



*Full length article*

# **An Assessment of the Effectiveness of the Enterprise Growth Market (EGM) as an Alternative Capital Market in Tanzania, A Case of Selected Companies**

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## **ABSTRACT**

The two main obstacles to Tanzanian growth, according to the 2010 Micro, Small, and Medium Enterprises (MSME) Survey Report, are a lack of operating capital and restricted access to financial markets. The Capital Markets and Securities Authority (CMSA) conducted a study to address the financing issues faced by Tanzanian SMEs. The report proposed the creation of an EGM market sector at the Dar es Salaam Stock Exchange (DSE) to meet the capital-raising needs of SMEs. It is therefore the purpose of this study was to establish the effectiveness of the Enterprise Growth Market Segment as an alternative capital market in Tanzania. The study used quantitative study techniques. The population of the study included medium enterprises that have the potential to enlist in the EGM. The sample size is 150 respondents and only 142 responded. The researcher used both primary and secondary data. The study has revealed that the EGM is relevant for the growth of the country's economy through the empowerment of the SME industry in Tanzania as it provides an alternative source of capital. However, the findings have revealed that the intended enterprises are still reluctant to use the window as they lack information, knowledge and difficult terms and conditions. The listed companies on the EGMs have performed fairly well in their IPO. It is therefore suggested that the DSE should do more sensitization concerning the window.

## **1. Introduction**

Small and Medium Enterprises (SMEs) growth is contingent upon a favorable business climate. SMEs in Tanzania, suffer several obstacles, including inadequate capital. SMEs have the opportunity to raise capital either through Debt or Equity. Research has reported limited access to Debt by SMEs. A report by JICA(2017) reported SMEs have issues with high borrowing costs while financial institutions declared a lack of funds for long-term loans and high lending interest rates due to high-interest long-term deposits. Despite the limitations to borrowing, raising capital through the Equity market has not been fully harnessed by SMEs. To support the government's initiatives, the Capital Market Security Authority (CMSA) and Dar-es-Salaam Stock Exchange (DSE) introduced the Enterprise Growth Market (EGM). EGM allows medium enterprises that can not raise capital through the Main Investment Market Segment(MIMS) to do so through this alternative window (EGM) with comparably relaxed conditions. Through this initiative, Tanzania's government aims to establish a robust, diversified, and

competitive economy by 2025, capable of addressing development challenges and adapting to regional and global market conditions.

CMSA introduced a 2-tier equity security market structure in 1996, initially focusing on less risky tier-1 equity securities. Four years later, DSE listed debt securities, allowing treasury bonds and less risky corporate bonds. The market structure now includes operational and non-operational tiers, as well as a fixed-income securities market segment. The Capital Markets and Securities Authority (CMSA) conducted a study to modernize Tanzania's capital markets and develop a market structure that supports economic growth, particularly for Small and Medium Enterprises (SMEs), by introducing a new market segment i.e. EGM. In 2013, DSE launched the Enterprise Growth Market (EGM) to provide access to capital markets for SMEs, but despite high demand for capital and available investment opportunities, SMEs have been reluctant to register. A study aims to identify factors contributing to the ineffectiveness of the EGM window and explore potential solutions for bridging the gap between enterprises. The study investigates the level of awareness of the existence of DSE's EGM segment to SME owners in Tanzania and whether access to information and listing conditions has influenced the listing of SMEs on the DSE (EGM).

## **2. Literature Review**

The problem of financing accessibility is one of the biggest challenges faced by SMEs. SMEs suffer from a lack of access to sufficient finance from the money and capital markets, particularly in emerging nations. This is caused, in part, by the perception of higher risks, which leads to a high business death rate; information asymmetry; inadequate collateral; absence of or unverifiable history of previously obtained credit; and insufficient historical records of the company's transactions (JICA, 2017). Moreover, personal savings are insufficient to support the expansion of a corporation. Due to significant barriers to SMEs' access to capital and the high cost of financing through traditional channels, it is necessary to look into other options (Ajekwe et al., 2024). Owners of SMEs should therefore search for equity from alternative sources, such as the stock market. After realizing how crucial SMEs are to their nations, governments in both rich and developing nations began to create stock markets that are favorable to SMEs.

