

Introduction

Small and medium enterprises (SMEs) have a major role in contributing towards long-term economic growth and employment. However, SMEs often face limited access to financing due in part to the relatively higher risks associated with investing in them. The SME financing challenge has been exacerbated following the introduction of significant financial regulatory reforms in the aftermath of the global financial crisis, heightening banks' risk aversion when extending loans.

Capital markets therefore have an imperative role in bridging this financing gap through the provision of alternative funding sources for SMEs, particularly as their needs evolve over the different phases of their life cycle, the Small and Medium Sized Enterprises sectors is one of the key drivers of Vision 2030, destined to play an effective role as an engine for economic growth, poverty eradication and unemployment. According to latest data published by the Institute of Economic Affairs, SMEs are the main source of economic growth in developed and developing countries such as Kenya and are responsible for about 77% of employment and contributes about 35-50% of GDP.

The GEMS can strengthen the businesses that venture capital and private equity entities invest in by facilitating an environment for them to exit from these investments through a structure that allows for transparent price discovery as well as easing the pressures of identifying a single investor to acquire their whole interest. The GEMS provides such an exit structure. The GEMS Market represents the first step towards market access regardless of the size of the company.

Below are some guidelines with respect to the GEMS of the Nairobi Securities Exchange.

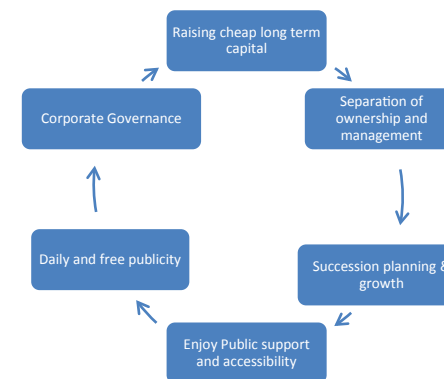
1. GEMS

- Growth Enterprise Market Segment (GEMS) enables venture companies without a profit history as well as small and medium sized firms to list on the GEMS of the Nairobi Securities Exchange to raise substantial initial and ongoing capital, while benefiting from increased profile and liquidity within a regulated environment designed specifically to meet their needs. GEMS also acts as an exit route for private equity, venture capital entities and family businesses. By establishing the minimum requirements for listing much lower than other exchange segments, GEMS also broadens opportunities to access public listings to more entities.

2. SME challenges and the need to list on the GEMS of the Nairobi Securities Exchange

Below are some of the major challenges that SMEs face that justify the need to list on the GEMS of the Nairobi Securities Exchange:

- Being regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations, and high mortality rates;
- SMEs are less structured than large scale organizations and are usually dominated in terms of management style and other characteristics by the promoter. They are therefore perceived as higher risk;
- SMEs cannot borrow significant funds from banks. Banks regard them as too risky and with too little collateral to support a loan;
- Shares in a private company are not transferable, except under exceptional circumstances, which hardly conforms with an investor's long-term desires;
- Consequently, raising adequate capital while staying within the limits of private company status may be constraining growth and development for many SMEs.



4. Eligibility Criteria for Listing on GEMS

In the recognition of the significant role that a Nominated Advisor (NOMAD) plays in the listing process; he/she is required to satisfy a set of detailed eligibility criteria and assume clear responsibilities in carrying out its' duties. The following are the eligibility requirements:

Eligibility criteria for listing on GEMS

- ✓ Public company registered under the Companies Act;
- ✓ Minimum fully paid up capital of 10 million;
- ✓ At least 100,000 shares in issue;
- ✓ Free transferability of shares;
- ✓ Adequate working capital and solvency;
- ✓ Operation for at least one year;
- ✓ No profitability record required;
- ✓ 5 directors, of which 1/3 non-executive;
- ✓ Directors with no bankruptcy, fraud, criminal offence or financial misconduct proceedings for 2 years;
- ✓ Competent board and senior management – at least 1 year experience in the business;
- ✓ 1/3 board must have completed Directors Induction Program and the rest within 6 months of listing;
- ✓ 12. All issued shares to be immobilized;
- ✓ 13. 15% of the shares must be available for trading & held by at least 25 independent shareholders within 3 months of listing;
- ✓ 14. Controlling shareholders lock in for 24 months;
- ✓ 15. NOMAD appointed by written contract.

5. NOMAD

A NOMAD (Nominated Advisor) is a registered entity appointed to advise and guide an issuer on the application of the Exchange's listing requirements of the Growth Enterprise Market Segment and compliance with CMA listing regulations.

A NOMAD is responsible to the Exchange for assessing the appropriateness of an applicant for GEMS listing; advising and guiding an SME company on its responsibilities under the GEMS Rules for Companies. NOMADS are subjected to vetting and registration by the exchange. The Nominated Advisor's role is of particular importance to the successful operation of alternative market. A nominated advisor acts as a coordinator between the issuer and the exchange all the times and is responsible for ensuring compliance.

Visit the NSE website at www.nse.co.ke for rules on how to become a NOMAD as well as more details of eligibility requirements.

6. Disclosure Requirements

The following disclosures must be provided for a company /issuer to qualify for listing on GEMS:

- Identification of directors, senior management;
- Offer statistics and expected timetable which must have a statement that the Securities Exchange has approved listing of the shares on the Growth Enterprise Market Segment of the securities exchange;
- Information on the issuer;
- Operating and financial review and listing statement;
- Disclosures of directors and employees;
- Major shareholders and related party transactions;
- Financial Information including a table showing the changes in financial position of the group over each of the last one financial year in the form of a cash-flow statement, issuer's own assets and liabilities, financial position or profits and losses;
- The listing that should include a statement of the resolutions, authorizations and approvals by virtue of which the securities are to be listed and the nature and amount of the securities to be listed;
- The names and addresses of the vendors of any assets purchased or acquired by the issuer or any subsidiary company during the year preceding the publication of the Information Memorandum.

7. Opportunities for Private Equity

- Initiating a dedicated exchange platform for SMEs will lead to diversification of resources of finance and help build a bridge between the SMEs, Private Equity and the Venture Capital by providing an exit route;
- A key consideration of strategic investors into private companies will be the availability of a mechanism for effective exit within a 5-8 year investment cycle;
- Transparent market price discovery and opportunities for sale to diversified investors instead of a single investors provides greater flexibility in exit timing;
- Opportunities to invest in the fastest growing companies in East Africa's largest economy;
- Entry into the fastest growing sectors in the economy;
- Free movement from one Exchange segment to another as long as firm meets requirements;
- Capital Market will help distribute risk more efficiently by transfer of risk to those who are best able to bear it.

For further information, please contact:



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Promoting the integrity and growth of the Capital Markets

The Growth Enterprise Market Segment (GEMS)