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Special purpose acquisition companies as a vehicle for providing venture capital to small and medium size enterprise

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Orientation: The South African economy is currently at one of its lowest points in several decades, with low economic growth, coronavirus challenges and unemployment being at an all-time high. This is further aggravated by the many challenges the economy faces, such as the lack of public sector programs to stimulate sustainable growth and a private sector mind-set that lacks business confidence and investment.

Motivation of study: A SPAC is an innovative financial structure that aims to raise funds in capital markets with the purpose of acquiring an unknown exiting company, using the funds as finance, within a limited time period. Special purpose SPACs focusing on SMEs with additional criteria and incentives might prove to be a valuable vehicle that provides funding to stimulate economic growth, kick start the second economy and erode unemployment in South Africa.

Research purpose: The objective of this article was to provide an overview of a special purpose acquisition company (SPAC) as a vehicle to fund future business operations and, further, to explore the opportunities that it may provide to the South African economy to stimulate growth in the second economy and small and medium-sized enterprise (SME) sector.

Research approach/ design and method: This article follows a qualitative research design with an exploratory approach.

Findings and contribution: Research on SPACs internationally and in South Africa is scarce and this article makes a significant contribution to the existing body of knowledge. The findings indicate that the financial measures show underperformance of SPACs relative to some traditional financial measures.

Practical implications: Non-financial considerations are important in considering the value that SPACs can bring to the ailing South African economy. Special purpose acquisition companies also provide opportunities to those informal sectors, which would never be able to get access to funding and formal markets in other ways.

Keywords: special purpose acquisition companies; viable acquisition; Johannesburg stock exchange (JSE); small and medium-sized enterprise; venture capital.

Introduction

The South African economy is currently at one of its lowest points in several decades, with low economic growth, coronavirus challenges and unemployment being at an all-time high. This is further aggravated by the many challenges the economy faces, such as the lack of public sector programmes to stimulate sustainable growth and a private sector mindset that lacks business confidence and investment. The country, to a large extent, also still operates in a two-step economy, with the formal well-developed economy dominated by large business, often with vested interests and currently sitting on large cash reserves because of an investment strike in the South African economy. In addition, there is the less understood informal economy, which is still strained by the legacy of apartheid and the difficulty certain citizens experience in accessing funding to enter the economy and job market. Employment in either the formal or informal sectors is difficult to find. Involuntarily unemployment is prevalent in the whole economy and skills and capital shortages even in the informal sector play a role as entry barriers (Burger & Fourie 2019). The development of the small and medium-sized enterprise (SME) sector in South Africa has the potential to not only erode unemployment but also contribute to economic growth (The Banking Association of South Africa 2019).

In South Africa, it is estimated that SMEs make up around 91% of formalised businesses, provide employment to about 60% of the labour force and account for about 34% of gross domestic product (GDP) and are clearly critical to the economy and job creation. There are, however, certain constraints for the SMEs sector, such as the lack of management skills and finance, obtaining credit and access to markets, administrative burdens and regulatory compliance, to name but a few (The Banking Association of South Africa 2019). A special purpose acquisition company (SPAC) might be a solution to address these constraints faced by SMEs with a specific sectoral focus.

A SPAC is an innovative financial structure that aims to raise funds in capital markets with the purpose of acquiring an unknown exiting company, using the funds as finance, within a limited time period (Cumming, Haβ & Schweizer 2014; Riemer 2007; Riva & Provasi 2019; Thompson 2010). Simplistically, it can also be described as a shell company created to raise capital to undertake a business combination with an operating business (Murray 2017; Nilsson 2018). Against this background, SPACs focusing on SMEs with additional criteria and incentives might prove to be a valuable vehicle that provides funding to stimulate economic growth, kick-start the second economy and erode unemployment in South Africa.

Research on SPACs internationally and in South Africa is scarce and the purpose of this article is to add to the body of knowledge on SPACs, with an African focus. Accordingly, the objective of the article is to provide an overview of the SPAC structure as a means to fund future business operations and, further, to explore the opportunities that this may provide to the South African economy to stimulate growth in the second economy and SME sector.

The remainder of this article is organised as follows: firstly, background will be given around SPACs by way of defining the concept and the lifecycle, followed by the literature currently available. Secondly, an overview will follow regarding the performance of SPACs in South Africa. Lastly, conclusions are drawn for the possibility of using SPACs as a finance vehicle for SMEs.

