CONTRIBUTIONS OF TANZANIA STOCK EXCHANGE TO THE DEVELOPMENT OF THE CAPITAL MARKET

A Case of Dar es Salaam Stock Exchange
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A Case of Dar es Salaam Stock Exchange

By

Edmund Segele

A Dissertation Submitted to Mzumbe University, in Partial Fulfillment of the Requirements for Award of the Degree of Master in Business Administration Corporate Management of Mzumbe University.

2013
CERTIFICATION

We, the undersigned certify that they have read and hereby recommend for acceptance by the University of Mzumbe the dissertation titled *Contribution of Tanzania stock exchange to the development of the capital market* in partial fulfillment of the requirements for award of the degree of Master of Business Administration (Corporate Management) of Mzumbe University.

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I, Edmund Segele declare that this dissertation is my original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

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ACKNOWLEDGEMENT
Conducting a research is neither a one day activity nor an ordinary simple task. Indeed it required commitment, inspiration, guidance, patience and above all determination and absolute trust in God. Likewise, it is very hard to undertake such a study independently without the assistance and support from different people. Therefore I find duly obliged to extend intimate thanks and acknowledge the support given to me by some people, though I find it hard to mention all of them but their contribution will always remain at heart.

At the outset, I thank the almighty God for guiding me throughout the process of this study and for granting me wisdom, strength and health and indeed to him everything is possible.

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DEDICATION

This study work is affirmatively dedicated to the people of this country.
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ABSTRACT

This study was focused on the extent to which Tanzania stock exchange contribute to the development of capital market, it aimed at examining the contribution of DSE to the various companies in terms of capital contribution towards the running and expansion of these companies and in the long-run increasing the Gross Domestic Product of Tanzania.

Methods which were used to collect data include information obtained from stock brokers and questioners which were administered to local individuals, private investors and stock brokers.

Second method was interviewers, interviews were held with stock brokers and DSE officials, and also documentary review sources which include profile, market reports and data. After analysis of the data by using statistical package for social science (SPSS), tests of questionnaire were carried and presented in table for easy interpretation.

Finding from the study revealed that; Dar-Es-salaam stock exchange contributes to the development of the capital market. This is because of well organized with enough capital and companies having been attracted to be listed in the stock.

Finally, the study recommends that; The Business Socio-economic environment; government should ensure gender mainstreaming enhancement in all initiatives pertaining to stock market development. The Business Legal and regulatory environment; the Government to improve business regulatory environment. The Business Policy environment; The governments to ensure that clear policies and procedures regarding the extension of startup capital to business companies are in place.
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1.1 Background Information

A stock market or equity market is a public entity (a loose network of economic transactions, not a physical facility or discrete entity) for the trading of company stock (shares) and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately.

The size of the world stock market was estimated at about $36.6 trillion at the beginning of October 2008. The total world derivatives market has been estimated at about $791 trillion face or nominal value, 11 times the size of the entire world economy. The value of the derivatives market, because it is stated in terms of notional values, cannot be directly compared to a stock or a fixed income security, which traditionally refers to an actual value.

The stocks are listed and traded on stock exchanges which are entities of a corporation or mutual organization specialized in the business of bringing buyers and sellers of the organizations to a listing of stocks and securities together. The largest stock market in the United States, by market capitalization, is the New York Stock Exchange (NYSE).

In Canada, the largest stock market is the Toronto Stock Exchange. Major European examples of stock exchanges include the Amsterdam Stock Exchange, London Stock Exchange, Paris Bourse, and the Deutsche Börse (Frankfurt Stock Exchange). In Africa, examples include Nigerian Stock Exchange, JSE Limited, etc. Asian examples include the Singapore Exchange, the Tokyo Stock Exchange, the Hong Kong Stock Exchange, the Shanghai Stock Exchange, and the Bombay Stock Exchange. In Latin America, there are such exchanges as the BM&F Bovespa and the BMV. Australia has a national stock exchange. Market participants include individual retail investors, institutional investors such as mutual funds, banks, insurance companies and hedge funds, and also publicly traded corporations trading
in their own shares. Some studies have suggested that institutional investors and corporations trading in their own shares generally receive higher risk-adjusted returns than retail investors.

A few decades ago, Worldwide, buyers and sellers were individual investors, such as wealthy businessmen, usually with long family histories to particular corporations. Over time, markets have become more "institutionalized"; buyers and sellers are largely institutions (For example, pension funds, insurance companies, mutual funds, index funds, exchange-traded funds, hedge funds, investor groups, banks and various other financial institutions).

Richard (1996) explains that the growth of stock market will increase the volume of the long term investment in the country. This is also in line with Gelb (1989) and Try (1988) and Montiel (1996) who stress the positive contribution of capital market development to growth.

There are now stock markets in virtually every developed and most developing economies, with the world's largest markets being in the United States, United Kingdom, Japan, India, China, Canada, Germany (Frankfurt Stock Exchange), France, South Korea and the Netherlands.

The financial market is made up of two parts namely; the money market and the capital market and this serves as a source of finance to firms or companies which lead to economic growth of the country (Singh, 1997). These two markets are the financial legs on which any economy or a country can run to attain a sustainable economic growth and development.

The origin of the Dar es Salaam Stock Exchange (DSE) can be traced back to September 1996, when DSE was incorporated as a private company limited by guarantee and having a share capital under the companies Ordinance (Cap 212). The establishment of the Capital Markets and Security Authority (CMSA), which is the industry regulatory body responsible for promoting conditions for the development
of capital markets in Tanzania and regulatory industry as well as enactment of the capital markets and security Act 1994, pre exists the formation of the Dar es Salaam Stock Exchange.

Even though the DSE was incorporated in September 1996, the actual trading activities of the stock market commenced on 15th April 1998 after two years of preparation, with TOL limited (formerly Tanzania Oxygen Limited) as the first company in the market. Since then the number of listed companies has slightly increase to ten companies by May 2008, among of which three companies are cross listed companies (Dar es Salaam Stock Exchange 2002).

The main activity of the Dar salaam Stock Exchange is to provide a market for listed companies. This is achieved through secondary trading of listed securities. Also DSE provide opportunities for companies wishing to raise capital to be able to do that because of the existence of the ready market for its securities (Dar es Salaam Stock Exchange 2002).

1.2 Statement of the Problem

The Tanzania Stock Exchange was set up with the following objects: To provide facilities to the Tanzania public and now the international investing public for the purchase and sale of stock and shares of any kind and for the investment of money. Furthermore, to control the granting of a quotation on the stock exchange in respect of funds, stocks and shares of any company, government, municipality, local authorities or other corporate bodies. Another objectives is explained to investigate any irregularity or alleged irregularity in the dealings of members with their client (inside dealings) and to promote, support, propose legislature or other measures affecting the above mentioned objects and objectives.

Despite the positive impact, Tanzania Stock Exchange has had on numerous companies in terms of capital contribution towards the running and expansion of these companies and in the long-run increasing the Gross Domestic Product of Tanzania.
For many years people have debated about the contribution of Dar Es Salaam Stock Exchange. At first glance, it may seem like; there is no huge development of the capital market in Tanzania companies after joining the stock market. Due to this problem, the researcher was decided to conduct a research to find out that to what extent Tanzania stock exchange does. Especially Dar es salaam stock exchange contribute to the development of the capital market and growth of Tanzanian’s economy.

1.3 **Objective of the study**
The study was guided by both general and specific objectives.

1.3.1 **General Objective**
The general objective was to investigate the contribution of Dar Es Salaam Stock Exchange to the development of the capital market.

1.3.2 **Specific Objectives**
   i. The following were specific objectives.
   ii. To determine the impact of Dar es salaam Stock Exchange to the capital market of Tanzania.
   iii. To identify the challenges and success of dare s salaam Stock Exchange.
   iv. To examine the difficulties which facing companies ‘in mobilization of capital at the Stock Market.

1.3.3 **Research Questions**
The following were research questions used in this study to write research instruments.
   i. What is the impact of dare s salaam Stock Exchange to the capital market of Tanzania?
   ii. What are the challenges facing companies when enlisting on the Dares Salaam Stock Exchange?
   iii. What are the difficulties companies faces in the mobilization of capital at the Stock market?
1.4 **Significance of the study**

For Academicians the study intends to contribute to literature on the DSE, shedding some light on the issues that may be causing stagnation in the DSE in terms of company listings. The literature on listing trends is scanty, with most economists linking the development of the stock market with economic development, attempting to establish their cause-effect relationship. Therefore, this study looked at the stock exchange to find out what has been contributed to the market growth.

In addition it sought to forecast what policies changes are expected. Therefore, the study will also leave room for the researcher to later relook at the situation of the DSE. In an attempt to align Tanzania with the rest of the developing economies in terms of economic growth

i. **For Policy Makers;** This study would also be important for policy makers. The stock market as a tool in the financial system is expected to be continuously growing and contributing to economic growth in a sort of back and forth relationship. In the wake of new structural reforms due to the demutualization agreement, and the East African integration, it is worth looking at the DSE at this particular time as it is at the brink of change.

ii. **For the Stock Market Regulators;** The study will possibly give some insight adding to what they already have on the causes of the dismal performance of the stock market in terms of company listings. The study intends to shed some light on the reasons why even after the initiatives of the DSE, the numbers are still dismal.

iii. **For Companies;** This study, attempts to create awareness especially for those companies that have not listed and yet have met the requirements, on the initiative that are being undertaking in order to encourage them. The study has also increased knowledge of the researcher through understanding the mechanism, listing requirements, and penalization done by DSE in mobilizing capital market.

iv. **For students;** To students and other scholars who intended to widen their knowledge in the study of the stock market business, this study stands as a basis of reference since it focused on the causes of the establishment,
challenges they face and solutions that are being taken to harness their activities.

1.5 Limitation and Delimitation of the Study

The following is explanations of the limitations and delimitations. The company registrar’s Office does not have a list classifying the companies as either large or small according to asset base. Therefore, obtaining the population and sample was strained. However, this was solved by the researcher using his personal experiences and knowledge to get a good sample after classification.

In addition to this majority of the companies in Tanzania are in the SME category. Therefore, the number of companies that had met the listing requirements fully was very small. In addition, unlisted companies are not required to publish annual reports or to disclose any company information on their websites. The employment of different sampling techniques such as random sampling, purposive sampling and stratified sampling solved the problem.

The researcher experienced delays due to the bureaucratic processes of companies to release information and thus fill the questionnaire. The researcher faced this situation by motivating the respondents to fill in questionnaires after getting okay from bureaucratic management.

Further to this, companies that have recently relayed in the media their intention to list failed to respond. For the listed group, some of the companies were dropped from the study due to missing information.

The unavailability of company prospectus due to loss or removal from the websites as a result of the time period was a hindrance. By law companies are required to maintain records for 7 years, however, some companies did not have any information further than 5 years that was publicly available. This necessitated the researcher to base the study on the basic requirement of size.
Lack of Company websites and directory information was partly outdated and this posed a hindrance to using available information to contact companies. The researcher thus had to use personal contacts to source necessary information.