The Alternative Investment Market (AIM), a self-regulated submarket of the London Stock Exchange (LSE), is another prosperous SME-focused market. The majority of AIM-listed businesses are tiny and extremely hazardous, even though they are not startups. Since its launch in 1995, AIM has helped over 3000 companies raise well over £25 billion. Less regulation and the absence of capitalization or share issuance requirements give flexibility (Poutziouris and Wang 2004).

According to a study looking into how private companies in the UK feel about venture financing and going public on SME stock markets, family business owner-directors are not as excited about public equity financial development methods. The percentage of nonfamily enterprises considering flotation was 32.4%, but just 18.2% of family businesses reported having thought about it (Poutziouris and Wang, 2004). However, not everything in the capital market has gone as planned. For example, there are still obstacles preventing SMEs from entering the capital market due to their unfavorable attitude toward the stock market, as was seen in family-owned businesses in the UK (Poutziouris et al., 2000).

SMEs in Ghana and other nations attempt to use long-term debt to finance their fixed assets and short-term debt to finance their current assets. The sole choice available to SMEs with minimal asset structures is short-term debt financing because they have more difficulty obtaining long-term debt. In Ghana, long-term lenders usually need landed property as security before extending credit (Johnson and Kotey, 2018).

In Lusaka, {Chisanga (2023) & Chisanga et al.,(2022)}, carried out a research to assess the effectiveness of the Lusaka Stock Exchange Alternative-Market in raising Capital for SME's. In order to give Small and Medium Enterprises (SMEs) and other emerging enterprises a more enabling platform or channel to engage in the financing Markets and acquire financing for expanding their businesses, the LuSE Alternative Market (Alt-M) was founded in 2015. As a result, the LuSE Alt-M's efficacy is called into question. According to the study's findings, Alt-M is ineffective as it stands now, but if it can list SMEs, it may be able to achieve its goals.

A collaboration between the Department of Trade and Industry and the Johannesburg Stock Exchange Ltd., ALT-X is Africa's first alternative exchange specifically designed for small and medium-sized enterprises. Compared to the main market, ALT-X offers a more flexible regulatory framework for smaller companies to flog their shares. The listed companies felt that listing would not be too expensive, that they would not lose control, that they had the capabilities needed to list, that listing would bring value, and that AltX accessibility would be advantageous (Mosupye-Semenya, 2024).

Sebastian and Merino (2019) look into if more steps need to be taken to give South African SMEs access to equity financing. The results show that companies listed on the AltX had debt levels that were noticeably greater than those listed on the main board of the JSE. This is typically the riskier but easier to obtain short-term debt. To determine the factors influencing SMEs' capacity to list on the Lusaka Stock Exchange Alternative Investment Market (LuSE AIM), Kawimbe et al. (2022) carried out a study in Lusaka. Examine if regulatory requirements are a factor that SMEs should take into consideration when deciding whether to register on the AIM; ascertain whether corporate governance is a significant factor in determining SMEs listing on the AIM; and ascertain whether SMEs support platforms are significant factors in determining SMEs listing on the Alt-M. According to the report, information accessibility is essential for listing, and small and medium-sized businesses will be more likely to list if the regulatory climate is supportive to them.

A research by Shumba and Mpofo (2023) examined the secondary stock market in Zimbabwe that would serve SMEs. Based on the issue that small and medium-sized businesses are having difficulty obtaining capital funding and are behind schedule in listing, their study conducted a critical analysis for the establishment of a secondary stock exchange in Zimbabwe for small to medium-sized businesses. Due to the stringent constraints imposed on potential enterprises, small and medium-sized businesses were unable to meet the requirements for listing on the stock exchange. Many small and medium-sized enterprises find it difficult to meet the ZSE's high minimum share equity level and are reluctant to disclose a portion of their ownership to the public.

