

**COMPETITIVE ADVANTAGES AND CHALLENGES IN THE CAPITAL  
MARKET IN TANZANIA: THE CASE OF DAR ES SALAAM STOCK  
EXCHANGE (DSE)**

**DANIEL MANASE MSAKY**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT FOR THE  
REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS  
ADMINISTRATION (FINANCE) OF THE OPEN UNIVERSITY OF  
TANZANIA**

**2014**

**CERTIFICATION**

The undersigned certifies that he has read and hereby recommend for acceptance by the Open University of Tanzania a Dissertation titled “**Competitive Advantages and Challenges in the Capital Marketing in Tanzania: The Case of Dar es Salaam Stock Exchange (DSE)**”, in fulfillment of the requirement for the Master of Business Administration in Finance of the Open University of Tanzania.

.....

Dr. Mbura O.K

(Supervisor)

.....

Date

**COPYRIGHT**

No part of this dissertation may be reproduced, stored in any retrieval system, or transmitted in any form by means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the author or the open university of Tanzania on that behalf.

**DECLARATION**

I **Daniel Manase Msaky**, hereby declare that this piece of work is my own based on the research study carried out. It is my original work and has not been presented to any institution or university before.

.....

Signature

.....

Date

**DEDICATION**

This dissertation is dedicated to my late father, Anamoo Manase Msaky, my mother Mrs. Margareth Manase Msaky. The dissertation is also dedicated to my wife Anna Daniel Msaky and my children, Margareth Daniel, Godfrey Daniel and Mary Daniel.

## **ACKNOWLEDGEMENT**

Above all, I thank God the almighty for His love, guidance and care offered to me throughout my studies. A number of people have made unrelated contributions, academically, financially and morally, without whose guidance and self-sacrifice it could not have been possible to complete my studies.

I am deeply indebted to my supervisor Dr. Omari Mbura. His assistance, guidance reading and correcting errors are highly appreciated. I would like to thank Dr. T. Katunzi, Dr. Anna Wawa who gave me a lot of advises during my research preparations. I am also grateful to all respondents for their insightful contributions that availed me with the necessary information that made this report possible.

My sincere gratitude to my wife Anna Msaky and my family, brothers, sisters, friends and course mates whose contribution ranged from encouragement, prayers, advice and typesetting this dissertation.

## **ABSTRACT**

The study was done to examine competitive advantages and challenges in the capital market in Tanzania the case being Dar es Salaam Stock Exchange (DSE). This was conducted in Dar es Salaam city, where the largest number of commercial banks, listed companies, and regulatory agencies are located. This was primarily a descriptive study where both qualitative and quantitative approaches were used to conduct the study. The objectives of the study were to examine the extent to which size of instruments traded at DSE and problems of liquidity relate to efficiency performance of DSE, and whether or not conditions, rules and procedures set by DSE affects efficiency of Dar es Salaam Stock exchange. Furthermore the study examined the extent to which information accessibility affects performance of DSE. The finding of the research study reveals that there is lack of instruments or product diversification in the DSE relative to income investors. Moreover, the study found out that DSE listing conditions are too stringent for many companies to comply. Finally, the study reveals that there is lack of adequate financial security education to investors in the capital market. It was found out lack of instrument diversification does not provide incentive for investing in the DSE. From the study it is recommended to introduce new instruments at DSE for capital market development in Tanzania. Furthermore it is recommended that the government should come with the new policy of repositioning Tanzania for the gas economy, whereby TPDC will be allowed and helped out to go for IPO. Approximately, 750,000 Trillions of Tanzanian shillings will be raised through IPO and sought to contribute significantly to the efficiency of DSE.

**TABLE OF CONTENTS**

CERTIFICATION .....	ii
COPYRIGHT .....	iii
DECLARATION .....	iv
DEDICATION .....	v
ACKNOWLEDGEMENT .....	vi
ABSTRACT .....	vii
TABLE OF CONTENTS .....	viii
LIST OF TABLES .....	xiii
LIST OF FIGURES .....	xiv
CHAPTER ONE .....	1
1.0 INTRODUCTION AND BACKGROUND TO THE STUDY .....	1
1.1 Introduction .....	1
1.2. Background to the Study .....	1
1.2.1 DSE Coverage .....	2
1.3 Statement of the Problem .....	3
1.4 Research Objectives .....	6
1.4.1 General Research Objective .....	6
1.4.2 Specific Research Objectives .....	6
1.5 Research Questions .....	6
1.6 Significance of the Study .....	6
1.7 Scope and Limitation of the Study .....	8
1.8 Organization of the Study .....	8



CHAPTER TWO .....	10
2.0 LITERATURE REVIEW .....	10
2.1..... Introduction	10
2.2 Definition of Key Concepts .....	10
2.2.1 Capital Market .....	10
2.2.2 Capital Market Efficiency.....	11
2.2.3 Stock Market .....	11
2.2.4 Liquidity.....	12
2.3 Theoretical Reflection.....	12
2.3.1 Introduction.....	12
2.3.2 Growth Theory.....	13
2.3.3 Agency Theory.....	13
2.3.4 Market Theory .....	14
2.4 Empirical Studies .....	15
2.4.1 World related Studies.....	15
2.4.2 Related Studies in Tanzania.....	18
2.5 Conceptual Framework for the Study .....	20
2.5.1 Size of Instruments and Liquidity Problems at DSE .....	22
2.5.2 Conditions Rules, Procedures and Regulations .....	22
2.5.3 Information Accessibility and Technology.....	23
2.6 Chapter Summary .....	24
CHAPTER THREE .....	25
3.0 RESEARCH DESIGN AND METHODOLOGY .....	25

3.1.....	Introduction	
.....		25
3.2	Research Design.....	25
3.3	Survey Population.....	25
3.4	Area of the Study .....	25
3.5	Sampling Design.....	26
3.5.1	Sampling Units.....	26
3.5.2	Sampling Size .....	26
3.5.3	Sample Frame .....	28
3.5.4	Sampling Technique and Procedures.....	28
3.6	Sources of Data Collection .....	28
3.6.1	Primary Data Collection .....	28
3.6.2	Secondary Data Collection .....	29
3.7	Data Processing and Analysis.....	29
3.8	Reliability and validity of data.....	30
3.8.1	Reliability.....	30
3.8.2	Reliability of Questionnaire.....	31
3.8.3	Validity .....	31
CHAPTER FOUR.....		32
4.0 FINDINGS, ANALYSIS AND DISCUSSION OF THE FINDINGS .....		32
4.1 .....	Introduction	
.....		32
4.2	General Finding of the Research Study .....	32
4.2.1	Types of Clients and DSE Business Coverage .....	32