Regulations for companies in some industries such as the tobacco industry hindered data collection. By law these companies are forbidden to conduct above the line advertising, answering the questionnaire was construed to be a way of marketing
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter discusses aspects of the study that have been looked at by other authors in various parts of the world. It looked at what has been studied in the world stock markets considering both the developed economies as developing economies African context and the Tanzanian perspective were looked at further as well. Factors influencing the number of companies on stock exchanges especially in the developing economies were discussed.

The chapter is organized in the following sections; The Rationale for Stock Exchanges; Trends in World Stock Markets; The Rationale for Stock Exchanges in the Developing World and Africa; The Dares Salaam stock Exchange; An Analysis of the Challenges faced by African Markets; An Analysis of Stock Market Development Measures; The Determinants of Stock Market Development.

2.2 The Rationale for Stock Exchanges
According to the World Bank the financial markets of any economy are critical to a country’s overall economic development. The banking system and the stock markets enhance growth which is the main factor in poverty reduction. Strong financial systems provide reliable and accessible information that lowers transaction costs which then spurs resource allocation and economic growth. The main indicators as noted by the World Bank include the market size and liquidity (The World Bank Group, 2011).

The stock market normally develops in stages as pointed out by Capasso (2006) and goes through a transition process. In the rudimentary stages, banks and other similar financial intermediaries dominate the financial market such that the stock market is more or less insignificant to the economy. Continued accumulation of capital leads to the development of the financial intermediaries and increases the number, complexity and sophistication of the finance. The term developing economies has
been used to refer to countries classified by the World Bank as having low or low middle Gross National Income per capita. This range as at 2009 was (-ve).

These are also countries defined as having a low level stock of physical capital and a higher proportion of the population engage in less specialized activities (Development Education Program, 2004). Instruments, this in turn results to an increase in the financial market size and thus the growth of stock markets through an increase in the number of companies listed and the market capitalization. The development of the stock market as seen from Capasso (2006) can be measured either quantitatively or qualitatively or by a combination of both measures. The primary quantitative measure used in measuring the stock market sizes put forth by several authors (Demirguc-Kunt & Levine, 1996; Li, 2002; Claessens, Klingebiel Schmukler, 2002; Capasso, 2006; Yartey & Adjasi, 2007; Yartey, 2008; Yuriy, 2008) has two major aspects:

Firstly the market capitalization (i.e. the total value of all the shares traded at any particular point in time) or an average of this value over a specified period of time; and secondly the number of companies listed on a particular stock exchange. It seems, these two measures are not sufficient to capture all the characteristics of the financial markets, therefore these measures are qualified using the aspects of liquidity, which enables firms to mobilize funds at very low cost as well as ease of transfer from one investment to another.

World Bank report, Claessens et al. (2002) established that stock markets have grown considerably over the last two decades in both developed and developing countries. This growth has been attributed to better fundamentals such as higher economic growth, macroeconomic stability and structural reforms, most importantly the privatization of state-owned enterprises. In previous financial sector development studies, Claessens, Klingebiel & Schmukler (2001) found that the globalization trend has had an effect on the development of stock markets in terms of activities by companies to raise capital through listing and also market trading activity. In economies where the fundamentals are relatively better off and thus a tendency to have higher levels of automation; higher levels of liquidity and are relatively larger, there has been a noted increase in international exchange. The stock market size has
been measured in terms of company listings with an inclusion of international listings (i.e. multi-nationals as well as cross listings) to the domestic listings.

Boubakri and Hamza (2005) also agreed that there has been considerable growth in capital markets around the world over the last two decades. In the wake of globalization, market integration has been on the increase with more regional markets coming up and thus forcing governments to prioritize the development of their domestic markets. Policies that aim to encourage this development have been given unprecedented attention by global policy makers such as the International Monetary Fund (IMF) and the World Bank (World Bank, 2002; 2005). The most prominent of these policies that have been encouraged is the privatization of state owned corporations. The development of stock markets has been measured prominently by the market size using quantitative measures of number of companies listed, market capitalization and the volume of securities traded.

Demirguc-Kunt & Levine (1996) in their measures of stock market size established that market capitalization is positively correlated with the ability to mobilize capital and diversify risk. The measure of market size using number of companies is stated to indicate that the marginal difference in the number of listings between global stock markets is insignificant but rather the extremities are what matter. These extremities refer to markets having either very few companies indicating that the markets are limited or very many companies indicating unexplained and possibly unsustainable growth in the markets. In an assessment of European companies to determine why they go public, Huyghebaert (2007) agrees with Demirguc-Kunt & Levine (1995) in what the literature portrays. This scenario explains the stock markets as an avenue for firms to reduce financial risk through capital restructuring as opposed to being a source of financing for firms’ growth.

Kibuthu (2005) agreed with previous researchers in stating that the capital market has the potential to meet the fixed-capital needs of the private sector. These markets also have the ability to meet the financing needs in terms of sustainability and efficiency in the large scale and long-term projects of governments, corporations and even banks.
She outlines five main roles that the capital markets play in facilitating the mobilization and allocation of medium and long-term funds for productive investments. These are: providing a simple mechanism for the transfer of funds; facilitating companies’ access to a large number of local and foreign investors; widening the array of financial instruments available to savers and investors; increasing the diversity and competition in the financial systems and; providing market signals on the present situation and future expectations.

In order for capital markets to improve their ability to mobilize resources and efficiently allocate capital to investment projects, there is a need for deepening of financial markets. Claessens, Klingebiel & Schmukler (2002) establish that for this to happen a change in government policies through privatization and liberalization programmes has been the route taken. Most emerging economies’ governments have opted for this route releasing substantial amounts of their shareholding in state corporations to the public through public offerings. Liberalization efforts have been used as well to allow foreign investment on local stock exchanges thus growing the markets in size where the environment is enabling.

2.3 Trends in the World Stock Markets

There has been phenomenal expansion, around the world stock exchanges as found by Li (2002) measured by market capitalization. He noted that both the developed as well as developing countries, for example Canada, Japan, Argentina and Mexico respectively, have implemented these reforms. The increase in market capitalization recorded by these countries was 18%, 15%, 32% and 26% respectively. Gozzi, Sergio, & Torre (2007) affirmed the same view that over the last two to three decades several countries have implemented significant reforms to foster domestic capital market development.

The reforms that have been undertaken include stock market liberalization, privatization programs and the establishment of regulatory and supervisory frameworks. So as to foster the flourishing of capital markets in their respective countries, governments have approved new laws and regulations in a bid to create
proper legal and regulatory frameworks. In addition to this, many countries have tried to improve corporate governance practices, mainly through demutualization processes as noted by Aggarwal (2002).

Kibuthu (2005) found that the surge in stock markets development was due to liberalization and privatization programmes that have been a wave in African markets, especially significant in Nigeria and Mauritius. She further states that the reason for this trend among African economies as development strategies is the changing attitude toward the role of the private sector in economic development among African states. These Structural Adjustments Programmes (SAPs) were intended by the international monetary institutions (the World Bank, IMF) as a route to facilitate the privatization of state-owned corporations.

According the OECD (2001) the privatization programs through which the governments reduced their holdings in several state corporations had a direct impact on the development of their stock markets. Pagano (1993) determined that the positive externalities generated by the listing decisions were expected to foster stock market development by increasing diversification opportunities that would be available to the investors and therefore encourage trading activity as well as prompt new listings by private firms.

(1985) had earlier noted that privatizations through share issue inevitably increased the participation of uninformed retail investors in local markets whose presence reduces the risk of adverse selection and also increase the liquidity levels of the market

2.4 Rationale for Stock Exchanges in the Developing World and Africa

Kibuthu (2005) found that as global markets move toward deeper financial market systems, governments in developing economies are engaging in privatization initiatives as proposed by the World Bank. In the developing economies these programmes have been established as a means to facilitate the reduction of public debt, an improvement in efficiency and incentives in the operations of private
entities. Yartey (2008) adds to this view in the IMF Working paper 08/32 citing domestic financial liberalization as a reason for stock market development. In addition to this, he notes that the stock markets have developed as a channel for foreign capital. Perotti & Oijen (2001) in their study on the impact of privatization on stock market development show that privatization not only effected an improvement in stock market size

Through number of companies and market capitalization, it also improved the political environment of the developing economies that were sampled in the study. Using a sample of 22 developing economies and having controlled for financial liberalization, Perotti & Laeven (2002) found that the privatization of state corporations gradually increased market confidence. The other variables that have been highlighted as determinants of stock market development include: the legal environment; the socio-economic environment; the liberalization of the stock market; the level of financial intermediary development; and the stock market regulation (Boubakri & Hamza, 2005).

Allen, Otchere & Senbet (2010) found that over the last twenty years there has been a surge of interest in the establishment of stock exchanges and development of stock markets in African states. This follows the findings of Kenny & Moss (1998) on development of African stock markets who established that there has been a rapid increase in the number of stock exchanges in the African continent. The stock markets have therefore become fundamental to the financial system and thus a very important part of the economies of many African states. The drive towards establishment of stock markets in African countries in the last two decades has been linked to other important developments in the global economy for instance Ghana installed the Financial Sector Adjustment Programme (FINSAP) which aimed at the reform and improvement of the banking sector and the capital market.

The dynamics of stock market development in economies vary with regard to their level of economic development because the macro-environment (including politics, demographics) in which these markets are set differ. Boubakri & Hamza (2005)
found that the time-lag for stock market development, when the macro-environment is factored in as a determinant, in developing economies is two years while that of developing economies is one year.

Using a measure of company listings to further clarify this time-lag, from the commencement of privatization initiatives to the public offering of the companies’ shares on the stock market, in the developing economy it would take two years for the shares to start trading while that of the developed economies it would take one year. Also, using the number of companies listed as the measure of stock market development, Perotti & Oijen (2001) established that privatization initiatives were seen to have had a substantial impact on the trading liquidity through an increase in listings.

Levine (1991) noted that for developing economies the impact of listing of large privatized corporations would affect the trading liquidity and increase the investment opportunities for the local stock market as well as increasing portfolio diversification.

In developing economies, privatization efforts by governments have had the effect of strengthening the property rights and institutional reliability which would broaden the appeal and confidence in equity investment in the stock markets. Therefore, for the developing economies whose legal systems are relatively less developed will have their governments initiate incentives to facilitate the transactions in the stock market as they are listing previously state-owned corporations (Perotti & Oijen, 2001)

Following this argument Boubakri & Hamza (2005) found that stock market development in terms of market size and liquidity was positively and significantly related to the institutional quality of the legal environment of the economy. Market liberalization would also have a positive effect on the market development as the governments were opening up the market to foreign investment as established by Kibuthu (2005).
2.5 The Dar es Salaam stock Exchange (DSE)

The origin of the Dar es salaam Stock Exchange (DSE) can be traced back to September 1996, when DSE was incorporated as a private company limited by guarantee and having a share capital under the companies Ordinance (Cap 212). The establishment of the Capital Markets and Security Authority (CMSA), which is the industry regulatory body responsible for promoting conditions for the development of capital markets in Tanzania and regulatory industry as well as enactment of the capital markets and security Act 1994, pre exists the formation of the Dar es salaam Stock Exchange.

Even though the DSE was incorporated in September 1996, the actual trading activities of the stock market commenced on 15th April 1998 after two years of preparation, with TOL limited (formerly Tanzania Oxygen Limited) as the first company in the market. Since then the number of listed companies has slightly increase to ten companies by May 2008, among of which three companies are cross listed companies (Dares salaam Stock Exchange 2002).

