The Stock Exchange Corner

Preparing for the CSME

by George Edwards

In recent times, lots of discussions have been taking place on the Caricom Single Market and Economy (CSME). The question for Guyanese businesses is how to prepare to reap the potential benefits from the CSME. This article will attempt to examine the role of financing of businesses through the capital market as an alternative to the traditional bank financing.

Financing through the selling of equity/shares to the public is a cheaper way of funding your business. This type of financing is not expected to be repaid. Investors are paid dividends when the company achieves enough profits to set aside some reserves to meet future commitments and has funds left over. Further, if companies are listed on the stock exchange, they would benefit from the following:

1) They become more attractive to overseas and institutional investors.
2) Listed companies become more well-known to the public as they attract more publicity than an unlisted company.
3) Investors will have more confidence in listed companies as they know that these companies are supervised by regulators, with a view toward protecting the public from fraud and ensuring adequate and timely information is disseminated. Investors can then make rational investment decisions.
4) Listing helps to enhance the image of the company in both the internal and external markets.
5) Listed companies attract higher share prices than unlisted companies. This is obviously to the benefit of the shareholder.
6) Only listed companies can be cross-listed on regional exchanges.

The fact that no Guyanese public companies are listed on the Guyana Stock Exchange should be of concern to shareholders. This means that these companies will be unable to avail themselves of cheaper capital that may be available in other parts of the region. It is a well-known fact that listed companies obtain loans at cheaper rates as the risk is perceived to be lower than with unlisted companies.

By not listing, Guyanese companies cannot cross-list on the regional exchanges. Therefore they will not be able to attract investors as easily as other companies (that are listed) in the region will be able to do. They will not be able to obtain loans in the region at the best rates. The cost of capital to Guyanese companies will be higher than their regional competitors. This will of course impact on their ability to compete effectively with other regional companies that enjoy a lower cost of capital.

It should be noted that Guyanese companies seeking finance in other member countries of Caricom (that have signed on to the revised Treaty) must be treated as the domestic companies of that country. Whatever the laws and regulations allow for the domestic companies, Guyanese companies will be allowed.

It should be accepted as fact that regional companies will seek to compete in our markets. They will probably come with cheaper cost of capital and hence will be able to price their goods and services lower than Guyanese companies. For Guyanese companies to protect their share of the local market and expand into the regional market, they should consider raising capital through equity, listing on the local stock exchange and cross-listing on regional exchanges. Taking advantage of cheaper financing will enhance the ability of Guyanese companies to compete.

N.B. – More information may be accessed on our website: www.gasci.com