4.3	Finding of the Study.....	34
4.3.1	The Size of Instruments and Liquidity Problems in Relation to the Efficiency Performance of DSE .....	34
4.3.1.1	Perception of DSE Clients on instrument size increase .....	35
4.4	Conditions, Rules and Regulations Administered By DSE in Relation to its Performance .....	37
4.4.1.	Regulatory Framework .....	39
4.5	Challenges of Capital Market and Information Accessibility in Relation to DSE Performance.....	40
4.5.1	Challenges of Capital Market and Information Accessibility.....	40
4.6	Discussion and Research Findings.....	42
CHAPTER FIVE .....		44
5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS .....		44
5.1	..... Introduction	44
5.2	Summary of Findings.....	44
5.2.1	Implications for Policy Makers.....	45
5.2.2	Implication for Business and Business Development.....	46
5.2.3	Implications to Academics for the Development of Theory.....	46
5.3	Conclusions.....	46
5.4	Recommendations.....	47

5.4.1	The Size of Instruments and Liquidity Problems in Relation to Efficiency Performance of DSE.....	47
5.4.2	Conditions, Rules, Procedures and Regulations Administered by DSE, CMSA and Government.....	48
5.4.3	Challenges of Information Accessibility and Technology.....	49
5.5	Areas for Further Studies .....	49
	<b>REFERENCES</b> .....	50
	<b>APPENDICES</b> .....	53

**LIST OF TABLES**

Table 1.1: National and Cross Listed Issued Share Relationship at DSE.....	2
Table 3.1: Sample size Distribution and Returns.....	27
Table 3.2: Reliability Test Results.....	31
Table 4.2: The Status of DSE' Clients and Coverage.....	33
Table 4.3 Perception of DSE Clients on Instrument Size Increase.....	36
Table 4.4: IPO Subscriptions Levels status by March, 2008.....	37
Table 4.5: IPO Subscriptions Levels by June 2010.....	38
Table 4.6: DSE Client's Response on Regulatory Framework.....	39
Table 4.7: Challenges of Capital Market and Information Accessibility.....	41

**LIST OF FIGURES**

Figure 2.2: Conceptual Framework for the Study .....21

## **CHAPTER ONE**

### **1.0 INTRODUCTION AND BACKGROUND TO THE STUDY**

#### **1.1 Introduction**

This is an introductory chapter. It presents the background of the study, the statement of the problem, the objectives of the study, research questions, and significance of the study, scope and limitation of the study as well as the organization of the study.

#### **1.2. Background to the Study**

Financial reforms in Tanzania started early 1980. The reforms were necessitated by the deterioration in the performance of state controlled financial sector. At this time, capital and money markets were not developed. The market for the government securities was limited to the National Insurance Corporation (NIC) and the National Provident Fund (NPF). In 1988, the government set up a Presidential Commission of Enquiry (PCE) to analyze the functioning, constraints and weaknesses in the financial sector. Some of the financial reforms which took place include the opening of Dar-es-salaam Stock Exchange (DSE) in April 1998 to facilitate secondary markets for securities and allowing foreign participation on the DSE in 2003.

DSE is a duly approved exchange under CMSA Act 1994 and is a full service modern securities exchange. Its main lines of business are listing, trading, clearing and settlement of traded securities (share and bonds). It also plays the role of an educator on matters relating to capital market. The importance of capital market in financial system is critical towards improved economic health and immensely development of competitive business investments of companies, personal investors, financial institutions and a national as a whole. Experts in economics believe on

economic aspect that no country will become capable of self sustained growth in the modern world economy, until it develops its own indigenous capital market (Casey, 1971).

The importance of capital markets is based on developing business opportunities where people benefit from employment reduced poverty, increased earnings and standard of living. They provide potential growth in security markets through mobilization of financial resources and divert them in productive channels. Also researchers in financial market argue that capital market facilitates and promotes financial transaction process. It is also an engine of economic growth and development in the Country (Williams, 2011).

### 1.2.1 DSE Coverage

Stock market coverage is an important factor in the provision of a sustainable and compliant capital market. It is evidently enough to say that the size of Dar es Salaam stock market is too small, in terms of products and services it offers but also its coverage.

**Table 1.1: National and Cross Listed Issued Share Relationship at DSE**

Types of Companies	Number of listed companies	Frequency	Percentage
National listed Companies	9	0.55	54.68%
Cross Listed Companies	8	0.45	45.32%
Total listed companies	17	1.00	100.00%

**Source:** DSE (2013)



Table 1.1 above present's statistics from DSE source where 9 national listed companies out of 17 have only 54.68% issued shares in DSE compared to 8 cross listed companies that has 45.32% out of 17 listed companies at DSE. This implies that there is less participation of domestic companies into security market at DSE. Most of the listed companies by DSE concentrate their activities and operations in Dar es Salaam where stock exchange market is based. Companies located far from Dar es Salaam fail to trade at DSE due to challenges of technology and DSE services availability and accessibility. Currently, the total number of listed companies in DSE is only 17 (DSE Prospector, 2010). However, the challenge remains to be on improving and expanding capital market infrastructure including the use of information systems resources on widening financial securities services across the nation and outside the boarder.

### **1.3 Statement of the Problem**

The establishment of stock market exchange at the Dar es Salaam (DSE) is considered to be the best alternative source of financial services in the economy for large, medium and small investors in facilitating primary and secondary markets for financial securities. DSE plays a major role as an economic institution which enables both corporations and government to raise long term capital which enables them to finance new project and expand operation (Norman, 2011).

The establishment, of a DSE facilitates reform process in the financial sector and develops a functioning capital market that provides responsive securities market that mobilizes savings and channels them into productive sector. It also plays a role of

common platform for the buyers and sellers of stocks that are listed at the stock market and hence develop a means of wealth creation to investors. Recent evidence suggests that stock market may give big boost to economic development (Levine and Zervos, 1937; Pagano, 1954).