The main activity of the Dar es salaam Stock Exchange is to provide a market for listed securities. This is achieved through secondary trading of listed securities. Also DSE provide opportunities for companies wishing to raise capital to be able to do that because of the existence of the ready market for its securities (Dar es Salaam Stock Exchange 2002).
<table>
<thead>
<tr>
<th>Company</th>
<th>Date listed</th>
<th>Number of issued shares</th>
<th>Nature of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOL Gases Ltd (TOL)</td>
<td>15th April, 1998</td>
<td>37,223,686</td>
<td>Production and distribution of industrial gases, welding equipments, etc.</td>
</tr>
<tr>
<td>Tanzania Breweries Ltd. (TBL)</td>
<td>9th September, 1998</td>
<td>294,928,463</td>
<td>Production, marketing and distribution of malt beer in Tanzania</td>
</tr>
<tr>
<td>TATEPA Ltd. (TATEPA)</td>
<td>17th December, 1998</td>
<td>17,857,165</td>
<td>Production of tea and avocado and packed tea.</td>
</tr>
<tr>
<td>Tanzania cigarette Co. (TCC)</td>
<td>16th November, 2000</td>
<td>100,000,000</td>
<td>Manufacturing, marketing, distribution and sale of cigarettes.</td>
</tr>
<tr>
<td>Tanga Cement Co. Ltd. (SIMBA)</td>
<td>26th September, 2002</td>
<td>63,671,045</td>
<td>Production, sale and marketing of cement.</td>
</tr>
<tr>
<td>Swiss port Tanzania Ltd. (SWISSPORT)</td>
<td>26th September, 2003</td>
<td>36,000,000</td>
<td>Airports handling of passengers and cargo</td>
</tr>
<tr>
<td>Tanzania Portland Cement Co. Ltd. (TWIGA)</td>
<td>29th September, 2006</td>
<td>179,923,100</td>
<td>Production, sale and marketing of cement.</td>
</tr>
<tr>
<td>DCB Commercial Bank Plc (DCB)</td>
<td>16th September, 2008</td>
<td>32,393,236</td>
<td>Commercial bank</td>
</tr>
<tr>
<td>National Microfinance Bank Plc (NMB)</td>
<td>6th November, 2008</td>
<td>500,000,000</td>
<td>Commercial bank</td>
</tr>
<tr>
<td>CRDB Bank Plc (CRDB)</td>
<td>17th June, 2009</td>
<td>2,176,532,160</td>
<td>Commercial bank</td>
</tr>
<tr>
<td>Precision Air Services Plc (PAL)</td>
<td>21st December 2011</td>
<td>193,856,750</td>
<td>Air transport services</td>
</tr>
</tbody>
</table>
### Table 2.2: Cross-listed foreign Companies

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Date listed</th>
<th>Number of issued shares</th>
<th>Nature of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Airways Ltd. (KA)</td>
<td>1st October, 2004</td>
<td>461,615,484</td>
<td>Passengers and transportation to different destinations in world.</td>
</tr>
<tr>
<td>East African Breweries Ltd. (EABL)</td>
<td>29th June, 2005</td>
<td>658,978,630</td>
<td>Holding company in various companies that are involved in production, marketing and distribution of malt beer in Kenya, Uganda and Mauritius.</td>
</tr>
<tr>
<td>Jubilee Holding Ltd. (JHL)</td>
<td>20th December, 2006</td>
<td>36,000,000</td>
<td>Holding company in several companies that are involved in insurance businesses in Kenya, Uganda and Tanzania.</td>
</tr>
<tr>
<td>Kenya Commercial Bank Ltd (KCB)</td>
<td>17th December 2008</td>
<td>2,217,777,777</td>
<td>Commercial bank</td>
</tr>
<tr>
<td>National Media Group Plc (ABG)</td>
<td>21st February 2011</td>
<td>157,118,572</td>
<td>News media Group</td>
</tr>
<tr>
<td>African Barrick Gold Plc (ABG)</td>
<td>7th December, 2011</td>
<td>410,085,499</td>
<td>Mining and production of gold</td>
</tr>
</tbody>
</table>
### Table 2.3: Listed Corporate bonds

<table>
<thead>
<tr>
<th>NAME OF ISSUER</th>
<th>DESCRIPTION OF BOND</th>
<th>DATE OF ISSUE</th>
<th>INTEREST RATE</th>
<th>REDEMPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>TANZANIA BREWERIES LTD</td>
<td>TZS 37.1 billion Tranche I subordinated unsecured due 2013</td>
<td>31&lt;sup&gt;ST&lt;/sup&gt; August, 2010</td>
<td>(I)Floating Rate At a margin of: Up to 10%-3.50% Up to 13%-2.50% Up to 15%-1.50% Above 15%-0.50% Over the most recent 26 week average yield of 364-day T/Bond as published by the bank of Tanzania prior to the interest calculation. (ii)Floating rate: At a margin of 1.66% over the most recent yield to maturity for the T/Bond of 3 year maturity or if it does not exist through interpolation between the most recent yields of 2 and 5 year T/Bond maturities.</td>
<td>To be redeemed at par on 30&lt;sup&gt;th&lt;/sup&gt; August, 2013.</td>
</tr>
<tr>
<td>ALAF LTD</td>
<td>TZS 15.07 billion unsecured 1&lt;sup&gt;st&lt;/sup&gt; Tranche due 2015</td>
<td>17&lt;sup&gt;th&lt;/sup&gt; Decembe r, 2008</td>
<td>Floating Rate: At a margin of 1.50% over 182-day Government of Tanzania Treasure Bill rate.</td>
<td>To be redeemed at par 17&lt;sup&gt;th&lt;/sup&gt; December 2015</td>
</tr>
<tr>
<td>STANDARD CHARTERED BANK LTD.</td>
<td>TZS 10 billion Tranche I subordinated and unsecured due 2020</td>
<td>22&lt;sup&gt;nd&lt;/sup&gt; October, 2010</td>
<td>Fixed Rate: 5 yr benchmark + 1.25% 11% per annum payable semiannually on 22 April and 22 October in each year commencing on 22 April 2011 up to and including maturity date. Bond to be redeemed in ten equal installment of 1,000,000,000 payable on each Interest payment date up to and including the maturity date of 22 October 2020</td>
<td>Bond to be redeemed in ten equal installment of 1,000,000,000 payable on each Interest payment date up to and including the maturity date of 22 October 2020</td>
</tr>
<tr>
<td>PROMOTION OF RURAL INITIATIVES AND DEVELOPMENT ENTERPRISES LTD(PRIDE)</td>
<td>TZS 14.5 billion subordinated and partially guaranteed due 2015</td>
<td>8&lt;sup&gt;th&lt;/sup&gt; November, 2010</td>
<td>Floating Rate; At a margin of: 200 basis points (2%)over the 364 day Treasury bill rate as published by the bank of Tanzania prior to the interest calculation. Flexed Rate; 11.75%per annum. Bonds to be redeemed in six equal semi-annual installments with the first payment being made after a two year grace period.</td>
<td>Bond to be redeemed in six equal semi-annual installments with the first payment being made after a two year grace period.</td>
</tr>
<tr>
<td>Bank M(T) Ltd</td>
<td>TZS 3 billion subordinated and unsecured due 2016</td>
<td>4&lt;sup&gt;th&lt;/sup&gt; February 2011</td>
<td>Fixed Rate: 15.00% per annum payable annually in areas from 4&lt;sup&gt;th&lt;/sup&gt; February 2011 to and including the maturity date.</td>
<td>To be redeemed at par on 4&lt;sup&gt;th&lt;/sup&gt; February 2016</td>
</tr>
</tbody>
</table>
2.6 Analysis of the Challenges faced by African Stock Markets

Majority of the African stock exchanges are small, underdeveloped and illiquid (Kenny & Moss, 1998; Yartey & Adjasi, 2007). They also tend to operate in isolation from other stock markets, have low trading volumes, are generally sheltered from global competition due to their national regulations and face barriers to capital mobility because of underdeveloped communication infrastructure (Asea, 2003).

According to the CMA (2010) most stock exchanges in sub-Saharan Africa have not been able to create as liquid a market as would be hoped. This means that the interest levels in securities trading are so low such that there occurs moments where a sell order placed on the exchange fails to be met by a matching buy order. Where a market is developed and vibrant the occurrence of such a situation is normally temporary and the market re-adjusts through share price movements. The other issue related to the movement of share trading as described by the CMA (2010) is that several stocks are dormant with only a handful being active and experiencing daily trading.

An example for this is the Ghana stock exchange where the largest company in the country (Ashanti Gold) is formally listed but does not trade on the Ghana Securities Exchange but rather has its share dollar-traded in the United States. Hence besides having a relatively low number of companies listed against the global market, these markets have the issue inactivity of several shares counters, unless there are major happenings in the specific companies.

The presence of stringent eligibility requirements has played a role in discouraging local entrepreneurs and indigenous companies from raising capital from the stock markets, notes Kibuthu, (2005). Considering that Ritter & Welch (2002) state that the main reason for companies to go public is to raise equity funds and to create a public market for the founders and shareholders can convert some of their wealth/investment into cash at a future date. Ngugi and Njiru (2005) follow that companies by going public relax their financial constraints especially if they have large current and future investments, high leverage and high growth.
Rebalancing of capital structure by firms as seen by Pagano, Panetta, & Zingales (1998) is also a motivation for these companies to float equity in a bid to reduce their debt ratio thus reducing their risk. Governments in this case seeing as the floatation of equity by these companies may as well be beneficial to the country’s economic development should have ways of making the scenario more palatable. For instance the NSE requirements have such high barriers that have locked out potential entrants such as the several family owned businesses (which are a rampant trend in Africa) such that the stock exchange operates as a closed membership (Asea, 2003).

Presently (NSE, 2010) there is an initiative to have an exchange platform for the Small and Medium Enterprises (SMEx tier), the success rate of this initiative will be worth considering in a later paper but at present would it as a “parallel” market for the smaller cadre of businesses be said to be the best solution?

The other major issue that plagues African stock markets is the difficulty they face in creating and maintaining efficient regulatory systems for the securities exchange. Kibuthu (2005) observes that there is a general shortage of well-trained manpower to police and enforce the rules. Consequently enforcement actions are rare and thus abuse is not uncommon. This leads to a strain in the confidence level of the investors and some listed companies continue to operate under compromised corporate governance structures. In addition to this some stock markets subject their participants to multiple regulators such that it is unavoidable to experience regulatory complexities, uncertainties and increased costs of compliance (Asea, 2003).

Political uncertainties and economic policies present in some of the African countries have led to a decline in investor confidence due to a risk in the deterioration in the business climate as noted by Kibuthu (2005). The subsequent result of this is poor performance of the stock markets. Using Kenya as an example, prior to the general election of 2002, the business climate was slowly halting with the eventual withdrawal of donor funding. The stock market had a consistently declining performance due to the policies that had been adopted by the regime then. After a change in political guard there was renewed hope and market confidence with the entry of a new regime. Senbet and Otchere (2008) agree with this perspective with
the argument that the African stock markets are abundantly endowed with abrupt changes in government policies and at times unfavourable political climate. The case in point used is Zimbabwe’s downturn due to the dramatic price swing in the wake of the government farm and pension policies. This had the effect of moving a market that had previously grown (1996) by a phenomenal 89.5% down by more than 50% by the last quarter of 1997.