Okello (2018) looked into the variables that affect SMEs' listing on the Growth Enterprise Market Segment (GEMS) in Kenya. The study set out to find out if the business profile, managerial competency, and information awareness level affected SMEs' listings on GEMS. The results show that listing is hampered by both low managerial competencies and low awareness levels. Furthermore, Wanyangi (2022) ascertained the impact of the Ibuka program on listing to the Nairobi Securities Exchange's Growth Enterprise Market Segment (GEMS). However,

the survey discovered that the hostees knew very little about the corporate governance requirements, GEMS benefits, and qualifying requirements. Most of the companies expressed interest in listing with GEMS, nevertheless.

The majority of SMEs in Tanzania, according to a survey of the country's top 100 SMEs, mainly rely on savings or bank loans for expansion capital (KPMG, 2011). As a result, given the sector's significant contribution to economic development, there is a need for a more dependable and lenient source, such as the Enterprise Growth Market segment, to support the growth of SMEs in Tanzania. The following advantages of the stock market were emphasized in Tanzania during a presentation to the Diaspora conference: By accessing the largest economy in East Africa, the company will be able to increase its profile, receive an objective value for its business, reward and encourage staff through share incentive plans, and get access to reasonably priced long-term funding (CMA 2011).

Mwenda et al., (2021) conducted a study to establish the impact of listing on the Performance of Firms Listed at the Dar es Salaam Stock Exchange in Tanzania. They found that following listing, a firm's performance improved. According to the report, companies should go public since this will enable them to transfer risk to other shareholders and raise money for further expansion. This stresses the benefits SMEs would gain if they enlisted their companies.

In order to determine listing potential and the degree of knowledge among small business segments in Tanzania's Moshi Municipality regarding the enterprise growth market, Ndayisenga (2022) carried out a study. According to the study's findings, the low number of SMEs in Moshi Municipality that are listed on EGM nationwide can be attributed to their lack of awareness of EGM and consequent lack of potential to list.

The reviewed literature shows that countries that established alternative stock markets with relaxed conditions to cover SMEs never obtained the expected results. Most countries (UK, Zambia, Zimbabwe, Kenya, South Africa, Ghana and Tanzania) experienced low listing on these windows. It is therefore imperative to establish the stumbling block to this initiative of various governments.

### **3. Methodology**

This study employed a quantitative research design. The study surveyed SMEs (entrepreneurs) owning medium businesses that have the potential of floating shares on EGM. The focus was on the companies that participated in 100 medium-sized companies in Tanzania from 2019 to 2023. A sample of 150 respondents was used.

To choose respondents, the study used basic purposive random sampling procedures. While a simple random sample maintained equal chance selection, reduced bias, and collected data on innovative persons and stakeholders, purposeful sampling ensured that respondents had relevant information.

Both primary and secondary data were employed in the research investigation. Questionnaires were used to get primary data. Surveys were created and given to business owners of medium-sized enterprises. Journals, newspaper articles, research studies, and other related guides on listed businesses were among the capital market-focused materials that were studied to collect secondary data from DSE documentary sources. Using statistical techniques such as pie charts and graphs, the gathered data was arranged and examined. The results were then read through without any prior assumptions about how they should be interpreted. The results were examined concerning the study's objectives. At the conclusion, the data was tabulated, examined and interpreted.

Strict adherence to ethical standards was maintained throughout the data collecting and processing process, including informed consent and confidentiality. Permissions were acquired from the respondents if needed.

#### 4. Findings and Discussion

##### 4.1 Awareness about the EGM and Willingness to Register/Enlist

The respondents were asked to state their awareness of the existence of EGM and whether they were willing to register or not. It is found that 71.8% (102) of the respondents are not aware on the existence of EGM. On the otherhand, 64.1% (91) respondents are willing to enlist their companie on the EGM.

