

**THE ASSESSMENT OF CHALLENGES AND PROSPECTS
OF CAPITAL MARKETS DEVELOPMENT: A CASE
STUDY OF TANZANIA**

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OF CAPITAL MARKETS DEVELOPMENT: A CASE
STUDY OF TANZANIA**

**Wanjah A. Hamza
(LLM/CL 014/T11)**

**A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree
Award of LLM in Commercial Law of Mzumbe University**

2013

CERTIFICATION

I, the undersigned Supervisor, certify that I have read and hereby recommends for the acceptance of this work entitled *Assessment of Challenges and Prospects of Capital Markets Development: A Case Study of Tanzania*, in partial fulfillment of the requirements for award of the degree of Master of Law (LLM) of Mzumbe University.

Major Supervisor

Names:

Signature:

Date:

Internal Examiner

Signature

External Examiner

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Accepted for the Board of

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DECLARATION

I, Wanjah Abdallah Hamza declare that this dissertation is my own work resulted from my own efforts except for the references; quotations and other summaries referred which have been acknowledged accordingly. The work has not been submitted to any other University providing for a similar or any other degree awards.

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DEDICATION

I dedicate this work to my lovely Husband Advocate Juma K. Wabwilwa, lovely Sons Abdulwahab J. Kalunga, Abdallah J. Kalunga, Ahmed J. Kalunga, and to my lovely Parents Mr. Abdallah M. Hamza and Mrs Zuhra A. Hamza for their love, support and tolerance at the time of my study, as for that I have reached this far.

ABSTRACT

This study assessed the Challenges and Prospects of Capital Markets Development in Tanzania. The specific objectives were to analyze the extent of the capital market challenges of the past fifteen years since the establishment of DSE and CMSA; to examine the achieved capital market development prospects of the past fifteen years since the establishment of the DSE and CMSA; to outline and understand the current newly emerging capital market challenges and prospects starting year 2010; and to determine the current status of the capital market development in Tanzania. The study was conducted at Dar Es Salaam City and involved a sample size of 80 respondents drawn from Top Managers and the personnel from the Dar Es Salaam Stock Exchange (DSE), the Capital Market and Securities Authority (CMSA), Brokerage Firms and Private Advocates, who were selected through random and purposive sampling techniques. The data were collected through a combination of techniques namely; interviews and questionnaires. The collected data were analyzed through the use of SPSS, discussed and presented through the use of figures, tables as well as text.

The study reveals that there are challenges for the capital market development that remain unsolved since the establishment of the CMSA and the DSE, despite the prospects experienced to the market. Hence the study recommends for more reforms to our laws and policies governing the capital market business, demutualization of the DSE, Stock Markets integration so as to make the market flexible hence rapid development of the market. The findings further revealed that market is illiquid as there are few trade able securities and few investors too. That major players in the business are the pension funds, which hold assets at certain ratio at marketable prices.

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LIST OF ABBREVIATIONS

ATS	Alternative Trading Systems/Automated Trading Systems
BOT	Bank of Tanzania
BRVM	Regional Securities Exchange of WAEMU
CDS	Central Depository System
CMAC	Rwandan Capital Markets Advisory Council
CMSA	Tanzania Capital Markets and Securities Authority
COSSE	Committee of SADC Stock Exchanges
CSCS	Capital Securities Clearing System
DFI	Development Finance Institutes
DSE	Dar Es salaam Stock Exchange
DVP	Delivery versus Payment
EASRA	East African Member States Securities Regulatory Authority
ECN	Electronic Communication Network
FPI	Foreign Portfolio Investment
IFI	International Financial Institutions
IPO	Initial Public Offers
JSE	Johannesburg Securities Exchange
MoU	Memorandum of Understanding
NSE	Nairobi Stock Exchange/Nigeria Stock Exchange
NSX	Namibia Stock Exchange
SADC	Southern Africa Development Community
SEC	Nigerian Securities and Exchange Commission
SOE	State Owned Enterprises
TOL	Tanzania Oxygen Company Limited
USE	Uganda Securities Exchange
WAEMU	West African Economic and Monetary Union

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This chapter gives the general overview of the capital market development. The chapter provides for the background of the capital market development in Tanzania, the statement of the problem, research objectives and questions, significance and the scope of the study. The literature review and the research Methodology are also provided under this chapter.

1.1 Background of the study

It is universally accepted that no modern economy can do without an efficient financial system due to the reason that the role of the financial system in the economy is like a bone marrow to the backbone of human being, enabling all the movements and so making it move and work efficiently.¹

Taking that into consideration, Governments throughout the world have found it necessary to develop capital markets in their countries. That is due to the reason the financial systems are the ones that play a role of Intermediation by facilitating the movements of funds from those who have surplus money to save, to those who are in need to use the money and therefore increasing the efficiency of economic resources allocation and deployments.²

Historically, the origin of capital market in the world can be traced back from the periods in which the world economy was open to trade and factor mobility, where people and capital moved to countries, regions and cities that offered better jobs, more profits and higher wages than those encountered at home.³

¹Dar Es Salaam Stock Exchange Handbook, (2010), p.4

² Mkullo Mustafa H., (2010), the then statement by the Minister for Finance and Planning, DSE Handbook, 2010, p. 4

³ Solimano, Andrés & Watts, Nathalie (2005), “**International Migration Capital Flows and the Global Economy: A Long Run View**”, Economic Development Division. Chile, p. 5

These were the periods of increased trade and capital mobility that had been also accompanied by more intense labor mobility across national borders. Conversely, in periods of global instability, stagnation, nationalism and more restrictive policies toward migration and capital mobility had observed less action in global factor markets.⁴ The first wave of globalization from around 1870 to 1913 was a period in which capital and labor were both free to move internationally; as a consequence international labor and capital markets became more integrated than in any period afterwards.⁵ The interwar period with its economic turbulence, political disarray and rising nationalism witnessed both a movement towards reduced intercontinental migration and more chaotic and diminished capital flows.⁶

After the World War II, the Bretton-Woods system restricted international private capital mobility and national governments gave more priority to the achievement of domestic policy goals. In the early 1970s, the Bretton-Woods dollar-gold standard was abandoned and international capital mobility surged.⁷

Accordingly, in 1950 there were 49 countries with stock exchanges, 24 were in Europe and 14 in former British colonies such as the United States, Canada and Australia.⁸ Their usefulness was seen as limited to only the wealthier countries in which they resided. Developing countries had low levels of savings and limited means to attract foreign capital; stock markets played an insignificant role in their economic growth before the 1980's. Funding for economic capital came primarily from foreign aid, state-to-state from advanced industrial countries to developing economies during the 50's and 60's.⁹ That during the 1970's there was an increase in private bank long-term lending to foreign states that nearly equaled state aid, and as Keynesian ideas came into disrepute

⁴ Ibid

⁵ Ibid

⁶ Ibid.

⁷ Ibid

⁸ Maurice Obstfeld, Alan M. Taylor (2001) “**Globalization and Capital Markets**”, National Bureau of Economic Research, University of Chicago Press: January 2003, found at <http://www.nber.org/books/bord03-1>, accessed on 18/01/2013 at 00.49hours.

⁹ Ibid

due to stagflation.¹⁰ In 1982 when Mexico suspended its external debt service, it marked the beginning of the debt crisis throughout the developing world; banks severely limited lending to developing nations.¹¹

In response to the perceived failures of the development project and to the 1980's debt crisis, a market-based strategy of economic development was seen as the solution. Instead of a bank-to-state lending or foreign aid, the model used private investment in the private sector of developing countries. The International Monetary Fund (IMF) and the World Bank spread this idea through its imposition of Structural Adjustment Programs during 1980's.¹²

The IMF and the World Bank supported stock market development not solely on the grounds of ideology but rather that the stock market is a natural outgrowth of a developing financial sector as long-term economic growth proceeds and also as a criticism of early development efforts through Development Finance Institutes (DFI).¹³ These DFI's had difficulties during the 1970's economic crisis of the third world. Singh cites the World Development Report of 1989 that the poor performance of these DFI's was due to the "inefficiencies of these DFIs and the banked-based interventionist financial systems."¹⁴ The report argued that a restructuring of these systems to make them "voluntary, fiscally neutral and to bring them as far as practicable under private ownership."¹⁵ A new term was coined "emerging markets" for third world countries which would help legitimize stock markets as a method of economic development.

During the 1980's, developing countries enacted dramatic reforms to their financial systems through liberalization to make their economies more market-oriented (financial

¹⁰Ibid

¹¹Ibid

¹² Ibid

¹³ Singh, A. (1993) "The Stock Market and Economic Development: Should Developing Countries Encourage Stock Markets?" UNCTAD Review, 4, p.1-28.

¹⁴ Ibid

¹⁵ Ibid

de-repression), making capital easier to move around the world.¹⁶ From 1984 to 1995, Global equity markets experienced an explosive growth and emerging equity markets experienced an even more rapid growth, taking on an increasingly larger share of this global boom.¹⁷

On the part of Africa, the development of capital market business can be traced in early 1990s as the history of African Capital Market proves that prior to the year 1989, there were just five (5) stock markets in sub Saharan Africa and only three in North Africa.¹⁸ As by the year 2003, there were more than 19 stock exchanges. Stock market development has been central to the domestic financial liberalization programs of most African countries. It seems any program of financial liberalization in Africa is incomplete without the establishment and development of stock markets.¹⁹ But since the early 1990s, there had been a considerable big change in the African capital markets sector.²⁰

The collapse of the Soviet Union and increased globalization, cross-border financial transactions had been among the factors that highlighted the significance of capital markets on the continent.²¹ Also with the strong emphasis on regionalisation, it was considered by many to be inevitable in the development of African capital markets, as they struggled to consolidate in order to overcome poor liquidity and to attract more foreign investment.²²

By those times, many of the African stock markets were characterized by relatively low liquidity, well below that of the most emerging capital market. Part of this stems were from facts and circumstances such as relatively low trading volumes, lack of information

¹⁶ Ibid

¹⁷ Ibid

¹⁸ Yartey, C. A. & Adjasi, C. K., (2007), “**Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges**”, IMF Working Paper WP/07/209, August 2007, p.5

¹⁹ Prof Biekpe, N. (2003), ‘**African Capital Markets: Legal and Governance Framework**’, Africa Centre for Investment Analysis, University of Stellenbosch, South Africa, presented to the United Nations Economic Commission for Africa on 15th Nov, 2003, p.4Ibid

²⁰ Ibid

²¹ Ibid

²² Ibid

flow about securities to both institutional and individual investors, lack of investor awareness of the opportunities in these markets, and the relatively unstable economies in these countries.²³ To a large extent, this could be put to the lack of proper governance and legal structures to deal with capital market dynamics.

Still, like other African countries, by early 1990s, Tanzania had adopted the system as one among the measures in economic liberalization.²⁴ It is correct to say that development of capital markets in Tanzania was a part of the package of reforms which also included; trade liberalization, relaxation of exchange controls, de-regulation of interest rates as well as divestiture of public enterprises.²⁵ The capital market in the place of public finance of the reproductive sector, it had filled the gap as the necessary infrastructure in propelling the engine of growth which then came to be the synonym for the private sector.²⁶

The policy changes in Tanzania have had a positive impact and challenges on the capital market development.²⁷ The Economic Recovery Program, consequently led to the preparation of the Capital Markets and Securities Act, (Cap. 79 of the Laws of Tanzania),²⁸ which for the purpose of this study shall be referred to as the CMSA Act. The Act provided for the establishment of the Capital Markets and Securities Authority (CMSA) for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital market and securities industry in Tanzania, to make provisions with respect to stock exchanges, stockbrokers and other persons dealing in securities and for connected purposes”.²⁹

²³ Ibid

²⁴ Kibola H., (2008) “**The Regulation of Capital Market in Tanzania; Is there a Room for Improvement**”, DSE Journal, p.13

²⁵ Ibid

²⁶ Ibid

²⁷ Ibid

²⁸ Ibid

²⁹ Ibid, p.14

In April 1994, the Capital Markets and Securities Authority (CMSA) became operational as a unit under the Bank of Tanzania (BOT), and in July 1995, it became an autonomous body,³⁰ having the vision of developing and regulating a sustainable capital market, which is efficient, transparent, orderly, fair and equitable to all as provided by the Capital Markets and Securities Act.³¹

Since its creation, the CMSA has initiated several activities aimed at developing the Tanzanian Capital market.³² It took several initiatives to develop the market professionals and participants in Tanzania through conducting courses leading to licensure for dealers/brokers' representatives in the country.

However, the current status of capital markets in Tanzania can still be described as an "emerging market". Bank financing and government subsidies have for a long time been the source of finance for public corporations and companies.³³ There is a noticeable absence of public companies (i.e., companies allowed to invite subscriptions from the public). Many companies are private, whose right to transfer shares is severely restricted. The number of securities is rather limited, with government debt instruments being the only securities in the market (i.e., stocks and treasury bills). A secondary market for government securities is in the process of being established.

Pension and provident funds are the only major collective investment schemes, while there are no unit trusts.³⁴

1.3 Statement of the problem

Tanzania has worked hard to achieve all the necessary determinants for the success of the capital market in the country by making various legal frameworks and reforms. That includes the establishment of the Capital Market and Securities Authority and the Dar Es

³⁰ Ibid

³¹ Ibid

³² Ziorklui, (2001), "The Development of Capital Markets and Growth in Sub-Saharan Africa: The Case of Tanzania", African Economic Policy Discussion Paper Number 79, February 2001, p. 1-54

³³ www.bot.go.tz/financialmarketsintanzania/htm

³⁴ Ibid

Salaam Stock of Exchange. These are there to ensure sustainable capital market prevails in the country.

Among the functions of the CMSA are the formulation of principles guiding the industry and to protect the integrity of the market against any abuses; to maintain surveillance over the securities business to ensure orderly, fair and equitable dealings in securities; to register, license and regulate Stock Exchange, Investment Advisors, Securities Dealers and their agents and representatives and to control and supervise their activities with a view to maintaining proper standards of conduct and professionalism in the securities business; to determine the minimum capital requirements for license holders given the size of operations and risk and monitor their solvency and take other measures which will protect the interest of investors where solvency of such license holders is in doubt; to adopt measures that are likely to minimize conflict of interest that may arise for dealers, brokers and other market players.³⁵

Not only these but the CMSA also do review, approve and regulate takeover bids, mergers, acquisitions and all forms of business combinations in accordance with any existing rules and practice; advises the Minister for Finance on all matters relating to securities business in such a way that the necessary environment for growth and development of the capital markets is created; and it does anything which is calculated to facilitate the discharge of its functions or is incidental or conducive to their discharge under the Act.³⁶

Tanzania has been taking all its effort on this while considering that so many of the previous studies show that the development of a viable capital market depends on a viable private sector firms that are willing to participate in the stock exchange in the form of listing firms to raise long-term capital.³⁷ That a viable and developed capital market relies on individuals, institutions, and corporate demand for securities issued in

³⁵ Section 10 of CMSA Act, (Cap. 79 RE. 2002)

³⁶ Ibid

³⁷ Ziorklui, S., (2001) “**The Development of Capital Markets and Growth in Sub-Saharan Africa: The Case of Tanzania**”, African Economic Policy Discussion Paper Number 79, February 2001. Pp. 1-54

the capital market. These institutions include institutional investors, insurance companies, financial institutions, mutual funds, pension funds, and other corporate bodies.³⁸

Despite all efforts of Tanzania, still the capital market is not developing the way it was anticipated due to the prevailing of some constraints. These constraints are the challenges to the prospects of the capital market development in the country.

For example, the results of the survey done by Ziorklui (2001)³⁹ confirmed that the demand for securities in Tanzania is affected by various factors that have been identified in other studies. These include the level of income of the local population, perception of risk in the market, tax considerations, and attractiveness of yields on capital market products as compared with alternative investment products. The level of public confidence in the financial sector also affects the demand for securities in the stock exchange. Also, regional stock markets integration and globalization of the Tanzania capital market would be beneficial in terms of attracting foreign capital, efficiency of utilization of capital and corporate governance. Foreign participation would also encourage domestic participation in the capital markets.⁴⁰

All these findings raise the urge for researching on whether the challenges of the past fifteen years since the establishment of capital market bodies are not yet met to date and thus hinder the development prospects of the capital market in Tanzania. Various prospects of the capital markets seem not to be met in time as seen from the previous studies.

³⁸ Ibid

³⁹ Ibid

⁴⁰ Ibid Ziorklui (2001)

1.4 Research Objectives

1.4.1 General Objective

To assess the extent the capital market challenges have been met in affording to meet the prospects of fostering capital market development in Tanzania.

1.4.2 Specific Objectives

- i) To analyze the extent on which the capital market challenges of the past fifteen years since the establishment of DSE and CMSA have been tackled.
- ii) To examine the achieved capital market development prospects of the past fifteen years since the establishment of the DSE and CMSA.
- iii) To understand the current newly emerging capital market challenges and prospects starting year 2010.
- iv) To determine the current status of the capital market development in Tanzania.

1.5 Research Questions

1.5.1 General Question

To what extent have the capital market challenges being met in affording to meet the prospects of fostering capital market development in Tanzania?

1.5.2 Specific Questions

- i) To what extent the capital market challenges of the past fifteen years since the establishment of DSE and CMSA have been tackled?
- ii) Have the capital market development prospects of the past fifteen years since the establishment of the DSE and CMSA achieved?
- iii) What are the current newly emerging capital market development challenges and prospects starting year 2010?
- iv) What is the current status of the capital market development in Tanzania?

1.6. Significance of the study

The study is going to be useful to the policy makers particularly those concerned with the capital market development issues.

Yet, the study will benefit the institutions regulating capital markets in Tanzania by knowing the identified reasons as to why the challenges and prospects are not met for the proper development growth of the market.

Still, the issuers, investors, companies, and other stakeholders in the realm of capital market will get to know the current status of the capital market of Tanzania as well as understanding the prevailing challenges and prospects of the market. Moreover, the study is going to be used as an important reference material particularly in the libraries as well as in the fields of capital markets by different professionals, researchers, and students.

1.7 Scope and limitation of the study

The study is limited to challenges and prospects of capital market development in Tanzania. It was taken through the existing capital market institutions which are the Capital Market and Securities Authority, and the Dar Es Salaam Stock Exchange.

1.8 Literature Review

The study by **Ziorklui, S. Q.** provides for the information about Tanzania.⁴¹ According to him, most of the previous researches show that the development of a viable capital market depends on a viable private sector firms that are willing to participate in the stock exchange in the form of listing firms to raise long-term capital. That a viable and developed capital market relies on individuals, institutions, and corporate demand for securities issued in the capital market.⁴² These institutions include institutional investors, insurance companies, financial institutions, mutual funds, pension funds, and other corporate bodies.⁴³

His survey resulted on the confirmation that the demand for securities in Tanzania is affected by various factors that have been identified in other studies.