2.7 An analysis of Stock Market Development Indicators

Economic and financial literature in the last two decades has been engrossed in the search of the relationship direction between the financial system and the country’s economic development. The financial system constitutes of the banking system and the capital markets system. Historically as Levine & Zervos (1996) observed, the banking system has been the focus of research when discussing the development of the financial system. Seminal research by Bagehot (1873) and Schumpeter (1911) placed emphasis on the critical importance of the banking system in the economic growth because as at the time there was little or no consideration of the use of capital market. These government policies refer to: i) the land reform to evict white-settlers from more than 1500 commercial farms; and ii) a decision by government to pay $240million in pensions to disgruntled veterans of the Zimbabwe independence war. However, even with the historical focus on the banking system there has been growing theoretical literature on the importance of the development of stock markets for countries’ economic growth. To determine the relationship between these two factors, stock market development and economic growth, researchers such as Levine & Zervos (1996), Demirguc-Kunt& Levine (1996) measured the stock market development using market capitalization as a percentage of the country’s Gross Domestic product (GDP).

However, in their course of study they found that the development of the stock market is a phenomenon that cannot be explained using a single measure and thus in a different paper, Demirguc-Kunt& Levine (1996) came up with a set of stylized facts. In their analysis, Demarked development to the level of economic development and described it as a complex and multi-faceted concept that no single measure could
capture all the aspects of stock market development. The indicators used in their study as measures to come up with the stylized facts included: stock market size, liquidity, market volatility, market concentration, asset pricing efficiency, regulatory and institutional development and conglomerate indexes that aggregate the information contained in the other measures.

Levine & Zervos, (1996) followed a similar argument to discuss the importance of the stock market in long run economic growth. They observed that theory does not provide a unique concept of measure of stock market development, but does suggest that stock market development can be measured using stock market size, liquidity and international integration. In the same paper they adopted the conglomerate indexes constructed previously by Demirguc-Kunt & Levine (1996) to show the relationship between the specific measures of stock market development of size, liquidity and international integration and the long-run growth of the economy.

Stock Market Development as the dependent variable has been measured by different authors using various indicators as noted above; both quantitative and qualitative. Yuriy (2008) noted that in order to measure the speed and level of development of the stock markets both qualitative and quantitative measures should be used. However several of the qualitative indicators of stock market development such as market concentration, regulatory and legal framework and liquidity are more often than not complementary to the quantitative indicators of stock market size: market capitalization and number of companies listed. Therefore in this section will discuss the two aspects of stock market size as measures of stock market development: market capitalization and number of companies listed and then discuss the indicator of stock market liquidity showing how the qualitative factors are complementary.

2.7.1 Measures of Stock Market Development
Based on the studies cited in the above section, it emerges that there are two main measures or indicators of stock market development in terms of market size: the market capitalization as a percentage of GDP and the number of listed companies.

The following part discusses in detail each of these measures.
2.7.2 Market Capitalization as a percentage of GDP

Market capitalization has been defined by Demirguc-Kunt & Levine (1996) as the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current market price per share. Different researchers (Demirguc-Kunt & Levine, 1996; Li, 2002; Yartey & Adjasi, 2007; Yartey, 2008; Yuriy, 2008; Allen, Otchere & Senbet, 2010) in examining the development of the stock market with reference to economic growth have measured stock market development using the market capitalization as a percentage of GDP. This indicator has been frequently preferred by researchers as it shows the relative weight of the stock market in the whole economy as noted by Yuriy (2008). When expressed as a percentage of the country’s gross domestic product (GDP), the value for market capitalization ratio is given as the value of listed shares divided by GDP.

Allen, Otchere & Senbet (2010) measured the depth of African stock markets by the market capitalization and the number of listings. In their analysis, Allen et al. (2010) found that the African stock markets were segmented in terms of sub-regions where they noted that there has been a steady increase in the market capitalization in these sub-regions. Using the market capitalization measure for the dependent variable, the northern and the southern regions of Africa were ranked the highest in market capitalization driven by two countries; Egypt and South Africa respectively. However in their report,

Allen et al. (2010) agree with Yartey (2008) as they use market capitalization side by side with the number of listings. Yartey (2008) stated that he used the market capitalization measure as it is less arbitrary but qualified the use by affirming. Demirgüc-Kunt & Levine (1996) where they stated that; Sub-regions are: Northern Africa; Eastern and Central Africa; West Africa and Southern Africa development are highly correlated and can be used to arrive at similar results. Yartey (2008) further noted that although the market capitalization measure has indicated a rapid developing the African stock markets it did not necessarily mean that the markets are mature. Maturity in terms of the capital markets he referred to trading activity and stock counters activity. He stated that the market capitalization is more often than not
accounted for by a few actively traded stocks, which essentially account for a considerably large part of the market capitalization ratio.

On a global scale, Li (2002) in determining stock market development used the market capitalization measure in a slightly different way. She looked at the increase in market capitalization toward the maximum possible capitalization of the specific market for both developed and developing economies. Using this valuation she finds that the valuation technology used would have a direct impact on the stock market development. The valuation technology was defined using three measures; the capital markets liberalization, improved legal systems and better institutions.

2.7.3 Number of Listed Companies

Capasso (2006) defined the measure of number of companies as the physical count of companies listed on a country’s stock exchange at any particular point in time as an indicator of stock market development. In his study, Capasso (2006) looked at stock market development in terms of market size and considered the expansion of the equity market which he measured using the number of companies listed. He found that the development of a country’s stock market, i.e. the more the number of companies listed, has a strong positive correlation with its level of economic development. This analysis is in agreement with several authors who have tried to determine the relationship between the stock market and economic development.

Yartey (2008) while agreeing with Capasso (2006) established that the expansion of the stock market, i.e. its growth in physical count of companies listed is an aspect of the development of the stock market. In this regard, he offered the explanation as to why over the last twenty or so years governments have been keen on growing their capital markets through encouraging the use of equity listings as a source of funds. Pagano, Panetta & Zingales (1998)

This refers to the use of frontiers (generalization of production frontier models) as the maximum possible level that a stock market can attain in terms of its outputs (measures of stock market development; market capitalization) given the inputs (i.e.
the macroeconomic and financial characteristics) (Li, 2002). Atje and Jovanovich 1993; Demirgüç-Kunt and Levine 1996a, 1996b; Demirgüc-Kunt and Maksimovic 1996; Korajczyk 1996; Levine and Zervos 1996, 1998) had earlier established that governments were encouraging the use of capital markets to raise capital through the privatization of state-owned corporations.

The aforementioned authors although agreeing to the use of the market capitalization measure of stock market development as it is un-arbitrary, add that there is a need to look at the development of the stock market in terms of listed companies. This is echoed by Yartey & Adjasi (2007) where they established that the stock market may have a very high level of capitalization but very few companies listed i.e. limited options for trade in terms of equity counters thus not necessarily developed as is the case in many African exchanges.

In determining the slow rate of listing on the public markets of African states Andrianaivo & Yartey (2009) found that institutional investors and governments with minority stockholdings are not active traders in the markets. In addition to this the lack of experience and resources for issuing shares has prevented the effective use of exchanges in these markets. In their report, Andrianaivo & Yartey (2009) established that approximately 50% of all the listed companies in the entire African continent are accounted for by South Africa (JSE) and Egypt (CASE). However, in an analysis on why companies’ go public Pagano, Panetta, & Zingales (1998) found that the internal framework of the specific company’s financial needs is a major determinant.

This argument is picked up by Capasso (2006) where he finds that the development of the banking sector in any economy is directly related to the number of companies listed on the exchange due to the companies’ need for balancing in the debt and equity financing mix. It is noteworthy that this element of considering issues specific to companies has not been given much consideration in literature, which is possibly an explanation as to why the development measure of number of listed companies has rarely been used.
2.8 Market Specific Factors

These are factors that are exterior to the companies but characterize the stock market. They have an influence in determining the use of capital markets by companies as sources of funds hence directly determine the development of the market in terms of number of companies listed. They are outlined below:

2.8.1 Stock Market Liquidity

Schwartz (1991) defined liquidity as the ability of individuals to trade quickly at prices that are reasonable in the light of the underlying demand/supply conditions. Demirgüç-Kunt & Levine (1996) picked up this definition stating that liquidity simply refers to the ability to easily buy and sell securities. Yartey (2008) followed suit and defined stock market liquidity as the ease and speed with which economic agents can buy and sell securities. To ideally determine stock market liquidity, these authors agree that the concept would comprehensively include quantifying all the costs associated with trading, plus the time costs and the uncertainty of finding a match to settle the trade.

Demirgüç-Kunt & Levine (1996) established that from liquid stock markets, companies enjoy permanent access to capital raised through equity issues. Since the market will provide a platform by facilitating longer-term, more profitable investments, liquid markets improve the allocation of capital and enhance prospects for long-term economic growth. Further, by making investment less risky and more profitable, stock market liquidity can also lead to more savings and investment. Investors will come if they can leave. Garcia & Liu (1999) established that many profitable investments require a long-term commitment of capital, but the investors are often reluctant to relinquish control of their savings for long periods, as this bears higher default and liquidity risks. Therefore without liquid stock markets the occurrence of investments to high return projects would be curtailed.

In consideration of the flipside as presented by Levine (1991), liquid stock markets allow for investors to alter their portfolios quickly and cheaply thus making it less risky and offer opportunities for longer-term investments. This is echoed by Senbet
& Ochere (2008) who established that where a market cannot provide liquidity and possible exit strategies then there is a gap in its functional efficiency. Consequently the more liquid the stock market the larger the amounts of savings channeled through the stock market and the higher the opportunities are for it as a source of capital for companies. In this regard it is expected that there would be higher market capitalization and since measures of stock market development measures are correlated, ideally an increase in the number of listed companies would be cited.

Demirguc-Kunt & Levine (1996) proposed two measures of stock market liquidity to check development of stock markets in their study: i) the total value traded/GDP which is the total shares traded on the stock market divided by GDP to give a reflection of the market trading as a share of national output and; ii) the turnover ratio which is the value of total shares traded divided by market capitalization.

Levine & Zervos (1996) in their study also measured stock market liquidity in the same two ways; the total value of stock traded as a percentage of GDP in order to give an indication of the value of equity transactions relative to the size of the economy; and the turnover ratio given by the total value traded as a proportion of market capitalization.

Garcia & Liu (1999) also measured stock market liquidity using the same two measures of total value traded as a percentage of GDP to check the value of equity transactions relative to the size of the economy; and the turnover ratio to determine the value of equity transactions to the size of the market. They however stated that these measures of liquidity do not directly measure the ease with which investors can buy and sell securities at quoted prices.

These measures of liquidity rather, measure the degree of trading in comparison to the size of both the economy and the market respectively. Framework as: self-regulatory, transparency and disclosure in the market, level playing field and compliancy to the recommended reporting standards (8). Pagano, Panetta, & Zingales (1998) established that the functioning of the stock market enabled by the
framework provided has an effect on whether or not the stock market provides a platform as a source of funds (cheaper long term) to enable the company re-balance their capital structure and thus diversify their risk.