Table 1: Awareness of the EGM

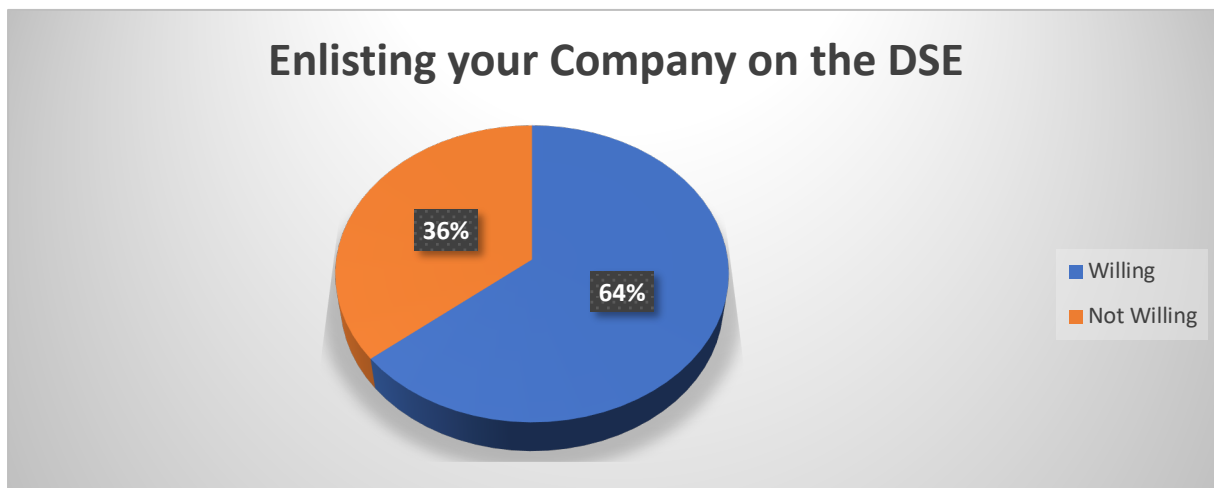
	Frequency	Percent (%)
<b>Not Aware</b>	102	71.8
<b>Aware</b>	40	28.2
<b>Total</b>	142	100.0

Source: Author (2024)

This low level of awareness limits SMEs' participation in the EGM window. Studies by ((Okello, 2018) and (Ndayisela, 2022)) found that participation in the stock market is influenced by the extent the targeted population is aware. Markets where there is low awareness experienced low listing. This suggests that if DSE sensitizes on awareness and benefits of the EGM window would boost the level of registration of SMEs.

However, despite this low awareness about the window, SMEs showed promising readiness to enlist their company in the EGM. This is proved by 64.1% of respondents confirming their readiness. This level indicates that even those who are not aware are willing to enlist if they are well informed. The impact of awareness to listing is also reported by Chisanga (2023) in the Lusaka stock market. Where the study suggested sensitization to increase awareness. Figure 1 below summarises the responses.

Figure 1: Willingness of enlisting a company on the DSE



Source: Author (2024)

#### 4.2 Whether access to information has influenced listing of SMEs on the DSE (EGM)

The study went further to find out whether access to information affects the listing of SMEs in the DSE (EGM window). It was found that 114 respondents (80.3%) believed that access to information influences the listing of SMEs in the alternative window whereas 19.7% of the respondents thought that access to information has no influence whatsoever on the listing of SMEs. This is an indication that access to information influences the listing of SMEs in the EGM. Similar to this finding are studies by Okello, (2018) and Kawimbe et al., (2022) who found access to information as an obstacle to SMEs listing on the alternative capital market. However, Mosupye-Semenya, (2024) found that SMEs had no problem accessing information but they were limited by other factors like demand and supply of equity.