According to Kimani (2010), African Stock Market suffers from the problem of low liquidity. Despite of DSE struggles in achieving best results, this effort lacks strength and depicts slow down of DSE performance. DSE has been experiencing problems of illiquidity, infrequency of trading, and slow settlement to investors (Ziorklui, 2001). Lack of adequate fund or capital in DSE for trading is the crucial obstacle. DSE has only 17 listed companies as compared to say Johannesburg Stock Exchange (JSE) which has 400 listed companies. Egypt Stock exchange (ESE) has 792 listed companies, while Nigeria Stock Exchange (NSE) has 207 listed companies. (Cyartey and Adjashi, 2006). Other countries such as Kenya, Nairobi security exchange has 50 listed companies (NSE prospectors, 2013), whereas Uganda security exchange has 15 listed companies (USE prospectors, 2013). On the other hand Rwanda has 3 listed companies in the Rwanda stock exchange (RSE prospectors, 2013).

DSE problems may be associated with economic instability in the country and inflation crises that have been the cause of market inefficiency where share prices value among the listed companies is not stable. (TNBC, 2010). Recent empirical research has identified macroeconomic stability, robust economy growth, well developed banking sector, and good quality institutions as important instruments for stock market development (Garcia and Liu, 1999). Lack of financial security

knowledge among traders, corporate manager's, and government official have also been cited as the causes of DSE problems (Ziorklui, 2001). The government on one side as the policy maker and capital market authorities such as CMSA has been taking tremendous efforts on tackling and eliminating problems in the capital market business in Tanzania.

Ziorklui (2001) assessed the capital market development and growth in the sub-Saharan Africa, with specific reference to Tanzania. He acknowledged CMSA for being effective in promoting good corporate governance in Tanzania. He further noted that disclosure requirements specified and monitored by CMSA and DSE promote efficiency of capital market in Tanzania. The share price movement administration was found to be an effective way of demanding accountability from listed companies. The price movement at the DSE has also shown how the operations of a free market mechanism leads to efficient pricing of financial assets in the stock market that encourages more investment in the market.

The government on the other hand through central bank is timely introducing measures to tighten money supply in the economy and pump more foreign currency into the markets on controlling inflation crises. The government is also providing incentives to DSE investors and share issuers by reducing or omitting some of the taxes to promote investment in capital market (DSE prospectors, 2008). Despite of efforts taken to eliminate DSE problems, desired results have not been adequately attained. Therefore, this study intended to assess challenges in the capital market in Tanzania the case being Dar es Salaam Stock Exchange (DSE).

## **1.4 Research Objectives**

### **1.4.1 General Research Objective**

The main objective of this study was to assess competitive advantages and challenges in capital market that hinder DSE effectiveness and efficiency operation.

### **1.4.2 Specific Research Objectives**

This study was guided by the following objectives:

- i) To examine the extent to which size of instruments traded at DSE and problem of liquidity relates to efficiency performance of DSE.
- ii) To examine the extent to which conditions, rules and regulations administered by DSE relate to efficiency operation of DSE.
- iii) To examine the extent to which information accessibility, relates to efficiency operation of DSE.

## **1.5 Research Questions**

The following questions guided the study:

- i) To what extent do the size of instruments traded at DSE and problems of liquidity relate to efficiency performance of DSE?
- ii) To what extent do conditions, rules and procedures set by DSE affect the efficiency of Dar es Salaam Stock exchange?
- iii) To what extent does information accessibility affect the performance of DSE?

## **1.6 Significance of the Study**

The current trend of capital market in least developing countries including DSE faces great challenges and skeptical era that corporate managers, business leaders,

firms and individual households to certain degree are not using effectively capital market services as another alternative source of financing their businesses. This study intends to examine and recommends potential area that DSE need to put more effort when delivering their services on developing a more rewarding and growing business environment to meet organization expectations. It is expected that the findings of this study will be of benefit to policy makers, financial institutions (FI's), corporate managers, firms, DSE and the community at large. The study offers numerous useful points based on which policy makers may find a path to strengthening the Tanzania capital market in general and stock market in particular. More focus should be on re-gaining investors confidence in the equity market so as to strengthen the domestic investors based on DSE market.

The participation of domestic institutions investors, especially Pension Funds, Unit trust, Mutual Funds should be ensured to strengthening the base of the domestic stock market and increasing prospects for portfolio diversification and enhance the attractiveness of the stock exchange and bond markets in Tanzania. Public unit sector such as Tanesco, Oil and Natural Gas authorities should be assisted to go for Initial Public Offering (IPO) to attract more capital in the stock market.

Furthermore, it is expected that the findings of the study will provide suggestions on how the policies current in use can be improved for efficiency and easy implementation. The government would be advised to provide fiscal incentives in terms of tax exemptions for new private firms that desire to be listed on the stock exchange. Moreover, this study will add new knowledge to existing board of

knowledge and platform for other researchers. This study is also a requisite part of an award for (MBA) Degree.

### **1.7 Scope and Limitation of the Study**

The major scope of this study was to study challenges in capital market in relation to efficiency operation of DSE. The study was conducted in Tanzania and data were collected from NGO's registered in Tanzania performing activities relating to financial intermediaries, listed and unlisted companies at DSE, officials and staff at DSE and CMSA. The study was geographically based at DSE offices located in 4th Floor, Twiga building, Samora Avenue in Dar es salaam while the secondary data was from companies listed in DSE. However, the study covered a period between 1998 to 2012. Lack of enough funds to enable purchase of the necessary research materials and high research assistants to help in collecting and analyzing data was also noted to be the limitation to this study.

### **1.8 Organization of the Study**

This study is organized into five chapters. Chapter one introduces the study by presenting the background information, statement of the problem, objectives of the study, research questions, significance of the study, scope and limitation of the study as well as the organization of the study. Chapter Two presents the literature review related to the topic under study. It offers definition of terms as used in the study. It also provides the theoretical review, the empirical studies and the conceptual framework of the study. Chapter Three presents the design and methodology of the study. It covers the study area, sampling procedures, data collection methods and data analysis procedures. Chapter Four presents the study findings. It analyses and

discusses the findings of the study. Chapter Five concludes the study. It presents the summary of the findings, conclusion and recommendations. It further provides areas for further studies.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents a review of the academic literature and experience of capital marketing performance of other countries with similar economic situation like Tanzania. It intends to yield useful lessons for Tanzania and other countries. Concepts used in the study are defined. The chapter also presents the theoretical review. It also provides the empirical review and the conceptual framework of this study.

#### **2.2 Definition of Key Concepts**

This section defines the key concepts used in the study. These concepts are capital market, capital market efficiency, stock market and liquidity.