Defining a special acquisition company

According to Riemer (2007), SPACs are, in essence, publicly traded buyout firms that are incorporated with the sole objective of raising funds for an acquisition through a public offering of their securities. Kolb and Tykvová (2016) described SPACs as cash shells that try to buy private operating firms upon which they confer public-listing status. Murray (2017) maintained that SPACs are shell companies that originally have no operations and which are created to undertake a business combination with an operating business. In fact, SPACs do not have operations or a business plan other than the intent to acquire an unidentified business

TABLE 1: The life cycle of a special purpose acquisition company.

Phase	Description
Phase 1	
Structure of vehicle to be used for the public share offering	• Capital injection by founders of the SPAC • SPAC's registration • Prospectus • Information on the structure of SPAC
Phase 2	
Company IPO and listing	• Raising of capital through listing or private placement • Monies deposited in escrow or trust account
Phase 3	
Market exploration for an operating target	• Identification of target company • Announcement of merger intent • Preparation of shareholder vote
Phase 4	
Merger or liquidation	• Shareholders meeting for approval or rejection of business combination • Liquidation – Cash distributed to shareholders if no viable acquisition is made within the required time frame. • Merger and listing if viable acquisition is made and approved by shareholders

Source: Cumming et al. 2014; Dimitrova 2017; Riva and Provasi 2019; Shachmurove and Vulanovic 2015

IPO, Initial public offering; SPAC, special purpose acquisition company.

(Thompson 2010). A SPAC is an innovative financial structure that raises funds in capital markets through the Initial Public Offering (IPO) process with the objective of acquiring an unknown existing company within a limited time period (Yochanan & Milos 2018). Therefore, a SPAC is an alternative to the initial public offering. The difference between an IPO and a SPAC is that a SPAC is able to raise funds without any operational assets and funds are kept in escrow during the period before an acquisition or listing and are refunded when there is an exit (Jooste 2019).

Such a business needs to sell its business idea to investors and has 24 months to make an acquisition as stated in the regulation. Special purpose acquisition companies are an opportunity for private venture capitalists to make private equity investments (Yochanan & Milos 2018). The major stakeholders in a SPAC are management, underwriters and investors.

Life cycle of a special purpose acquisition company

The life cycle of a SPAC is illustrated in Table 1.

From Table 1 it is evident that SPACs are single-purpose entities (Phase 1) that exist solely with the specific and temporary objective of raising equity from investors (Phase 2) in a share offering in order to locate or execute an investment opportunity within a specific period of time (Phase 3). The money raised by the share offering is deposited in escrow or a trust account and if no target company or investment is made within the specified period or if the proposed acquisitions are rejected by the shareholders, the funds are returned to the shareholders (Phase 4).

Considering the definition and life cycle of a SPAC, it is a highly speculative and risky investment structure, the main asset of which is the cash raised in the listing, as well as the skills and experience its managers will apply in achieving conversion into a viable business.

Special purpose acquisition companies serve as a creative and innovative investment mechanism that provides the public easy and relatively inexpensive access to private equity or other investments to which they would not otherwise have access. They provide shareholders the prospect of above-average capital growth in promising businesses to which listed companies might have little exposure. Special purpose acquisition companies are well governed, with a high level of transparency for shareholders as required by the listing requirements. They further provide shareholders with protection since they must approve the viable acquisitions/assets and investment policy. Additionally, there is the fall back that if no acquisition is made within 24 months (regulation) from listing their money, which is held in escrow account, will be returned to them (Murray 2017; Nilsson 2018; Riemer 2007; Shachmurove & Vulanovic 2015).

Literature review

Special purpose acquisition companies have been used as a modern financing structure since the 1990s in the United States of America and are gaining popularity in other countries, such as Australia, Austria, Canada, Germany, Malaysia, the Netherlands, New Zealand, South Africa, South Korea and the United Kingdom (Murray 2017; Shachmurove & Vulanovic 2015). However, limited research has been carried out to date on SPACs internationally and especially in South Africa (Dimitrova 2017; Kolb & Tykvová 2016; Riva & Provasi 2019; Shachmurove & Vulanovic 2015).