⁴¹ Ziorklui, Sam Q. (2001) “**The Development of Capital Markets and Growth in Sub-Saharan Africa: The Case of Tanzania**”, African Economic Policy Discussion Paper Number 79, February 2001. Pp. 1-54

⁴² Ibid

⁴³ Ibid

These include the level of income of the local population, perception of risk in the market, tax considerations, and attractiveness of yields on capital market products as compared with alternative investment products. The level of public confidence in the financial sector also affects the demand for securities in the stock exchange.

The study by Zirklui is of the past ten years hence this study wishes to find out if the mentioned findings on the factors affecting the development of the capital markets do still subsist to date, and if yes how they have been tackled so far.

Kibuthu, Grace Wambui⁴⁴ talks on some challenging factors of capital markets development as far as the Nairobi Stock Exchange is concerned. Her study had found that stringent eligibility requirements have discouraged local entrepreneurs and indigenous enterprises that wish to raise funds from capital markets.⁴⁵ That the eligibility requirements as exemplified in the requirements for listing at the NSE have created high barriers to potential entrants to the stock exchanges such as the numerous family owned businesses in Africa. Thus, the stock exchanges tend to operate like closed membership organizations.⁴⁶

That the Limited presence of institutional investors is constraining equity demand, and the lack of an active role in the distribution of securities to the public by other financial institutions such as banks, venture capital funds, pension funds, building societies and insurance companies is constraining supply of equity.⁴⁷ Creating an efficient regulatory system for securities exchanges is a difficult goal to achieve and maintain. Hence, some African stock exchanges have limited institutional capacity to police and enforce rules.⁴⁸

⁴⁴ Kibuthu, Grace Wambui (2005), “**Capital Markets in Emerging Economies: A Case Study of the Nairobi Stock Exchange**”, A Master Of Arts In Law And Diplomacy Thesis, p.13. Also found at [Http://Fletcher.Tufts.Edu](http://Fletcher.Tufts.Edu).

⁴⁵ Ibid

⁴⁶ Ibid. Also Asea, Patrick. “**Promoting Regional Financial Market Integration.**” Presentation at the African Capital Markets Development Program in Johannesburg, South Africa, October 2003.

⁴⁷ Ibid

⁴⁸ Ibid

She also found that most of the smaller African exchanges lack the trained manpower and experience to adequately police the modern regulatory regimes they have adopted. Consequently, enforcement actions are rare and abuses are not uncommon.⁴⁹

In addition she is of the view that investors, particularly minority shareholders, lack confidence in the market as some listed companies continue to operate under poor corporate governance structures.⁵⁰ In some stock markets, participants are subject to multiple regulators thereby causing regulatory complexities, uncertainties and increased costs of compliance with different regulatory regimes.⁵¹

Although in Kenya, the NSE and CMA both serve as regulators of market participants but each has its own requirements for membership, listing and participation in the market and though there are similarities.⁵² That multiplicity creates uncertainty as to which requirements are applicable in different situations.⁵³

Not only that but according to her findings, the Political uncertainties and economic policies in some African countries have also facilitated the decline in confidence in and subsequent poor performance of the stock markets because of the risk of deterioration in the business climate.⁵⁴ That before, the 2002 general elections in Kenya, the Nairobi Stock Exchange experienced decline in market performance due to political and economic policies adopted by the government that led to the withdrawal of donor funding. However, there was renewed confidence in the market evidenced by improved

⁴⁹ Ibid p. 14. Also Sheehan, Michael and Daniel Zavala. “**African Securities Exchanges: Challenges and Rewards**” The Handbook of World Stock, Derivative and Common Market. Accessed April 12, 2005. Available at http://www.exchange-handbook.co.uk/articles_story.cfm?id=5656.

⁵⁰ Kibuthu, op cit p.14.

⁵¹ Asea op cit.

⁵² Ibid

⁵³ Ibid

⁵⁴ Ibid, Also Sheehan, Michael and Daniel Zavala. “**African Securities Exchanges: Challenges and Rewards**” The Handbook of World Stock, Derivative and Common Market. Accessed January 30, 2013 at 08:17 am. Available at http://www.exchange-handbook.co.uk/articles_story.cfm?id=5656.

performance in market capitalisation and turnover when a new government came into power in 2003.⁵⁵

As the study by Kibuthu was of the NSE Case Study, that urge for this research if the same that were revealed by her do also face the Tanzania Capital Market as far as its growth and development is concerned being about 14 years since the establishment of the DSE and the CMSA.

Dr. Idris Rashid the then Chairman of the Tanzania CMSA contended on the existence of some challenges to the Tanzania capital markets development. According to him, the future of capital markets in Tanzania is stipulated in the current CMSA Strategic and Business plan 2007/08 to 2011/12.⁵⁶ The strategic plan intends to broaden and deepen our capital markets by addressing the challenges facing the market. But the current status of our financial system is characterized by the Small financial sector which is still dominated by banks; Companies have been financing their expansion program through retained earnings; growing trend of demand for new initial public offers (IPOs) products by investors which are mostly oversubscribed; Lack of supportive environment for start ups but high growth potential companies; and the Insignificant role played by privatization which has almost now reached the end.⁵⁷ Through the defunct PSRC the government privatised more than 300 public enterprises out of which only 6 were privatized through DSE.⁵⁸

If the case situation is then well known by the responsible Capital Markets governing Institutions by that 2010, then this study want to find out if the same were tacked and If there are any development prospects achieved since then.

⁵⁵ Ibid

⁵⁶ Rashid Idris,(2010), “**The Chairman’s Statement on the DSEs 10th Anniversary : The Role Of CMSA in the development of Securities Market**”, DSE Journal, April 2008, p.7

⁵⁷ Ibid

⁵⁸ Ibid

Babalola, J.A & Adegbite, M.A⁵⁹ in their study concerning the Nigerian capital market, see the market to have been faced with many problems being both endogenous and exogenous. That there are exogenous problems those outside the direct control of the market but which are regulation-induced and the endogenous problems which are those that are internal to the market but which are amenable to changes with improved operational procedures including the adoption of information technology.⁶⁰

Some of the problems found are the size of the market, liquidity of a stock market, lack of cooperation between the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE), high cost of going public, raising additional equity or obtaining loan facility from the capital market is.⁶¹ On the size of the market, Babalola contended that when looking at about 200 quoted companies and a market capitalization of 294.1 billion at the end-December, 1999 the size of the market can be considered to be small when compared with stock market in other emerging markets.⁶²

They took the South African stock market as an example, which had about 650 listed companies while South Korea has about 700 listed companies. The small size of the Nigerian Stock market has been traced to apathy of Nigerian entrepreneurs to go public due to the fear of losing control of their businesses. Another factor is the weak private sector which is a serious constraint militating against healthy growth of the stock market.⁶³

On the liquidity of a stock market in relation to the degree of access, which investors have in buying, and selling of stocks in such a market, they were of the view that the more liquid a stock market is; the more investors will be interested in trading in the

⁵⁹ Babalola, J.A & Adegbite, M.A (2000) **“The Performance of the Nigerian Capital Market since Deregulation in 1986”**, CBN Economic & Financial Review, Vol. 39 NO. 1. Pp. 1-38

⁶⁰ Ibid

⁶¹ Babalola op cit.

⁶² Ibid. Also Jalloh, M. (2009) **“Microstructure of Capital Markets in West Africa –Issues and Challenges”**, Waifem Regional Course on Operations and Regulation of Capital Market, Accra, Ghana, July 27 – 31, 2009. Pp. 1-16

⁶³ Babalola op cit

market.⁶⁴ The lack of adequate number of investors in the Nigeria stock market is a reflection of problem of illiquidity in the market. At an average ratio of 2 per cent per year, the turnover ratio, a measure of the value of shares traded relative to local market capitalization is very low in Nigeria, compared with 10.0 per cent, 9.0 per cent and 4.6 per cent in Botswana, Zimbabwe and Mauritius, respectively. The low trading activities are also a result of the ownership structure. That until 1995, when the Nigerian Investment Promotion Commission Decree 16 and the Foreign Exchange (Monitoring and Miscellaneous) provisions Decree 17 were promulgated to replace the Nigerian Enterprises Promotion Decree of 1984 and Exchange Control Act of 1962, the Nigerian stock market was restricted largely to local investors apart from the original investors in foreign companies who were already in the market before the indigenisation Decree of 1972.⁶⁵

Lack of cooperation between the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) has been responsible for slow growth of the securities market.⁶⁶ For example, one of the major criticisms of SEC was that it did not allow the issuing houses and stockbrokers to undertake the pricing of equities.

With the transfer in 1993 of pricing and allotment of initial public offer to market operators, positive movement was observed in share prices. The issue of cost of raising funds in the market is also important. The cost of transaction could be said to be a measure of efficiency in the market. Transaction cost in the Nigerian capital market is enormous. The costs which an average investor would have to meet in the course of raising funds include; brokerage fees; stamp duties, and other charges that may be imposed by the SEC, apart from other fees payable to stockbrokers.⁶⁷

Apart from the above mentioned factors the high cost of going public, raising additional equity or obtaining loan facility from the capital market was seen to be the problem as

⁶⁴ Ibid

⁶⁵ Ibid

⁶⁶ Ibid

⁶⁷ Ibid

according it had been estimated that the cost of raising US\$ 1 million equity capital in Nigeria is about 4 per cent of the value, whereas, the cost of raising the same amount in Kenya, Zimbabwe and Ghana is 2.35 and 2.3 per cent, respectively.

That prior to April, 1997 when the Central Securities Clearing System (CSCS) started operation, the delay in delivery of share certificates to investors and intra-firm settlements used was a problem in the market. Many of the unclaimed certificates and dividend warrants that are being published regularly are as a result of the delay in delivery of certificates. With the introduction of CSCS, shareholders are now able to take advantage of capital appreciation while transaction period-has been reduced to T+5. The objective of the CSCS system is to achieve real-time transaction reporting, through automated order routing and executing system, which allows post-trade comparison and analysis, and ensures audit trail of all the market transactions.

The manual call-over whereby all stockbrokers have to be physically present on the floor of the Exchange for trading in securities had also contributed to the slow growth of the market. With the recent introduction of Automated Trading System (ATS), the same expected that stockbrokers will be able to do business more efficiently and thus contribute to the growth of the market.

Lastly, the problem of macroeconomic instability in the country has been found to continued to be a hindrance in the development of the Nigerian capital market. Macroeconomic policies that would ensure long-term stability are essential in attracting a sustainable long term investments. Such policies should be conducive to both savings and investment to ensure confidence in the economy. Policies must ensure attractive long-term yields for equities in comparison with other domestic and foreign investment alternatives. Frequent fluctuations in exchange rates and negative real rates of return on investments often force investors to move to other investment outlets or out of the economy entirely.

The Study by Babalola et al is of much utility to this study as the same will guide the researcher to examine if the mentioned problems that found to hinder the Development of the Nigerian stock market would apply to Tanzania Capital Market and the means used to resolve those problems of factors would fit to our instance for the better result of our economy. And if the same would be found in existence, then the study would go on finding on the uncovered part as far as the Tanzania capital market framework is concerned.

Wenkui, Zhang's⁶⁸ study provides for the Republic of China. The securities market in China started in the late 1980s. Some enterprises issued bonds to obtain funds for business expansion but, these bonds were odd and irregular and there was no legal market for secondary trading.

The study revealed that the securities market in China is plagued with corporate governance problem.⁶⁹ That self-dealing between the listed companies and their state-owned parent companies was quite common as a way to transfer profits to parent. Many companies fall into financial distress as a result of this practice two or three years after they are listed. Thus, it was recommended that China must improve corporate governance in order to contain the risk of growing reliance on the securities market to finance economic development.⁷⁰

The problem of most of the companies not to adhere with the principles of corporate Governance has been experienced widely, and if that is so, through the study the researcher would wish to find out if the non adherence with the Rules of the corporate Governance is experienced in the DSE and the CMSA, and if the same would be among the challenging factors for the Tanzania Capital Market development.

⁶⁸ Wenkui, Zhang, (2002) “**The Role of China’s Securities Market in SOE Reform and Private Sector Development**”, Development Research Center of State Council, PRC. Pp. 1-11

⁶⁹ Ibid

⁷⁰ Ibid

1.9 Research Methodology

As Research methodology refers to a systematic way applied to solve the research problem⁷¹. This part identifies the general characteristics of the study and the research methodology which were used in collection, processing and analysis of data regarding to the assessment of the implementation. It focuses on the research design which briefly explain the plan which used in conducting this study and the methodology which carry the following parts, area of the study, the population of the study, sample size, sampling techniques, methods of data collection and techniques of data analysis and presentation.

1.9.1 Research design

Research design simply means a detailed plan or framework for conducting a research study.⁷²It serves as a bridge between research questions and execution of the research, explaining how the researcher intends to conduct the research.⁷³

In carrying out this research, a case study was adopted by using both quantitative and qualitative approaches. The study is descriptive in nature as a descriptive study is carried out when the problem is well known.⁷⁴The descriptive research design is suitably fitted for the study which is a field research. The research applies the deductive approach. The choice of this approach was influenced by the research questions and objectives.

However, this is a diagnostic research that involves the respondents from the capital market of Tanzania where the information from them will be gathered to understand the challenges, prospects, and the development of the capital market in Tanzania.

1.9.2 Research method

The research method applied in this study is a survey; Survey method is usually associated with the deductive approach. This method allows the collection of a large amount of data

⁷¹ Kothari, C.R. (1999), *Research Methodology: Methods & techniques*, 2nd Ed.; New Delhi: New Age International (P) Limited Publishers, p. 39

⁷² Ibid

⁷³ Ibid

⁷⁴Kothari, C. R. (1990) “**Research Methodology, Methods and Techniques**”, Wiley Eastern Publishers, pp. 14

from a sizeable population in a highly economical way. This method supports getting information from different respondents who are dispersed.⁷⁵ The information required by this study is almost in the possession of different persons located in different places in the capital market in Tanzania.

1.9.3 Area of study

The area of study is in Tanzania country, where the capital markets are found. For the purpose of this study the population of the study was from Capital Market and Securities Authority (CMSA), and the Dar Es Salaam Stock of Exchange (DSE). Which included (DSE) management, (CMSA) management; Private Lawyers and personnel from the Brokerage Firms were also approached. The mentioned population was chosen because they were the targeted group of this study and key informant for the success of this study.

Thus, the study is limited to the Dar Es Salaam region only because there is where the capital market of Tanzania under this study is found.

1.9.4 Sampling techniques

According to Brynard,⁷⁶ sampling is a technique employed to select a small group with a view of determining the characteristics of a large group. Kothari also defined sampling techniques as the selection of some part of an aggregate or totality of what the population is made.⁷⁷ Sampling is one of the best systematic techniques of choosing a group of individual.

The study used both probability and non-probability techniques. Probability sampling was used in situations where it is not possible to have specific sample such as Managers. In this case, the selection was randomly based on gender balances.

⁷⁵ Ibid

⁷⁶ Brynard. P., (2006), “**Introduction to Research in Management Related Fields**”. 2nd ed.: Pretoria: Van Schaik, p.380

⁷⁷ Kothari, C.R., (1999), “**Research Methodology: Methods & techniques,**” 2nd Ed.; New Delhi: New Age International (P) Limited Publishers, p.40

In non-probability sampling focus on a certain sample whose role is well known like general director, Managers, heads of departments, and Lawyers, thus purposive was considered.

However, the study preferred to have the respondent sample of the senior and the above level of management personnel as the researcher believes that, it is the management which makes decisions for the market activities. The management also is the one that knows the challenges, prospects and the development of the capital market. So from them, enough information will be obtained to answer the questions of this study.

The study also selected the sample (respondents) which was easy to access during the data collection. That ease accessing kind is known as convenience sampling. The reason for the choice of this sample design is due to the nature of the study area. The area is very busy such that is difficult to access the earlier specified respondent. So in order to facilitate the exercise of data collection, whoever personnel would be found at the market, the same would be interviewed by the guide questionnaire.

1.9.5 Sample size

Sample size is a subgroup of the population you are interested from the total population Kumar (2004). The sample size for this study was drawn from a study population of Capital Market Securities Authority (CMSA), and the Dar Es Salaam Stock of Exchange (DSE). Kothari (1999)⁷⁸ observed that the sample size of the study should be neither excessively large nor too small. An optimum sample size is one which fulfills the efficient, representative, reliability and flexibility requirement.

The study collects data from a sample size of 80 respondents whereby 40 (DSE) management or personnel, 30 (CMSA) management personnel, 5 Private Lawyers and 5 personnel from the Brokerage Firms were also approached from the specified total number of respondents.

⁷⁸Ibid

The 80 respondents were selected because this is a reasonable number and manageable so as to get good results, instead of having more respondents which is difficult to administer, or having few respondents which is biased.⁷⁹

1.9.6 Data collection

Data for this study was collected by using multiple methods in order to improve the validity and reliability of data. This is because each method has its own strengths and weakness.

The study mainly used the primary data. The primary data are basically opinions of the respondents on various aspects concerning the challenges, prospects, and development of the capital market of Tanzania. The instruments for data collection will be the two types of structured questionnaires, the one for the CMSA respondents and the other for the DSE respondents.

The data collection technique adopted is the interview. The interview was done by the researcher through the use of a questionnaire guide. The researcher was asking the respondent and fill in the questionnaire on behalf of the respondent. The adoption of this technique gave room for the researcher to assure that the respondents has well understood the question and answers according to the question posed. Also, this technique avoids the non - response rates as some respondents have no time to fill the questionnaire.

But, before data collection exercise, questionnaire pre-testing was done. Four (4) respondents were interviewed to test the validity and applicability of the questionnaires. This had allowed the researcher to assess the average interview time, relevance of the questions to be asked, and how easily the questions will be understood by the respondents. The same was done through two respondents from CMSA and the other two from DSE.

⁷⁹ Ibid

1.9.7 Data analysis

Data analysis refers to the computation of certain measures along with searching pattern of relationship that exist among data group.⁸⁰ In data processing, after collection of data, the questionnaires were edited to determine the degree of response and the number of usable questionnaires. The data were coded and then entered into a computer data sheet for analysis.

The data analysis was done in the computer application known as, the Statistical Package for Social Sciences (SPSS) whereby the results are presented in the form of tables, histograms and pictures if any. The descriptive statistics analysis model was applied.