##### **2.2.1 Capital Market**

Capital market is the market of financial securities for trading long-term debt instruments that mature in more than one year (Hervey, 2012). It is the market where capital is raised through trading shares, derivatives, security bonds and other instruments (Ibid).

Ideally, it is accepted to say that modern economy can not flourish without the backing of an efficient financial system. Capital market provides the platform for individuals, institutions, firms and government to trade financial security in order to raise funds that is needed for business expenditures and re-investments in the economy. As stated later in literature review, capital market is composed of both



primary and secondary market. In primary market, newly issued shares are traded in a stock market. The company issuing shares must be listed by the stock market. Stock and bond markets are part of capital market. When a bank such as National Microfinance Bank (NMB) conducts an Initial Public Offering (IPO) it is tapping investment capital from the public and is therefore using capital market. This is also true when the government decides to issue treasury bonds in the bond market to fund its spending. It is also using capital market. In this study, the term capital market is used in the same contexts.

### **2.2.2 Capital Market Efficiency**

Capital market efficiency is a market environment in which shares and security bonds are traded freely and information is obtained without any restriction (Fama, 1970). The efficient capital market in Tanzania, similar to other countries is based on the fact that security prices or current market prices at DSE fully reflect on information availability, accessibility, fairly distributed and perceived precisely by all investors in the same manner. For the purpose of this study, capital market efficiency is used in the same way.

### **2.2.3 Stock Market**

Stock market is the market in which shares are issued and traded. It is a series of exchanges where the trading of equity (companies stocks) takes place either through exchange or over the counter market. The exchange brings together buyers and sellers in an organized manner. According to Jones (2010), in Tanzania stocks are traded on exchange at the Dar es Salaam Stock Exchange. So far, 17 companies have

listed their stocks for trading. The stock market has emerged to be influential in financial decision making process for enterprises and big investors such as financial institutions and firms in Tanzania (Norman, 2011). The same views were used in this study.

#### **2.2.4 Liquidity**

Liquidity refers to a business ability to meet its immediate payment obligation in terms of possessing sufficient cash or negotiable instruments that can quickly be converted and sustain payment obligation (McGraw-Hill, 2002). Low liquidity means that it will be harder to support a local market with its own trading system, market analysis, and brokers. Fewer listed companies affect capital availability that is needed for improving DSE efficiency and standard operation (Abayo, 2001). The study adopted the same views.

### **2.3 Theoretical Reflection**

#### **2.3.1 Introduction**

Theoretical reflection of the study is a structure that can hold or support a theory of a research work. It presents the theory which explains why the problem under study exists. Theoretical perspective seeks to link DSE operational mechanism with its potential clients on facilitating secondary market for securities. DSE faces challenges that hinder its efficiency and standard. It is evidently important for DSE to be efficient in eliminating problems that affects its performance. Studies have been conducted previously and various theories have being applied to trace the behavior of stock markets.

### **2.3.2 Growth Theory**

The importance of economic growth is not arguable across area of society. Economic growth is assisted with vehicles of economic growth such as stock markets. Stock markets play a major role as an economic institution which enables both corporations and government to raise long term capitals which enable them to finance new projects and expand operation. Some analysts view stock market in the developing countries that has little positive impact on economic growth. Nevertheless, recent evidence suggests that stock market may give big boost to economic development (Levine and Zervos, 1937; Pagan, 1954).

In this study growth theory reflects the need of eliminating challenges that hinder DSE efforts to attain effective performance for economic growth of capital market in the country. The theory links DSE with investing in technological knowledge in capital market and innovations in the form of introducing new instruments products and services to promote the stock market. Intervention in improving efficiency performance of DSE is very important for economic growth. All economies that have recorded remarkable growth have ensured that they promote and develop their stock exchanges (Solow, 1965).

### **2.3.3 Agency Theory**

Agency theory has also been used in this framework to analyze internal DSE corporate governance mechanism. Agency theory considers managers as opportunists and save their only best interest. Managers as agents are very interested in maximizing their efficiency of wealth and they acquire this through their salaries

and bonuses. When managers make decision which is not consistent with the objective of shareholders wealth maximization, then the agency problem occurs.

According to Jensen (1998), agents or managers are not absolute. If their interest does not perfectly match with the objective of shareholders and the authority is not sufficient to monitor and control them, then they will diverge from objective of interest and agency problem between managers and its stakeholder will exist, that will lead the company toward the Agency costs (Jensen and Mecking, 1976). Monitoring and compensation are required on streaming line the manager's efforts to the interest of shareholders. Agency costs in this theory reflect lack of enough liquidity and poor performance of DSE to meet the shareholders expectations. However, agency theory in this regard has been applied on modeling the relationship between the board of directors and firm managers.

#### **2.3.4 Market Theory**

Market theory was founded by Fama (1970). The theory has been used in this framework to analyze DSE market efficiency and it explains why problems such as DSE information accessibility, insider's effects and higher transaction costs exist. According to Fama (1970), for the market to be efficient information should be strictly controlled so that no investor has an advantage in predicting a return on a stock price since no one has access to information. However, transaction cost should be small and enable information to be accessible and available at all the time needed. Stock market normally set standard price and control the market. According to world Finance Magazine (2011), DSE was awarded the "Best Sustainable stock exchange in Africa during the year 2011. Nevertheless, the study by Mrindoko (2011) reported

that, DSE in 2011 had sadly delisted NICOL that failed to meet the listing requirement. NICOL failed to submit the audited accounts for two years. The regulatory function is aimed to ensuring that investors are always protected through timely disclosure of the important information for proper investment decision making. Maintaining Stock market efficiency is a very important aspect since it encourages share buying (Gorton, 1997).

## **2.4 Empirical Studies**

Studies on Capital market efficient have been conducted in various countries all over the world. The findings from these studies are still genuine and useful to new researchers in financial industry. However, this section is classified into world and Tanzania related studies. The findings from various researchers used in this study reveal the relationship between stock market performance and economic growth to a related country. These studies impart new knowledge to existing board of knowledge and hold significant contribution in the capital market existence.

### **2.4.1 World related Studies**

Keynes (1923) conducted a study on efficiency market hypothesis (EMH) in Britain. The objective of the study was to assess the impact of investor's rewards on financial markets. The study was conducted using the Jarque Bera Test to find out the normal distribution of returns of markets and Pearson Correlation Test to find the correlation between the stock market returns. Secondary data sampling were used to fulfill the objective of the study. In his findings Keynes clearly stated that investors on financial market are rewarded not for knowing better than the market or what the future has in store, but rather for risk bearing. This is the consequence of (EMH).