The reason influences the confidence levels of the investors both domestic and foreign and thus an enabling environment provided by the government’s legal and regulatory framework would have a direct effect on development. Pagano et al. (1998) found that a properly set up legal and regulatory framework for the functioning of the stock market should in time enable flow of private cash flows both from the domestic and foreign investors.

With further reference to capital flows, Perotti & Laeven (2002) in their study established that stock markets responded best to sustained reform policies through which they create a process of gradual confidence building.

This process induces investors to invest progressively more and thus increase market integration through liberalization of capital flows. For this to happen, Perotti & Laeven (2002) determined that a government needs to ensure it commits itself to market-oriented policies.

In order to represent commitment to the course they proposed that the framework should represent a stable policy of protecting property rights such that once companies are privatized the government should not be in a position to regain control.

Perotti & Oijen (2001) in studying the use of privatization to boost the use of stock markets to raise capital found that the regulatory and legal framework plays a major role in encouraging it as it promises a functional system to operate in. Pagano et al., (1998) had earlier established that the direct benefits to the stock market drawn from well set up framework included increased market capitalization through new public listings. Thus it is expected that a positive relationship between a functional legal and regulatory framework and stock market development exists.
2.8.2 Political Environment

Girma & Shortland (2008) characterized the political environment as based on the degree to which narrow elite controls the levers of power and the level of regime stability on changes in financial development”. Yartey & Adjasi (2007) in assessing the challenges facing African stock markets used the term political risk and characterized the political environment based on law and order, democratic accountability and bureaucratic quality. Both these studies found that the political environment plays a major role in the course of the market’s development. The reason Yartey & Adjasi (2007) established was that the appeal and confidence in the equity market is broadened by efficiency and accountability which are elements that raise or lower political risk, are highly rated among investors. In the same study, Yartey & Adjasi (2007) therefore found that African economies are plagued with uncertainty in the political environment and they determined that as political environment in the region is solved over time, equity investment becomes more attractive.

Girma & Shortland (2008) contributed to this literature by evaluating the influence of the political system in financial development as they determined the effect of the political variables.

Their results showed that the degree of democracy and political stability are significant explanatory factors in determining the speed of financial development in an economy. Girma & Shortland (2008) tested the hypothesis that “the political leaders choose a level of financial development which best serves the interests of their support base”.

For this they found that the more representative political systems (i.e. democratic structures) tend to foster faster financial development i.e. both banking sector development and the financial markets. The dependent variable of the financial market was measured using the market capitalization as a percentage of the GDP and the degree of political influence measures were based on the variables democracy of the polity and stability. They found that in economies where there was an attempt to
democratize a polity, a positive influence was established on the subsequent financial
development, i.e. an increase in the market capitalization to GDP as opposed to when
the regime was autocratic.

McGuire & Olson (1996) had earlier established that in unstable political systems the
leaders may attempt to “confiscate” any capital goods which have a resale value
greater than the income stream they generate over the time period remaining to the
end of their term. In this argument, they found that the financial assets are as
affected; hence the market capitalization is driven downwards with a reduced number
of transactions by hoarded stocks as it negates the forces of demand and supply.
Yartey & Adjasi (2007) established that the direct effect this has on stock market
development is to increase the cost of equity and as such investors need
compensation for the cost attached to political risk. Girma & Shortland (2008)
furtheed this argument by adding the liquidity strain that this kind of political
behavior presents on the market. Perotti & Oijen (2001) term political risk in this
situation as a priced risk and offer that the resolution of such risk is endogenous to
the privatization process which directly fuels stock market development.
Andrianaivo & Yartey (2009) also used the political risk variables measures tested
Their results showed that for a one percentage point improvement in the risk rating
for a country’s political risk rating there is a percentage point increase of 0.9 in the
stock market development. From this it is evident that political environment is
positive and significant as a predictor of stock market development. This therefore
implies that in the emerging markets and specifically African markets the political
stability of the country.

From the literature the two different ways of measuring the political environment
draw similar results, i.e. the political environment of the country has a significant
influence on its financial development. The variables used by McGuire & Olson
(1996) and Girma & Shortland(2008) are favored in this study over the ICRG index
used by Yartey & Adjasi (2007) and Andrianaivo & Yartey (2009) as they have been
used by the World Bank in classification of countries and ranking their financial
development by the World Bank. These variables of different polities, i.e. based on the representativeness influenced by systems of government have are easily available for the time period under study and thus will be used.

2.8.3 Company Specific Factors
Most of the researchers in discussing the factors influencing stock market development, have considered the external environment viewpoint by focusing on the “institutional factors” (Capasso, 2006). These factors are what have been discussed in the above section as the market specific factors. Pagano, Panetta, & Zingales (1998) and Capasso (2006) put forth the argument that company specific factors have been neglected in the previous studies and there is a need to focus on them as they form an integral part of decision making when a company intends to use the capital markets and as such affect the development of these markets. The specific features offered by some researchers in support of the company specific factors include: capital structure, company size, company age and profitability. Since there is scanty literature analyzing these issues the present study intends to consider these four aspects in a slight focus shift so as to make a contribution to knowledge.

2.8.4 Capital Structure
A company’s capital structure as defined by the renowned economists Modigliani& Miller (1958) refers to the mix of debt and equity (1988) in evaluating theories on capital structure suggested that firms select capital structures depending on the various costs and benefits associated with debt and equity financing. In a more recent study, Demirguc-Kunt & Maksimovic (1996) found that the financing choice of the company is influenced by the financial market development. Demirguc-Kunt & Levine (1996) established that the improvement in the functioning of the stock market produces a higher debt-equity ratio in firms. This was based on the pecking order theory of corporate financing proposed by Donaldson (1961) where internal funds are preferred to external funds and that most companies avoid issuing new shares in consideration of issue costs. In this regard, the capital markets are seen as a source that the companies shy away from and opt for revenue surplus then debt financing and in the very last place equity financing. However, researchers have
found that equity financing and debt financing are complements as companies when engaging in physical development opt for debt financing over equity (Demirguc-Kunt & Levine, 1996; Pagano, Panetta, & Zingales, 1998; Capasso, 2006). The reasoning for this is that industrial and physical capital development initiatives are debt-oriented as it is cheaper than equity. Capasso (2003) had earlier established that the optimal capital structure desired by a company to finance risky investment projects would determine its proportionate use of equity and debt financing. In this regard, the rebalancing of the capital structure initially funded using debt financing would drive a company to issue stock on the equity market. This need to rebalance has been influenced by the high cost of bankruptcy associated with debt financing as established by Capasso (2006). In an analysis on why companies go public Pagano, Panetta, & Zingales (1998) found that the internal framework of the specific company’s financial needs will determine their listing or lack thereof on the public market.

These arguments picked up by Capasso (2006) where he finds that the development of the banking sector in any economy is directly related to the number of companies listed on the stock exchange due to the companies’ need for balancing in the debt and equity financing mix.

Although before a company issues equity, Shih & Fan (2009) determined that corporate managers would closely examine certain external elements such as the exchange rate movement, internal rate of return of the IPO to evaluate the performance of the stock market in order to list.

This is in agreement with Demirguc-Kunt & Maksimovic (1996) who found that the financing choice of the company is influenced by the financial market development. They established that particularly the stock market development has an effect on the financing choices of companies. This is because of the performance determinants that constitute the cost of equity and will enable the company’s survival after the IPO. This situation, however, brings forth the conflict of a directional relationship between the development of the stock market and the financing choices.
2.8.5 Company Size

Pagano et al. (1998) in their research to determine the relationship between economic growth and financial markets development; company size was found to be the second most important determinant for a company listing. They established that the size of the company as measured by asset base (total assets) increases the probability of the company’s decision to go public. The size of the company is determined as a consideration following the confirmation of the fixed costs of listing and the economies of scale enjoyed by larger companies than smaller companies. Larger companies are seen to be able to absorb the costs and fees associated with the listing process as found by Carpenter & Rondi (2006). In the same light Smitas & Kenourgios (2005) had established that small and emerging companies are often considered to be financially constrained, thus disabling their access to the stock market through IPOs. A major component of the costs of listing is the underpricing of the IPO due to adverse selection problem arising from information asymmetries. Carpenter & Rondi (2006) established that smaller Italian companies tended to be disadvantaged in that the direct cost of going public was estimated at slightly more than 4% of the gross proceeds of the IPO. Therefore, the smaller companies are not in a position to shoulder this burden and as such are locked out of the equity market as compared to the larger companies. The institutional viewpoint also sheds light in this regard, in that the requirement in terms of asset base to support a company’s listing may be prohibitive as noted by Carpenter & Rondi (2006).

2.8.6 Age of the Company

The age of the company is used to refer to the length of time for which the company has been in existence, i.e. since its establishment or incorporation. Ritter (1991) in studying the effect the age of a company would have on the underwriting price prior to an IPO found that a higher company age eases the company’s underwriting negotiations as the information asymmetry is lower and thus research costs are lower. Further to this the company with a higher company age will have a relatively higher market visibility and reputation thus a higher ability to attract investors to itself in the IPO as compared to a company with a lower age. Therefore, Pagano et al. (1998) found a positive relationship for their hypothesis that the longer the company has
been in existence the more likely it would be to publicly list. Pagano et al. (1998), Ritter & Welch (2002), Capasso (2006) and Yartey (2008) all offered the explanation for older companies going public in comparison to the younger ones based on the regulatory requirement of positive annual earnings for a consecutive three years prior to listing. These researchers agreed that the length of time that a company has been in existence would have significant influence on the decision of a company to go public or not.

Furthermore, these researchers add that the age of a company could give it mileage in terms of it being recognized in the market by investors. Shih & Fan (2009) stated that a high company age indicates lower operational risks. Further to this they offered that where the company has been in existence for a longer time there is reduced uncertainty among investors as there is more information circulated outside the company. The price at which the company’s stock will be issued at in an IPO has been found to have a negative correlation with the length of establishment of the company (Hung et al., 2003). In their study, empirical evidence revealed that the shorter the time is between the company’s establishment and its IPO issue the higher the degree that the company will issue their stock at a low price in order to attract investors. This has the direct effect on the development of the stock market as companies will not be willing to list if they have not been in existence long enough to reduce investor uncertainty with reduced information asymmetry and as well lower operational risks.

2.9 Theory relevant to this study

Capital market theory states that; federal funds, federal agency securities, treasury bills, commercial papers, negotiable certificates of deposits, repurchase agreements, Eurocurrency loans and deposits, options and futures are merchandised in the capital market. When one has to put a price on a security, one has to determine the risk and return of the security both for single assets, as well as a portfolio of assets. The uncertainty and variability of returns on assets and the possibilities of losses can be defined as risks. The theory of capital market defines returns in the following manner:
\[ K = Pt + Ct - \frac{Pt}{Pt-1} \]

Mortgages, equities, bonds, and other investments are traded in the capital market. The financial instruments in this market have long maturity periods. Where the time of purchase of the asset of price Pt-1 is t-1. If this be the case, then the return (K) from the time period t-1 to t is the above mentioned formula. Ct is the cash gotten from assets between t-1 and t. Pt is the price of the asset at time t. For practitioners of the capital market theory, it has not lost its significance. It is still as important for retirement, financial, and investment plans.