Yochanan and Milos (2018) have summarised the available literature on SPACs and have found the legal and financial literature, explained SPACs' historical development, institutional characteristics and structure well. Furthermore, a few articles have focused on the performance of SPACs at different stages before the merger, as well as the returns to major stakeholders. Other articles have analysed long-term performance and how SPACs performance compare with regular IPOs.

In addition, a few articles have focused on the impact of corporate governance mechanisms on the performance of SPACs and on SPACs with either a geographical or industrial focus. Finally, the latest literature addresses institutional features and performance of SPACs in Europe, Malaysia and South Korea rather than just focussing on the United States of America. A few of these studies will be highlighted here.

The study by Dimitrova (2017) focuses on the deal structures. According to Dimitrova (2017), the popularity of SPAC transactions is likely to continue because of the recent trend in the private equity industry towards alternative, more flexible structures of fund-raising. However, the evidence in this article suggests that the alignment of the interest of managers and investors is important in fixing the problems of the private equity industry.

The article by Dimitrova (2017) focused on the performance of SPACs and how incentives created by the contractual features of SPACs affect their performance. The findings showed poor performance of SPACs, whether measured by abnormal returns or operating performance. The findings also showed that bad acquisitions are driven by contractual features that give SPAC managers incentives to pursue any acquisition over no acquisition in order to avoid the liquidation of the SPAC. This is in line with the findings of Vulanovic (2016 a & 2016b) on post-merger survival, showing that the collection of equity compensation and underwriting fees by stakeholders are dominant motives to approve bad acquisitions. Finally, evidence confirms that SPAC acquisitions significantly underperform various benchmarks from the accounting perspective such as operating margins and return on sales, and the poor operating performance of SPACs does not appear to be caused by higher leverage and financial distress costs (Dimitrova 2017).

Similarly, the results by Kolb and Tykvová (2016) show that SPAC acquisitions are a viable alternative when the IPO channel is blocked. The analysis of 127 SPAC acquisitions and 1128 IPOs shows that particular small and levered firms with low growth opportunities tend to use this vehicle. The likelihood of a SPAC acquisition further increases as markets turn more volatile (Kolb & Tykvová 2016). Moreover, SPAC acquisitions seem to offer an advantage to target firms' initial shareholders, as they are able to realise higher cash-out ratios during a SPAC acquisition than in the course of an IPO. However, similar to the findings of Dimitrova (2017) when considering long-term abnormal returns, they found that SPACs are associated with severe underperformance in comparison to the market, the industry and comparable IPOs.

In addition, the study by Lakicevic, Shachmurove and Vulanovic (2014) focused on 161 SPACs that conducted an IPO in the United States of America. This article focuses on the characteristics of SPACs and the findings show that SPACs, the incentives of the founders, underwriters and stakeholders are interdependent when successful mergers result in positive returns. Another finding is that because of the complex corporate structure of a SPAC, the response to announcements differs. The strongest reaction is from investors holding warrants and the mildest reaction is from common stockholders.

In addition, their findings show that role-players in SPACs, namely, the sponsors and founders, come from different backgrounds and geographical areas. Most founders are experienced in mergers and acquisitions, whilst others are from hedge funds, private equity fund or investment companies.

Another study highlighted the importance of stakeholders. The study found that younger SPAC management teams tend to approve deals more easily. In addition, a higher level of funds in the trust creates an incentive for investors to vote against deals to get invested funds back.

It also found that as block holdings by active investors (hedge funds and private equity funds) increase, deal approval probability decreases. Significant evidence shows that deal approval probability tends to be substantially higher in a bullish market environment (Cumming et al. 2014).

Murray (2017) used cluster analysis to examine SPAC design over the three phases identified in the US market. The first phase was the initial period between 1993 and 1996, which featured 14 SPACs. The second phase marked the re-introduction of SPACs in the market from 2003 up to 2008 when rapid growth was recorded with 161 IPOs. Special purpose acquisition company also gained greater acceptance during this phase, with their introduction to the national exchanges (American Stock exchange [AMEX] in 2005 and New York Stock exchange [NYSE] and National Association of Securities Dealers Automated Quotations [NASDAQ] in 2008). Lastly, the post-financial crisis period from late 2009 started slowly, with only one new issue in 2009, but with another 74 IPOs between 2010 and 2015. The analysis reveals an ongoing evolutionary process of SPAC design. This corroborates the findings of Lakicevic, Shachmurove and Vulanovic (2014) that the SPAC structure has changed over a short period of time and redesigned corporate structure to increase the likelihood of merger outcomes.