Despite of Keynes contributions in capital market development, the study has a major weakness. Sampling method was limited to secondary data as compared to this study where both primary and secondary sampling methods were used to analyze data.

Kalapo and Adaramola (2010) made another empirical contribution in this area by examining the applicability of market efficiency in the capital market of Nigeria. The study was conducted through a sample frame of a targeted population of 100 respondents from different private business enterprises and government agencies involved in capital market in Nigeria. The study was conducted using Stationary Test that indicated the GDP was stationary at the first difference while other variables were stationary. Secondly, the co-integrated test illustrated the variables were co-integrated this implies that long run relationship existed between them.

The findings of the study align with Ariyo and Adelegan (2005) who found that the capital market in Nigeria has the potentials to induce growth, but has not contributed significantly to economic growth of Nigeria due to low market capitalization, small market size, few listed companies, low volume of transaction and illiquidity among others. The results support Kunt and Asli (1996) and Harris (1997) who found no hard evidence, but strong positive relationship between stock market and economic growth. This is contrary to the literature that there is positive relationship between stock market and economic growth.

Despite of good contribution of Kalapo and Adaramola (2010) in capital market, the study excluded participation of individual citizens of Nigeria, especially those with

low income on solving low capital problems in Nigeria stock market. The current study included participation of individual citizens of Tanzania and suggests the use of Tanzania petroleum and gas corporation (TPDC) on issuing shares through IPO and raises enough capital for stock market to operate efficiently.

Another study which had significant contribution includes the study by Olweny and Kimani (2010). In their study the objective was to assess the link between stock market performance and the economic growth in Kenya. The study was conducted using Causality Test Approach based on the Vector Autoregressive (VAR) model. The statistical technique used included the Unit Root Augmented Dickey Fuller test in order to fulfill the objectives. The study revealed that the causality between economic growth and stock market runs unilaterally or entirely in one direction. Nevertheless, the study revealed that stock market performance causes economic growth or itself in a consequence of increased economic activity. From the findings it was inferred that the movement of stock prices in Nairobi stock exchange reflect the macroeconomic condition of the country and can therefore be used to predict the future path of economic growth.

Despite this contribution, the study by Olweny and Kimani (ibid) has some weaknesses. The problem is on the sample size which was only for Nairobi Stock Exchange, whereas financial institutions, particularly those not listed at NSE were excluded on the sample size. The current study as related to Olweny and Kimani study included a broad coverage and categories on sample size where listed and unlisted companies at DSE, regulatory authorities and nongovernmental organization were included in the study which is adequate to generalize the finding of this study.

#### **2.4.2 Related Studies in Tanzania**

Financial sector reform in many countries within Sub-Sahara Africa has been to ensure a greater allocation of credit to the private sector for growth and utilization of capital market resources as alternative source of financing. Recently, studies have shown that financial sector reform did not make adequate provision for the development of capital market in the sub - Sahara Africa. (De Melo and Tybout, 1986; Word Bank, 1990, 1994).

A study on capital market efficiency in sub - Saharan Africa, the case being Tanzania was conducted by Ziorklui (2001). He examined the conditions that inhibit the development of capital market in the sub - Saharan Africa and Tanzania in particular. The objective of his study was to provide a systematic investigation on constrains that impede the development of efficient capital market and the way this constrains can be removed. Field survey was conducted in Dar-es-Salaam where sampling of commercial banks, regulatory bodies, and listed companies were used in obtaining information through questionnaires and interviews. In conclusion, the study identified such factors as low income, level of education and information about capital market, there were considered to be major constrains to the capital market performance in Tanzania and SSA countries in general. The research gap identified was that the study excluded capital market in-efficiency factor as major constrains to the capital market performance.

Norman (2011) conducted another empirical contribution in this area. The study examined whether or not people investing in Stock Exchange (SE) in Tanzania considers financial statements analysis as a consideration for investments decision



making. The study was conducted in Dar es Salaam through a sample frame that incorporated six brokers registered with the Dar es Salaam stock exchange (DSE). The research design used in the study was the survey study design. During the collections of data, the survey study used all the six brokers since they were incorporated in the study. The sample for the study was of two types. The first sample was drawn from all six brokers registered with the DSE, hence six questionnaires were distributed. The second sample was 10 clients of each of the brokers where ten questionnaires were distributed.

The study adopted multiple methods of data collection namely, observation, documentation, interview, and questionnaire. The data were analyzed qualitatively and quantitatively. This study revealed that most of the investors in Tanzania do not depend on the financial statements analysis of the firms when investing, mainly because most of these investors have not acquired knowledge on the importance of financial statements in making decisions regarding the investment. However, big investors such as financial institutions and firms do consider financial statement analysis when investing.

The study had wealth contribution. However, it did not analyze and consider the role of regulatory authorities such as NBAA in eliminating the problem as related to CMSA which monitors DSE and capital market players on creating efficient market. Another study on capital market in Tanzania was carried out by Sam et al (2001). The objective of the study was to examine the various problems that constrain the development of functioning capital market and impact of the government's recent

policy changes on capital market development in SSA in general and Tanzania in particular.