⁸⁰Kothari C. R. (2005) Research methodology, methods and techniques, New Delhi: Niley Eastern, p.1-34

CHAPTER TWO

CONCEPTUAL FRAMEWORK

2.0 Introduction

This chapter gives for the study analytical framework which diagrammatically shows the whole picture of the study. It gives the boundaries that the research is grounded to study about the challenges and prospects of development of capital market in Tanzania.

2.1 Conceptual view

The conceptual framework is the lead to the answers of the questions of this research whereby, it is viewed as follows. As Capital market have been said to lead to economic growth, but the same is only when there are enough savings and finances.⁸¹ It is also in believe that capital market also leads to development and developing countries capital market leads to economic growth because it does not create debt and rather, it erases all loaners to economic growth.

Stock markets also provide an alternative channel for savings mobilization and better resource allocation.⁸² They enable savings mobilization for financing “immense works.” More efficiently mobilized savings cause capital accumulation, which firms tap to finance large projects via equity issues. This undoubtedly, spurs economic growth.⁸³

That being the case, then capital market normally requires some availability of an appropriate environment for its ability to operate and flourish. Hence this part provides for the determinants of capital market Performance, necessary factors for capital market development, Measures for capital market development and the Performance of Capital Market.

⁸¹ Akeem, Usman Owolabi, (2011) “**The Role of Capital Market on Economic Growth in Nigeria (1980-2008)**”, Research Journal of Finance and Accounting, p.35, www.iiste.org

⁸² Seenathan, Boopen (2011) “**Stock Market Development and Economic Growth in Developing Countries: Evidence from Panel VAR Framework**”, University of Mauritius, Reduit. Pp. 1-25. Also Bagehot, 1906; Hicks, 1969; Greenwood & Smith, 1996).

⁸³ Levine, R. & Zervos, A., (1998) “**Stock Markets, Banks, and Economic Growth,**” American Economic Review, 88(3), pp. 537-58. Also Biekpe, (2006)

2.1.1 Determinants of Capital Markets Performance

The Tanzanian President Jakaya Mrisho Kikwete, provides for some crucial things that must be there for the capital market to be able to perform as expected and for the development to be experienced. He says:

“So far we have created a stable and attractive macro and micro- economic climate with single-digit, ongoing reforms in fiscal and monetary policy, and improvements in the business climate through legal and regulatory reform aimed at streamlining procedures and freeing business form unnecessary bureaucracy.”⁸⁴

Accordingly, Yartey, C. A. and Adjasi, C. K.,⁸⁵ in their literature suggest that sound macroeconomic environment, well developed banking sector, transparent and accountable institutions, and shareholder protection are necessary preconditions for the efficient functioning of stock markets in Africa as discussed hereunder:

Macroeconomic Stability

A stable macroeconomic environment is crucial for the development of the stock market. Macroeconomic volatility worsens the problem of informational asymmetries and becomes a source of vulnerability to the financial system. Low and predictable rates of inflation are more likely to contribute to stock market development and economic growth. Both domestic and foreign investors will be unwilling to invest in the stock market where there are expectations of high inflation.

Garcia and Liu⁸⁶ finds that sound macroeconomic environments and sufficiently high income levels—GDP per capita, domestic savings, and domestic investments—are important determinants of stock market development in emerging markets.

⁸⁴ Tanzanian President Jakaya Kikwete in his message to investors in the Tanzania Investment Guide 2008 and Beyond. Also Katera, Lucas(2009), “**The Investment Climate in Tanzania: Views of Business Executives,**” REPOA Brief, No. December 2009, and www.repoa.or.tz

⁸⁵ (2007), “**Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges**”, IMF Working Paper WP/07/209, August 2007, p. 16,17

⁸⁶ Garcia, F. V. & Liu, L., (1999), “**Macroeconomic Determinants of Stock Market Development,**” Journal of Applied Economics, Vol. 2 (1), pp. 29-59.

Accordingly Murinde⁸⁷ contended that, the macroeconomic policy environment is critical in influencing the performance of capital markets and hence the extent to which the market may be able to play its role. For example, most developing economies have embarked simultaneously on revitalizing their stock markets as well as implementing financial liberalization policy programs, including interest rate and exchange rate liberalization.⁸⁸

Banking Sector Development

The development of the banking sector is important for stock market development in Africa. At the early stages of its establishment the stock market is a complement rather than substitute for the banking sector.⁸⁹ Developing the financial intermediary sector can promote stock market development. Many East Asian countries are successful examples. Support services from the banking system contribute significantly to the development of the stock market.⁹⁰ Consequently, liquid inter-bank markets, largely supported by an efficient banking system, are important for the development of the stock market. Conversely a weak-banking system can constrain the development of the stock market.⁹¹

On the empirical front, Demirguc-Kunt and Levine⁹² found that most stock market indicators are highly correlated with banking sector development. Countries with well-developed stock markets tend to have well developed financial intermediaries. Yartey⁹³ finds that a percentage point increase banking sector development increases stock market development in Africa by 0.59 percentage point controlling for macroeconomic stability, economic development and the quality of legal and political institutions.

⁸⁷ Murinde, Victor, (2006), “**Capital Markets: Roles and Challenges-Africa,**” An International Conference Paper in Tunisia, November 2006. Pp. 7

⁸⁸ Ibid

⁸⁹ Yartey, op cit, pp.17

⁹⁰ Ibid

⁹¹ Ibid.

⁹² Demirguc-Kunt, A. & Levine, R., (1996), “**Stock market development and financial intermediaries, Stylised facts**”, The World Bank Economic Review, 10(2), pp. 341-69.

⁹³ Yartey, Charles A., (2007), “**Well Developed Financial Intermediary Sector Promotes Stock Market Development: Evidence from Africa,**” Journal of Emerging Market Finance Forthcoming.

Institutional Quality: This is important for stock market development because the efficient and accountable institutions tend to broaden appeal and confidence in equity investment. Equity investment thus becomes gradually more attractive as political risk is resolved over time. Therefore, the development of good quality institutions can affect the attractiveness of equity investment and lead to stock market development.⁹⁴

That good quality institutions such as law and order, democratic accountability, bureaucratic quality as important determinants of stock market development in Africa because they reduce political risk and enhance the viability of external finance.⁹⁵ The evidence in the literature suggests that political risk is a priced factor for which investors are rewarded and that it strongly affects the local cost of equity, which may have important implications for stock market development.⁹⁶

Shareholder Protection

Another key determinant of stock market development is the level of shareholder protection in publicly traded companies, as stipulated in securities or company laws.⁹⁷ Stock market development is more likely in countries with strong shareholder protection because investors do not fear expropriation as much. In addition, ownership in such markets can be relatively dispersed, which provides liquidity to the market.

La Porta et. al⁹⁸ provides evidence for the importance of minority rights protection by using indicators of the quality of shareholder protection as written in laws. They demonstrate that the quality of shareholder protection is correlated with the capitalization and liquidity of stock markets in 49 countries around the world.

⁹⁴ Yartey, C. A. and Adjasi, C. K., op cit, p.17

⁹⁵ Ibid

⁹⁶ Ibid

⁹⁷ Shleifer, Andrei and Robert W. Vishny, (1997), “**Large Shareholders and Corporate Control**”, Journal of Political Economy, Vol.94. Pp. 461-88.

⁹⁸ (1999), “**Investor protection and corporate governance**”, Journal of Financial Economics 58 (2000) 3-27, www.elsevier.com/locate/econbase

La Porta et. al (1997)⁹⁹ find that countries with lower quality of legal rules and law enforcement have smaller and narrower capital markets and that the listed firms on their stock markets are characterized by more concentrated ownership. Demirguc-Kunt and Maksimovic (1998)¹⁰⁰ show that firms in countries with high ratings for the effectiveness of their legal systems are able to grow faster by relying more on external finance.

2.1.2 Necessary factors for capital markets development

According to Yartey, C. A. and Adjasi, C. K.,¹⁰¹ there are things crucial for the good performance of the capital markets which range from, the need to increase automation, demutualization of exchanges, regional integration of exchanges, promotion of institutional investors, regulatory and supervisory improvements, involvement of foreigner investors, and educational programs.

Automation

Automation is expected to help reduce the costs and inefficiencies in African stock markets and increase trading activity and liquidity. Automation helps to speed up operations and activities of exchanges and reduces cost associated with manual systems.¹⁰² In addition, automation makes it easier to extend trading days and hours due to less cumbersome procedures. Automated trading also eliminates the need for trade intermediation since investors can log onto systems to monitor markets and also trade on markets, thus bypassing the use of brokers.¹⁰³

Automation of the trading system usually either precedes or is preceded by the adoption of a central depository system (CDS). Under the CDS system, there is total elimination of risks such as the loss, mutilation and theft of certificates associated with holding and trading of paper-based securities of investors. CDS systems also reduce errors and

⁹⁹ *ibid*

¹⁰⁰ “**Stock Market Development and Financing Choices of Firms**”, the World Bank Economic Review Vol.10 (2). Pp. 341-69.

¹⁰¹ (2007) “**Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges**”, IMF Working Paper WP/07/209, August 2007, pp. 18-25

¹⁰² *Ibid*

¹⁰³ *Ibid*

delays associated with paper-base. Automation is an expensive venture and has huge budgetary implications for African governments. This might explain why most African stock markets have found it difficult to fully automate their systems. However, with the proliferation of electronic communication networks (ECNs) and alternative trading systems (ATS), the cost of automation is gradually reducing.¹⁰⁴

Demutualization: This can be defined as a change in the legal status, structure and governance of an exchange from a non-profit, protected interest one to a profit oriented. The process of demutualization involves a change in ownership structure and a change in legal and organization form.¹⁰⁵ With regards to the ownership structure, members' seats are monetized and values assigned per seat. Members then either keep or sell shares. Ownership restrictions are placed (for example, 5-10 percent non-controlling stakes) on individuals and groups to prevent potential takeovers by other exchanges. The legal and organizational change normally entails the exchange becoming a typical profit making company with limited liabilities and abiding by company laws.¹⁰⁶

Demutualization started gaining popularity in the 1990s, due to a number of factors. These include competition among exchanges, need for increased capital, need for good corporate governance in exchanges and the urge to open up ownership of exchanges to public investors.¹⁰⁷ Between 1999 and 2003, the number of demutualized and public exchanges in the world increased from 10 to 25.¹⁰⁸

Demutualization is expected to solve mutual structure problems by opening up trading rights, admitting new trading partners, and broadening ownership such that the public can invest in exchanges. The absence of these in mutual exchanges tends to breed poor governance structures. In a mutualized exchange, traders and brokers enjoy monopoly

¹⁰⁴ Ibid

¹⁰⁵ Ibid

¹⁰⁶ Ibid

¹⁰⁷ Pirrong, Craig (2000) "A Theory of Financial Exchange Organization", Journal of Law and Economics 43. Pp. 437

¹⁰⁸ IOSCO (2005) "Exchange Demutualization in Emerging Markets," Emerging Markets Committee of the International Organization of Securities Commission- IOSCO, April 2005

power through exclusive rights and access to trading systems, resulting in a protection of vested interests for traders. Decision making is on ownership structure not trades intermediation. Thus, demutualization induces better corporate governance systems. In addition, undue governmental influence in mutual exchanges in Africa is likely to be absent in demutualized exchanges since appointment of government officials become unnecessary due to the fact that a demutualized exchange is a private company.

Demutualization also increases access to services of the exchange and removes excessive investment costs for fund holders. For instance, brokers usually package non-trade related fees (research, computer systems and IPO access) into institutional traditional commissions often known as “soft commissions” or “bundled commissions” and pass on to clients. With demutualization, fund holders can directly access such information without the use of brokers. Finally, it is also argued that demutualization instills efficiency and better structures in exchanges and results in commercial gains for exchanges.¹⁰⁹

A major problem with demutualization is that of conflict of interest and regulatory oversight.¹¹⁰ Exchanges tend to shy away from taking enforcement actions against their own customers who are a source of income. There is a potential commercialization of services; data and trade information that traditionally is offered freely is now sold. Listing standards and oversight can be compromised by the exchange concerned. To solve these problems self-listing arrangements can be implemented.¹¹¹

Regional Stock Markets Integration

Another proposed solution to the problems faced by African stock markets is to integrate stock exchanges. Merging stock exchanges (the most extreme form of integration),

¹⁰⁹ Pirong op cit. Also Ryden, Bengt (1995) “**The Reform of the Stockholm Stock Exchange**”, Stockholm Stock Exchange, November 1995.

¹¹⁰ Ibid

¹¹¹ Ibid

results in volumes multiplying with potentially the same overhead costs.¹¹² Merging African stock markets into a single regional exchange immediately is no doubt an ambitious and daunting task, given the associated institutional and financial cost complexities. Proponents of this proposition argue that a well integrated regional stock exchange in Africa will be a powerful source and driver of capital flows to Africa.¹¹³ Such an exchange will also, if well structured, solve the current problems of illiquidity, small size, and fragmentation.

In East Africa, the East African Member states Securities Regulatory Authority set up under the Memorandum of Understanding between Kenya, Tanzania and Uganda seeks to promote integration amongst East African exchanges. Kenya appears to be playing the anchoring role with the biggest market.¹¹⁴ The Nairobi Stock Exchange and the Kenya Capital Markets Authority are together fostering the promotion of a regional exchange, by first harmonizing rules and regulations. Already, the Uganda Securities Exchange has harmonized its listing rules with that of the Nairobi Stock Exchange.¹¹⁵

Promoting Institutional Investors

The involvement of institutional investors in African exchanges must be pursued vigorously. Institutional investors often are at the forefront in promoting efficient market practices and financial innovation. They typically favor greater transparency and market integrity in both primary and secondary markets, seek lower transaction cost, and encourage efficient trading and settlement facilities. Pension Funds, Insurance houses and other institutional investors can therefore act as a countervailing force to commercial and investment banks as well as other market intermediaries, forcing them to be more competitive and efficient. Indeed African exchanges stand to gain from increasing the involvement of institutional investors on stock exchanges.

¹¹² Claessens, S., Kingebiel, D., & Schmukler, S.L. (2002) “**Explaining the Migration of Stocks from Exchanges in Emerging Economies to International Centre**”, Discussion Paper No. 2002/94, October 2002.

¹¹³ Ibid

¹¹⁴ Ibid Also <http://monetary.eac.int/> accessed 12/02/2013 at 12.43 hours.

¹¹⁵ Ibid

Strengthening Regulation and Supervision

Regulation and supervision of the financial system play a great role in determining both its stability and the extent of services provided.¹¹⁶ Regulation and supervision are typically aimed at the protection of investors from the potentially opportunistic behavior of insiders. Investor protection helps solve agency problems and information asymmetry arising from inside information. This helps in making optimal decisions, increasing access to external finance and resulting in productive investment and eventually higher firm growth.¹¹⁷ There is the need for a well structured and clear rule of law, within an efficient judicial system, which allows for contract repudiation and expropriation risk in this regard.

Regular disclosure, transparency and enforcement form an integral part of regulation and supervision. Important disclosure requirements include relevant information with regards to transactions, accounting and the identity of ultimate beneficial owners. They must be simple and supportive of the legal and accounting framework.¹¹⁸ Similarly enforcement procedures need not be long, cumbersome and expensive. Enforcement essentially requires compliance and the ability to prosecute. The presence of a securities regulator is important in this regard to ensure enforcement. Such enforcement can also be complimented by effective private laws on contracts and dispute resolutions.¹¹⁹ The presence of strong corporate governance mechanisms also help boost investor confidence in regulatory issues.

Rules must follow international best practices but at the same time reflect local structures and needs. Emerging African markets should also implement rules that are “necessary” rather than what would be “nice”.¹²⁰ In Africa though, there are laws and

¹¹⁶ Yartey and Adjasi (2007)

¹¹⁷ La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2003) “**What Works in Securities Laws?**” NBER Working Paper No. 9882, Boston: National Bureau of Economic Research

¹¹⁸ Friedman, B. F. & Grose, C. (2006) “**Promoting Access to Primary Equity Markets: A Legal and Regulatory Approach,**” Policy Research Working Paper No. 3892. Washington: The World Bank.

¹¹⁹ Lopez-de-Silanes, Florencio (2004) “**A Survey of Securities Laws and Enforcement,**” Policy Research Working Paper No. 3405, Washington: The World Bank.

¹²⁰ Friedman, B. F. & Grose, C. (2006) “**Promoting Access to Primary Equity Markets: A Legal and Regulatory Approach,**” Policy Research Working Paper No. 3892. Washington: The World Bank

rules for regulation and supervision, there is a challenge of the shortage of experienced supervisors and the absence of a strong tradition favoring compliance with the rules and discouraging regulatory forbearance.¹²¹

Attraction of Capital Flows and Encouragement of Foreign Participation

Private capital flows—foreign direct investment, remittances and portfolio investment are important for stock market development. Even though capital flows to Africa have been increasing recently, they are still at very low levels. In particular, portfolio investment accounts for a minor share of capital flows to Africa with a meager share of 0.15 percent of the total capital flows to Africa in 2003 (excluding South Africa).

African countries need to do more to attract capital flows especially portfolio flows. Sustained economic growth, quality public institutions and infrastructure, trade liberalization, and efficient capital markets are important for attracting capital flows.¹²² An enabling business climate with low costs of doing business, property rights, effective regulations and legal institutions, and some capital account liberalization are important.

Capital account restrictions still hold in a number of African countries. Such restrictions also limit the capabilities of exchanges to explore cross-border investments. There is the fear that capital account liberalization for these countries could also expose such economies to potential huge capital flights and financial crises. However, it has been argued that such problems depend on the nature of capital that comes in.¹²³ Debt based capital flows could cause crises if there is bad news and creditors rush in to obtain their funds.

Equity or bond based capital flows however have the risk shared, with high payouts during good times and little or nothing during bad times. Therefore, lifting capital

¹²¹ Vittas, Dimitri (1998) “**Institutional Investors and Securities Markets: Which Comes First?**” World Bank Working paper 2032, Washington: The World Bank.