Shachmurove and Vulanovic (2015) compared performances and characteristics of SPACs in China. They investigated the value implications of the Securities Exchange Commission's (SEC) decision during 2011, resulting in the delisting of a number of Chinese companies from US public exchanges. The research focuses therefore on the institutional characteristics and performance of SPACS as a financing tool to enter the US capital markets by Chinese companies from 2004 to 2011. The findings show that SPACs merging with companies from China have similar institutional characteristics and have higher returns to their investors than other SPACs.

Special purpose acquisition companies in Europe also gained momentum. Ignatyeva, Rauch and Wahrenburg (2013) analysed SPACs in Europe. The data sample comprised 19 SPACs that were listed on European stock exchanges from 2005 to 2011. The results show that, whilst being listed on European stock exchanges, many SPACs neither have European investors nor European target companies (Ignatyeva et al. 2013). Interestingly, even though the SPACs initially list their stock on European exchanges, some of them re-list their stock on American exchanges and leave the European ones.

An article focusing only on Italy links the idea of SPACs to SMEs (Riva & Roberta 2019). The study showed that SPACs are able to fit the needs of small to medium Italian companies, especially as a good instrument to find finance from venture capitalist and institutional investors. The number of SPACs listed in Italy over the past 5 years has increased to 22. The number of institutional investors has also increased from 63 in 2014 to 101 in 2018 and specifically the share of investment held by foreign companies has grown from 39% to 52% (Riva & Provasi 2019).

The literature suggests that the use of SPACs in capital markets is gaining momentum even when the performance is not outperforming benchmarks. The literature also reveals the importance of stakeholders and their incentives for successful mergers. The United States of America is the current leader in the SPAC market, but the market is gaining momentum across the world. It is also evident from the literature that the design and structure of SPACs are of importance.

It is the flexibility of the design of a SPAC and the applicability that a SPAC might have to the SME sector that laid the foundation for the purpose of our research. Riva and Provasi (2019) maintained that it is necessary to promote the focus of the SPAC on specific sectors opposed to the general SPAC. The focus on specific sectors can promote the success of the operation and streamline the selection process of the target operating company because only one sector is considered. In the United States of America, SPACs are used in the shipping industry as a source of financing in order to enter the financial capital markets and the funds are used to purchase new vessels.

These SPACs with a specific focus are more successful because of the underwriting of larger syndicates (Shachmurove & Vulanovic 2015). In addition, the focus of the SPACs should be directed towards family-owned companies where capital constraints often restrict internal growth and therefore the SPAC opens up the opportunity to receive venture capital whilst maintaining the past business history and corporate control (Riva & Provasi 2019).

The design of SPACs (structure) is an evolutionary process, which is far from over. New promoters are free to enter the market and to try to attract market share by proposing new designs and established promoters can modify their designs to reinforce their position in the market (Murray 2017).

Methodology

An exploratory research was conducted because the purpose of this study was to gain an understanding of SPACs in South Africa. Furthermore, the possibility of using SPACs as a financing vehicle for SMEs will be explored. Firstly, academic literature on SPACs is reviewed to create the context within this research field. Secondly, data will be collected from various integrated reports to create an account of the SPAC landscape in South Africa. The empirical review will include the Johannesburg stock exchange (JSE) requirements, as well as benefits of SPACs, the performance of SPACs and the shareholding of SPACs. The sample includes all eight SPACs that were listed on the JSE. Thirdly, the potential of SPACs as a possible financing vehicle for SMEs will be explored.

Special purpose acquisition companies in South Africa

The JSE amended listing requirements in 2014 to accommodate SPACs, which allows cash shells to list on the JSE to raise the capital. Only eight SPACs were listed over the past few years and are worth around R8 billion. These companies traded on the Main Board and the AltX under the sector banner of non-equity. Three of these SPACs have failed and therefore delisted. They were unsuccessful in acquiring viable assets within 24 months (Jooste 2019).

It also appears that investors' enthusiasm for investing in these entities is subdued, with the majority of these SPACs trading at a significant discount to their listing price and that relatively low volumes of their shares are traded (Mclaren 2018).