2.9.1 Assumptions of Capital Market Theory

The capital market theory builds upon the Markowitz portfolio model. The main assumptions of the capital market theory are as follows:

All Investors are Efficient Investors: Investors follow Markowitz idea of the efficient frontier and choose to invest in portfolios along the frontier.

Investors Borrow/Lend Money at the Risk-Free Rate: This rate remains static for any amount of money. The Time Horizon is equal for All Investors: When choosing investments, investors have equal time horizons for the chosen investments. All Assets are Infinitely Divisible: This indicates that fractional shares can be purchased and the stocks can be infinitely divisible. No Taxes and Transaction Costs: It is assumed that investors results are not affected.

2.10 Empirical Literature

According to the study done by Capasso (2006), the dependent variable indicators of size, that the stock market capitalization and the number of listed companies, are highly correlated and thus substitutable. It was further revealed from this study that the determined that the decision of a company to go public and to issue shares is a complex one and it depends on the market specific factors as well as the internal environment of the company. However, in practice the decision to enter the stock market also involves the comparison of a wide array of costs and benefits in a company attempting to form the optimal financial or capital structure.
Capasso (2006) in another research established that the development of the stock market is not only driven by the macroeconomic phenomenon as has been the major focus of the above-mentioned studies. Those he called institutional methodologies to studying stock market development. Capasso (2006) discovered the other school of thought on stock market development that analyzes the corporate financing decisions of individual companies.

In an analysis of South Africa’s stock market development (tracer study) done by Yartey (2008) adjusted the Calderon-Rossell model of 1990 which was a behavioral structural model of stock market development. In this model the main determinants of stock market development considered were market liquidity and economic growth. Similar research done by Yartey’s come out with the modification in 2008 incorporates other financial, economic and institutional variables, particularly banking sector development, political risk and private capital flows to explain stock market development in emerging markets. With regard to the institutional variables, the institutional quality has been assessed with reference to the regulatory and legal frame work as well as market infrastructure.

These decisions as found by authors aim at finding out how the financing choices change with capital accumulation. This second school of thought he classified as the instrumental methodologies. Pagano, Panetta and Zingales (1998) in a detailed empirical study of the major determinants of IPOs, established that there are three major factors that determine a company’s choice to go public: the stock market valuation of other firms in the same industry, the company’s size and the destination or use of raised funds.

The above findings were explained to be in line with Altman’s 1968 multiple discriminates analysis; the determinant factors to be discussed in this study will be based on their frequency in previous research.

In addition to this, it is necessary to consider the fact that the DSE is a stock market in a developing country in Africa, thus having unique challenges accruing to it.
Following studies done by Andrianaivo and Yartey’s IMF working paper of 2009 (09/182), Yartey (2008) and Yartey and Adjasi (2007) the market specific determinants chosen for this study are: Stock market liquidity, stock market volatility, market infrastructure, the regulatory and legal framework and political risk from literature there are very few studies (Capasso, 2006; Pagano, Panetta, & Zingales, 1998) that have considered the company-specific factors that may affect the listing of companies. The main factors identified are: the corporate financing decisions, profitability, size and age of the company.

In line with the fact that the measures of stock market development in terms of size (market capitalization and number of listed companies) are correlated, the present study opts to shift from the conventional measure of stock market development of market capitalization to the number of companies listed on the exchange as it has been rarely examined. Testing the identified determinants in relation to the number of companies listed will also be a way of testing for convergent validity (Trochim, 2006) of previous work using the market capitalization measure of stock market development.

2.12 Research Gap
The literature reviewed (empirical) revealed the many research have been done by many researchers on the studies similar to this study. Empirical literature has indicated that similar studies have been done all over the world. In light of this, the researcher did not find any evidence which indicated that the same researcher was done were the researcher did this research. Therefore, research findings from this study will cover the research gap.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter gives a description of how the study was conducted and it describes the research design used, the research variables determined, location of the study, population, the sample, size and sampling procedures used, the source of data and the data collection tools or instruments. It also addresses issues of validity and reliability of the instruments of data used and the ethics that guided the researcher when obtaining information from respondents. Finally, the chapter indicates how data has been analyzed.

3.2 Research Design
According to Aaker, (2002) defines a research as a detailed blue print used to guide a research study towards its objectives. And basing on this definition a research design is a detailed plan of work to be done to achieve the research objectives. (Adam and Kamuzora, 2008). A research design according to Kothari, (2004) is taken to mean a blue print for the collections, measurements and analysis of data.

The research design used in the study involved the use of both qualitative and quantitative data which was collected from primary and secondary source of data. In the course of the study, the data was collected through questionnaires, interviews and documentary review. The collected data has been analyzed through arrangement into categories and coding of the data as well. The coding scheme defined data themes and segments or sections and this was done through importing and numbering data files. The data was further analyzed by making connections to research by making connections to research questions, drawing interpretations based on findings and by using the statically package for social science.

3.3 Study area
The location or study area reflects both the geographical study area and the subject matter. Academically and in the essence, that the study is the field of business
administration, geographically, the location of the study was Dar es Salaam region and this was because most enlisted firms/industries to the DSE bases in Dar es Salaam and on the basis of the capital market across the regions; Dar es salaam is ranked with high concentration. Further, the researcher leaves in Dar es salaam and has interested in drawing a sample size from stock exchange markets in Dar es salaam.

However the findings as obtained from the sample size drawn from brokers of DSE which have been involved in the study process, the researcher physically visited these brokers from the respective districts within the region of Dar es salaam and interviewed their coordinators and employees or personnel’s so that that their practical experiences were shared with the researcher on how dare s salaam stock exchange contribute to the development of capital market in Tanzania through awareness creation, its structure and guiding policies to, the services provided by government and how they participate in the implementation of market performance.

3.4 Population, Sampling techniques and procedures
The population in this study included all DSE stakeholders in Tanzania In the course of the study, the researcher applied non-probability sampling in the sampling process to obtain information or the relevant data from the population of the study. (Adam and Kamuzora, 2008).

This is justified by the fact that this type of sampling does not provide any basis for estimating on the probability that each item or entity in the study population has a chance of being included in the sample size.

Similarly, in the process of the study, the researcher was mainly guided by accidental or convenience sampling which guided him on the availability of the required sample. Further, the researcher used the snowball sampling type, as supplementary in the sampling process and this helped the researcher to allocate and identify respondents who have relevant data through those who have been already indentified and interviewed by the researcher in regard to the research problem and the selection
criteria considered like, knowledge on education policies, the credibility of their information of the willingness to cooperate in the study process. (Adam and Kamuzora, 2008)

3.5 Sample size and Sampling Frame

Sample size
In the course of the study, the sample size of 100 respondents were drawn and interviewed.

Sampling Frame
The sampling frame of the study were mainly drawn from the target population of DSE brokers who are operating in the Dar es salaam stock exchange in a few instance some forms employees were purposively selected for clarity of information. Determination of the sampling frame was purposively drawn from the directory of registered stock broker’s securities.

Types/sources of data were both primary and secondary sources of data. For the primary data, the researcher collected it by using primary data collection tools and as for secondary data; the information included raw data, the published/unpublished ones, and which was highly supported by primary data.

The key source for secondary data were literature sources including, textbooks, research reports/dissertations, journals, annuals reports, public policies and laws and secondary data was much relevant of the study because it required little time ad costs and it broadened the data base which generalizations were made as it is always permanent.

3.6 Data collection methods and Instruments
In the course of the study, the researcher used the following data collection methods and Instruments
3.7 **Transcription**

This method of data collection was also used by the researcher but administered on very few respondents. Transcription involves a process of recording formal or firsthand discussions and conversations between the researcher and the respondents and transferring the discussion on paper. Transcription also involves re-hearing of the recorder discussion, more and the information obtained in recorded on paper, interpreted and analyzed in accordance to research objectives and questions.

3.8 **Questionnaires**

In the course of the study and in the data collection process, this research instrument of data collection was used and it involved an administration of a written set of structured questions and each one providing a number of alternative answers. The researcher administered and distributed questionnaires reflected the research objectives as well as the research questions.

Further the researcher used some open ended questions in the questionnaire in the collection of primary data and in most cases, the researcher used self administered questionnaires and in a few instances, mailed questionnaires were used.

3.9 **Documentary Review and Documentary Review Schedule**

The researcher identified different documents for the purpose of revision and then documentary review was a method which was used to review them. For effective and systematic review of documents, a researcher designed a schedule (instrument) which was used to effect the review of documents.

3.10 **Ethical issues**

In the course of the study, the researcher observed research ethics and all the respondents were given the opportunity to know their rights and obligation as respondents and the researcher communicated to them the purpose of the study and why data was being collected from them. In the entire process of the study, important research ethics including but not limited to, confidentiality, anonymity, time management and confidentiality were rightly observed by the researcher.
3.11 Data Management

3.11.1 Editing

Data editing refers to process of indentifying mistakes, spelling errors, incorrect information and omissions in the raw data collected. (Adam and Kamuzora, 2008). The underlying objective of data editing is to secure quality standard of the data and it entails making necessary corrections in the interview and questionnaire information. The course of the study, the researcher has edited the information collected from the field through the central data editing process and errors in the data were accordingly rectified.

3.11.2 Coding

The initial coding of data involved representing and noticing new things in the collected data and this meant that the researcher read the original data files many time and in involved creation of a coding scheme and then coding data. This further involved creating a coding scheme that best defined the themes that had been identified and provided a way to break up the data for further analysis. The codes were used to identify the specific sections for instance, of the interview data that represent the category. The data coding process leads to revisions in the coding scheme and the data was analyzed by noticing new things in the data through importing and numbering data files, coding data files and searching for coded segments in the data. (Corbin, 1990)

Making connections to the research questions; this technique involves describing and further developing the themes from the data to answer the major research questions. The themes indentified were revised with the major research questions as the lens for analysis of data and this was applied to each research question and the data collected on it.

Interpreting findings; once the data has been collected and it has been coded the data is them divided into themes. This was done by cutting up the interview data “blocks” and sorting them into each of the codes. This involved making multiple copies of the transcripts to limits data being placed into more than one category and it is important
always to keep the original information in its entirety. The data was then reviewed within the themes or categories, and an understanding of each it was reached. As for quantitative data analysis which entails the development of certain indices from the raw data and processing of generalization by running various tests of significance for testing research objectives in order to draw inferences. (Adam and Kamuzora, 2008). The inferences drawn from the collected data become bases of drawing conclusions after analysis of the quantitative data. The quantitative data collected was analyzed mainly by using the statistical package for social sciences.

3.11.3 Validity and reliability
The data collection methods and tools as used in the course of study and in the data collection process were both valid and reliable and this was justified in reflection of the nature of the study and the size of the sample and nature of the respondents. The degree of reliability and validity of the data collection methods and tools helped the researcher to identify issues that were not clarified in the questionnaire and sought clarification in the interview process in respect of how DSE contribute to the development of capital market in Tanzania. Further depending on the nature of the study, the most valid and reliable data collection methods were interviews and documentation reviews and questionnaire as the valid collection instrument.