¹²² Asiedu, Elizabeth, (2006) “**Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability,**” *The World Economy*, Vol. 21(1). Pp. 63-77

¹²³ Henry, B. P. (2000) “**Do Stock Market Liberalizations Cause Investment Booms?**”, *Journal of Financial Economics*, Vol. 58(1-2). Pp. 301-334.

account restrictions to attract portfolio investment would benefit African stock markets tremendously.¹²⁴ Off course capital account liberalization should be preceded by trade liberalization and domestic financial liberalization to minimize financial market risks.¹²⁵ The problem with portfolio capital is that they are normally targeted at large and growing markets.¹²⁶ This makes further argument for de-fragmentation of African. Attracting portfolio capital flows into stock markets goes hand in hand with opening up markets for foreign investor participation. Apart from the injection of fresh capital, opening up markets to foreign participants help to increase trading and liquidity of markets. Increasingly African markets are opening up to foreign participation with little or no ceilings on foreign ownership of shares.¹²⁷ A few markets still have some foreign participation restrictions. For instance, foreign ownership of shares cannot exceed 40% in stock markets in Kenya and Zimbabwe, 60% in Tanzania and 74% in the Ghana.¹²⁸

Strengthening Education

Increasing public knowledge about the functioning of the stock market could promote the development of the stock market in Africa.¹²⁹ Knowledge about stock market activity can be improved through regular and intensive education programs. Educating the public about the role of the stock market can help increase the investor based and improve the liquidity of the stock market.¹³⁰

That education about stock markets must be at the firm and individual level. At the firm level, it is important to allay the fears of firms by educating them strongly and regularly on the benefits of listing. Firms in Africa have an array of reasons why they would not list on stock markets.¹³¹ Apart from the lack of knowledge about how stock markets

¹²⁴ Ibid

¹²⁵ Ibid

¹²⁶ Ibid

¹²⁷ Ibid

¹²⁸ Ibid

¹²⁹ Yartey, Charles A. (2007) “**Well Developed Financial Intermediary Sector Promotes Stock Market Development: Evidence from Africa,**” Journal of Emerging Market Finance Forthcoming.

¹³⁰ Ibid

¹³¹ Ibid

work, there are other reasons such as high listing requirements and fear of losing control over family businesses.

A study on the Ghana Stock Exchange revealed that 33 percent of firms surveyed were unwilling to list on the stock exchange because of fear of losing control.¹³² At the individual level, African markets could tap into potentially large amounts of financial wealth which exists outside of the financial system, by pursuing vigorous and consistent educational campaigns about stock markets at various levels of society.¹³³

Political environment

According to Ekiran (1999)¹³⁴ the environment of a country plays a major role in the success or failure of a capital market development. If there is enough political stability, it gives the investors' confidence that national policies will permit over time and that the policies will encourage private savings of both the entrepreneurs and the investors. But in an unstable short term view, this causes a volatile market and does not encourage long term planning.

Economic environment: In an economy where market development becomes priority, government enterprise should not be predominant; otherwise capital market development becomes difficult.

Role of private sector: Both the private sector and the capital market must be integrated into the country's overall development program; both must know and be responsive to the needs of the population as a whole. In addition, microeconomics measures such as risk, yield and liquidity of capital must be adopted to encourage the greater channeling of saving through capital market.

¹³² Yartey, Charles A. (2007) "Well Developed Financial Intermediary Sector Promotes Stock Market Development: Evidence from Africa," Journal of Emerging Market Finance Forthcoming.

¹³³ Ibid

¹³⁴ Ekiran, O. (1999) "Understanding the capital market", McGraw-Hill Publisher, found at <http://www.academicjournals.org/JAT>, accessed on 02/01/2013 at 07.02.

2.1.3 Measures for capital market development

The main metrics for measuring the characteristics and *status quo* of capital markets in Africa are namely, the market capitalization, liquidity, number of listed companies, the value traded or liquidity, efficiency and volatility.¹³⁵

Market capitalization is the market value of a company's issued share capital (refers to the value of listed shares); it is the product of the current quoted price of shares and the number of shares outstanding.¹³⁶

According to Murinde,¹³⁷ it is shown that almost all of the capital markets in Africa, except the Johannesburg Stock Exchange, which is by far the largest and most developed, are characterized by low levels of market capitalization. However, in the last decade, some countries have exhibited some improvements; for example, Botswana, Kenya, Tanzania and Malawi. Zambia, however, has experienced a downward spiral.

It is also noted that during the last decade or so, specifically in the period 1992-2002, the number of companies listed on local stock exchanges was generally low. Low levels of listing are particularly found in Swaziland and Namibia, and extremely low in Algeria, Malawi, Tanzania, Uganda and Zambia, Uganda, even as recent as 2005. Botswana, Ghana, Mauritius, Morocco, Tunisia and Zimbabwe fared a little better than the before mentioned, ranging from 10-60 companies listed. The only exception was South Africa, which recorded 683 new companies during this period and Egypt which recorded 656 companies.

Liquidity is the ability to buy or sell an asset quickly at a known price. Selling quickly means marketability of an asset. Known price is important to show there is price continuity. In terms of liquidity of the markets, measured by the value traded, it is shown

¹³⁵ Jalloh, M. (2009) "Microstructure of Capital Markets in West Africa –Issues and Challenges", Waifem Regional Course on Operations and Regulation of Capital Market, Accra, Ghana, July 27 – 31, 2009. Pp. 1-16

¹³⁶ Ibid

¹³⁷ Murinde, Victor (2006) "Capital Markets: Roles and Challenges-Africa". An International Conference Paper in Tunisia, November 2006. Pp. 1-33

that these markets have experienced low levels of liquidity, in some instances zero values have been recorded (for example, Swaziland, Tanzania, Namibia and Uganda). The exception is the Johannesburg stock exchange which has the highest levels of liquidity with a liquidity ratio of 0.7499 or 7769 in 1992 to a liquidity ratio of 0.42 or 76,792 in 2002. It is not clear; however, to what extent these capital markets have had impact on new finance for manufacturing or overall economic development.

For a market to be attractive to all aspects of transaction entail low costs (Internal efficiency).¹³⁸ These include the costs of reading the market, brokerage cost, commission and the asset transfer costs. In terms of efficiency, some of the markets are weak-form efficient.¹³⁹ In addition, the markets seem to exhibit high levels of volatility (risk), compared to their developed counterparts. Egypt and Botswana have scored the highest in the Risk and Qualitative scores. However, the market sensitivity statistics show that Mauritius has the lowest volatility at 4.1% while Egypt has the highest volatility at 9.1%.

Yet, most of these markets do not seem to attract international investors despite the fact that stock markets in Africa and other emerging markets seem to have higher returns than developed stock markets. It would appear, therefore, that the main impediments to sustained growth of the capital markets in Africa include low liquidity, low capitalisation, low number of listed companies and an unattractive risk-return trade-off.

Moreover, according to Yartey, C. A. & Adjasi, C. K.,¹⁴⁰ the rapid development of stock markets in Africa does not mean that even the most advanced African stock markets are mature.

¹³⁸ Mugabi, Desteo (2011) **“The Influence of Local Investor’s Perception of Stock Market Incentives, Stock Market Regulations and Level of Awareness on The Intention to Participate in Uganda Securities Exchange”**. A Masters Dissertation- Makerere University. Pp. 1-56

¹³⁹ Ibid. Also Fama (1970, 1991).

¹⁴⁰ (2007) **“Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges”**, IMF Working Paper WP/07/209, August 2007. Pp. 1-35

Indicators of stock market development show that African markets are small with few listed companies and low market capitalization. Egypt, Nigeria, South Africa and Zimbabwe are the exceptions with listed companies of 792, 207, 403 and 79 respectively.¹⁴¹ The average number of listed companies in sub-Saharan African markets excluding South Africa is 39 compared with 113, with the inclusion of Egypt and South Africa. Market capitalization as a percentage of GDP is as low as 1.4 in Uganda. The Johannesburg Securities Exchange in South Africa has about 90 percent of the combined market capitalization of the entire continent. Excluding South Africa and Zimbabwe the average market capitalization is about 27 percent of GDP.¹⁴² This is in contrast with other emerging markets like Malaysia with a capitalization ratio of about 161 percent.

African stock markets suffer from the problem of low liquidity. Liquidity as measured by the turnover ratio is as low as 0.02 percent in Swaziland compared with about 29 percent in Mexico. Low liquidity means that it will be harder to support a local market with its own trading system, market analysis, brokers, and the like because the business volume would simply be too low.¹⁴³

Despite the problems of small size and low liquidity, African stock markets continue to perform remarkably well in terms of return on investment. The Ghana Stock Exchange was adjudged as the world's best-performing market by the end of 2004 with a year return of 144 percent in US dollar terms compared with 30 percent return by Morgan Stanley Capital International Global Index (Databank Group, 2004). Within the continent itself five other bourses—Uganda, Kenya, Egypt, Mauritius and Nigeria apart from Ghana—were amongst the best performers in the year.

Also, institutional and infrastructural indicators for African stock markets are considered. They are, existence of a market regulator, a governing law, nature of clearing and settlement, settlement cycle, the existence of an international custodian,

¹⁴¹ *Ibid*

¹⁴² *Ibid*

¹⁴³ *Ibid*

foreign participation, exchange control, nature of trading systems, the existence of a central depository, number of trading days, and accounting and auditing reporting system.¹⁴⁴

Despite the progress, the main institutional and infrastructural bottleneck on African stock markets is the use of slow manual systems.¹⁴⁵ Even though markets are gradually adopting electronic systems, there are still substantial African stock markets which trade manually and use manual clearing and settlement. Similarly, most markets do not have central depository systems, whilst some markets still have restricted foreign participation. Such bottlenecks slow down trading and induce inactivity.¹⁴⁶

2.1.4 Performance of capital markets

Capital markets are classified as ‘frontier’, ‘emerging’ or ‘developed’.¹⁴⁷ As a rule, frontier markets lag behind emerging markets on many dimensions much more than the latter lag behind developed markets. According to the IMF’s definition of frontier markets this group of countries includes Cape Verde, Ghana and Nigeria in West Africa, Kenya, Mauritius, Tanzania and Uganda in East Africa and Botswana, Mozambique, Namibia and Zambia in Southern Africa. Angola, Côte d’Ivoire, Gabon and Malawi are also often considered frontier markets in the investment community. Compared with frontier capital markets, emerging ones perform substantially better in almost all respects. The biggest difference by far appears to be in the development of non-banking financial services, followed at a distance by improvements in the overall business environment and the development of the banking sector. Financial stability is also a big difference between frontier and developing markets – a hygiene factor in the development of fledgling capital markets, but one that in turn depends on a complex set of macro-economic conditions.

¹⁴⁴ Ibid

¹⁴⁵ Ibid

¹⁴⁶ Ibid

¹⁴⁷ ACCA (2012) “**The rise of capital markets in emerging and frontier economies.**” p.1 www.accaglobal.com/ri. ACCA is the short form of the Association of Chartered Certified Accountants.

Compared with countries that host emerging capital markets, countries with developed markets still perform better on almost all measures. Particularly notable is the increased use of professional management and protection of minority shareholders as large family-owned firms adjust to public ownership and scrutiny. Additionally, extending financial access to a wider segment of the population allows large amounts of retail savings to be invested in the capital markets, adding to their depth and liquidity.

Despite that, investors in capital markets need exit opportunities, usually through secondary markets, in order to match the maturity of available securities to their own preferred portfolios. This requires the function of brokers and dealers willing to build inventories of financial instruments and, while these are frequently denounced as mere speculators, their function is essential.¹⁴⁸ In fact, insufficient liquidity is very often cited as the primary barrier to capital market development.¹⁴⁹

Chami¹⁵⁰ had also demonstrated that liquidity providers are generally attracted to a critical mass of borrowers and lenders but equally they need a set of rules governing trading that are not unduly restrictive. They also benefit from trading mechanisms, including supporting clearing and settlement systems, which do not impose prohibitive transaction costs. To minimise learning costs, liquidity providers tend to require relatively large issue sizes and frequent and/or regular issuance or, alternatively, long maturities.

Finally, liquidity providers rely on the existence of financial instruments whose risk profiles incorporate mostly or exclusively market risk as opposed to a plethora of different risks; alternatively, other instruments through which market risk can, at least in theory, be isolated (eg. by hedging all other sources of risk) representing claims against their future cash flows and use these to tap large regional and global pools of savings in

¹⁴⁸ Chami, R. et al., (2009) “**A Framework for Financial Market Development**”, IMF Working Paper WP/09/156.

¹⁴⁹ Hearn, B. & Piesse, J. (2009), “**Barriers to the Development of Small Stock Markets: A Case Study of Swaziland and Mozambique**”, *Journal of International Development*, 22 (7). Pp. 1018–1037

¹⁵⁰ Chami, op cit.

order to finance themselves. Secondary markets, on the other hand, provide an exit for investors and facilitate price discovery – the accurate valuation of instruments that ensures issuers are paying an appropriate price for their access to finance and investors are adequately compensated for the risk they take in providing it.¹⁵¹ Liquidity providers are crucial to this latter function, as they take advantage of their superior expertise and information in order to arbitrage away inconsistencies in valuations as well as differences in risk appetites between investors.¹⁵²

2.2 Conclusion

The capital market normally requires some availability of an appropriate environment for its ability to operate and flourish. When there is macroeconomic stability in the country, it helps the market to have shares as well as investors. The various established policies on share prices, taxes, and stock exchange rates facilitate in the increase of market capitalization and liquidity, and in turn the return yields of shares are noticeable.

Yet, the institutional quality has been another condition. The good quality of an institution dealing with the capital market is to be transparent and accountable. The institution should have the professional organizational governance for making appropriate decisions for the moving of the market. It is expected from these institutions to have some laws, rules, and regulations to facilitate smooth trading in the capital market.

Still, the banking sector development in the country is an important thing in the development of the capital market. There in the country should be enacting laws to allow investing in banking business. Availability of banks facilitates the growth of the market as the finances would easily move from one individual to another quickly and safely. Thus, the flow of cash and shares would easily rotate in the market by having some capital financial transactions with the banks thus making the market move on.

¹⁵¹Ibid

¹⁵²Ibid

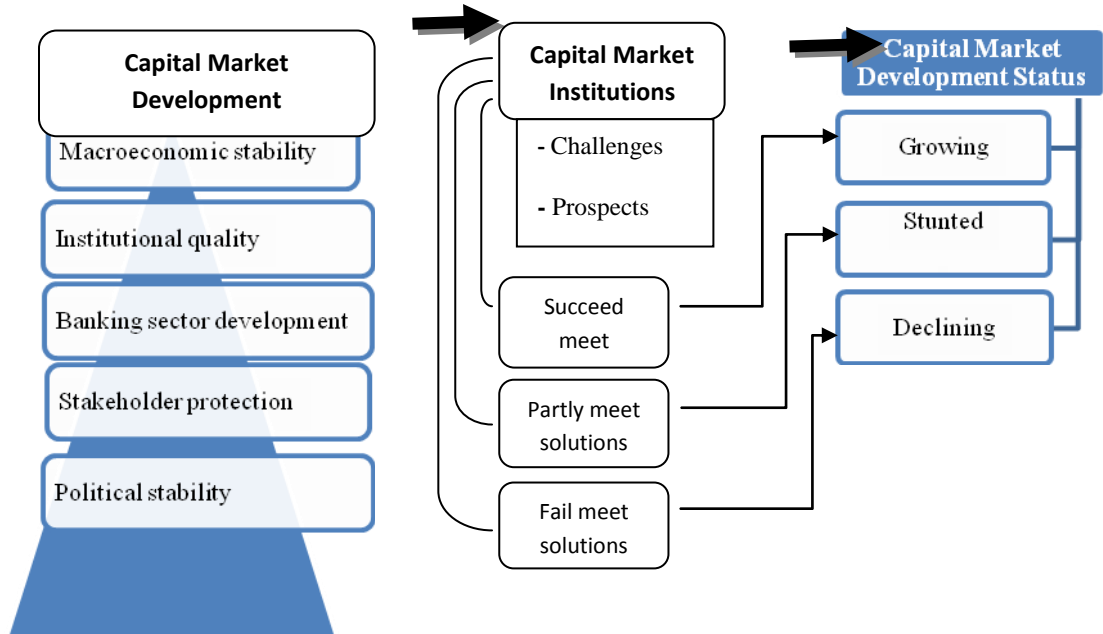
Again, is the shareholders' protection. The shareholders need some laws that would protect them while in the market when anything posing risk to their investments arise. This protection motivates investors from different places to invest their money in the securities found in the market in the country.

Lastly, political stability of the country is a crucial part of the environment for the capital market development. When there is tranquility in the country, every business run well without being put into the risks of attacks and damages from chaos and wars. This state encourages different investors to the securities market thus making it move on and grow as the returns are getting. Some of the risks associated with unstable politics are price volatility and liquidity.

However, when one or more of the prerequisite environmental conditions for the development of the capital market in the country is missing, normally leads to some challenges in the due course of operation of the securities market. Still, the prospects achievements of the capital market are likely to fail to come to reality due to existence of challenging circumstances in the course of the day to day operations of the market. The managements of the institutions responsible for the capital market work in assuring the capital market develop through meeting solutions for the existing challenges as well as trying to reach the planned anticipated prospects.

Moreover, when the institutions succeed to tackle the challenges of the securities market, normally enables the achievements of the various prospects of the market thus making it move forward a step forward in expansion thus signifying growth of the market. On the other way round, when the institutions fail completely to tackle the challenges it means nothing of the prospects will be achieved but rather to remain a dream. This in turn signals a declining of the market of which if no serious measures are taken to interfere the situation the market would disappear. But, when the institutions at least can do anything to find and meet the solutions for any challenges of the market, it means that the capital market would persist constantly for some time thus meaning a stunted status of development.

Figure 1: Conceptual framework of the study



Source: Researcher's creativity and innovation, 2013

CHAPTER THREE

THE OPERATIONAL FRAMEWORKS OF THE CMSA AND THE DSE IN RELATION TO THE CHALLENGES FOR THE TANZANIA CAPITAL MARKETS DEVELOPMENT

3.0 Introduction

The inability of the banking sector to provide long-term credit to the private sector has created the need for the development of the security market to fulfil the role of mobilising and allocating long-term capital to private sector for the growth and poverty alleviation.¹⁵³ The establishment of the Dar Es Salaam Stock Exchange (DSE) in Tanzania has been considered as an important development to raise long-term capital by issuing securities to the public in the form of initial public offerings or addition issue of stocks.¹⁵⁴ This part is therefore providing for the operational frameworks of the CMSA and the DSE being the Governing Institutions to the Capital Market business and the challenges thereto.

3.1 The DSE Regulatory and Operational Frameworks

The legal framework governing the entry into the business, conduct and operations of capital markets in Tanzania is built on a three - tier structure.¹⁵⁵ The first one is the Capital Markets and Securities Act (Cap 79 RE 2002). This is the basic law which regulates the conduct of business in capital markets.

The enforcement organ is the Capital Markets and Securities Authority(CMSA).¹⁵⁶ The second is the Companies Act, 2002 (Cap 212) which regulates a wide range of corporate issues including; the formation of the private as well as public companies and all matters relating to issuance of securities, rights of shareholders, prospectuses?

¹⁵³ Ziorklui (2001), “**The Development of Capital Markets and Growth in sub-Saharan Africa: The Case of Tanzania**”, African Economic Policy Discussion Paper Number 79, February 2001, p. 1-54

¹⁵⁴ Ibid

¹⁵⁵ DSE Handbook,(2010), “**Regulatory framework of the DSE**”, June, p.5

¹⁵⁶ Ibid, p.6

contents, obligations of directors and governance issues.¹⁵⁷ The enforcement agency is the Registrar of companies.