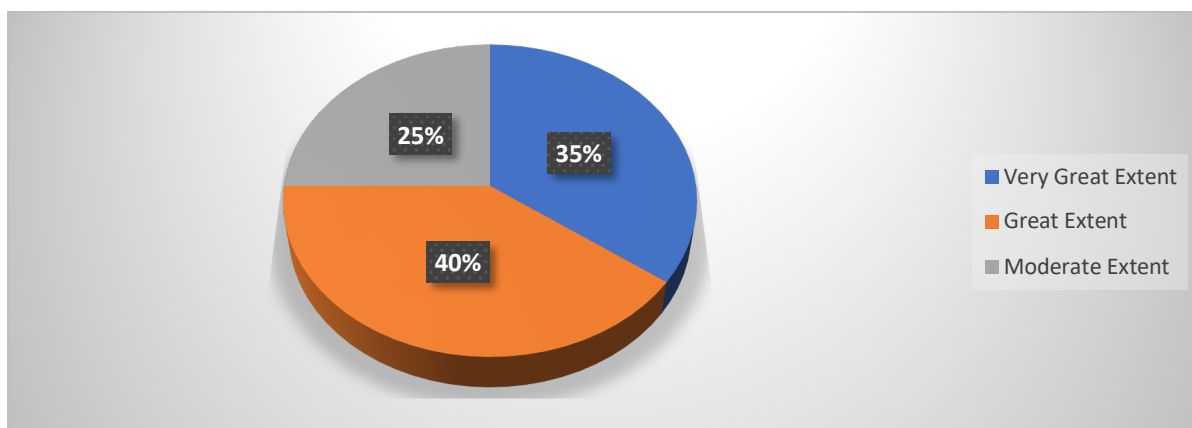
Table 2: Whether access to information has influenced the listing of SMEs on the DSE (EGM)

	Frequency	Percent (%)
<b>Has Influence</b>	114	80.3
<b>Has No Influence</b>	28	19.7
<b>Total</b>	142	100.0

Source: Author (2024)

Those who agreed that access to information influences the listing decisions of SMEs expressed their opinion on the extent to which information accessibility influences the listing of SMEs. This is described in Figure 2 below.

Figure 2: The extent to which access to information has influenced the listing of SMEs on the EGM



Source: Author (2024)

From the findings it is clearly that access has greater influence to listing. 35% of respondents had an opinion that information accessibility influences listing to a “Very Great Extent” while 40% opined “Great Extent” influence and 25% “Moderate Extent”.

#### 4.3 Terms and conditions for listing on the DSE

The research asked the participants to determine whether the terms and conditions established by the capital market favor the listing of small and medium-sized enterprises (SMEs) in the EGM. According to the study, the majority of respondents 76% opined that the terms and conditions set by the capital markets are not favorable

for SMEs' listing on the EGM while 24% of respondents thought that the terms and conditions set by the capital markets are favorable. This finding aligns with most researchers including Okello, (2018), Ndayisenga, (2022) and Merino,(2019). However the findings differ with what was found by Mosupye-Semenya, (2024). Therefore this shows that stock markets are unique and face different challenges.

Table 3: Are terms and conditions set by the Capital market favorable for the listing of SMEs in the EGM?

	Frequency	Percent (%)
<b>Favorable</b>	34	24%
<b>Not Favorable</b>	108	76%
<b>Total</b>	142	100.0

Source: Author (2024)

### 5. Conclusion and Recommendations

The EGM in Tanzania is crucial for economic growth by empowering the SME industry. Swala Oil PLC completed its IPO, raising at least 6.65 billion TZS, while Maendeleo Bank PLC fully subscribed at 100%, resulting in a market capitalization of 5.44 billion TZS. Mkombozi Bank PLC's shares surged after listing, despite an under-subscription of 25%. However, challenges like listing conditions, access to information and unfavorable government policies hinder SMEs' listing. To develop SMEs into larger contributors, suitable solutions must be developed.

The study suggests public awareness about the benefits of listing and investing in market segment shares, global distribution of trading data, hiring employees to provide financial information, and strict standards for SMEs. It also suggests improving SMEs' entry into EGMs and restructuring rules for listing in the MIMS to make it affordable. The study also recommends reducing listing requirements, creating venture capital and private equity firms, and training SME owners in business management to enhance financial and ethical records.

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