3.12 Data Analysis Procedure
Data analysis refers to the computation of certain measures along with searching for partners of relationship that exists among data groups. (Kothari, 2004). Data analysis also involves cleaning or processing and mining data. In the course of the study and before data analysis, the raw data collected from the field was processed. The researcher collected both qualitative and quantitative data in the study process. Qualitative data is concerned with data which describes meaning, rather than with drawing statically inferences and qualitative methods for instance, what interviews lose on reliability they gain it in terms of validity since they provide a more in depth and rich description. Qualitative data can be arranged into categories that are not numerical. These categories can be physical traits, gender, colours or anything that
does not have a number associated to it. Qualitative data sometimes referred to as categorical data. The qualitative process of data analysis is an inductive one, in which the data is examined a “bottom – up” approach (Creswell, 2005). The specific data examined to indentify more general themes that will be used to understand the meaning of the data. The data collected was analyzed through qualitative process of breaking it up, separating, or dissembling of research materials into pieces, parts, elements, or units and the facts broken down into manageable pieces.
CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE RESEARCH FINDINGS

4.1 Introduction
This chapter presents research findings as collected and analyzed from the field data and the finding are presented in a manner that is logical in answering both the specific objectives and questions of the study.

The findings are further analyzed and interpreted by showing how Tanzania stock exchange contributes to the capital market development.

Kothari (2004) defines interpretation as the task of drawing misleading inferences from collected facts, after an analytical and or experimental study aiming at searching the broader meaning of research findings by trying to establish continuity in research through linking the results of a given study with those of others and establishment of some explanatory concepts.

This chapter highlights the presentations, analysis, interpretation and discussion of the findings. The analysis is based on the primary data which was gathered through the use of structured questionnaires.

Other information or secondary data were obtained from stock brokers companies, officials of the DSE who solicit their views on the contributions of DSE to the development of the capital market. 100 respondents were interviewed to provide information about the subject study.
4.2 Background information of respondents.

Table 4.1: Table below show suggestions of respondents on awareness created by Dar es Salaam stock Exchange

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>21</td>
<td>21.0</td>
</tr>
<tr>
<td>Average</td>
<td>39</td>
<td>39.0</td>
</tr>
<tr>
<td>Good</td>
<td>17</td>
<td>17.0</td>
</tr>
<tr>
<td>Very good</td>
<td>23</td>
<td>23.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE; Field survey 2013.

To some extent Dar es Salaam stock exchange has been creating awareness even though it is below fifty percent for each claimed by the respondents. Performance of Dar Es Salaam stock exchange has suggested by the respondents labeled poor condition comprising 21%, good condition was suggested by seventeen respondents
out of one hundred respondents and very good condition comprising twenty three percent (23%), this means that the average condition comprising thirty nine percent (39%). As table1 above shows, Dar es Salaam stock exchange somehow performs in creating awareness to the public.

Table 4.2: Are companies willing to be listed on the Dar Es Salaam stock Exchange

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>61</td>
<td>61.0</td>
</tr>
<tr>
<td>No</td>
<td>39</td>
<td>39.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE; Field survey 2013.

Figure 4.2: Are companies willing to be listed on the Dar Es Salaam stock Exchange


As what displayed by table2 above, companies are highly motivated to be listed in Dar es Salaam stock exchange as what comprises a total of sixty one (61) respondents responded yes resulting a total of sixty one percent (61%) of total of what suggested by the respondents. But this is not enough indeed because of thirty
nine percent (39%) of total responses who said that some of the companies are still rigid to get registered on the Dar es Salaam stock exchange.

**Table 4.3: Do you consider any regulatory bottlenecks in the operation of Dar Es Salaam stock Exchange**

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE:** Field survey 2013.

Finding revealed that; It is true that despite the fact now we are in the world of globalization where by investment, trade partnership, inter regions trade and free market are leading gears to bring sustainable development but there is an existence of regulatory bottlenecks which hinder at higher level the operation of Dar es Salaam stock exchange. As table3 above displays nothing is hidden, all respondents (100) pointed out the presence of difficulties in daily operation of Dar es Salaam stock exchange, which reduces the efficiency of Dar es Salaam stock exchange.

**Table 4.4: Are there governance procedures for firms that want to be listed on the stock Exchange**

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCE:** Field survey 2013.

Government procedures exist in Tanzania for the firm willing to be listed in the stock exchange, table4 shows of what collected from the filed by the researcher (my self) for total of one hundred respondents totalizing hundred percent (100%) revealing the truth on the presence of governance procedures to be followed for any firm before it get to be registered on the stock exchange.
Table 4.5: If yes, what extent do you think governance procedure regarding stock exchange listing are adhered to

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well</td>
<td>27</td>
<td>27.0</td>
</tr>
<tr>
<td>Very well</td>
<td>73</td>
<td>73.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**SOURCE:** Field survey 2013.

Figure 4.3: If yes, what extent do you think governance procedure regarding stock exchange listing are adhered to

**SOURCE:** Field survey 2013.

An adherence to the governance procedures regarding stock exchange is in good truck as what can be revealed in table 5 above, twenty seven respondents (27) resulting twenty seven percent (27%) of total response suggested that there is in well condition and remaining seventy three respondent (73) resulting seventy three percent suggested the presence of very well condition for an adherence of firms to governance procedures.
4.3 Impact of the DSE to the capital market of Tanzania

Table 4.6: To what extent would you say that stock exchange listing has been beneficial to listed firms and capital market growth in Tanzania

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well</td>
<td>68</td>
<td>68.0</td>
</tr>
<tr>
<td>Very well</td>
<td>32</td>
<td>32.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE; field survey 2013.

Figure 4.4: To what extent would you say that stock exchange listing has been beneficial to listed firms and capital market growth in Tanzania?

Listing of the firms in the stock exchange has been beneficial for capital market growth in Tanzania as what seen in the table6 above, sixty eight respondents (68) out of one hundred (100) respondents comprising sixty eight percent (68%) they suggested the presence of well condition on how stock exchange benefits the capital market growth in Tanzania. Not only that but also remained thirty two respondents which is thirty two percent (32%) of the total sample size revealed to me that there is a well condition on marketing growth in Tanzania is due to the firms being listed in Dar Es Salaam stock exchange.
4.4 Challenges faces dare s salaam stock exchange.

Table 4.7: Are there any challenges faces by Dar es Salaam stock Exchange

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

SOURCE; Field survey 2013.

Dar Es Salaam stock exchange is facing a lot of challenges such as poor support from the Government, poor response from firms/companies which are not yet listed in Dar Es Salaam stock exchange, lack of enough skilled labor on how to compete and penetrate the market and enough capital to operate effectively which is becoming a serious problem on the current environment of science and technology where every minute there is a new thing and idea developed or innovated.

4.5 Contributions of the DSE to the development of the capital market.

Table 4.8: A part from listing firms on the stock market, what other contribution does Dar es Salaam stock Exchange give to the listed companies

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide the training on how to manage their investment</td>
<td>20</td>
<td>20.0</td>
</tr>
<tr>
<td>To ensure the protection against investor</td>
<td>26</td>
<td>26.0</td>
</tr>
<tr>
<td>To increase market size and capital structure of companies</td>
<td>30</td>
<td>30.0</td>
</tr>
<tr>
<td>To facilitate price recovery and purchase share</td>
<td>9</td>
<td>9.0</td>
</tr>
<tr>
<td>Price and value of the firm discovery</td>
<td>15</td>
<td>15.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE; Field survey 2013.
Figure 4.5: A part from listing firms on the stock market, what other contribution does Dar es Salaam stock Exchange give to the listed companies

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price and value of the firm discovery</td>
<td>15%</td>
</tr>
<tr>
<td>To facilitate price recovery and purchase share</td>
<td>9%</td>
</tr>
<tr>
<td>To increase market size and capital structure of companies</td>
<td>30%</td>
</tr>
<tr>
<td>To ensure the protection against investor</td>
<td>26%</td>
</tr>
<tr>
<td>Provide the training on how to manage their investment</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Source:** Field survey 2013.

Table 8 above is displaying other contributes of the Dar Es Salaam stock exchange, training on how to manage their investment, comprising twenty percent (20%) because of twenty (20) respondents suggested as one amongst other contributes of Dar Es salaam stock exchange, protection against an investor was suggested by twenty six (26) respondents resulting twenty six percent (26%), an increase of market size and capital structure of companies seeing as a pioneer amongst other contributes added by Dar Es salaam stock exchange suggested by thirty (30) respondents which thirty percent (30%) out of one hundred percent , discovery of the value and price for the firm was mentioned by fifteen (15) respondents which is fifteen percent (15%) and facilitation on price recovery and purchase share mentioned by nine (9) respondent which is nine percent (9%) out of one hundred percent.
Table 4.9:  What new things do you think when done can accelerate the number of firms listed on the Dar es Salaam stock Exchange

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing education to the public through media</td>
<td>40</td>
<td>40.0</td>
</tr>
<tr>
<td>Innovation and good governance</td>
<td>15</td>
<td>15.0</td>
</tr>
<tr>
<td>Opening market to the outsider</td>
<td>28</td>
<td>28.0</td>
</tr>
<tr>
<td>Provide training and technology</td>
<td>17</td>
<td>17.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE; Field survey 2013.

Figure 4.6: What new things do you think when done can accelerate the number of firms listed on the Dar es Salaam stock Exchange

SOURCE; Field survey 2013.

Education cannot be hesitated so as to increase the number firms to be listed on the Dar Es Salaam stock exchange through mass media so as to increase awareness in the community which is forty percent (40%) of all one hundred percent. Opening market to the outsider was mentioned by twenty eight (28) which is twenty eight percent (28%) out of all discussants as one among of the factors which can accelerate other firms to be listed in the Dar es Salaam stock exchange. Not only these but also
providing training and technology claimed by seventeen respondents (17) which is seventeen percent (17%) as another factor for convincing other firms to be listed in the Dar Es salaam stock exchange, which indicates that some firms are not familiar on how Dar Es salaam stock exchange operates that is why training and technology should be provided. To the contrary it was revealed fifteen respondents (15) resulting fifteen percent (15%) that innovation and good governance should be considered, this is clear for the world of globalization and science and technology accelerated by innovation of experts to produces and provides goods and services of good quality respectively efficiently at a required extent and at aimed summit, as verified in the Table9 above.

4.6 Difficulties which facing companies in mobilizing capital.

Table 4.10: What are the difficulties companies faces in the mobilization of capital at the stock market

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of enough capital</td>
<td>22</td>
<td>22.0</td>
</tr>
<tr>
<td>Un awareness of the people</td>
<td>64</td>
<td>64.0</td>
</tr>
<tr>
<td>Regulation and laws from the government</td>
<td>14</td>
<td>14.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE; Field survey 2013.
Figure 4.7: What are the difficulties companies faces in the mobilization of capital at the stock market

SOURCE; Field survey 2013.

People are not aware about Dar Es Salaam stock exchange this is because of lack enough convincing advertisements where by large number of people are left behind, as this revealed in the Table10 above where by sixty four respondents (64) which is sixty four (64%) from my research suggested that unawareness of the people about Dar Es Salaam stock exchange. Lack of enough capital mentioned by twenty two (22) respondents which is twenty two percent is another faced difficulties by firms and companies in mobilizing their capitals’ at the stock Market. On top of these, Regulation and laws from the government totalizing fourteen percent (14%) was mentioned by respondents as one among of difficulties faced by companies in the mobilization of capital at the stock market.
Table 4.11: What are the challenges facing companies when enlisting on the Dar es salaam stock Exchange

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of capital</td>
<td>35</td>
<td>35.0</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>65</td>
<td>65.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE; Field survey 2013.