Johannesburg stock exchange requirements for special purpose acquisition companies

Since 2013, the SPACs can list on the JSE as a publicly traded shell that has a specific mandate to acquire or merge with other companies or assets. The capital requirement for listing on the Main Board is R500 million and on the AltX it is R50m. Directors are required to subscribe for 5% of the shares, which is to be held in trust and which has a lock-in period of 6 months from the date of acquisition. When the listing occurs, the SPAC must have no operations of its own. An experienced management team must lead the SPAC with prior merger and acquisition (M&A) and/or operating experience. An acquisition or merger has to take place within 2 years (24 months) with other companies or assets to satisfy the basic conditions of a listing, otherwise the money in the escrow account will be returned to the shareholders and the listing will be suspended. Acquisitions must be approved by the majority of disinterested directors and shareholders in a general meeting (JSE n.d.).

A SPAC offers numerous advantages to shareholders, as well as to the economy at large, because being a listed entity gives the founders, or the management team, a platform to raise a significant amount of permanent capital. This enables it to make meaningful acquisitions, without being faced with some of the challenges experienced with traditional private equity models.

From an investor's perspective, each investor gets the opportunity to co-invest alongside the management team. The management team is collectively required to also invest in the SPAC and will have the incentive to seek significant value-added acquisitions, leading to an appreciation of the SPAC's share price over time. Given that the SPAC is a listed vehicle and that its shares are freely tradable on the JSE, investors should also, theoretically, benefit from the increased liquidity that being invested in a listed vehicle offers (Mclaren 2018).

The JSE indicates that SPACs have benefits for both management and investors. For management, these benefits include lower operating business risk, a creative way to obtain acquisition currency for M&A transactions, enablement of an environment for risk-tolerant investors, co-investment opportunities of various investors, which traditionally has been restricted to institutional investors and private equity investors, and a safe regulatory environment to protect all parties involved in the SPAC. For investors the benefits are as follows: it provides the investor with a certain amount of protection because capital raised is held in escrow and the JSE is globally renowned for its regulations; a 75% majority of shareholders is required to approve any change to acquisition criteria; investors have the potential to make significant gains despite no acquisition; a SPAC is not permitted to obtain additional debt financing unless the funding is used to facilitate acquisition of assets; failure to make acquisitions will result in the residual capital being returned to shareholders within 60 days and a liquidation resolution has to be proposed (JSE n.d.).

The strength, experience, expertise and commitment to ethical business practice of the management team are central to the success of the SPAC. On the contrary, if investors are not kept well informed and if transparency and sound governance are lacking, distrust of SPACs could arise.

Empirical review of special purpose acquisition company performance

Since the first SPAC listing in 2014, South Africa has seen a total of eight listings. Three of the SPACs (AEP Energy Africa, Sacoven and M-Fitec International) subsequently delisted

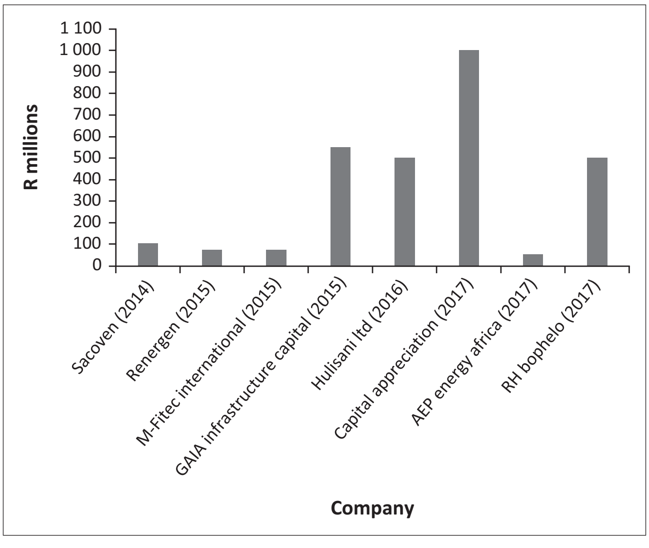

FIGURE 1: Capital raised (R millions).

