Creating wealth through Capital Market

With stock exchanges becoming important sources of investment capital for large corporations, the positive experience with relatively sizable companies elsewhere in capital raising and other economic finance has revived debate on whether our exchange is capable of promoting wealth creation, trade, investment and economic growth. Suspicions over our own experience in raising capital for large corporates are sometimes not without basis.

According to IMF, this year, sub-Saharan Africa's economy is forecast to expand by around 6%, ahead of North Africa's growth of 4.5%. At least six African countries are expected to be among the 10 fastest-growing economies in the world. I its 2013 *African Attractiveness Survey* reported that perceptions of Africa among investors "are becoming more distinctly positive over the long-term horizon, with capital investments there set to reach $150 billion by 2015".

Tanzania is one of the African countries that expected to see substantial economic growth. This year (2014) our economy is estimated to grow by 7% -- has been on almost similar levels for the past decade -- mainly due to economic reforms, sound macro economic policies and the expanding private and public sector.

Given this growth prospects, the challenge for investors, entrepreneurs, business owners and enterprises is to identify the best avenue for raising long and sustainable capital and listing their companies into the exchange for easier and efficient future capital raising for further expansion. The stock exchange hold some advantages over, say, private equity in raising investment capital: Companies can raise large sums of money to expand operations without getting expensive short term bank loans.

As a country, we may plan and choose to make capital market one of key fundamental focus that will propel our economic growth, economic inclusiveness and wealth creation, especially now when we have decided to pursue a selective and aggressive economic growth model under the Big Result Now (BRN) or we may choose otherwise. What we have seen so far is that, under the resource mobilization component of the BRN, capital market is not strongly featured.

To underscore what role can the capital markets plays in economic development and wealth creation, let's consider the case of a Latin America's star performer, Chile, back in the early 1980s under Jose Pinera Echenique was responsible for breathing life into the then Santiago Stock Exchange when he introduced privately run pension funds. The monies these funds accumulated, now running into hundred of billions of dollars, 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.

Chile 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. However, in many parts of developing world, as is in our own country, this importance is not yet fully grasped or, in deed, understood.

As Brazil, Argentina and many other Latin America countries discovered in the 1980s, to both their dismay and detriment, an over-dependence on fickle foreign sources of capital undermines sources of capital even the best of economic policies can not guarantee sustained economic development. Only domestic capital markets, operating in a stable political environment, can accomplish that.

For enterpreneurs and business owners, with their usual entrepreneurial spirit and aggressiveness in their pursuit of success, can also make use of the capital market for their sustainable business expansion and growth. For them, one thing to note is that, to publicly list their companies, capital markets can either be seen as a blessing that empowers sustainable expansion and growth or can be seen as a merciless master imposing stern discipline – i.e. the need for transparency, compliance to listing and continuous listing obligations can be seen as detriment BUT, they may as well need to ask, at what cost?. Former Twitter CEO Dick Costolo, who successfully took Twitter public by listing on NYSE when it raised US$ 2.1billion, Twitter's market value is currently 10 times the IPO price and valuation – valued now at US$ 22 billion, is an example of moments where taking the company to the public can be seen as a blessing, whereas his colleague Mark Zuckerberg over at facebook is a contrast to the Twitter story – in contrast to Twitter, Mark and facebook found out the hard way how not to take the company public. Despite facebook's case, the decision to raise capital from the capital market and listing into the Exchange is largely the best. It is in very cases where we may know private companies turned into global conglomerates. For publicly listed companies, this is a common phenomenam.

As we motivate business enterprises to consider using the capital market for enterprise growth and development, we underscore the challenge met by family owned business to make such a bold decision as to bring their treasured companies into the public ownership and domain. To this argument – let me take the rest of this article on case where individuals took the exact decision to their own benefits:

Mr. Carlos Slim – Carlos is a Mexican business tycoon with personal treasure upward of US$ 67 billion. Carlos built his global empire by taking his companies public (and listing into the Exchange), enabling him to not just cash-in on his business acumen but ride the subsequent ups-and-downs of the stock market in a confortable manner. As the Mexican economy implored in 1982 when oil prices fell off a cliff and the government defaulted on its debts, Mr. Slim swung into action by buying up depreciated assets ranging from insurance companies, banks, aluminium smelter, supermarkets, chain of hotels and food and tobacco companies. He now owns the world's fourth largest mobile network operator America Movil.

Can our acumen local businessmen who bought privatized companies, sometimes at depressed prices, consider offload part of their holdings in these companies and list these companies into the local stock exchange so they can also benefit from the established market for their shares, that will then lead to a potentially higher demand and higher prices and valuations for their businesses and companies. As we have learned a listing will, among other factors:

- enable original shareholders to realize part or all their holdings
- benefit from the increased liquidity of their investment
- Increases the equity base of a company, allows future expansions and growth without the interest burden associated with borrowed funds
- Enhance availability of future funds, as a rights issue may be used to secure further equity if the need arises
- Easiness and less costly access to other forms of finance i.e. bank loans, corporate bonds, etc
- efficient & effective basis for the valuation of a company's shares
- facilitates implementation of share incentive schemes which in most cases results in a significant improvement of the motivation of staff and management

- The public attention focused on the company by the media may boost the morale of employees, as they share in the enhanced status of the company
- The enhanced status brought about by a listing favourably affects the company's relations with banks, suppliers, customers and the Government
- Stock exchange reports in the financial press result in the greater publicity for the company and its product