



WHY COMPANIES ARE NOT GOING FOR IPO IN PAKISTAN?

Abstract

A private firm can decide to “go public” which implies that it will be selling its securities to the general public, enabling it to raise capital from a wider pool of investors. However, in contrast to the other emerging markets where the number of IPO is showing an upward trend, Pakistan is far behind in the race. Research shows that although the number of registered firms has increased in Pakistan, only around 1% of them are listed on stock exchange which makes it even more important to identify the reasons why companies are not going for IPO in Pakistan. Therefore, this study aims to analyze several factors that have contributed towards the ultimate reduction of IPOs in the country using Pakistan Economic Surveys as a secondary source for the research.

Key findings

The findings of the analysis identified four significant reasons for the lack of IPOs in Pakistan including the absence of professional investment banks that could convince the potential companies to go public and tap into capital markets; the lack of motivation of SMEs while advocating and promoting new issues of securities; the existing stock exchange monopoly due to the lack of competition; and the lack of cross listing and depository receipts because the markets are too small, so the stock exchange cannot make any use of this opportunity to raise capital.

Implications

In order to increase IPOs, it is important that marketing efforts are made by the market makers and investment banks with motivated sales force along with efforts to introduce competition for the monopolistic exchange. Furthermore, it is suggested that the sales personnel of investment banks in Pakistan should be trained to acquire the reasonable understanding of financial markets, ability to sell their clients to the traders and the skills required to convince companies for going public and using services of the particular investment bank they belong to.

Citation

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SDGs



Keywords

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