The third are the Regulations and Rules made by CMSA and DSE.¹⁵⁸ As from the understanding that the Capital Markets are sufficiently complex and the speed of changes within the industry is so fast that the ability of the Parliament to cope with it through statutory enactments is limited, that made the Parliament to find it prudent to delegate Regulations and Rules making powers on specific issues to CMSA and DSE respectively.¹⁵⁹

So far the CMSA has already made more than 14 sets of Regulations to cater for various issues.¹⁶⁰ The DSE has also made several sets of Rules which are found in a book popularly known within the industry as the DSE Blue Print.

The establishment of the DSE in 1996, through a comprehensive preparatory groundwork that was required to promote a stock exchange in Tanzania, had marked an important milestone in the effort towards the development of the capital market for mobilization and allocation of long-term credit to the private sector.¹⁶¹ Even though the DSE was incorporated in September 1996, trading did not start until 15th April, 1998 with the listing of the first company, Tanzania Oxygen Limited (TOL).¹⁶²

The DSE is self regulatory Organization (SRO), governed by the Council of the Exchange, which issues policies, guidelines, directions and makes the rules in accordance with the provisions of the Memorandum and Articles of association establishing the DSE.¹⁶³ The Council consists of 10 members representing various interest groups as follows: (a) three licensed dealing members, (b) two associate members who represent listed companies, (c) one associate member who represents

¹⁵⁷ Ibid DSE Handbook (2010), p.6

¹⁵⁸ Ibid

¹⁵⁹ Ibid

¹⁶⁰ Ibid

¹⁶¹ DSE Blue Print (2011), p.10

¹⁶² Ibid

¹⁶³ Ibid

Institutional Investors, and (d) one member representing the public. The chief executive of the DSE is an ex-officio member who is in charge of policy implementations and the day-to-day operations of the Exchange. It has seven stock-brokerage firms, licensed to deal with the exchange.¹⁶⁴

At the DSE, trading was previously taking place twice a week on Tuesdays and Thursdays starting from 10.00 a.m. to 12.00 Noon, and was conducted at the DSE floor under a continuous Open Outcry Auction Trading System. The representatives of Licensed Dealing Members were converging at the trading floor and trade by shouting their orders to a board writer who records the orders on the board.¹⁶⁵ Hence a trade took place when a bid and an offer matched. It has been observed that the infrequency of trading has affected the thinness and liquidity in the market. The delivery and settlement of securities traded is centralized at DSE and is on Delivery versus Payment (DVP) five business days following the transaction date.¹⁶⁶

However, Since June 1999, the Central Depository System (CDS) program has been installed and has replaced most of the physical delivery and the settlement process. Moreover in 2006, the Automated System of Trading was adopted and no more public outcry.¹⁶⁷ Trading is then conducted in Tuesdays, Wednesdays and Thursdays between 10 am and 12 pm. Though the level of activity is still very low hardly 5 deals a day with daily turnover at slightly over a few million Tanzanian shillings.¹⁶⁸ Share prices do not change much leaving investors to hope for profits that come from dividends alone and not much in terms of capital gains except may be after the sale of IPOs. Demand is not high enough to influence price and supply seems to be at a standstill.¹⁶⁹

¹⁶⁴ Ibid

¹⁶⁵ Ziorklui (2001), “**The Development of Capital Markets and Growth in Sub-Saharan Africa: The Case of Tanzania**”, African Economic Policy Discussion Paper Number 79, February 2001. Pp. 1-5

¹⁶⁶ Ibid

¹⁶⁷ Ibid, Also according to the DSE Blue Print Revised March 2011.

¹⁶⁸ www.darstockexchange.com accessed on 30/07/2012 at 07:43

¹⁶⁹ Ibid

3.2 CMSA Regulatory framework

The CMSA is the Authority, governing body of the Capital Markets industry in Tanzania.¹⁷⁰ That it is concerned with ensuring an appropriate regulatory environment to protect investors, enforce securities legislation, promote disclosure of important information, and sustain fair and efficient markets.¹⁷¹ It achieves this through the Capital Markets and Securities Act (Chapter 79).

The CMSA do oversees and requires the registration of key participants in the securities industry, including the DSE, brokers and investment advisers. Crucial to the CMSA's effectiveness in this area is its licensing and enforcement capability.¹⁷²

The CMSA, as the regulator of the securities industry and responsible for the development of the capital market, is the one that advises the Tanzanian Government on matters concerning the securities business for the purpose of creating the required enabling environment.¹⁷³

The CMSA also importantly sees its role as that of promoting and supporting capital market development, regulating market activities to ensure that public confidence is generated and retained, and advising Government on policy matters related to securities business.¹⁷⁴

Moreover the CMSA requires public companies to disclose to the public meaningful financial and other information so that investors may judge for themselves if a company's securities are a sound investment. Only through the steady flow of accurate, comprehensive, and timely disclosure of information can the public make informed investment decisions.¹⁷⁵

¹⁷⁰ Section 6 of the Capital Markets and Securities Act (Chapter 79) of the Laws of Tanzania.

¹⁷¹ CMSA, "**Business and Institutional Strengthening Plan for the period 2007/8 to 2011/12**", April 2007, p.22. www.cmsa-tz.org/ Also The CMSA Annual Report of the Financial Year 2010/2011, p.6

¹⁷² Ibid

¹⁷³ Ibid

¹⁷⁴ Ibid

¹⁷⁵ Ibid p.23

In terms of the CMSA Organisational Structure, the Authority is comprised of ten members.¹⁷⁶ Its Chairman is the appointee of the President of the United Republic of Tanzania, Four members who are expertise or experienced people in either legal, financial, business or administrative matter. These four people are appointed by the Minister for Finance and Economic Affairs, and other five members who are ex-official.¹⁷⁷

3.3 Rule and Regulations for the Capital Markets Bussiness in Tanzania

The Tanzania Capital Market and Securities Authority (CMSA) in one hand has issued different Regulations and Rules as far as the capital market business is concerned. There are The Capital Markets and Securities (Conduct Of Business) Regulations; The Capital Markets And Securities (Prospectus Requirements) Regulations G.N. No. 769 Of 1997; The Capital Markets And Securit Les (Foreigh Companies Public Offers Eligibility And Cross Listing Requirements) Regulations,2003; The Capital Markets And Securities (Collective Investment Schemes) Regulations G.N. No. 770 Of 1997; there are Guidelines On Corporate Governance Practices By Public Listed Companies In Tanzania and the Capital Markets And Securities Authority(Enforcement Guidelines).¹⁷⁸

These regulations apply to all offers of securities to the Tanzanian public by foreign companies which, subsequent to a public offer, intend to list on the DSE as well as to other foreign companies that intend to apply for cross-listing on the DSE.¹⁷⁹ Each foreign company applying for cross-listing must establish a place of business in Tanzania and register as a foreign company under the Companies Act, 2002.¹⁸⁰

A foreign company is then eligible to issue securities to the public in the Tanzania subject to the following: i) Compliance with the provisions of Part XII of The Securities

¹⁷⁶ CMSA Annual Report of the Financial Year 2010/2011, p.6

¹⁷⁷ Ibid

¹⁷⁸ Ibid. Also www.cmsa-tz.org/ accessed on 03/08/2012 at 05.57 am

¹⁷⁹ Mkono, N., Arrington, C. & Mehta, B. (2009) “**Accessing East African Capital**” Legal, September-October 2009. www.worldfinance.com and www.mkono.com

¹⁸⁰ Ibid

Act, which deals with prospectus requirements, advertisements and compensation; ii) Listing such securities at a stock exchange in Tanzania subsequent to such publicly offer; and iii) Compliance with the First Schedule of The Regulations which requires verification that the laws under which the foreign company is incorporated impose similar requirements as the Companies Act, 2002.¹⁸¹

The execution of a Memorandum of Understanding (MOU) between the securities regulator in the jurisdiction where the applicant is listed and the foreign company and the execution of a MoU between the exchange where the applicant's securities are listed or where listing is being sought and the DSE will satisfy the requirements of the First Schedule of the Regulations.¹⁸² However, the First Schedule can also be satisfied if the securities regulator of the country where the company is listed is a signatory to a relevant multilateral MoU of which Tanzania is also a signatory.

An applicant seeking to cross-list in the first tier market of the DSE must be listed in a similar market in other countries where it is listed or cross-listed.¹⁸³ Also the company must have a minimum issued and fully paid up capital of not less than \$700,000 and have net assets of not less than \$1.4m. Other requirements include:

- Securing at least 1,000 shareholders of which at least 25 percent must be held by the public;
- Publication of audited financial statements complying with International Accounting Standards for at least five years and which show the company was profitable for at least three of the past five years; and
- The approval of an Information Memorandum by the Securities Authority (CMSA).

Also Part Two of the Second Schedule of the Regulations prescribes the form and content requirements of the Information Memorandum. The regulations reflect international norms regarding disclosure requirements.

¹⁸¹ Ibid

¹⁸² Ibid

¹⁸³ Ibid

Lastly, the securities regulator and the stock exchange of primary listing must each upon notification transmit to the Securities Authority (CMSA) a confidential report on the foreign company regarding the compliance history of the company with the regulations of the stock exchange of primary listing.

More, in 2002 the Securities Authority (CMSA) enacted the Guidelines on Corporate Governance Practices by Public Listed Companies in Tanzania (the Governance Guidelines) “with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders”.¹⁸⁴ At the core of the Governance Guidelines is an effort to promote a high standard of self-regulation within public listed companies in Tanzania and achieving an international standard of governance. The provisions highlight practices relating to the board of directors, audit committees, supply and disclosure of information, shareholder participation, etc.

Emphasis extends beyond the descriptions of accountability within respective roles to principles of operation aimed at fostering efficient communication both within the company and between the company and the Securities Authority (CMSA). Good corporate governance has become increasingly significant given the multifaceted nature of cross-border listings.

Thus, the Partner States are continuing to develop strategies in this area as they work towards attaining a smoother flow of capital in the East African region.¹⁸⁵

In addition are the ongoing requirements which are the annual listing fee of 0.05 percent of the market capitalisation of the listed securities and the holding of annual shareholder meetings, listed companies are required to submit semi-annual financial reports to the DES and also to notify the DSE and the public of any previously undisclosed price

¹⁸⁴ Mkono. Op cit, www.darstockexchange.com on the current status of the Tanzania Capital Markets business accessed 03/08/2012

¹⁸⁵ Ibid

sensitive information.¹⁸⁶ The corporate governance reports regarding the progress, attained in complying with the Governance Guidelines, are required.

Away from that, Tanzania provides numerous incentives for issuers and investors participating in the DSE. They include a reduced corporate income tax rate of 25 percent for three years were 35 percent of the issuer's shares are held by the public as opposed to a 30 percent rate for unlisted companies.¹⁸⁷ Investors of publicly traded companies realize a zero capital gains tax as opposed to a 10 percent tax on shares of unlisted companies. They also receive a five percent withholding tax on dividend income as opposed to 10 percent on dividends from unlisted companies.¹⁸⁸

Despite of the above facts, still the capital markets in Tanzania as well as in the East Africa Community generally are faced with development challenges and the way forward prospects.

3.4 Legal and technical Challenges facing capital market development generally

As once noted by Arthur Levitt,¹⁸⁹

“If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country, regardless of how steadfast a particular company's practices may suffer the consequences. Markets must now honour what they perhaps, too often, have failed to recognise. Markets exist by the grace of investors. And it is today's more empowered investors that will determine which companies and which markets will stand the test of time and endure the weight of greater competition.

¹⁸⁶ Ibid

¹⁸⁷ Ibid

¹⁸⁸ Ibid

¹⁸⁹ Former Chairman of the United States Securities and Exchange Commission.

It serves us well to remember that no market has a divine right to investors' capital."

Although the CMSA has issued some guidelines towards its supervision and the regulation of the business, but the financial sector in Tanzania till the end of 2007, was small and dominated by the banking sector which comprised around twenty commercial banks.¹⁹⁰ There were only ten equities listed on the DSE; three of which were cross-listings from Kenya and only one Tanzanian company had sought a listing on the DSE for the purposes of raising capital. The other six listed equities had been the result of privatisation issues. Three other IPOs (one bank and two investment companies) did not meet the listing criteria and are traded off-market.¹⁹¹

Despite the fact that during the period 1998 to 2006 the amount raised through the capital market was TZS236.77 billion (USD182 million) a survey conducted by the CMSA showed that most companies use retained earnings and loans from financial institutions to finance their capital needs instead of using the capital market.¹⁹² In addition to the ten equities twelve Government and seven corporate bonds are listed but not traded on exchange.¹⁹³ The market is still faced with a number of challenges including:

The stringent listing requirements. Most of the companies do not meet with the listing criteria and that is why more than 10 years since the establishment of the DSE, the same had only 11 domestic companies listed and six foreign cross-listed companies whose total market capitalisation is valued at approximately \$3.7bn.¹⁹⁴

In terms of the number of companies listed, the DSE is behind the Nairobi Stock Exchange (NSE) but ahead of the Uganda Securities Exchange (USE) and the Rwandan

¹⁹⁰ CMSA (2007), "**Business and Institutional Strengthening Plan for the period 2007/8 to 2011/12**", p.3-4.

¹⁹¹ Ibid

¹⁹² Ibid

¹⁹³ Ibid

¹⁹⁴ Mkono, Op cit

Capital Markets Advisory Council (CMAC). The NSE was formed in 1954 and is one of the most active capital markets in Africa with more than 50 listed companies.¹⁹⁵ The USE, which was launched in June 1997 and started trading in January 1998, is operated under the jurisdiction of the Capital Markets Authority, which reports to the Central Bank of Uganda and has 12 listed companies of which five are foreign cross-listed companies. The CMAC was established by a prime-ministerial decree in March 2007 and is comprised of a Board of Directors and a Secretariat.¹⁹⁶ The latter oversees the day to day operation of the Rwanda Over-the-Counter Exchange which at present has seven listed companies.¹⁹⁷

By that 2009, Tanzania had four cross-listed companies (Kenya Airways, East African Breweries, Jubilee Holdings and Kenya Commercial Bank). Their market capitalisations were approximately \$2.5bn or more than double the market capitalisation of the listed domestic companies.¹⁹⁸

The CMSA recognises the fact that there are companies which do not meet the criteria for listing on the main market and therefore during 2007 it is proposed to launch a second tier market that will become a nursing ground for smaller growing companies which can, in time, move on to the main market.¹⁹⁹ The same was proposed while believing on the following perceived benefits:

That Companies that cannot meet the listing criteria of the main market will be able to list on the second tier market; the Companies will have a less expensive way of raising capital than obtaining long term finance from a bank; the issue costs will be reduced through reliance on placing rather than public offerings; that Investors will have greater choice of securities in which to invest. This will be of particular benefit to institutional investors; those companies that are traded off-market will find a reliable and accurate

¹⁹⁵ Ibid

¹⁹⁶ Ibid

¹⁹⁷ Ibid

¹⁹⁸ Ibid

¹⁹⁹ CMSA (2007), “**Business and Institutional Strengthening Plan for the period 2007/8 to 2011/12**”, p.4

price making mechanism for their shares together with a secure exit route should they wish to dispose of their holdings.²⁰⁰

Not only that but also the market would fit nicely with the Government's objectives of supporting SMEs; and through supporting small and medium enterprises, the second tier market would contribute to employment and in the longer term to Government income through corporate and other taxes. Lastly the second tier market will be a logical exit route for venture capital funds.²⁰¹

The market is also faced with the following challenges:

Reducing systemic risk through the introduction of risk management systems and procedures, strengthening capital adequacy requirements of market intermediaries and strengthening the role and position of CDS in the marketplace.²⁰²

Improving client protection is also a challenge to the CMSA. This may be done by educating investors about the market and about market risk; strengthening regulation and enforcement in exchange and regulator level; the introduction of qualifications for market intermediaries and by building regulatory capacity within CMSA.²⁰³

Also the development of the market is a challenge which can be solved at least through Educational and promotional activities targeting both the supply and demand side; encouraging more IPOs and the corporatization of public sector entities; the introduction of new products; the participation of market players in market development.²⁰⁴

A challenge is there also in *Strengthening Regulatory Capacity*. That in order for the CMSA to fulfill its regulatory function, it must have in place adequately qualified and

²⁰⁰ Ibid

²⁰¹ Ibid

²⁰² Ibid. Also www.cmsa-tz.org/ on "the known challenges facing the capital markets business" accessed on 20/09/2012 at 20:11 hours

²⁰³ Ibid

²⁰⁴ Ibid .

trained professionals experienced in the regulation of securities markets.²⁰⁵ It must also keep abreast of changes in how markets are regulated and supervised.

That can only be achieved by a continual process of education and training. Ensuring that markets are adequately supervised raises investor confidence and adds to market use and therefore liquidity.²⁰⁶

Also according to Ziorklui (2001), despite the benefits experienced in capital market, there are also challenges facing the same.²⁰⁷ That, even though the policy changes in Tanzania have had some positive impact on capital market development, there are many challenges and problems that remain to be addressed in order to promote a functioning capital market in Tanzania, which are as follows.

The strength of the capital markets Institutions: The enactment of banking and financial institutions' reforms was supposed to strengthen the capital market institutions in order to mobilize financial resources for allocation to the private sector.²⁰⁸

However, the slow pace of restructuring the collapsed banking sector resulted in the decline of credit to the private sector, especially the productive sectors of the economy, including agriculture and marketing of agricultural products. The direct impact of this result is the reduction in growth potential and poverty alleviation in Tanzania.

Inadequacy of competition within the financial sector: The survey of the Ziorklui (2001) had found it to be a challenge too. Such evidence includes the wide spread between deposit and lending rates, which has on average, been above 15% throughout the post-reform period. This suggests that financial prices do not adequately reflect market conditions and the cost of funds. An inappropriate interest rate structure is obviously

²⁰⁵ Ibid

²⁰⁶ Ibid

²⁰⁷ Ziorklui (2001), "**The Development of Capital Markets and Growth in Sub-Saharan Africa: The Case of Tanzania**", African Economic Policy Discussion Paper Number 79, February 2001. Pp.5

²⁰⁸ Ibid

likely to affect both stock prices and exchange rates, and thus the capital market generally.

Not only that but the problems of *liquidity, infrequent trading, and fewer listings of private companies* limit the attractiveness of the capital market for domestic and foreign investors, makes the capital market to remain underdeveloped.²⁰⁹ The lack of absorption capacity and low demand for equity securities has been worsened by the lack of government incentives to attract new companies and investors to the stock market.