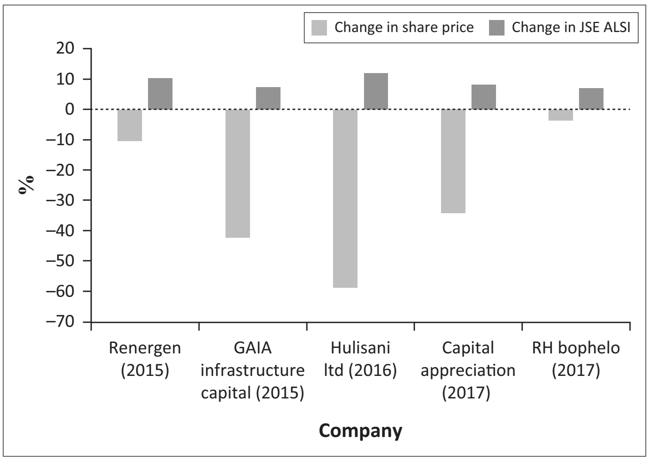

FIGURE 2: Share price performance relative to the Johannesburg stock exchange all share index.

because of not being able to complete a viable transaction within 24 months. The capital raised depended on whether the listing was on the Main Board or the Altx market of the JSE and was between R70m and R1b (AEP 2017, 2019; Blumental 2014; Fin24 2017; GAIA 2019; Hassenfuss 2014; Jooste 2019; JSE 2015; Mchunu 2017; Robbins n.d.). Figure 1 illustrates the capital raised on the eight listings since their inception.

Dimitrova (2017) found that, on average, SPACs perform extremely poorly, whether measured by long-run stock abnormal returns or operating performance. Kolb and Tykvová (2016) also presented similar observations. The average decrease in share price of the remaining five South African SPACs since listing amounts to 29.92% (as at 06 February 2020). This is largely different from an average increase in the JSE All Share Index (JSE ALSI) of 44.70%. The five SPACs with their relative share price performance to the JSE ALSI (measured over the same time period for each respective SPAC) are depicted in Figure 2.

The direct comparison between SPACs and the JSE ALSI may be inconsistent, in that the companies making up the ALSI would also include large IPOs. Special purpose acquisition companies provide smaller, more levered and low-growth firms, which may not succeed in large IPOs, in terms of the opportunity to enter public markets (Kolb & Tykvová 2016). RH Bophelo, Renergen and Capital Appreciation have had the least loss in shareholder value since their listings. In addition, it is through the process of the SPAC that RH Bophelo and others, through their investments, focus on the upliftment of the South African communities and their services by providing socio-economic value creation and development, as well as contributing to the ongoing transformation process in South Africa (RH Bophelo 2019).

Through its listing, RH Bophelo opened doors for the general public to acquire shares in a fully black-owned and entirely African healthcare company that offers growth and immediate returns in a defensive asset class (RH Bophelo 2019). Capital appreciation assists society to transform through job creation, internships, training and development, social responsibility

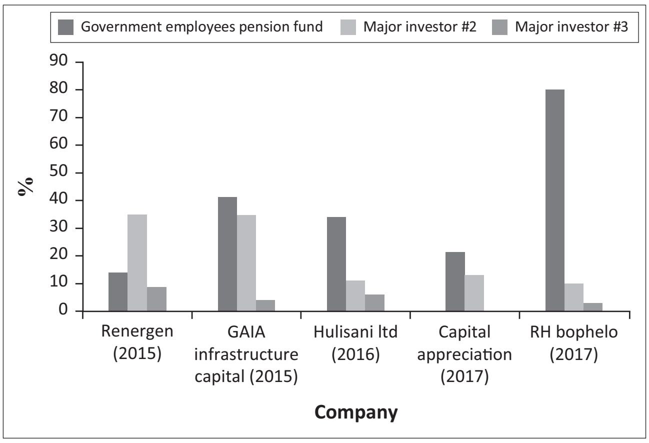

FIGURE 3: Major shareholders.

projects, providing a means for financial inclusion, enterprise development and contributions to taxes and levies (Capital Appreciation 2019). Capital appreciation also states that it has proudly created 110 new jobs from the date they acquired African Resonance, Dashpay and Synthesis in May 2017.

