

# **CAPITAL MARKETS AND SECURITIES AUTHORITY**



## **A GUIDE TO ENTERPRISE GROWTH MARKET SEGMENT AT THE DAR ES SALAAM STOCK EXCHANGE**

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# **GUIDE TO ENTERPRISE GROWTH MARKET (EGM)**

## **1. Introduction**

In an effort to modernize and develop capital markets in Tanzania, Capital Markets and Securities Authority (CMSA) carried out a study on the market structure most appropriate for the country. The study identified the need to change the existing structure to cope with the requirements of the economy as well as to facilitate the implementation of national policies aimed at economically empowering Tanzanians. Such policies include policy on encouraging Small and Medium Enterprises (SME) to grow, the National Strategy for Growth and Poverty Reduction (NSGR - MKUKUTA), the Properties and Business Formalization Programme (PBFP - MKURABITA) and the Zanzibar Economic Growth Programme (ZEGP - MKUZA).

The implementation of above policies, require a market segment which will cater for the needs of a section of the economy that up to now has not been able to tap into capital markets. With the support of CMSA, DSE is about to launch the Enterprise Growth Market (EGM) which will support the implementation of above policies by creating entry to capital markets for entities which up to now have not had access to this opportunity. EGM is envisaged as a new equities market segment that will exists in conjunction to, and complement the existing Main Investments Market Segment (MIMS) at the Dar es Salaam Stock Exchange (DSE).

## **2. Rationale for the Establishment of Enterprise Growth Market**

EGM is an equity market specifically intended for Small and Medium Enterprises (SMEs) and start-ups. With the liberalization of the Tanzanian economy, entrepreneurship is growing more and more; the number of SMEs has been increasing and is expected to increase further. However, both the Government's policy and strategic studies and CMSA's capital markets studies have unequivocally shown that access to capital has been a key hindrance to the development of entrepreneurship and growth of SMEs

Creating an environment that is conducive to the growth and development of entrepreneurship and SMEs, is a key objective and an integral part of the Government's National Strategy for Growth and Poverty Reduction and Zanzibar Economic Growth Programme initiatives. Enhancing and facilitating access to a capital markets thus is key to creating an environment that is conducive to entrepreneurship and SME growth. Another key policy initiative, the Properties and Business Formalization Programme (which is an integral part of NSGR) also formulated the need for eliminating barriers to accessing Capital Markets. Easier access to capital markets should be one essential benefit for enterprises to move from the informal to the formal sector. However MIMS, with its relatively stringent market entry requirements, could not provide these essential incentives.

Also, commercial banks have not been able to address the needs for capital for the startup and SME segments. Banks, being too few and relatively "small" have been, extremely adverse to risk and highly conservative in their lending policies. While access to short-term, overdraft or trade financing type, loans have become more common accessible, longer term loans are still tied to very stringent collateral requirements as well as high medium and long term interest rates. Obviously, the Properties and Business Formalization Programme is also expected to impact the banks policies regarding collaterals. However, the introduction of the EGM market should bring a healthy competition into the sector, and an alternative source of funding for SMEs.

Another dimension for the need for a new market structure is the need to enhance the growth and development of the equity market. EGM is expected to bring new dynamism and vibrancy to the equity market, through an increase in issuances and listings. In time, for investors, this should translate into more choice in investment opportunities and more investment incomes. Obviously, this would contribute to enhancing the Tanzanian saving culture.

### **3. Reassessment of Market Structure**

Having established the need for restructuring the market structure, CMSA considered various alternatives. The two main contending solutions to restructuring equities markets were the creation of EGM' or the fostering of the Over the Counter (OTC) market.

CMSA's appropriate market structure study examined both scenarios. Both local surveys and experience from other countries pointed in the direction of EGM. It was found that the ad-hoc, not organized and not formalized structure of OTC for equities is not suitable for Tanzania. Surveyed potential issuers and investors were extremely uncomfortable with the lack of organization and formalization of OTC trade. Also, several countries which had experimented OTC driven growth of capital markets, had negative experiences. Many such experiments, in essence failed, primarily because of not having been able to attract issuers and investors; as well as problems caused by fraud, negligence and mismanagement, thus aspects that arose from low levels of formalization and organization that is inherent to OTC markets.