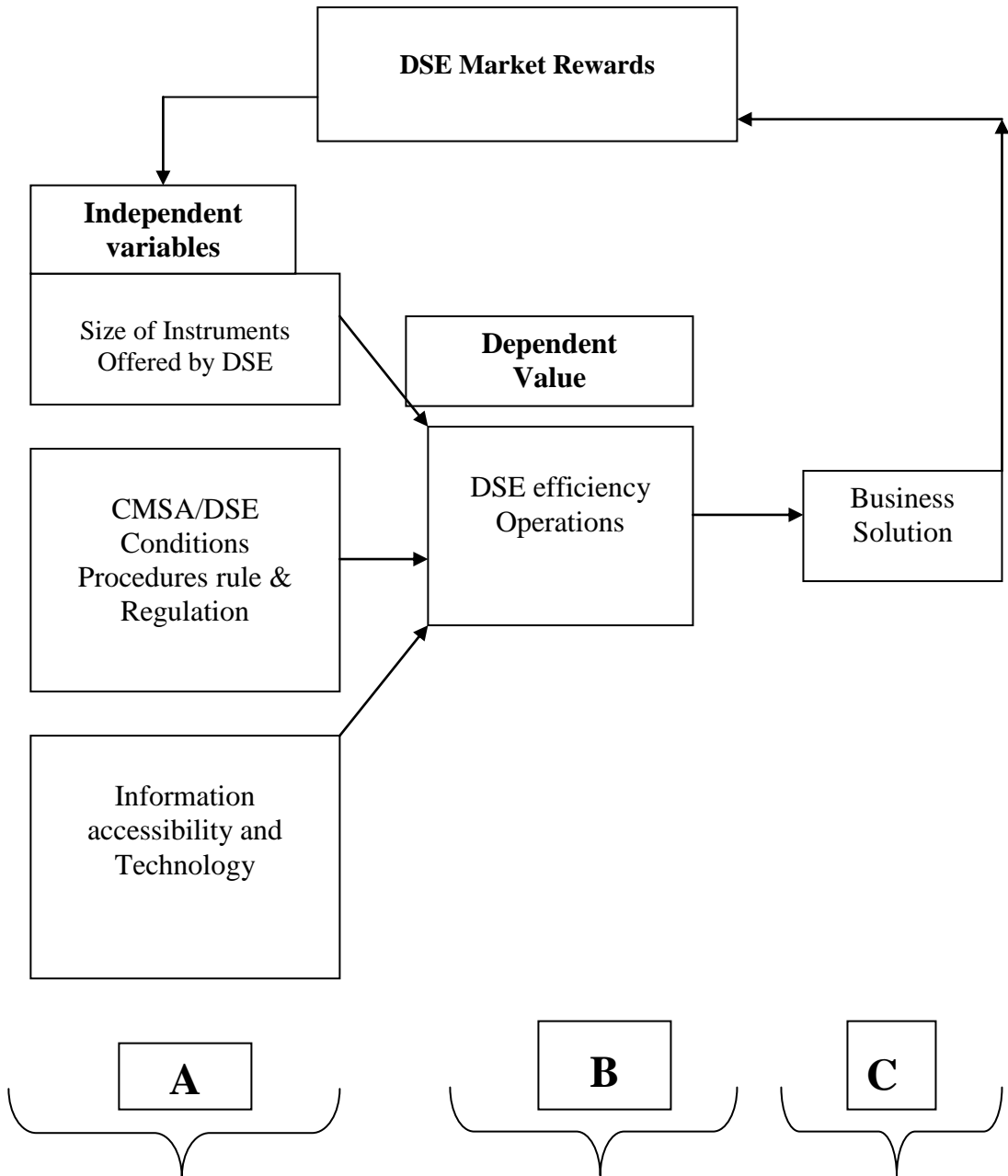
The study conducted field surveys by administering survey questionnaires to various financial and regulatory institutions, (DSE) and (BOT). Secondary data was collected to supplement primary data. Parametric statistical analysis was also adopted in testing various hypotheses derived from research questions. The finding of the study revealed that the policy change in Tanzania have positively impacted and challenged capital market development. Also it was found out that, the passage of various regulatory laws and reforms such as the Foreign Exchange Act of 1992, the Capital Markets and Securities Act of 1994, the Insurance Act of 1996, and other relevant reform laws have provided strong legal foundations for efficient capital market development in Tanzania. The liberalization of interest rates and the removal of regulations on financial institutions resulted in more players in the capital market development.

The research gap identified was that, the study did not analyze the challenges of DSE as a case study, they generally examined the various problems that constrain the development of functioning capital markets in Sub-Saharan Africa (SSA) countries in general and Tanzania in particular. However, suggestions were too general for DSE to benefit from the findings.

## **2.5 Conceptual Framework for the Study**

The proposed conceptual framework seeks to link interaction process between the input variables as described in a framework model section A with DSE business

process and finally measured as output components necessary to give solutions of problems that hinder the DSE snob appealing in the security market business.



**Figure 2.2: Conceptual Framework for the Study**

**Source:** Own developed model, (2013)

Figure 2.2 above is a model that illustrates the relationship between the independent variables described as size of instruments offered by DSE, conditions, procedures, rules and regulation administered by regulatory authority and information accessibility and technology. On the other hand, the dependent variable is described as DSE efficiency operations. The general objective of this model is to show the relationship of these variables that will create business solutions to the challenges that hinder effective performance of DSE.

### **2.5.1 Size of Instruments and Liquidity Problems at DSE**

The future prospects of DSE success rests on its ability to invest in long-term productive ventures like infrastructure, production of attractive instruments that will fulfill investors demand. The main lines of DSE business is currently listing, trading and settlement of traded securities (share and bonds). The study indicates that there is a need of introducing new instrument for significant impact on efficiency operation of DSE. Nevertheless, a model relates the utilization of new instruments in the stock market as solutions to liquidity related problems. New instruments such as mutual funds, unit trusts, options, and debenture will attract capital and more participants in the stock market.

### **2.5.2 Conditions Rules, Procedures and Regulations**

The model identifies the role of quality human resources function through improving and revising difficult rules, procedures, conditions and regulations administered by CMSA and DSE in promoting efficiency operations to Dar es Salaam Stock Exchange. Investors must comply with regulatory conditions in place. According to Turban et al (2002). "Customer service is a series of activities designed to enhance

the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation." Restrictive regulation affects many companies to list their shares at DSE and reduces chances for DSE to improve its performance. DSE has only 17 listed companies as compared to say JSE that has 400 listed companies (Cyartey and Adjashi, 2006). The model assumes that few listed companies at DSE aligned with restrictive condition rules and regulation, revising conditions, rules time to time will enhance the level of customer satisfactions and hence improve DSE efficiency.

### **2.5.3 Information Accessibility and Technology**

Information accessibility in this model is regarded as an important context in promoting corporate management and accountability to DSE. Fairly dissemination of market information's to investors and stockholders entails trust and measurable recognition on improving performance of DSE. Any efficient market relies on the fact that security prices fully reflects on information available (Fama, 1970). Not only that, information technology and innovation have become key factors on promoting capital market development that contribute to economic growth in the country (Levine, 1993).

Access to information enables investors to make financial decisions on their investments. This model assumes that information accessibility and technology will expand DSE coverage and enable more investors to use market information on stock exchange trading. In this study, Information Technology is further assumed to create business opportunities to DSE, but also benefits from competitive advantages that could not be there in the absence of Information Technology.