The Government Employees Pension Fund (GEPF) is a significant shareholder in all five South African SPACs, with the largest percentage shareholding of 80% being in RH Bophelo, followed by 41% in GAIA Infrastructure Capital. Jooste (2019) indicated that GAIA, like all of its counterparts, lacks the scale necessary to attract other institutional investors. The five South African SPACs report their major beneficial shareholders holding 3% or more (as per their 2019 integrated annual reports) in Figure 3:

The GEPF is a defined benefit fund that manages pensions and related benefits on behalf of government employees in South Africa. Established in 1996, it is the largest pension fund in South Africa and one of the largest pension funds in Africa and the world.

The principal long-term objectives of this fund are as follows:

> [*T*]o provide members and their dependants with the benefits promised in the Rules. To target the granting of full inflationary increases to pensions. While increases at this level are not promised, the Trustees aim to provide such increases subject to their affordability and have set contingency reserves at a level designed to facilitate such targeting. To keep the employer contribution rate as stable as possible with any changes to the employer contribution rate being introduced gradually. As a very substantial fund within the South African market and in accordance with its responsibility as a signatory to the United Nations Principles for Responsible Investment and the founders and signatories of the Code for Responsible Investing in South Africa, to invest responsibly for the long-term and, therefore, where compatible with its other objectives to take account of extra-financial information when making investments. (GEPF 3–4)

The extra financial information about companies is.

[*I*]nformation which is not explicitly of a financial nature, but which does have, directly or indirectly, financial consequences for investors. This type of information mostly relates to

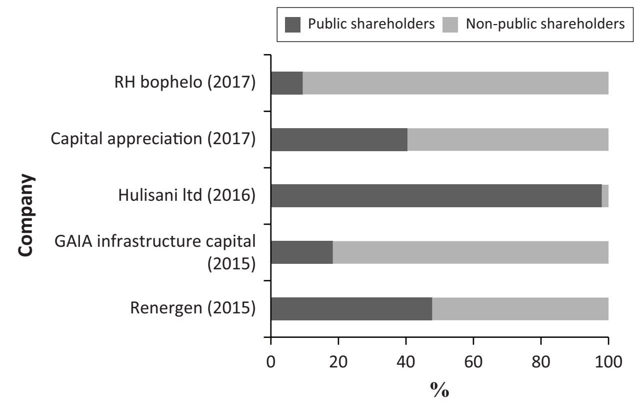

FIGURE 4: Public and non-public shareholders.

company-specific characteristics in the areas of environmental policy, social policy in a wider sense and the management of the company/governance and ethics.

This type of information mostly relates to company-specific characteristics in the areas of environmental policy ('E'), social policy in a wider sense ('S') and the management of the company (governance and ethics 'G'). Collectively these are known as 'ESG' issues (GEPF n.d.).

Therefore, investments are considered in the light of financial and non-financial information and the contribution that such investments can make to South Africa as a whole. The performance of the SPAC should be assessed looking at more than the financial performance of the SPACs in terms of financial and share price change only.

In terms of rule 3.43 of the JSE Listing Requirements, the five South African SPACs also report a shareholder analysis showing the split between public and non-public shareholders (JSE n.d.). The five SPACs report as follows (as per their 2019 integrated annual reports; see Figure 4).

Given that the GEPF is a major shareholder in the SPACs and is also considered a non-public shareholder, the relative sizes of the investments by the general public shareholders are small.

This is apparent for the SPACs, except for Hulisani, where the data suggest otherwise. It appears that Hulisani may have classified the GEPF as a public shareholder.

It is observed that the five SPACSs are characterised by a lack of liquidity or low liquidity in their shares. This is typically so as the major shareholder is the GEPF, which holds a significant number of shares and does not trade between the shares, whilst other shareholders hold the investments for long-term growth. The RH Bophelo Board is concerned about this and offers reasons such as the size, investor concentration, low retail books and investors that hold on tightly to their shares (RH Bophelo 2019). It will be useful for initiatives to stimulate liquidity and create a market for the SPAC shares. Ashton (2018) suggested liquidity is low as investors wait for clarity earnings and indicates that the average daily volume ranges from 1.47m for Capital Appreciation down to just 115 shares daily on RH Bophelo.

