization to support productive investments and enterprises in our country.

Since its establishment in 1998, the Dar es Salaam Stock Exchange's legal and regulatory framework was structured in manner that enables only companies that are in a high end of their progress towards maturity i.e. corporates with sizable capital base, with years of business experience, operability and profitability, with existence strong corporate governance structures and with strategies and plans that are bankable and requires long term capital, to access capital for their growth and expansion. In this process, new business ideas and ventures, start up enterprises and small and mid-sized companies were excluded.

Late last year, we at the Dar es Salaam Stock Exchange in conjunction with the capital market regulator we introduced a new segment at the Exchange (Enterprise Growth Market) whose key objective is to enable small and mid sized companies and start ups to access long term capital from the public by issuance of shares.

We see this as being one of the key solutions towards addressing the long-term capital need of small and mid-sized enterprises and also a solution to unemployment to our youth graduating in sizable numbers from our expanded higher learning education. As is, with the high rate of unemployment, many young graduates, weary for long wait for job opportunities, have opted to start their own businesses to earn a living.

However, despite their good and well meaning intentions, conversely, lots of such entrepreneurial business ideas have sometimes been drained at the point of inception due to lack of start up capital. The common pathway for these entrepreneurs and entrepreneurial ideas has been (and is) to run to commercial banks for loans. But this has in some large cases proved futile due to their inability to afford worthy assets to guarantee the loan, but largely, due to structural challenges and nature of commercial banks and also relatively high interest rates that sometimes proves to be a challenge for business sustainability.

In addition most people are oblivious of the underlying fact that commercial banks are risk averse and, therefore, do not provide loan facilities for start up capital, and in addition to this by their form commercial banks can only provide short to medium term capital. Instead, they are keen to lend only to relatively mature businesses in need of working capital and that are in their expansion stages.

It is at this point that many such entrepreneurs drop their business ideas sometimes feels compelled to settle into the idea of poverty and in some cases for those lacking patience, into crime. But what are the options available to fund a start up in our economy?

As an entrepreneurs with an enterprise mind set, drive and focus, you need to work out ways of accessing avenues within your reach, one of these avenue may be to mobilise savings from one-off contract or a part time job. Alternatively, you may opt to pledge one of your assets, in whatever form and value, to a friend or family member for a loan to finance your business idea, but after a thorough feasibility study on the future potential and performance of the venture.

You can also approach any microfinance institution (MFI) with your business plan for funding. In most cases, MFIs, unlike commercial banks, target the economically active poor to fund their income generating activities because the poorer of the poor are unlikely to manage a loan and are in dire need of grants and hand out loans.

Apart from the business motive of making income from loans, MFIs have also social considerations of poverty alleviation and, therefore, they do not usually emphasize on collateral – they lend to the poor who do not have tangible collateral to back up their loans, such that instead of considering 5Cs of lending (character, capacity, capital, conditions and collateral) like commercial banks, they strongly consider 3Cs - character, capacity and capital.

One of the key consideration by MFIs, in order to qualify for loans for start up capital without collateral, you will need to form a group with other potential borrowers. Each member of the group will receive a portion of the loan for their individual business but they will co-guarantee one another. The group serve as a moral suasion to coerce any defaulting member to repay their outstanding loan lest the group faces the penalty of denial of further loans or other members become liable for the defaulter.

Elsewhere, you can also approach venture capital firms to provide equity financing to business plans or companies with high growth potential. There are a number of venture firms regionally offering equity financing for start-ups that have bigger plans on an identified business opportunity and have a bankable business plan. For you to win their favour, your idea must demonstrate unique characteristics, with clear competitive advantages besides strong market viability and future positive growth projections. However, because of the nature of the risk, venture capital firms expect to share a percentage of all the revenue or profits generated in future as your business partners. However, due to their stringent threshold requirements, lots of local business ideas fail at evaluation stage.

The other strong option available, as indicated earlier is raising capital from the public, like what grown up and matured corporates does. At the Dar es Salaam Stock Exchange, we have established an Enterprise Growth Market; a new segment that caters for capital needs of small and medium businesses, new ventures and start-ups. Listing requirements in this segments are not as stringent and requiring as those in the Main Investment Market segment, but upon compliance on key issues such as a well thought and bankable business plan, compliance to corporate governance requirements, good record keeping system, compliance to international standard in record keeping and reporting of business transaction and retaining the services of a Nominated Adviser – you may access public financing and listing your shares and bonds into the Exchange to enable investors an efficient entry and exit mechanism as well as proper price discovery and valuation of their investments.