Ultimately, the choice was to implement EGM: thus, a market segment within the organized and formalized structure of a Dar Es Salaam Stock Exchange, with less stringent issuance and listing rules of the existing equities market segment. The equities market thus becomes two tiered, EGM being the less stringent, more easily accessible, and therefore, by definition, more risky segment aimed at start-ups and SMEs; and MIMS the more stringent, less accessible and less risky market segment aimed at larger, more established enterprises. EGM is also expected to be the market segment on which organizations can grow and mature until they are ready for MIMS listing.

## **4. Enterprise Growth Market - Benefits**

### **4.1. Issuers:**

4.1.1. EGM will help enterprises that can not access capital markets, to do so fairly conveniently;

4.1.2. Enterprises can obtain needed capital for their expansions;

4.1.3. EGM expands the financing options available to SMEs and start-ups;

4.1.4. Enterprises wishing to raise capital after being listed on the EGM have the benefit of knowing the price at which new shares will be issued (price discovery);

4.1.5. New economic ventures which would have been impossible to implement due to lack of capital can now be implemented;

4.1.6. EGM has a built-in system that assists potential companies for listing to plan and manage the company right from the time the idea of running the company is conceived to actualization of the idea.

### **4.2. Investors:**

4.2.1. Investors have a wider choice when investing their funds;

4.2.2. EGM can be used to diversify investments;

4.2.3. Investors are able to unlock their values in EGM companies; and

4.2.4. Investors are in a position to use EGM company shares as collateral as the worth of such shares will be known.

### **4.3. The Economy:**

4.3.1. EGM enhances transparency and accountability - Issuing and getting listed, even under the less stringent rules of EGM, will still involve regulatory and public scrutiny. Also, the involvement of shareholders in companies' decision making should contribute to enhancing good corporate governance practices.

4.3.2. EGM is expected to increase government tax revenues – Public companies are less prone to evading and avoiding taxes. Getting SMEs to become public organization should contribute to a decrease in the practice of evading taxes, thus lead to higher tax revenues.

4.3.3. EGM facilitates the implementation of the Government policies on growth of Small and Medium Enterprises (SME), National Strategy for Growth and Poverty Reduction (NSGR - MKUKUTA), Properties and Business Formalization Programme (PBFP - MKURABITA) and Zanzibar Economic Growth Programme (ZEGP - MKUZA) - the above policies all require the facilitation of access to capital and capital markets. EGM will facilitate access thereby contributing to the successful implementation of these policies.

4.3.4. More employment is created as a result of expanded operations - it is expected that EGM listed companies will access capital through capital markets; they will be able to expand their operations and therefore increase employment both directly and indirectly. This should lead to increased economic growth. Also, the tax payer base should increase

(more employees paying taxes) which should lead to more income for the government.

4.3.5. Contribute to the economic empowerment of Tanzanians – By facilitating access to capital EGM will contribute to the growth of entrepreneurship, and thereby allow more Tanzanian to become economically independent.

## **5. Enterprise Growth Market - Issuing and Listing Requirements**

The following are the eligibility conditions for a company applying to issue and list its shares on EGM:

- 5.1. 4.1. Must be incorporated as a public company under the Companies Act 2002;
- 5.2. No minimum capital is required;
- 5.3. No minimum track record is required;
- 5.4. No minimum profitability history is required;
- 5.5. If the company has no track record; the promoters will not be allowed to exit for three years from listing;
- 5.6. The company must appoint a Nominated Advisor for the duration of its listing on EGM;
- 5.7. Must have 5 years business plan and an independent technical feasibility report prepared by the Nominated Advisor.
- 5.8. Minimum number of shareholders is 300;
- 5.9. Public shareholding in EGM should be at least 20% of the issued shares;
- 5.10. Must prepare a Prospectus to be approved by the CMSA;
- 5.11. Publication of an abridged Prospectus in the press;
- 5.12. Must have an Audit Committees as per the CMSA Guidelines on Corporate Governance 2002; and
- 5.13. The Memorandum and Articles of Association should provide for the observance of good corporate governance.