Information Technology employment to DSE remains to be very important for success performance of DSE rather than as responding to customer needs. DSE should rely on technological approach that is good at. New technological approaches aimed at satisfying customer needs can develop rapidly. Thus, such technological inertia leaves the field open for new entrants to make technological innovations and allow their business to thrive (Mbura, 2013). The model is therefore granting a successive business reward to DSE from good results of performance.

## **2.6 Chapter Summary**

Dar es Salaam Stock Exchange has a vital role as an economic institution which enables corporations, SME's and government to raise long term capital to finance new projects and expand operation. It is evidently proved that DSE has created a means of wealthy creation and growth of the industry and commerce in the country Sam (2001). It is therefore essential for Stock Market in Dar-es-Salaam to resolve critical issues of lack of enough capital to trade, infrequency of trading, slow settlement to investors and policy renovations in terms of procedures, stock market products extensions to improve DSE efficiency and good performance.

The expected research output intends to use theoretical models to explain existing problems hindering DSE effectiveness but also apply experiences of previous studies in capital market and stock exchange in particular to come out with solutions of problems affecting DSE performance through advising policy makers, regulatory authorities and stock market investors.

## **CHAPTER THREE**

### **3.0 RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the design and methodology used in the study. It covers the study area, survey population, sampling design, data collection methods and data analysis procedures.

#### **3.2 Research Design**

The research design is an important dimension that constitutes research methodology. Kothari (2000) defines research design as the arrangement of conditions, collection and analysis of data in a manner that aims to combine relevance to the research purpose. This study was a case study design. It was mainly descriptive which used both qualitative and quantitative approach where attitudes and behaviors of capital market customers were observed.

#### **3.3 Survey Population**

The target population included all the commercial banks in Tanzania. Around 40 banks were picked as per BOT website. All NGO's registered in Tanzania performing activities relating to financial intermediaries, listed and unlisted companies at DSE, officials and staff at DSE and CMSA were units of inquiry.

#### **3.4 Area of the Study**

The study was conducted in Dar es Salaam Stock Exchange (DSE) the only capital market in Tanzania. Moreover, the area was also chosen because the researcher is familiar to the area of the firm. He invested shares in one of the commercial bank

listed to DSE.

### **3.5 Sampling Design**

Sampling may be defined as the selection of some of parts of an aggregate or totality on the basis of which judgment or inferences about the aggregate or totality is made (Kothari, 1990). In other words, it is the process of obtaining information about an entire population by examining only part of it.

#### **3.5.1 Sampling Units**

The sample units covered all primary and secondary data. Data from primary sources were collected from the field by using research instruments and data from secondary sources were collected from published and unpublished documents.

#### **3.5.2 Sampling Size**

The sample size covered 34 respondents. 23 respondents were from listed and unlisted companies, 4 from commercial banks, 2 from CMSA and DSE officials and staff and 5 from NGO's. All respondents were given questionnaires. The major reason of using questionnaires was because they allowed respondents to answer questions presented to them in their free time. In addition, officials of DSE and CMSA were also interviewed because they were more informative on providing relevant information needed to answer the objectives of the study.

The information gathered from respondents reflected on the extent to which size of instruments traded at DSE and lack of liquidity relate to efficiency performance of DSE. It also informed on the extent to which conditions, rules and regulations administered by DSE relate to efficiency operation of DSE. Finally, some of the



respondents gave information's that reflected on the extent of information accessibility in relation to performance of DSE.

**Table 3.1: Sample size Distribution and Returns**

<b>Samples</b>	<b>Number of Questionnaires Sent out</b>	<b>Number of Questionnaires collected</b>	<b>Percentage %</b>
Listed & unlisted companies	30	23	76.6%
Commercial Banks	4	4	100%
DSE	1	1	100%
CMSA	1	1	100%
NGO	8	5	62.5%
<b>Total Sample</b>	<b>44</b>	<b>34</b>	<b>77.3%</b>

**Source:** Field Data (2013)

Table 3.1 above shows the response of field survey from selected samples administered with questionnaires. Five (5) questionnaires were administered to each of the 30 companies under the listed and unlisted samples. Only 23 questionnaires were returned completed about 76.6% of the total sample. Officials of DSE and CMSA were also interviewed and 1 questionnaire respectively sent to DSE and CMSA employees was collected completed and the respond was 100%. 8 questionnaires were also administered to Non - Governmental Organizations (NGO's).

The response constituted 62.5% where 5 questionnaires collected were fully completed. Furthermore, 4 questionnaires were sent to commercial banks. All (100%) were collected fully completed. The response rate of the number of questionnaires collected was 34(77.3%) out of 44 sent out. The study used secondary

data from CMSA and DSE extracted from the respective website in form of official document and report that was relevant to the research problem. Other sources of secondary data were obtained from the University of Dar es Salaam library, OUT library and from DSE trading activities.

### **3.5.3 Sample Frame**

Sample frame included all commercial banks and NGO's performing activities relating to financial intermediaries, listed and unlisted companies at DSE and officials from DSE and CMSA.

### **3.5.4 Sampling Technique and Procedures**

The respondents were purposively selected from investors in capital market, DSE and CMSA staff and officials who provided crucial information for the study. Judgmental sampling was also used to enable meeting expected respondents familiar with DSE activities.

## **3.6 Sources of Data Collection**

Data from field were collected by using questionnaires, interviewing and observation as research tools or methods in the process of collecting primary data. Secondary data were collected by conducting document reviews and analysis based on research objectives.

### **3.6.1 Primary Data Collection**

The primary sources of data included visiting the DSE on trading days interviewing officials and observing the pattern of trading; Also questionnaires based on specific

research objectives were sent to the respondents. Questionnaires were used in collecting primary data. Answers from questionnaires were in respondent's own words and personal feelings. More important, respondents who were not easily approachable were reached conveniently and finally a large sample was dealt with by use of questionnaires thus the results become more dependable and reliable.

Expected respondents were interviewed. The qualitative approach to research involved a series of semi-structured interviews, targeted at several different layers of management. The interview was structured using few closed – ended questions regarding perspective of the study objective. The semi-structured approach was considered as it provided the interview respondents with an opportunity to discuss issues not originally considered in the interview design to provide unique insight into the study. Observations were made on stock market customer's trend and their behavior in trading at DSE.

### **3.6.2 Secondary Data Collection**

Secondary data was obtained through reviewing documents such as office files, annual reports registers, performance reports, purchases records and previous research reports. However, only relevant data was used for the study.