The government's fiscal policies of taxing dividends on equity securities while exempting interest income on short-term Treasury bills provide greater incentives for investing in government short-term securities at the expense of investment in long-term equity securities.²¹⁰ In addition, the general weakness of the Tanzania currency and creeping inflation provide disincentives for investing in the capital market for long-term benefits.²¹¹

The study by Ziorklui also found that the *capital market structure in its present form is not suitable for small and medium enterprises to raise capital in the form of equity securities.*²¹² Unlike the US, where capital market structures are developed for small and medium-sized firms to raise capital in the Over the Counter (OTC-NASDAQ) markets, there are no such second tier markets in Tanzania to attract small firms that cannot be listed on the DSE.

The lack of foreign participation in the capital market is detrimental to the development of the capital market. Additionally, the lack of development of capital market instruments such as venture capital and institutions, investment banks, corporate bonds, mutual funds, and unit trusts, derivative securities, and options limit the attractiveness of

²⁰⁹ Ibid

²¹⁰ Ibid

²¹¹ Ibid

²¹² Ibid

the stock market for investors. The lack of financial derivatives and options precludes risk management by hedging underlying stocks in the futures and options markets.²¹³

As quoted from Noble, Gordon & White (2012),²¹⁴ by way of example, following unrest in Tunisia that heralded the start of the “Arab Spring”, the exchange in Tunisia was closed in January 2011 for 2 weeks, as a result of political turmoil. It re-opened on the 25th of January and there was a large outflow of capital from the market, both local and foreign. By the 25th of February, the market had lost 20.61% of its value, year to date. Volatility of cash flows and liquidity can be a hurdle to long term sustained investment.

A lack of local market liquidity, knowledge, data and expertise are a barrier to this bottom up approach, and one which is only changing slowly. The big data vendors may have a role to play here as channels of communication expand into these regions. When there is better communications access in West and East Africa and levels of trust grow, data vendors will become more involved.²¹⁵

According to Yartey, C. A. and Adjasi, C. K.,²¹⁶ African stock exchanges face a number of challenges before they could enter a new phase of rapid growth. The first is the challenge of stock market integration. Many analysts have argued for the regionalization of stock markets in Africa as a way of addressing the problem of low liquidity. Preconditions for successful regional approaches include harmonization of legislations such as bankruptcy and accounting laws and a liberalized trade regime.

The second is the challenge of demutualization to solve the governance and profitability problems. Demutualization would be more relevant after African stock markets have consolidated gains on technological and regulatory reforms.²¹⁷

²¹³ Ibid

²¹⁴ Noble, Gordon & White (2012) “**Stock Exchange Development & Strengthening in Least Developed Countries**”. Pp. 1-16 www.inflectionpointcm.com

²¹⁵ Ibid

²¹⁶ (2007) “**Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges**”, IMF Working Paper WP/07/209, August 2007, p9

²¹⁷ Ibid

The third and most critical issue is the need to eliminate existing impediments to institutional development. These include a wider dissemination of information on these markets, the implementation of robust electronic trading systems, and the adoption of central depository systems. In addition, sound legal and accounting framework, private sector credit evaluation capabilities, and public sector regulatory oversight should all be strengthened.²¹⁸

Yet, the other problem that has hindered successful stock market integration is *nationalistic politics*. African governments tend to view stock exchanges as national assets with pride just like national airlines.²¹⁹ As a result, they are uncomfortable with transformations which lead to a reduction in the national touch. In addition, smaller economies tend to perceive the bigger economies as being domineering and fear that their exchanges will be overshadowed by the bigger exchanges with integration. These economies also fear that capital may be diverted away from them to the bigger economies with integration. For instance, Okeahalam²²⁰ reports that Botswana officials were uncomfortable with South Africa's virtual African exchange proposal due to the fear of capital flight towards JSE.

Moreover, improved financial intermediation leads to higher savings and capital accumulation. The efficiency of capital markets is promoted as funds are channeled into high-productive projects. The transition from a repressed financial regime to a market oriented financial system will be greatly enhanced by the role of the government in providing an enabling environment.

²¹⁸ Ibid p.18

²¹⁹ Moss, Todd (2003) **“Adventure Capitalism: Globalization and the Political Economy of Stock Markets in Africa”**, London: Palgrave Macmillan.

²²⁰ Okeahalam, Charles C., (2001) **“Strategic Alliances and Mergers of Financial Exchanges: The Case of the SADC”**, presented at the Fourth Annual Conference of the Centre for the Study of African Economies, Oxford University, March 2001,p.14

At the minimum, the government should ensure a more conducive macroeconomic environment that can support the institutional framework that is necessary for the development of a well-functioning capital market²²¹

Ogwumike and Omole²²² had observed that, the problem of awareness is cited as a reason for the reluctance of companies to go public. This explains low supply of securities. Informational constraints relate to inadequate disclosure of information due to the underdevelopment of information technology and manpower training.

3.6 Prospects of capital markets

Survey results of Ziorklui (2001) indicate that respondents favor some level of regionalization and globalization of the Tanzania capital market. The survey results show that a major benefit of capital market regionalization and globalization is the possibility of greater inflow of foreign capital to the domestic capital market. The results revealed that as globalization proceeds, Tanzanian capital market operators would share the wealth of experience from the rest of the world on managing capital market institutions. Globalization is seen therefore as a source of better knowledge of how capital markets are efficiently managed.

It is also suggested that capital market globalization and regional integration would lead to improved market liquidity. Absorption capacity would increase leading to greater demand for products trading on the market and hence greater volume of activities. Globalization would also mean that Tanzanian participants would have access to international assets.

²²¹ Montiel, P. J. (1996) "**Financial Policies and Economic growth: Theory, Evidence and Experience**", Journal of African Economies, AERC Plenary Sessions 1994-95, Supplement to Vol. 5 No. 3 Part I.

²²² Ogwumike, F.O. & Omole, D.A.(1997) "**Mobilizing Domestic Resources for Economic Development in Nigeria: The Role for the Capital Market**" AERC Research Paper No. 56, Nairobi, p.39

Globalization of the capital markets would also lead to the opening of Tanzanian capital markets to the outside world. This would result in the integration of the Tanzanian economy into the world economic system. Instead of relying on government-borrowed funds and economic aid from donor countries, globalization would attract foreign inflows of capital and the elimination of inefficient operations. International capital markets would direct international capital to firms and sectors of the economy where they can be utilized more efficiently.

3.7 Conclusion.

The infancy of the capital market structure is reflected in the fact that the DSE currently has only seventeen companies listed on the exchange. This signifies that the instruments for resource mobilization in the capital market are still few and in the process of formation.

CHAPTER FOUR

ANALYSIS AND INTERPRETATION OF THE RESEARCH FINDINGS

4.0 Introduction

The helpfulness of the study comes when the intended objectives are met, and when the objectives are met then there the study can be said to have been completed. The study was conducted in order to assess the Challenges and Prospects of Capital Markets Development: A Case Study of Tanzania; this chapter therefore presents for the analysis and discussion of findings.

The analysis and discussion of the findings involve the extent the capital market challenges of the past fifteen years since the establishment of DSE and CMSA have been tackled, the capital market development prospects of the past fifteen years since the establishment of the DSE and CMSA achieved, what are the current newly emerging capital market development challenges and prospects starting year 2010? What is the current status of the capital market development in Tanzania. The presentation of results is in the form of tables, bars and charts. Also the researcher use SPSS program in analyzing data which collected from the field. The presentation, analysis and discussion of the findings based on research questions. Also the results are presented in tables and figures, where the frequency and percentage are shown.

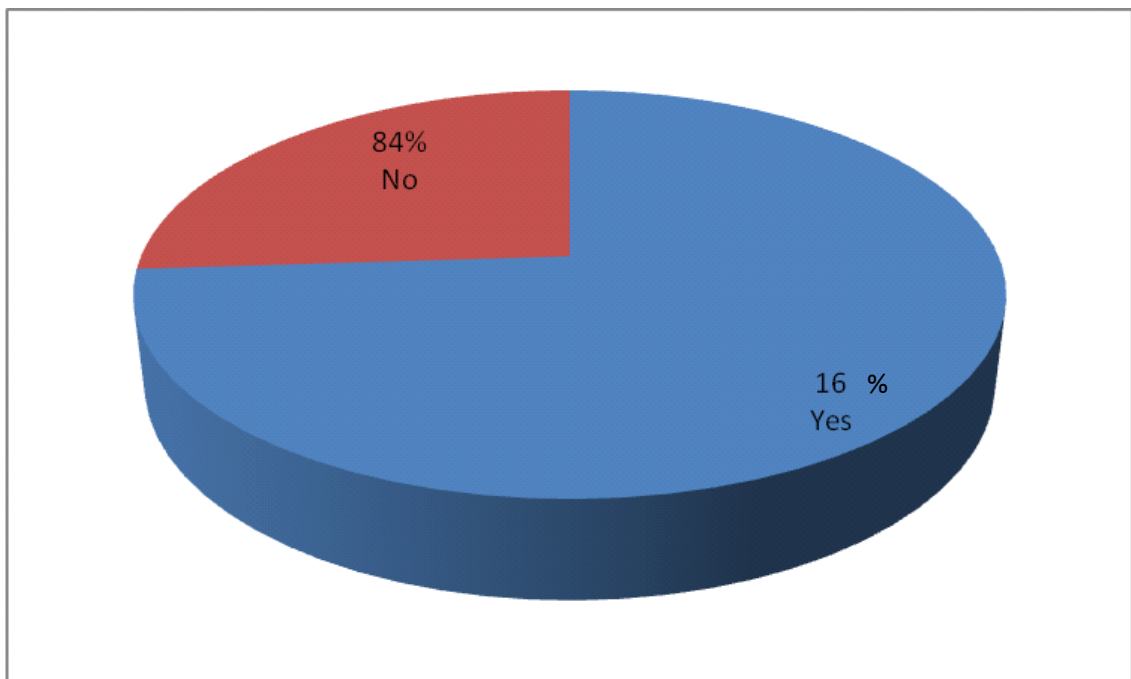
4.1 The extent of the challenges in the capital market for the past fifteen years since the establishment of DSE and CMSA and how they have been tackled.

The first objective of the study was to find out the extent of the challenges of capital market of the past fifteen years since the establishment of DSE and CMSA. To fulfill this objective the researcher asked questions.

4.1.1 Inadequate competition within the financial sector in the Dar Es Salaam Stock Exchange

The researcher inquired the respondents to indicate whether there is enough competition between the financial sectors in the Dar Es Salaam Stock Exchange; the findings revealed that 8 (16%) respondents said yes, whereas 42 (84%) respondents said No. For further details see the figure 3 below.

Figure 2: Inadequate competition within the financial sector (N=50)



Sources: field data (2013)

The findings revealed that there is low competition in terms of money market, commercial banks, there is in mobilizing resources. Most of them see the DSE as risk hence they stay away from lending money to the borrowers as they want to raise their capital rapidly. For the competition to be encouraged, it could be suggested that if the government may compel the banks to reduce interest rates, this might bring a certain changes.

One can see as from 40 financial institutions only few have been in the capital market business. This calls for a serious attempt to motivate the prospect financial institutions to join the Tanzania capital market business.

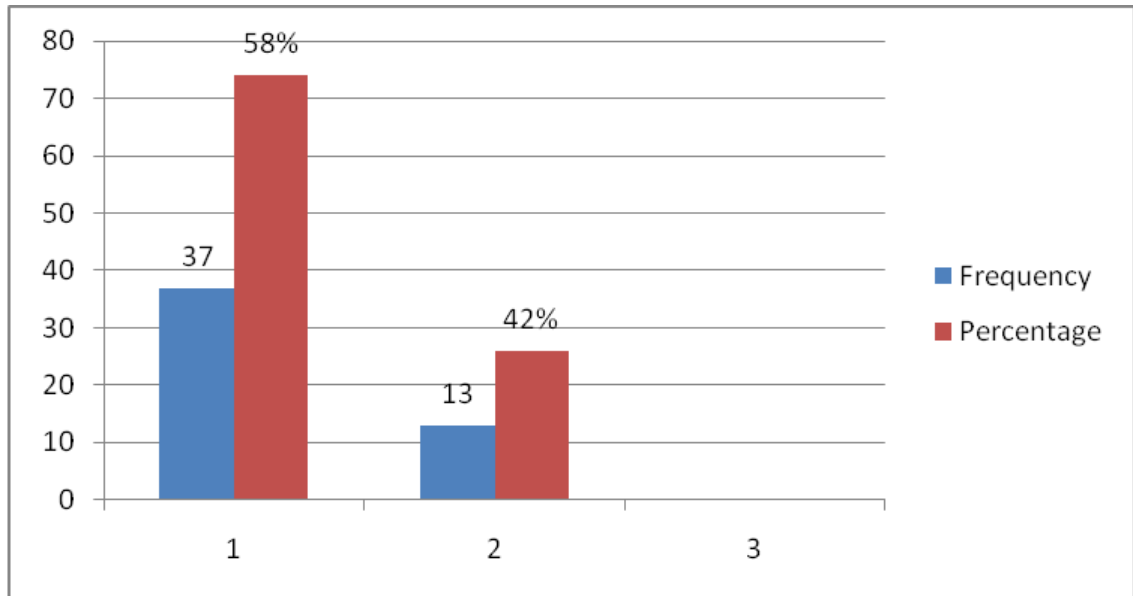
4.1.2 Low liquidity in Dar Es Salaam Stock Exchange

On the problem of liquidity if existing in the DSE, most of the respondents interviewed from the DSE were of the view that the market is illiquid. One Mr, Mshindo indicated that *“market is illiquid as there are few trade able securities and few investors too. That major players in the business are the pension funds, which hold assets at certain ratio at marketable prices. Holding assets do not allow easy buying and selling, difficulty in getting new ones. A low free floating hence comes a time that there is no buyer when one wishes to sell.”*

4.1.3 The weakness of the Tanzania currency and the inflation in attracting long-term investments in the capital market.

Respondents were asked if the weakness of the Tanzania currency and the inflation hinder attracting long-term investments in the capital market. The findings revealed that, 29 (58%) of respondents said Yes, whereas 21 (42%) of respondents said NO. As summarized in figure 4 below.

Figure 3: The currency and the inflation in the capital market (N=50)



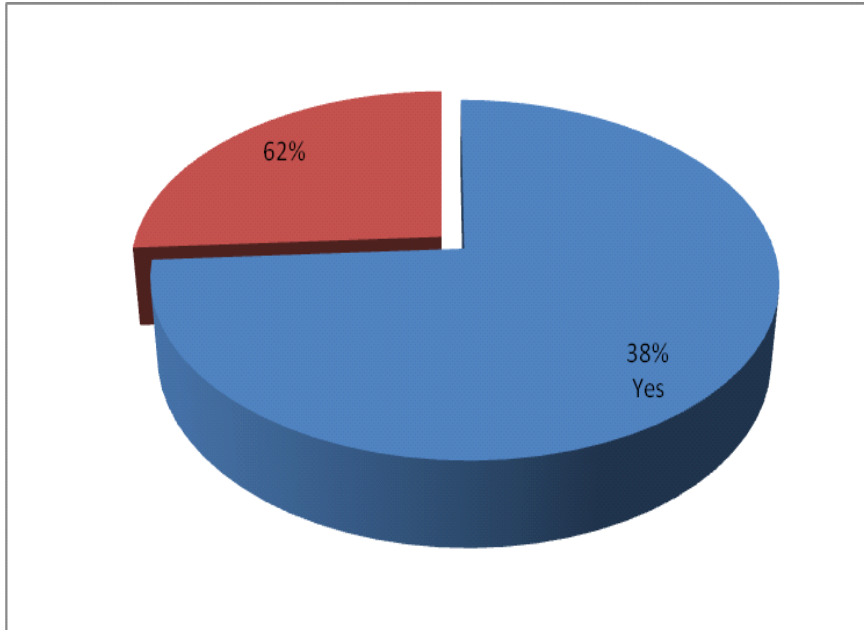
Sources: field data (2013)

The findings provide that in theory it is of the effect, as one who invests in DSE trading companies expects on the returns, but the expectations of the value or rate of the Tanzanian shillings is low Comparing to foreign currencies such as British pound. The purchasing power, for the moment is not much experienced due to the size of the business, if it could be otherwise, it could be worse. That though there is a report that suggesting the value is rising but that does not reflect the reality. The inflation of Tanzanian currency affects the returns of investors at noticeable effects which bring it harder to the process of attracting long-term investments in the capital market.

4.1.4 Poor Government support to attract new companies and investors to the stock market.

Respondents were asked if the Government provides enough support to attract new companies and investors to the stock market. The findings revealed that, 19 (38%) of respondents said Yes, whereas 31 (62%) of respondents said No. For further details see the figure 5 below.

Figure 4: Poor Government support to attract new companies (N=50)



Sources: field data (2013)

The findings from the study indicate that the majority of the respondents from DSE and CMSA provided that the government does not give enough support to attract new companies and investors to the stock market. All the government does is providing a forum at the trade fairs and alike. Although in theory seems like there is a handful support from the government as through tax incentives it encourages investors. It provides for the Listed Company to pay only 25% of corporate tax as against the unlisted companies which pay 30% corporate tax. Also listed companies are not charged capital gain as against unlisted ones.

But in practice, the same has been otherwise as since the establishment of the DSE, when the government reformed and some companies were sent to contribute to the stock market. Out of 300 parastatals, only 7 were sent to the capital market. If the Government could send just 1/3, the business could be very far by now as the resource could be huge and there one could say that DSE is a sleeping giant. Kenya has 62 parastatal companies.

Other respondents provided that, the government is also doing nothing in educating the public on the capital market. At least if the companies were many and the business had grown faster, through the success story of the listed companies, many could be much attracted to go into. The DSE is under the process to privatize itself as the private system of running itself has proven success among other stock exchanges around the varieties of countries in the world. This will bring independence in decision making for the blossoming of DSE in specific and Tanzania capital market at large.

4.1.5 Challenges of the Tanzania capital market that exists even before the year 2010.

The researcher inquired the respondents to provide challenges that face Tanzania capital market before the year 2010. Due to this aspect the respondents had the following to say;

“Court brokers have been complaining on the maximum percentage of the cross listing that the cross listing company cannot share more than 60%. This according to them hinders the development of the business as sometimes shares which are there to be sold, may be much, and the local investors may happen to be able to buy only the few, and the foreigners are ready to buy them but they are restricted to do that by the law. They propose for it to be raised to 75%.”

“According to the current laws, only MIMs may list their shares at the DSE, hence the SMEs are not. This is a real challenge to the development.”