Whilst the financial measures indicate underperformance of SPACs relative to some traditional financial measures, non-financial considerations are important in considering the value that SPACs bring to the market. The findings suggest that it is the investment in the future of South Africa and the contribution to the South African economy by way of problem-solving, through innovation and job creation, where the real value lies. This contribution is critical and SPACs, such as RH Bophelo, prove to be a valuable vehicle, with genuine intention and cause, to stimulate growth, to serve the South African people and to assist in reducing unemployment in South Africa. If investors can see the real long-term value that SPACs present, and with incentives, this could assist in creating a more liquid market for their shares.

Possibility of using a special purpose acquisition company as a tool to provide small and medium-sized enterprise sectorial seed capital

Special purpose acquisition companies offer enormous potential as a source of funding of seed capital to the SME entrepreneurs who are finding access to capital to fund their businesses onerous and almost impossible at times. It can be used as a vehicle to access capital from large businesses, as well as pension funds, which are allowed to invest up to 75% of their assets in equity. The effective use of SPACs as an empowerment vehicle can further give stimulus to the active investment of previously inaccessible capital to the economy. Special purpose acquisition companies can also effectively give rise to empowerment of a broader pool of talented management that may not be able to progress in the current corporate context, thus effectively becoming a delivery mechanism for sustained and broad-based economic empowerment in the economy.

Consideration should be given to the possibility of incentivising companies to invest in SPACs.

One way of doing this is to potentially incentivise investors by allocating Black economic empowerment (BBEEE) points for investments that meet the required empowerment criteria. Such BBEEE criteria that investment SPACs should meet could include aspects such as enterprise and social development, preferential procurement, management control and ownership. This is a concept that could be explored to kick-start investments in SPACs for sectoral development and offer investor companies rewards for investing upfront with the possibility of income and capital gain in the long run and accordingly serve to counter the investment strike and stimulate investment in the local economy, which at sectoral level should lead to job creation.

For SPAC companies it would provide the start-up capital that is needed to fund SME business.

Conclusion

The objective of this article was to provide an overview of a SPAC, to explore the opportunities that it may provide to the South African economy and SME sector. Firstly, this was done by providing background information about SPACs, which included defining the concept and the lifecycle, followed by the literature currently available. Secondly, the article also provided an overview regarding the performance of SPACs in South Africa. Research on SPACs internationally and in South Africa is scarce and this article makes a significant contribution to the existing body of knowledge. The findings are extremely relevant given the dire situation in which the South African economy finds itself.

The article finds that SPACs offer a novel opportunity to stimulate growth in the second economy and SME sector. It also finds that locating SPACs within specific sectors to achieve sectoral objectives is an innovative way of structuring the SPACs to boost the economy in specific sectors and provide sectoral-like funding. It suggested an incentive model, through the BBEEE codes, to access companies' cash reserves that have been withheld because of the investment strike in the South African economy. Ultimately, it provides a long-term opportunity to create jobs and make it easier for the informal economy to access funding. This is critical to growing the South African economy and to attempt to erode unemployment.

Special purpose acquisition companies also offer numerous advantages to shareholders, as well as the economy at large, because they are listed entities, which gives the founders or the management team a platform to raise a significant amount of permanent capital to enable it to make meaningful acquisitions, without being faced with some of the challenges experienced with traditional private equity models.

The findings also indicate that the financial measures show underperformance of SPACs relative to some traditional financial measures. However, non-financial considerations are important in considering the value that SPACs can bring to the ailing South African economy.

Special purpose acquisition companies also provide opportunities to those informal sectors that would never be able to get to access to funding and formal markets in other ways. The findings also suggest that it is the investment in the future of South Africa and the contribution to the South African economy, by way of problem-solving, through innovation and job creation, where the real value lies. A SPAC can prove to be a valuable vehicle, with genuine intention and cause, to stimulate growth, to serve the South African people and to assist in reducing the unemployment in South Africa. Future research can be conducted to determine a broader measurement matrix to measure the true value a SPAC.

Given that the South African economy is currently at one of its lowest points in many decades, with low economic growth, coronavirus challenges and unemployment being at an all-time high, this crisis may very well be the opportune time for a SPAC design focusing on SMEs with additional criteria and incentives that could address, *inter alia,* the constraints and challenges faced by SMEs, create jobs and opportunities for a broader base of investors, as well as boost economic growth.

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Competing interests

The authors have declared that no competing interests exist.

Authors' contributions

All authors contributed equally to this work.

Ethical considerations

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Data availability

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