## **6. Enterprise Growth Market - Issuing and Listing Procedures**

An issuer who has met the initial listing conditions must follow the following procedures:

- 6.1. The issuer must appoint a Nominated Advisor who will nurse the company from the time the idea of raising capital came.
- 6.2. The issuer must submit to CMSA and DSE the application of a Nominated Adviser for approval of both institutions;
- 6.3. The issuer must appoint a team of consultants to prepare the company for public issue of securities and the listing of these securities on the stock exchange;
- 6.4. Prepare a prospectus for the purpose of public offer and listing that must be approved by CMSA.
- 6.5. The approval of the prospectus allows the issuer to start selling its securities
- 6.6. The issuer must retain a nominated advisor to advise the company throughout its listed life on EGM;

## **7. The Nominated Advisor**

### **7.1. Roles and Responsibilities**

This is a new category of advisors. Nominated Advisors will operate on the EGM market segment only. The role of a Nominated Advisor will be to act as a key consultant to companies and help them achieve EGM issuance and listing requirements. In the case of start-ups, Nominated Advisors are also expected to help in the transformation of a business idea into reality, thus assist in the incorporation and organization of the company. Such companies are expected to use capital markets to raise the needed capital for the launching of the company by obtaining listing on EGM.

Nominated Advisors have to be appointed for the duration of issuers' listings on EGM as they are also expected to protect investors interests' on an on-going basis by ensuring sound financial management. Furthermore, they are expected to guide the issuer towards MIMS listing.

Companies wishing to obtain listing on EGM will not be permitted to list if they have not appointed a Nominated Advisor.

### **7.2. Conditions for one to be appointed as Nominated Advisor**

As mentioned earlier, Nominated advisor will stay with the company for its entire listing life on EGM (until the company graduates to MIMS listing or is de-listed). The conditions to be met to be appointed nominated advisors are as follows:

- 8.1. Must be incorporated as a public company under the Companies Act;
- 8.2. Must have enough professionals who are licensed by CMSA;
- 8.3. Must have an adequate capital as prescribed by CMSA.

N.B: Please note the role and responsibilities of the other consultants and advisors can be referred to in the booklet 7 "Issuers Guide to Primary Markets"

## **8. Enterprise Growth Market - Issuance and Listing Fess**

### **9.1 Capital Markets and Securities Authority – Prospectus Evaluation Fee.**

<b>Market value of shares</b>	<b>Fees charged</b>
TZS 1 billion or less	TZS 2 million
Between TZS 1 billion and TZS 5 billion	TZS 1 million plus 0.1% of the amount exceeding TZS 1 billion
Between TZS 5 billion and TZS 10 billion	TZS 5 million plus 0.05% of the amount exceeding TZS 5 billion
More than TZS 10 billion	TZS 7.5 million plus 0.025% of the amount exceeding TZS 10 billion

## 9.2 Dar Es Salaam Stock Exchange – Listing Fee.

Initial Listing Fee (when a company comes to the market for the first time)	0.1% of the value of the securities to be listed (Min. TZS 1 million - Max. TZS 10 million)
Additional Listing Fee (payable by a company already listed and is seeking listing of additional securities)	0.1 % of the market value of the additional securities to be listed (Min. TZS 1 million - Max. TZS 10 million)
Annual Listing Fee (payable annually by all listed companies)	0.025% of market capitalization (Min. TZS 1 million - Max. TZS 10 million)

### **10. CAUTION:**

The Entrepreneurship Growth Market will be inherently risky. It will be more risky than the Main Investments Market Segment, the equity market that investors are currently used to. Investors in this market segment are expected to be extra cautious when investing their money. Just like in other investments and in MIMS investors should carry out due diligence before investing. This market calls for informed investors who can assess the market and make informed decisions about the companies they invest in. Investors who cannot carry out the necessary assessment or who have doubts should consult investment advisors, brokers or dealers before investing in EGM listed companies.

For further enquiries contact:

Chief Executive Officer,  
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## ***Appendix 1***

### **LICENSED DEALING MEMBERS OF THE DAR ES SALAAM STOCK EXCHANGE**

#### **1. Rasilimali Ltd.**

TACOSHIL Building Sokoine Drive, DSM

Tel: +255 22 211 1708

Fax: +255 22 212 2883

Email: [rasilimali@africaonline.co.tz](mailto:rasilimali@africaonline.co.tz)

#### **2. Tanzania Securities Ltd.**

7<sup>th</sup> Floor, IPS Building

Samora Avenue and Azikiwe Street, DSM

Tel: +255 22 211 2807

Fax: +255 22 211 2809

Email: [tsl@muchs.ac.tz](mailto:tsl@muchs.ac.tz)

#### **3. Solomon Stock Brokers Ltd.**

Ground Floor, PPF House

Samora Avenue and Morogoro Road, DSM

Tel: +255 22 211 2874

Fax: +255 22 213 1969

Email: [solomon@intafrica.com](mailto:solomon@intafrica.com)