“On the few numbers of the listed companies, it is proposed that the government should direct or force some companies like mobile companies to list with the DSE so that the public can share with them hence sharing the benefit and the control to some extent. Companies like Vodacom owned by South Africans, is hard in listing as they do not want the same instead have huge profit but remain on themselves.”

Commenting on that perspective other respondents had said;

“On the Branches, the same can’t be done yet as according to the volume of the business itself, can’t extend to that. Even brokers are stationed at Dar Es Salaam near the DSE.

“Technicalities in the central depository system receipts have been a challenge. That once a shareholder buys the shares he will be issued with a receipt certifying to how much he owns. The difficulty in this is that the receipt is something manual, as once the holder wishes to sell or claim on something, he will be asked for the receipt which may sometimes be lost or very old. It is proposed for it to be electronically saved and the system to be satisfied with the data provided as saved at the transaction.”

“On the stock exchange integration is on the way forward, but waiting for the monetary union”

“Listing companies grow very slow while investors especially locals expect much from buying the shares of such particular company. They think of the abrupt dividends and hence discouragements”

4.2 The achieved capital market development prospects of the past fifteen years since the establishment of the DSE and CMSA.

The second objective of the study was to find out the achieved capital market development prospects of the past fifteen years since the establishment of the DSE and CMSA. To fulfill this objective the researcher asked the following questions.

4.2.1 Presence of competent personnel in the field of capital markets hired in the various structures of the Tanzania capital market.

Regarding to the presence of competent personnel in the field of capital markets hired in the various structures of the Tanzania capital market. The researcher inquired the CMSA officials to indicate whether there are enough competent personnel in the field of capital market in Tanzania, the findings revealed that respondents 22 (73%) of respondents said Yes, whereas 8 (27%) of respondents said No. For further details see the table 1 below.

Table 1: Presence of competent personnel in the field of capital markets (N=30)

Responses	Frequency	Percentage
Yes	22	73
No	8	27
Total	30	100

Sources: field data (2013)

The CMSA respondents indicated that DSE has quite a number of professional personnel who work in 5 days in a week, from 10.00 – 12.00 hours, and there is an amendment nearly to be released which will make the working hour be from 10:00 – 14.00 hours for further business expansion. These competent personnel in the Tanzania capital market use electronic trading system of clearing and settlement of transactions instead of the manual system to run the DSE daily activities. They further mentioned that the adoption of Automated Trading System (ATS) in DSE trading pattern proves that the business is with a competent number of personnel.

4.2.2 Adherence of the Guidelines on Corporate Governance Practices established by the CMSA in DSE by trading companies.

Respondents were inquired by the researcher to provide whether companies in DSE adhere to corporate governance practices established by CMSA. The findings revealed that, 43 (86%) of respondents said Yes, whereas 7 (14%) of respondents said No. For further details see the table 2 below.

Table 2: Presence of competent personnel in the field of capital markets (N=50)

Responses	Frequency	Percentage
Yes	43	86
No	7	14
Total	50	100

Sources: field data (2013)

The findings from the study provide that majority of the respondents said the guidelines on corporate governance practices are well adhered. They indicated that the minority shareholder's rights are much considered, in case of any resolution or amendments, the DSE is notified shortly thereafter, In case If the company's CEO resigns, those who bought the share from such company only because of the outgoing CEO, may decide to sell their shares as long as that CEO who influenced them is not on the chair, hence informing the DSE earlier is something better as it may cause volatility too. This implies that those guidelines are there and implemented accordingly.

4.2.3 Regional stock exchange integration in association with Tanzania national capital market, in different perspectives including the nationalistic politics and overshadows.

The researcher interviewed the respondent from CMSA, here was his view;

“On the Regional stock exchange integration in association with our national capital market in different perspectives including nationalistic politics and the overshadows, respondent sees that there are the EACEA and AESRA, whereby, at the current policy level, Ministry for East African Affairs has a task force to foster regional integration. That the Regulators are going to the meetings, well representing. For example when Kenya once wished to have common market and one bank from there to be used, there Tanzania didn't agree but proposed for each to have its own and only electronic or technological communication was proposed. That each to remain under its jurisdiction.”

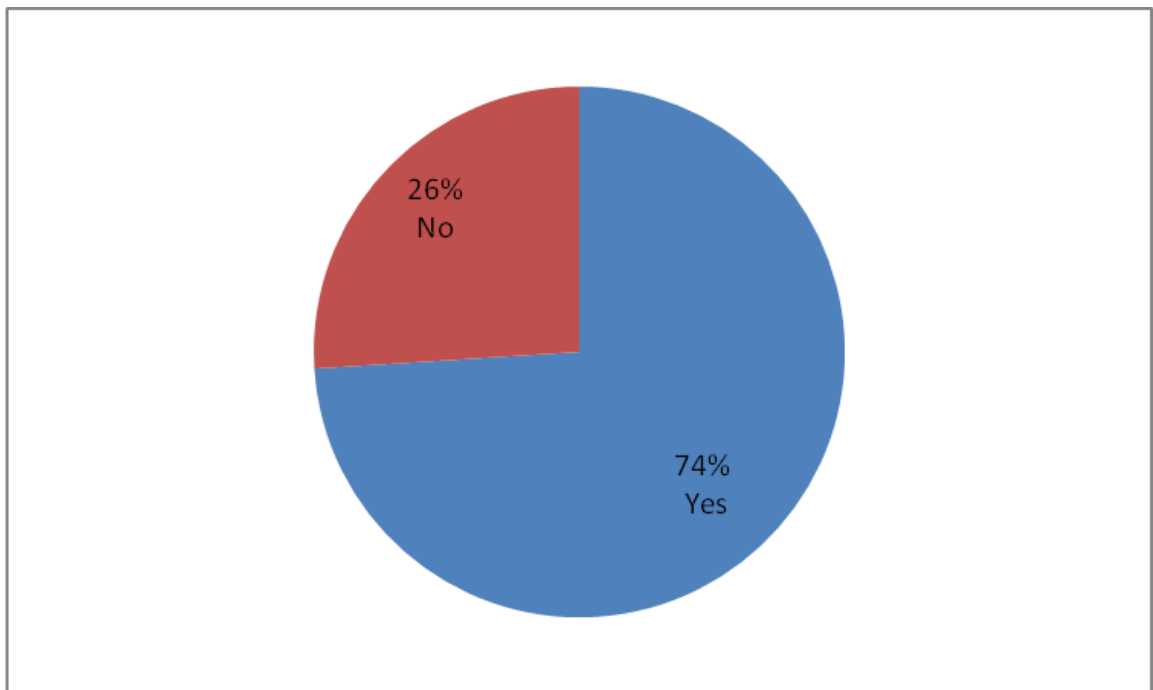
4.3 The current newly emerging capital market challenges and prospects starting year 2010.

The third objective of the study was to find out the current newly emerging capital market challenges and prospects starting year 2010. To full fill this researcher asked the following questions;

4.3.1 Participation of foreign investors in the Tanzania capital market.

Respondents were inquired to provide whether the foreign investors do participate in the Tanzania capital market. The findings revealed that, 37 (74%) said Yes, whereas 13 (26%) said NO. For further details see the figure 6 below.

Figure 5: Participation of Foreign Investors in the Capital Market (N=50)



Sources: field data (2013)

Regarding the participation of foreign Investors in the Tanzania Capital Market business, Majority of DSE stakeholders said there are a certain number of foreign investors in Dar Es Salaam Stock Exchange, DSE. They provided a variety of factors for foreign investors being attracted to the business among them being following the use of Automated Trading System (ATS) in the DSE trading patterns. Others indicated that moderation of various areas such as venture capital and institutions, investment banks, corporate bonds, mutual funds, derivative securities led to stable capital market business hence attract foreigners.

The number is increasing as from the records of 30th April, 2013, the DSE recorded a total turnover of TZS 482.92 mil from 2,569,134 shares traded in 78 deals comparing to the previous session which recorded a turnover of TZS 64.26 mil from 93.095 shares traded in 41 deals... The total foreign investors generated a total turnover of TZS 466.39 mil for the purchase of 7500 shares from NMB shares and 2531,884 of CRDB shares traded at TZS 180 per share price.

There are some regulations which hinder further growth like the maximum of holding shares is 60%. Some companies may wish to hold more. Like Twiga Cement Company has very strategic investors, TBL, participants could be more if the same could be raised to 75%. There is a need for further reform of laws so as to attract more foreigners.

4.3.2 The contribution of Tanzania Capital Market to the rise of small and medium enterprises in capital and equity securities.

One respondent from the DSE contended:

“At the moment no, but he added that in 2006, a study was conducted by Fin scope and the CMSA on why the capital market does not grow as expected to be, or what hinders the development of the same. By then, there were only 7 listed companies. The observations of that research were that the country private sector is characterized by SMEs, who do not get shares from the capital market. And that was for the reason of their minimum capitals, number of share holdings, management matters, and tough conditions for the SMEs in listing, etc. From that, it was recommended that the avenues be there for the SMEs to join. The second tier be established, some relaxations hence Enterprise Growth Market.

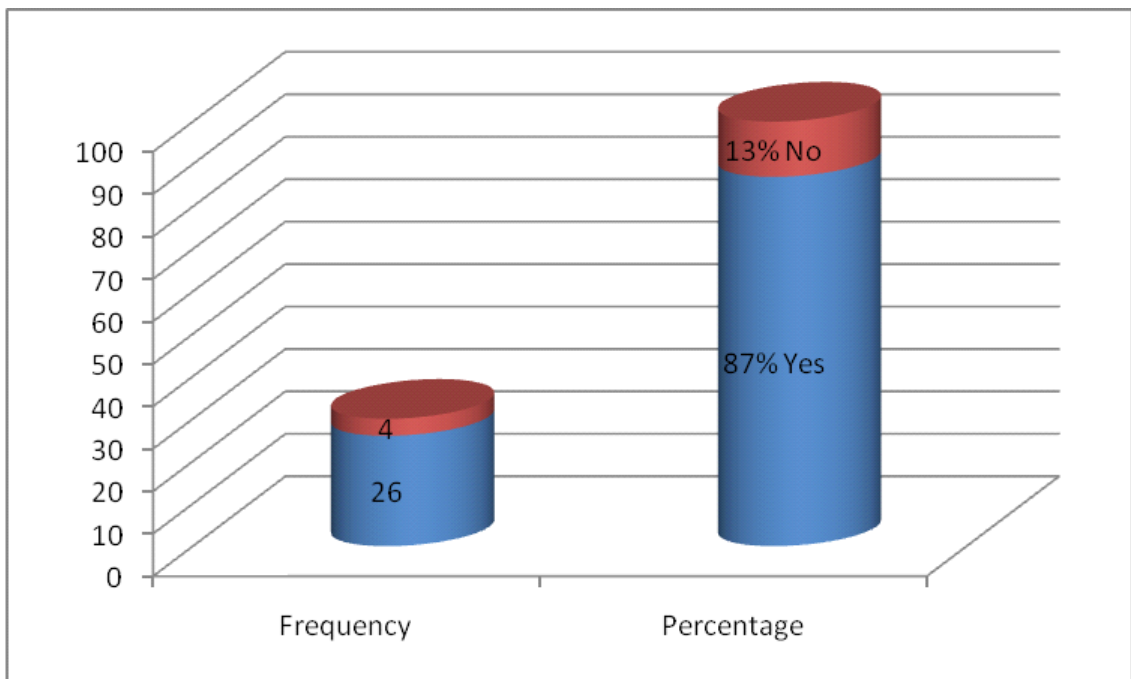
That in 2010, capital market ACT was amended, then some regulations were promulgated by the Minister. There are Nominated Advisors who were nominated on September, 2012, and were licensed to look if the investors are conducting themselves within the parameters. By the end of

this year, it will be operationalised and the Financial Sector Dependant Funds are there to help the public know of the business.”

4.3.3 Possibility of East Africa Community stock exchanges integration.

Respondents were inquired to provide their opinions if the East Africa Community stock exchange integration is possible. The findings revealed that, 26 (87%) of respondents said Yes, whereas 4 (13%) of respondents said No. For further details see the figure 7 below.

Figure 6: Possibility of East Africa Community stock exchange integration (N=30)



Sources: field data (2013)

The respondents provided that the East African Community Integration is very much possible and it is in the final stages, as it can be linked through technology, for the current moment what is done is trying to harmonize the laws of the East African Community countries members. This is expected to be boosted by the establishment of CITI institution which is expected to make all players like Brokers to have the same

level of qualification. Respondents provided that Pass porting will be used as only letter of introduction shall be needed for a player from one EA country to practice with the other. Hence same brokers may practice all over EA. This will provide opportunities for citizens from member countries to invest in neighboring countries with low tariffs.

4.4 The current status of the capital market development in Tanzania.

The fourth objective of the study was to find out the current newly emerging capital market challenges and prospects starting year 2010. To full fill this objective the researcher asked questions.

4.4.1 Adoption of sophisticated and automated electronic trading systems in Tanzania capital market

On adoption of sophisticated and automated electronic trading systems in Tanzania capital market, the researcher asked the respondents to provide whether the Tanzania Capital Market have adopted sophisticated and automated electronic trading system. The findings revealed that 33 (66%) respondents said Yes, whereas 17 (34%) said No. For further details see the table 3 below.

Table 3: Adoption of sophisticated and automated e-trading systems (N= 50)

Responses	Frequency	Percentage
Yes	33	66
No	17	34
Total	50	100

Sources: field data (2013)

The findings above from the respondent provide that the Tanzania Capital Market has adopted the automated electronic trading system. They indicated that the system was adopted in 2006 which have attracted a number of investors as the statistic data provided by the respondents proves that this led to the increasing number of investors which was 122 in the year 2002 and eventually jumped to 182 in the year 2013.

4.4.2 Stakeholders opinions on the current development of the Tanzania capital market.

Researcher inquired the Respondents to provide their opinions on the current development of the Tanzania Capital Market. The findings revealed that, 17 (34%) respondents said the development Stunned, whereas 31 (62%) of respondents said the development is Growing while 2 (4%) of respondents said the development is Declining. For further details see the table 4 below.

Table 4: Stakeholders’ opinions on the current development of capital market (N=50)

Responses	Frequency	Percentage
Development Stunned,	17	34
Development is Growing	31	62
Development is Declining	2	4
Total	50	100

Sources: field data (2013)

The study findings revealed that most of the stakeholders see the development of the Tanzania Capital market as a growing one. Although the number of listed companies in the stock market is still low being 17, and the number of investors not a big one. But taking into concern the trend of the Investors increasing rate, respondents indicated that in 2002 there were 122 investors the number jumped to 182 investors in the year 2013.

That as for the moment, the public knowledge has increased as one can see the applications for the licenses have increased. That the Nominated Advisors are there ready for the ongoing preparation of the EGM, that so far there are four (4) registered Nominated Advisers (NOMADS) which are Enterprise Growth Market Advisor Limited; TLS Investment Management Limited; ARCH Financial and Investment Advisory Limited; Exim Advisory Services Limited (Fund Manager).

That the number of custodians has also increased as there are three custodians of securities namely Standard Chartered Bank Tanzania Limited; CRDB Bank and Stanbic Bank. The Custodians are regulated by the CMSA.

There are also Licensed Investment Advisors to mention Orbit Securities Company Limited; FTC Consultants Limited; LJK Konsulting Limited; Gem Consulting Limited; Trident East Africa Limited; Sifa Advisory Limited, ARCH Financial and Investment Advisory Limited; Skylink Financial Services Limited; Exim Advisory Services Limited (Fund Manager); Solomon Stock Brokers Limited; Tanzania Securities Limited (Fund Manager); Standard Chartered Bank Tanzania Limited; Rasilimali Limited; Consultants for Resources Evaluation Limited (CORE). Also the Unity Trust of Tanzania (Fund Manager); Ernest & Young advisory Services ; Enterprises Growth Market Advisors Limited (EGMA); Bank M Tanzania Limited; Equity of Tanzania Limited (EFTA) and National Bank of Commerce Limited.

There also exist the Licensed Dealing members like the Core Securities Limited; Orbit Securities Company Limited; Solomon Stockbrokers Limited; Rasilimali Limited; Tanzania Securities Limited; Vertex International Securities and Zan Securities Limited.

The respondents show that for the moment the CMSA does interact with IOSCO and other regulators to be more experienced, and the consultants are there to advise the Capital Markets Institutions and Regulatory framework in line with IOSCO objectives.

Not only that but also the Annual Reports are there to show the performance and challenges. That according to the reports some prospects can be observed from the DSE Market Report of 16th May, 2013 that by June 2012 the total turnover was 10145.84 ml but it rose to 126.61 million in May, 2013; Total market capitalization raised from 11,701.33bls by 2012 to 13,664.42bls by May 2013. This implies that the Tanzania Capital Market is growing at a quiet standard rate.

4.4.3 The current status and measurement of the Tanzania Market Capital trade.

Respondents were inquired to provide their opinions on what exactly is the current status and measurement of the Tanzania Market Capital trade. The findings revealed that, 13 (26%) respondents said the status is Low, whereas 7 (14%) of respondents said the status is High, while 30 (60%) of respondents said the status is moderate. For further details see the table 5 below.

Table 5: The current status and measurement of Market Capital trade (N=50)

Responses	Frequency	Percentage
Status is Low	13	26
Status is High	7	14
Status is moderate	30	60
Total	50	100

Sources: field data (2013)

The above findings from the study imply that the Tanzania Market Capital trade is moderate more than half number of respondents provided so. They indicated that at first there was public outcry due to what seemed inefficiency of the by then used system, but then in 2006 the system was automated and through that orders were posted, this led to the situation whereby the machine was able to match the price hence the volume of the trade increases. Therefore these stakeholders' opinions prove that the current Tanzania Capital Market trade is moderate and there still a room for optimizing it.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary, conclusion recommendations drawn from the study. The purpose of this study was to assess the Challenges and Prospects of Capital Markets Development in Tanzania. Data for this study were collected by the use of questionnaire, and interview guide. The study sample was taken from Tanzania Mainland Country.

5.1 Summary of the Major Findings

The findings show that there is low competition in terms of money market, commercial banks, there in mobilizing resources. Most of them see the DSE as risk hence they stay away from lending money to the borrowers as they want to raise their capital rapidly. The findings further revealed that *“market is illiquid as there are few trade able securities and few investors too. That major players in the business are the pension funds, which hold assets at certain ratio at marketable prices. Holding assets do not allow easy buying and selling, difficulty in getting new ones. A low free floating hence comes a time that there is no buyer when one wishes to sell.* The findings show that those who invest in DSE trading companies expect in the immediate or rapid returns, but the expectations of the value or rate of the Tanzanian shillings are low Comparing to foreign currencies such as the British pound. The purchasing power, for the moment is not much experienced due to the size of the business, if it could be otherwise, it could be worse.