Figure 4. 8: What are the challenges facing companies when enlisting on the Dar es salaam stock Exchange

Regarding challenges facing companies when enlisting on the Dar es Salaam stock exchange, the majority of respondents which is sixty five percent (65%) stated that bureaucracy as major challenge facing companies when they are enlisting in the Dar es Salaam stock exchange. Lack of Capital mentioned by thirty five respondents which is thirty five percent (35%) argued the case; indeed if there is enough capital nothing can be achieved and established.
Figure 4.9: Brokers of the DSE at work.

Source. www.dse.co.tz
CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter involves a summary of the principal features of the subject study, moreover an outline of the main findings, key concepts and theories, the implications involves by reflecting on my study as a practitioner and a researcher.

Further, its contains the recommendations for future research and practical suggestions which my influence the practice of business and management

5.2 Main findings of the study
The researcher found out that Dar-Es-salaam stock exchange contributes to the development of the capital market. This is because of well organized with enough capital and companies having been attracted to be listed in the stock. Majority of respondents identified the beneficial of the companies which are listed in the Dar-Es-salaam stock exchange in the essence of the development of the capital.

On top of these, the Dar-Es-salaam stock exchange adds the following as advantages on their listed companies; provide the training on how to manage their investment, To ensure the protection against investor, To increase market size and capital structure of companies, To facilitate price recovery and purchase share and Price and value of the firm discovery.

5.2.1 Findings on the impact of the Dar-Es-salaam Stock Exchange to the capital market of Tanzania.
Majority of the respondents noted that the Dar-Es-salaam Stock Exchange is a bridge for the capital development of the companies listed. This is because of the potential of the opportunities for being known via advertisements made. Not only this but also security of the capital against investors which an essential part for the developing companies wishing to have a strong business network in the current word of competitive market.
5.2.2 Findings on the challenges of the Dar-Es-salaam Stock Exchange.

Lack of capital

Lack of capital as a challenge facing companies which are ready to be enlisted in Dar-Es-salaam stock exchange, this mainly results managers of these companies some of them to quit out being listed.

A total of 35% respondents from my research noted this as one the challenges faced by the companies when they think registration on the Dar-Es-salaam stock exchange.

Additionally, Bureaucracy, identified by many respondents covering 65% of the total respondents, this results some the companies to quit registration in the Dar-Es-salaam stock exchange and if not the case, it may take a long to get full registration.

5.2.3 Findings on the difficulties which facing companies’ in mobilization of capital at the stock Market.

Unawareness of the public about the structure and operation of the Dar-Es-salaam stock market is major identified by many respondents. One respondent said to hear the Dar-Es-salaam stock exchange is whether to watch a television or radio programmes specifically at hour of business news. So what will happen for those who do not own even a radio? This is not enough; the Dar-Es-salaam stock market should advertise its services through mass media for easy access to the public at large.

Capital as a major gear in any business, enough capital is a problem for companies’ mobilization of capital at the stock Market. 22% out of 100% revealed this; this is due to the fact that some companies are at the initial stage of operating business. Also the performance of stock market can cause the company to incur bankrupt and to lose its capital. Government regulations and laws are difficultness facing companies’ in mobilization of capital at the stock market. Through my research resulting this report, government regulations and laws was identified by 14 respondents out of 100 respondents, there is governmental laws and regulations which are not friendly for companies’ in mobilization of capital at the stock Market.
5.3 Recommendations to Dar-Es-salaam stock exchange

i. The Business Socio-economic environment; the government to ensure gender mainstreaming enhancement in all initiatives pertaining to stock market development. This could be through drawing special programmes that will be directly involving women in stock market ventures. There is a need for stock market survey study, to find the potential opportunities for the business. With government support this will support programmes aimed at increasing access of information relevant to the development of stock market through conducting survey of stock markets in order to access information concerning them.

ii. The Business Legal and regulatory environment; the Government to improve business regulatory environment. This could be through adjustment of tax regimes, easy licensing requirements, and review the legal and regulatory framework impacting on the performance of the business sector. Indeed enough the government should bring at the table the dialogue with Dar-Es-salaam stock exchange partners to discuss are potentials needed for the better performance and big results.

iii. The Business Policy environment; The governments to ensure that clear policies and procedures regarding the extension of startup capital to business companies are in place. The service should be at reasonable terms in the form of low interest rates, friendly repayment schemes etc. The government should strengthen its support on the efforts initiated the companies in order to increase their roles in helping local companies to sustainably grow and develop in the country. These government efforts include facilitation of good business environmental climate by forming and updating the Dar-Es-salaam stock exchange as well as companies’ policies. Dar-Es-salaam stock exchange to design programmes to support the existing companies. They are at growing stage, actually moving towards maturity. They need adequate business consultancy services, supply of additional capital and equipment as
well as financial resources. Need for immediate commercial loan restructuring. This may take several forms which include temporarily or permanent interest rate reduction, thereby allowing a commercial property owner to increase cash flow; extending the maturity dates of a loan to help commercial property owners avoid balloon payments while the economy remains sluggish. The Dar-Es-salaam stock exchange should assess its efficiency and impact on the progress of their businesses and see how to intervene accordingly to ensure business sustainability.

iv. Business Financial Frameworks and Human resource development; Dar-Es-salaam stock exchange to become more helpful to many companies. This business requires a high degree of surveys that will discover the core services on demand in different parts of the country by small companies. Dar-Es-salaam stock exchange need to expand their services to make greater impact on the growth and development of midsized companies. These services are paramount since they address most incapacity of small companies’ operators including lack of sufficient business knowledge. The Dar-Es-salaam stock exchange and commercial banks need to maintain excess liquidity to offer services to microcredit clients. The fact that majority need the service implies bigger market and quality services offered. The Dar-Es-salaam stock should focus on support to profit making businesses as part of corporate social responsibility. Therefore, the Dar-Es-salaam stock should design, plan, arrange, implement, monitor and evaluate special programmes to support the businesses.

Policy recommendations for the Dar-Es-salaam stock exchange

i. The Business Macroeconomic Environment; Need for the Dar-Es-salaam stock exchange to carry out market research so as to design more competitive products for the companies. In addition, companies’ operators are encouraged to take advantage of the products and services offered to start, grow business and eventually eliminate poverty. The Dar-Es-salaam stock exchange should understand the importance of differentiation and hence device mechanism/
strategies of producing slightly differentiation products in order to make profits and to satisfy customers.

ii. The Business Policy environment; The government needs to enhance the efforts of the Dar-Es-salaam stock exchange in transforming companies’ performance. This could be in form of copyright protection of their services, subsidizing their operations and offer of certificates of recognition. The government should encourage the Dar-Es-salaam stock exchange to offer services to people in all economic sectors. The most unattended sector being agriculture. This could reduce poverty among the majority poor rural civilians. The government could do so through standing as a guarantor to rural farmers and putting efforts in stabilizing the macroeconomic environment in terms of low inflation markets access. Dar-Es-salaam stock exchange need to extend their offers to remote areas. These areas are more potential as there are majority of people who are in need of their services. Dar-Es-salaam stock exchange should observe customers as their hearts. Losing customers would lead to the fall of Dar-Es-salaam stock exchange and their popularity/brand as well. Hence, proper awareness promotion programs should be established and applied accordingly to keep these customers. The comments provided by Dar-Es-salaam stock exchange officers should be taken into account. Ways should be designed for the loan to be favorable for business start ups and companies’ operators need to be encouraged to get serious so that they can enjoy services from the Dar-Es-salaam stock exchange. The government should capitalize on the natural resources to help business growth. This should reduce overreliance on Dar-Es-salaam stock exchange which is extending resources to businesses for business sake. They are conditional and in some areas loans have furthered poverty instead.

iii. The Business Institutional Frameworks; Need for joint efforts between the related institutions in furthering the growth and development of the companies. The institutions suggested to combine efforts to enhance companies growth includes; Small Industries Development Organization (SIDO), Vocational Education Training Authority (VETA), Micro Finance
Bank (NMB) and various Industrial Support Organizations. The Dar-Es-
salaam stock exchange should increase the pace of doing innovation so as to
increase the quality of services offered. Moreover, the government should not
be behind this move in the sense that it should have active department and
agencies that support companies in the country.

5.4 Areas for Further Research
Further research should be carried out on the following; The effect of information
technology on the performance of stock exchange operations. The role of financial
and non financial Institutions in the development of capital market in stock market
exchange
REFERENCES


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APPENDICES

QUESTIONNAIRES

I am a student at Mzumbe University Dar es Salaam Campus pursuing Masters Degree in business administration. I have prepared this questionnaire for the purpose of collecting data on my research study titled: “Contribution of dare s salaam stock exchange to the development of the Capital market”.

Your participation in this study is highly appreciated and will help to make the study successful. Assurance is given that any personal details or information that you will provide in this questionnaire will be kept confidential for academic purposes only.

QUESTIONS:

INSTRUCTIONS

Please mark [✓] where necessary and fill forms as appropriate.

1. What has been the extent of awareness creation by Dar es Salaam Stock Exchange?
   (i) Poor
   (ii) Average
   (iii) Good
   (iv) Very good
   (v) Excellent

2. Are companies willing to be listed on the Dar es Salaam Stock Exchange?
   (i) Yes
   (ii) No
   If yes, why
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
   If no, why
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
3. Do you consider any regulatory bottlenecks in the operation of Dar es Salaam Stock Exchange?
   (i) Yes
   (ii) No
   If yes, what are they?
   ........................................................................................................
   ........................................................................................................

4. Are there governance procedures for firms that want to be listed on the stock exchange?
   (i) Yes
   (ii) No
   If yes, what extent do you think governance procedure regard stock exchange listing are adhered to.
   (i) Not at all
   (ii) slightly
   (iii) well
   (iv) very well

5. To what extent would you say that stock exchange listing has been beneficial to listed firms and capital market growth in Tanzania?
   (i) Not at all
   (ii) Slightly
   (iii) Well
   (iv) Very well
   Explain........................................................................................................
   ........................................................................................................

6. Are there any challenges faces by Dar es Salaam Stock Exchange?
   (i) Yes
   (ii) No
   If yes, please describe them in your view.
   ........................................................................................................
   ........................................................................................................
7. Apart from listing firms on the stock market, what other contribution does Dar es Salaam Stock Exchange give to the listed companies?

8. What new things do you think when done can accelerate the number of firms listed on the Dar es Salaam Stock Exchange?

   i. ................................................................

   ii. ................................................................

   iii. ......................................................

   iv. ................................................................

9. What are the difficulties companies faces in the mobilization of capital at the Stock market?

   i. .................................................................

   ii. ................................................................

   iii. .................................................................

   iv. ................................................................

10. What are the challenges facing companies when enlisting on the Dares Salaam Stock Exchange?

    i. .................................................................

    ii. ................................................................

    iii. .................................................................

Thank you for participation.

Your cooperation is highly appreciated.