#### **4. Vertex International Securities Ltd.**

Annex Building – Zambia High Commission

Sokoine Drive and Ohio Street, DSM

Tel: +255 22 211 0392

Fax: +255 22 211 0387

Email: [vertex@intafrica.com](mailto:vertex@intafrica.com)

#### **5. Orbit Securities Co. Ltd.**

3rd Floor, Twiga house

Samora Avenue, DSM

Tel: +255 22 211 1758

Fax: +255 22 211 3067

Email: [orbit@orbit.co.tz](mailto:orbit@orbit.co.tz)

#### **6. Core Securities Co. Ltd.**

Ground Floor, Twiga house

Samora Avenue, DSM

Tel: +255 22 2123103

Fax: +255 22 2182521

Email: [info@coresecurities.co.tz](mailto:info@coresecurities.co.tz)

## ***Appendix 2***

### **Licensed Investment Advisers**

#### **1. Orbit Securities Company Limited**

3rd Floor, Twiga House, Samora Avenue  
P.O.Box 70254 Dar es Salaam  
Tel: 255 (22) 2111758  
Fax: 255 (22) 2113067  
E-mail: orbit-sec@raha.com

#### **2. Tanzania Securities Limited**

7th Floor, IPS Building, Samora Avenue / Azikiwe Street  
P.O.Box 9821 Dar es Salaam  
Tel: 255 (22) 21 12807  
Fax: 255 (22) 21 12809  
E-mail: tsl@muchs.ac.tz

#### **3. Standard Chartered Bank Tanzania Limited**

International House, Shaaban Robert / Garden Avenue  
P.O.Box 9011 Dar es Salaam  
Tel: 255 (22) 2122160 / 2122162  
Fax: 255 (22) 2122089

#### **4. Rasilimali Limited**

Tacoshili Building, Sokoine Drive  
P.O. Box 9373 Dar es Salaam  
Tel: 255 - 22 - 2111711 / 255 (0) 744 777818  
Fax: 255 - 22 - 2113438

#### **5. Consultants for Resources Evaluation Limited**

Ground Floor, Twiga Building Samora Avenue  
P.o. Box 23227 Dar es Salaam  
Tel: 255 - 22 - 2125147  
Fax: 255 - 22 - 2122562  
Email: core@cats-net.com

#### **6. Unit Trust of Tanzania**

3rd Floor, Sukari House Sokoine Drive / Ohio Street  
P.O. Box 14825 Dar es Salaam  
Tel: +255 22 212 250 I / 213 7592/ 212 8460 /61  
Fax: +255 22 21 3 7593  
Email: uwekezaji@utt-tz.org  
Website: www.utt-tz.org

### **7. Ernst &Young Advisory Services**

Utalii House, 36 Laibon Road Oysterbay  
P.O.Box 2475 Dar es Salaam  
Tel: +255 22 266 6853 / 266 7659  
Fax: +255 22 266 6869  
Email: EYAS@tz.ey.comguarantee@raha.com

### **8. Choice Capital Management Company Ltd.**

5<sup>th</sup> Floor, NIC Life House, Wing B Sokoine Drive/ Ohio Street  
P.O. Box 61269 Dar es Salaam  
Tel: +255 22 213 3997  
Website: [www.choicecapitalmanagement.com](http://www.choicecapitalmanagement.com)

### **9. Commercial Bank of Africa (Tanzania) Limited**

Amani Place, Ohio Street,  
P.O. Box 9640, Dar es Salaam  
Tel. +255 22 2130113  
Fax: +255 22 2130116  
E-mail: [info@cba.co.tz](mailto:info@cba.co.tz)  
Website: [www.cba.co.tz](http://www.cba.co.tz)

### **10. FTC Consultants Limited**

2<sup>nd</sup> Floor, Osman Towers Zanaki Street  
P.O. Box 22731 Dar es Salaam  
Tel: +255 22 211 5251 / 2 / 3  
Fax: +255 22 213 0519  
Email: [info@mbn.co.tz](mailto:info@mbn.co.tz)

### **11. Exim Advisory Services Ltd.**

8<sup>th</sup> Floor, Office Academy Scheme Building, Azikiwe Street  
P.O. Box 3219 Dar es Salaam  
Tel: +255 22 213 4156  
Fax: +255 22 213 4157  
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