The findings from the study also indicate that the majority of the respondents from DSE provided that the government does not give enough support to attract new companies and investors to the stock market. All what the government does is providing a forum at the trade fairs and alike. Based on the challenges the findings show that Court brokers have been complaining on the maximum percentage of the cross listing that the cross listing company cannot share more than 60%. That's according to the current laws, only MIMs may list their shares at the DSE, hence the SMEs are not. This is a real challenge to the development.

Moreover the findings of the study reveal that, The CMSA respondents indicated that DSE have quite a number of professional personnel who work in 5 days in a week, from 10.00 – 12.00 hours, and there is an amendment nearly to be released which will make the working hour be from 10:00 – 14.00 hours for further business expansion. The findings from the study provide that a majority of the respondents said that the guidelines on corporate governance practices are well adhered. Regarding to the participation of foreign Investors in the Tanzania Capital Market business, the majority of the DSE stakeholders were of the opinion that there are a certain number of foreign investors in DSE. They provided a variety of factors for foreign investors being attracted to the business among them being following the use of Automated Trading System (ATS) in the DSE trading patterns.

The respondents provided that the East African Community Integration is very much possible and it is in the final stages, as it can be linked through technology, for the current moment what is done is the ongoing harmonization process for the laws of the East African Community countries members. This is expected to be boosted by the establishment of CITI institution which is expected to make all players like Brokers to have the same level of qualification. The findings above from the respondent provide that the Tanzania Capital Market has adopted the automated electronic trading system. They indicated that the system was adopted in 2006 which have attracted a number of investors as the statistic data provided by the respondents proves that this led to the increasing number of investors which was 122 in the year 2002 and eventually jumped to 182 in the year 2013.

The study findings therefore revealed that most of the stakeholders see the development of the Tanzania Capital market as a growing one, Although the number of listed companies in the stock market is still low being 17, and the number of investors not a big one. The above findings from the study imply that the Tanzania Market Capital trade is moderate more than half number of respondents provided so.

5.2 Conclusion

The study shows that significant progress has been made in Tanzania for fifteen years since the establishment of the DSE and the CMSA. The growth of market capitalization in Tanzania can be described as remarkable for these two to three years, new legal and regulatory regimes are being set and there are ongoing progresses in the development of market infrastructure as the harmonization of the laws to finalize the steps towards market integration.

However the Tanzanian capital markets still face the significant challenges in the development and growth. For that, there still comes the need to ensure that legal, technical and operational structures are in place so that Tanzanian capital markets function and grow higher more or like other countries in the world.

Having the Trading Automation System, Nominated Advisers, T+5system Laws to move the Companies with High Capital to invest with the DSE, have been a recommendable prospect of Tanzanian capital markets but yet some challenges are there to be faced as the same laws are in the form that do not mandate them but gives options instead, the fact that makes the market loose important or potential investors.

Furthermore the study concludes that, most of the stakeholders see the development of the Tanzania Capital market as a growing one. Although the number of listed companies in the stock market is still low being 17, and the number of investors not a big one. But taking into concern the trend of the Investors increasing rate, respondents indicated that in 2002 there were 122 investors the number jumped to 182 investors in the year 2013. This implies that the Tanzania Capital Market is growing at a quiet standard rate.

[5.3 Recommendations

Based on the findings and the conclusion, the following are the key recommendations;

5.3.1 Recommendations to the Government.

Government should provide financial support to Dar Es Salaam Stock Exchange business to enable them to provide accuracy capital marketing business. Also the government should provide enough education through various media outlets to the stakeholders and the public at large on the importance of engaging in the capital market business for the blossom of business and peoples' financial wellbeing at large.

5.3.2 Recommendation to the Dar Es Salaam Stock Exchange

The DSE should be demutualised as demutualization (the private system of the business being run independently) has proven success among other stock exchanges around the varieties of countries in the world. This will bring independence in decision making for the blossoming of DSE in specific and Tanzania capital market at large.

The diversifying the products which are available to the potential investors, is something very essential to the DSE too. For example, the establishments of over the counter market for the small and medium size businesses those who are currently not eligible to list at the DSE may easily boost the activities in the market. Even products in the agricultural sector may be of much attraction to the investors.

For the overall development of capital markets, the DSE need to relax the minimum requirements for trading securities in order to accommodate companies that have shares that are transferable to members of the public yet they do not meet the stringent listing requirements. The challenge will be to simplify and ease listing conditions without compromising investor protection. Streamlining public offering procedures and limiting the number of market agents involved in the issuing process can be good examples of simplification of the listing requirements.

5.3.3 Recommendation to the CMSA

Reformation of financial regulations.

As per the IOSCO and its principles, the funds are always essential prerequisites to the proper implementation of rules governing the business and that is why it was argued that establishing the Agencies or institutions require the source of fund to maintain and sustain them in terms of legal, administrative, organizational structure, personnel trainings and other related to its operations.

Human resource development and management

This provides on how the human resource can be managed through the legal framework as the same is the most important asset of the authority as well as the business at large. The CMSA has to be mandated to attract and retain the competent personnel all the time in order to compete at the East African and the Regional level. In order for this to be done, then the setting for the competitive remuneration scheme and policies for staff development for them not to be attracted by other positions in the market sector outside the country is needed, and this also goes with systematic performance appraisal of such personnel based on the indication of performance in order to maintain a high level of knowledge, expertise and undertake their responsibilities in an effective and efficient number.

Not only that but *Legal consultation* is also required to ensure that training is offered to the only staff whom will not use the new competencies to seek for employment elsewhere. This involves very much in researching on the possibility of introducing legal obligations for training staffs to serve the Authority for the certain periods of time or the reimburse training expenditures.

Capacity Building is also essential for the market development. As at the CMSA and the DSE, capacity building is essential in order to facilitate the effective conduct of their operations and the implementation of the marketing campaigns, the study finds that

through hiring staff members who are well trained in marketing, research and market analysis, the same can be easily achieved.

Improving public awareness of the opportunities available in the Tanzanian capital markets: The study recommends on improving public awareness. As proposed by the respondents that the same can be done by using a variety of means of communication like media campaigns through televisions, newspapers, radios, one to one meetings at the Trade Fairs and the distribution of the literatures, or with the eligible firms or potential investors across the country and outside it.²²³

In addition to that, the curriculum to the Higher Education Institutions accommodating the Capital Market and Securities studies would be the greatest way to enhance the awareness of the younger generation of Tanzania who make up more than half of the total Tanzanians population hence improving the investors' awareness. As one can see that those who are in those Institutions, can easily get a forum to the areas of their origin hence can easily transform the benefit of investing to the capital market Industry other than in the banking industry.²²⁴

Also the DSE and the CMSA should make a list of potential issuers of both equity and debt so as to initiate with them to educate and improve their awareness on the benefits and relevance of capital markets.

Moreover it is recommended that the DSE and the CMSA should set up branches of their respective offices at the Big Cities at least for a start and later on to the District level so as to facilitate the outreach to the general public. Although some respondents show hesitation on this claiming that according to the size of the market, the same shall not be of help for the moment. But the researcher insists on this as one can see that out of four million Tanzanian populations, only a few are investors in the DSE. This low

²²³ Emilia Mkubulo, for the Director Legal, CMSA.

²²⁴ Ibid

rate can be raised when more Tanzanians get informed of the Investment opportunities available to them.

5.4 Areas for further studies

Basing on these findings, the following areas for further studies are suggested;

- The possibility of East Africa capital market and its possible challenges.
- The impact of Tanzania Capital Market on the rise of small and medium enterprises in capital and equity securities.

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APPENDICES

APPENDIX I:

THE RESEARCH WORK PLAN FROM 2012 TO 2013

Activity/Time	<i>December</i> 2012	<i>January</i> 2013	<i>February</i> 2013	<i>March</i> 2013	<i>April</i> 2013	<i>May</i> 2013	<i>June</i> 2013
Consulting Research Supervisor							
Research proposal drafting							
Consulting Research Supervisor							
Research proposal submission							
Consulting Research Supervisor							
Pilot study survey							
Data collection							
Data cleaning							
Data processing and analysis							
Research report drafting							

Consulting Research Supervisor							
Research report submission							
Thesis Defending							

APPENDIX II

THE RESEARCH BUDGET

<u>PARTICULARS (Costs)</u>	<u>AMOUNT (Tshs)</u>
1. Transport during data collection	500,000
2. Meals during data collection	200,000
3. Transport & accommodation during data collection in D'salaam	1,500,000
4. Stationeries and rim papers	150,000
5. Statistical Package (SPSS)	100,000
6. Laptop	900,000
7. Printer and accessories	400,000
8. Transport & meals in consultation with the Research Supervisor	500,000
9. Contingency	<u>350,000</u>
GRAND TOTAL	<u>4,600,000</u>

APPENDIX III:

QUESTIONNAIRE FOR THE CMSA MANAGEMENT

**MZUMBE UNIVERSITY
MASTERS IN LAW (LLM)**

Questionnaire for the CMSA management

Title of the study: *"THE ASSESSMENT OF CHALLENGES AND PROSPECTS OF CAPITAL MARKETS IN DEVELOPMENT: A Case Study of Tanzania "*.

I, *Wanjah Hamza*, conduct this study for academic purposes only. The purpose of this study is to understand the challenges, prospects, and development of the Tanzania capital market.

You are among the *Tanzania Capital Markets and Securities Authority* top management staff who is well knowledgeable about this Tanzania capital market. I therefore kindly request you to respond to the following questions to the best of your knowledge. I promise and assure you that all the answers will remain confidential and will only be used for the purpose of this study.

THANKING YOU IN ADVANCE FOR YOUR COOPERATION!

Questionnaire number..... Date data collected.....

PERSONAL PARTICULARS

Full names.....

Occupation.....

Sex: MALE or FEMALE

Age

Education level

Marital status

QUESTIONS

I. General

1. Are you sufficiently experienced and knowledgeable about capital market issues of Tanzania?

a) YES b) NO

2. For how long have you been in the capital markets sector?

.....

3. Where is the secondary market for government securities?

.....

4. Do you implement thoroughly all the functions as stipulated in the CMSA Act 1994 section 10 (with amendments)?

a) YES b) NO

If NO, why?

.....

.....

5. Who are your target stakeholders in this Tanzania capital market?

.....

.....

.....

6. What legal frameworks guide exchanges in the capital market of Tanzania?

.....
.....

II. Challenges

7. Are there any enactments and financial institutions reforms already done by the government since the establishment of CMSA and DSE?

a) YES b) NO

If YES, what are they?

.....
.....

8. Are there personnel competent in the field of capital markets hired in the various structures of the Tanzania capital market?

a) YES b) NO

9. Are there education programs on capital market issues so as to promote wide participation of the public (of within and outside Tanzania) in the capital market?

a) YES b) NO

If YES,

1. When the programs started (year)?

2. Where are they conducted?

3. What are the chargeable fees?

1 If NO, Why?

.....
.....

2 How do you expect the public to know about the exchange securities trade?

.....
.....

10. What are the remaining untackled challenges of the Tanzania capital market that are of before year 2010? *(Please, use a separate paper if below space is not enough)*

.....
.....
.....

And why not tackled? *(Please, use a separate paper if below space is not enough)*

.....
.....
.....

11. What are the current newly emerging challenges of Tanzania capital market since 2010?

.....
.....
.....

12. What are the existing challenges in the East Africa Community stock exchanges integration?

.....
.....
.....

III. Prospects

13. Is the East Africa Community stock exchanges integration possible?

a) YES b) NO

If NO, why?

.....
.....

If YES, what is the development status of that stock exchanges integration to date?

.....
.....
.....

14. Does that stock exchanges integration operate under harmonized legislations?

a) YES b) NO

If NO, why?

.....
.....

If YES, please list down all the required harmonization legislations, guides, rules, etc!

.....
.....

15. How do you see generally about the regional stock exchanges integration in association with our national capital market, in different perspectives including the nationalistic politics and overshadows?

.....
.....
.....

16. What are the remaining unachieved prospects of the Tanzania capital market that are of before year 2010? *(Please, use a separate paper if below space is not enough)*

.....
.....

And why not achieved?*(Please, use a separate paper if below space is not enough)*

.....
.....

17. What are the current newly emerging prospects of Tanzania capital market since 2010?

Thank You Very Much For Your Time And Cooperation!

APPENDIX 4:

QUESTIONNAIRE FOR THE DSE MANAGEMENT

**MZUMBE UNIVERSITY
MASTERS IN LAW (LLM)**

Questionnaire for the DSE management

Title of the study: *"THE ASSESSMENT OF CHALLENGES AND PROSPECTS OF CAPITAL MARKETS IN DEVELOPMENT: A Case Study of Tanzania "*.

I, *Wanjah Hamza*, conduct this study for academic purposes only. The purpose of this study is to understand the challenges, prospects, and development of the Tanzania capital market.

You are among the Dar Es Salaam Stock Exchange top management staff who is well knowledgeable about this Tanzania capital market. I therefore kindly request you to respond to the following questions to the best of your knowledge. I promise and assure you that all the answers will remain confidential and will only be used for the purpose of this study.

THANKING YOU IN ADVANCE FOR YOUR COOPERATION!

Questionnaire number..... Date data collected.....

PERSONAL PARTICULARS

Full names.....

Occupation.....

Sex: MALE or FEMALE

Age

Education level

Marital status

QUESTIONS

I. General

1. Are you sufficiently experienced and knowledgeable about capital market issues of Tanzania?

a) YES b) NO

2. For how long have you been in the capital markets sector?

3. How many days in a week does the DSE trade? from to starting time at to

4. What trading system does the DSE use in trade patterns? (eg. Open outcry action trade, etc)

.....
.....

5. Do trading companies and DSE adhere to the Guidelines on Corporate Governance Practices established by the CMSA?

a) YES b) NO

6. What is the annual listing fee percentage of the market capitalization of the listed securities?

.....
.....

7. What incentives are provided to issuers and investors participating in the DSE?

.....
.....
.....

8. What securities/instruments are traded in the DSE? (mention them indicating ahead the percentage of which shows the frequency of its being traded in the market)

.....
.....

II. Challenges

9. Do you think there is adequate competition within the financial sector in the country such that can affect the prevailing deposit and lending interest rates?

a) YES b) NO

If NO, what should be done to encourage competition?

.....
.....

10. Is the problem of low liquidity in DSE still existing?

a) YES b) NO

If YES, why?

.....
.....

11. Has the government taken any measures to attract new companies and investors to the stock market?

a) YES b) NO

If YES, what are those measures? *(Please, use a separate paper if below space is not enough)*

.....
.....
.....

12. Have the capital market structures of DSE increased since its establishment?

a) YES b) NO

If YES, mention all the existing structures!

.....
.....
.....

13. How do you see the weakness of the Tanzania currency and the inflation in attracting long-term investments in the capital market? (*Please, use a separate paper if below space is not enough*)

.....
.....

14. Does the capital market of Tanzania allow small and medium enterprises to raise capital in the form equity securities?

a) YES b) NO

If YES, when did that start?

.....
.....

15. Currently, are there foreign investors participating in the Tanzania capital market as attracted by various things such as venture capital and institutions, investment banks, corporate bonds, mutual funds, derivative securities, etc?

a) YES b) NO

16. Are there or have there been been any incidents of share price volatility in the market?

a) YES b) NO

17. What measures do you apply to contain share price volatility in the market?

.....
.....

18. How do capital market stakeholders and the public as a whole get to know about what is available at the capital market?

.....
.....

19. Has the Tanzania capital market started to use electronic trading system of clearing and settlement of transactions instead of the manual system?

a) YES b) NO

20. Where is the central depository system of the Tanzania capital market?

.....
.....

21. Are there personnel competent in the field of capital markets hired in the various structures of the Tanzania capital market?

a) YES b) NO

22. Are there education programs on capital market issues so as to promote wide participation of the public (of within and outside Tanzania) in the capital market?

a) YES b) NO

If YES,

1. When the programs started (year)?

2. Where are they conducted?

3. What are the chargeable fees?

If NO,

1. Why?

.....
.....

2. How do you expect the public to know about the exchange securities trade?

.....
.....

23. What are the remaining untackled challenges of the Tanzania capital market that are of before year 2010? *(Please, use a separate paper if below space is not enough)*

.....
.....
.....

And why not tackled? *(Please, use a separate paper if below space is not enough)*

.....
.....

24. What are the current newly emerging challenges of Tanzania capital market since 2010?

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.....
.....

25. What are the existing challenges in the East Africa Community stock exchanges integration?

.....
.....

III. Prospects

26. Is the East Africa Community stock exchanges integration possible?

a) YES b) NO

If NO, why?

.....
.....

If YES, what is the development status of that stock exchanges integration to date?

.....
.....

27. Does that stock exchanges integration operate under harmonized legislations?

a) YES b) NO

If NO, why?

.....
.....

If YES, please list down all the required harmonization legislations, guides, rules, etc!

.....
.....
.....

28. How do you see generally about the regional stock exchanges integration in association with our national capital market, in different perspectives including the nationalistic politics and overshadows?

.....
.....
.....

29. What are the remaining unachieved prospects of the Tanzania capital market that are of before year 2010? *(Please, use a separate paper if below space is not enough)*

.....
.....

And why not achieved?*(Please, use a separate paper if below space is not enough)*

.....
.....
.....

30. What are the current newly emerging prospects of Tanzania capital market since 2010?

.....
.....

IV. Status

31. What is the current status and measurement of the following in the Tanzania capital market:

i) Market capitalization

- a) Low
- b) High
- c) Moderate

..... and the market capitalization is

ii) Liquidity

- a) Low
- b) High
- c) Moderate

..... and the liquidity is

iii) Number of listed companies

- a) Small
- b) Big
- c) Satisfactory

..... and the number of the listed is

iv) Efficiency in trade

- a) Low
- b) High
- c) Moderate

..... and the efficiency rate is

32. What can you comment on the current development of the Tanzania capital market?

- a) Stunted
- b) Growing
- c) Declining

33. What is the overall current performance of the Tanzania capital market?
 a) Poor
 b) Good
 c) Satisfactory
34. Who is the capital market regulator?
35. Who has the securities exchange control?
36. Does the foreign participation exist in the capital market of Tanzania?
 a) YES b) NO
37. Are the capital market governing laws strictly adhered by all stakeholders in the market?
 a) YES b) NO
38. Does the capital market adopt and adhere to the international accounts and audits reporting systems?
 a) YES b) NO
39. Has the Tanzania capital market adopted the sophisticated and automated electronic trading systems?
 a) YES b) NO
40. Are the existing financial intermediaries sufficient to the needs of the Tanzania capital market?
 a) YES b) NO

Thank you very much for your time and cooperation!