### **3.7 Data Processing and Analysis**

Data processing and analysis was done quantitatively by using tables and percentages. Data analysis was carried out with a view of providing answers to the research questions. Information analyzed included the size of instruments and

liquidity problems of DSE, conditions, rules, procedure and regulations administered by DSE, and information accessibility in relation to efficiency operation of DSE. The data collected were edited to detect errors and omissions and corrected them. Editing involved a careful scrutiny of the information obtained using questionnaires and /or schedules. Coding process was assigned numerals or other symbols to answers so that responses were kept into limited numbers of categories or classes.

Data were classified according to attributes on the basis of common characteristics. A mass of data were assembled and arranged the same in some kind of concise and logical order. Eventually, the data collected was sorted, analyzed and arranged in form of a report, using several descriptive, qualitative and statistical methods.

### **3.8 Reliability and validity of data**

#### **3.8.1 Reliability**

Joppe (2000) defines reliability as the extent to which results are consistent over time. Accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. The data used in this study were extracted from reliable sources where respondents from DSE & CMSA, four commercial banks, 8 NGO's and 30 listed and unlisted companies were incorporated to get data for this study. Reliability was assured with an accurate research instrument tested on a trial respondent prior to the interviewees at the sample selected. Refinements and clarifications were made to elicit appropriate data from the respondents.

### 3.8.2 Reliability of Questionnaire

The reliability of the questionnaire was obtained using Cronbach's reliability test.

This test gave the following alphas for the variables of study:

**Table 3.2: Reliability Test Results**

<b>Variables</b>	<b>Alpha</b>
Perception of DSE Clients on instrument size increase.	0.9831
DSE client's response on regulatory framework	0.7928
Challenges of capital market and information accessibility	0.9264

**Source:** Primary Data (2013)

The above results show that each variable had a reliability coefficient (alpha) greater than 0.5 hence the instrument was a reliable measure of the variables of study.

### 3.8.3 Validity

According to Joppe (2000), validity is the extent to which research truly measures what it was intended to measure or how truthful the research results are. Researchers generally determine validity by asking a series of questions. Questionnaires and observation in this study were done under closer supervision. Multiple contacts to respondents of this study contributed to validity of the research result. Triangulation with Annual reports, press articles additional sources supported the validity of this study.

## **CHAPTER FOUR**

### **4.0 FINDINGS, ANALYSIS AND DISCUSSION OF THE FINDINGS**

#### **4.1 Introduction**

This chapter presents the findings of the study. It analyses and discusses the findings in the context of study objectives. The chapter begins by presenting the general findings of the study. It also covers on the conditions, rules and regulations administered by DSE in relation to its performance. Furthermore, the chapter presents the challenges of capital market and information accessibility in relation to DSE performance. Nevertheless the section gives the analysis of DSE contributions to economic development, types of clients and business coverage. Finally the chapter concludes by giving general findings of the study.

#### **4.2 General Finding of the Research Study**

The study examined the role of DSE listed commercial banks on capitalizing the stock market. Findings are presented in the context of general findings as per study objective. The findings are sought to contribute on improving DSE performance.

##### **4.2.1 Types of Clients and DSE Business Coverage**

This section introduces the types of clients, important of business networks and DSE coverage. The finding reveal that, most of the clients served by DSE are based in Dar es Salaam with an exception of banking sector that is spread in regions to serve their clients.

Respondents were asked to indicate which one of the three aspects would significantly contribute to efficiency performance of DSE. Table 4.2 below group

DSE clients into three aspects. These are commercial banks, domestic listed companies and cross listed companies. The study examined the role of DSE listed commercial banks on capitalizing the stock market. Table 4.2 presents the findings.

**Table 4.2: The Status of DSE' Clients and Coverage**

S/N	Types of DSE clients	Listed companies	Frequency	DSE coverage
1	Commercial Banks	4	0.24	24%
2	Domestic listed companies	5	0.41	41%
3	Cross listed companies	8	0.35	35%
<b>Total</b>		17	<b>1.0</b>	<b>100%</b>

**Source:** (DSE Handbook, 2010)

Table 4.2 above shows the role of commercial banks on improving efficiency operation of DSE. 4(24%) commercial banks out of 17 listed companies at DSE dealt with commercial banking services. The survey shows that 5(41%) domestic listed companies out of 17 listed by DSE dealt with production and distribution of industrial gas, production and marketing of malt beer, production and marketing of tea and cigarettes but also production, marketing and sales of cement. Furthermore, 8(35%) cross listed companies out of 17 listed at DSE dealt with passenger and cargo transportation, production and marketing of malt beer, news media, and insurance business.

The findings show that commercial banks present about 4(24%) of the total percentage coverage by other categories. Despite of less percentage as compared to other categories, the study shows commercial banks are better performing on raising capital through IPO subscription.

Table 4.5 shows IPO subscriptions levels for three categories of DSE clients. The total amount raised through IPO subscription by October 2010 was 481,951,018,255/=Tanzanian shillings. Two commercial banks CRDB and NMB raised 307,623,706,200/= Tanzanian shillings about 64% of the total amount rose by three categories. The big coverage in commercial banking category introduces the importance of business networks on gaining economic advantage. Business networks as defined by Aldrich (1979) constitute all organizations linked in a specific type of relationship, which are constructed by finding ties among all organizations in a population. DSE link with commercial banks is essential in solving problems relating to low capital to the market, but also used to demonstrate public awareness on capital market education and importance of using DSE as alternative financing source to individuals and enterprises in their business development and the national economy.

### **4.3 Finding of the Study**

This section presents the findings of the study as per the objectives of the study stated in chapter one.

#### **4.3.1 The Size of Instruments and Liquidity Problems in Relation to the Efficiency Performance of DSE**

The DSE is a duly approved exchange under CMS Act, 1994. It is a full service, modern securities exchange providing listing, fully electronic trading, clearing and settlement of securities (shares and bonds). The main lines of DSE business are listings, trading, clearing and settlement of traded securities. It also plays the role of an educator on matters relating to capital market (DSE prospectors, 2008). DSE



revenue comprises listing fees, transaction fees and membership fee as main source of its financing. However, DSE receives government subvention and grants from other sources for operational expenditure. As it has been discussed earlier, the major constraint for growth of DSE is attributed to limited instruments and products it offers to the market.

Though DSE has grown steadily since its establishment it has failed to reach its potential as evident from the limited instruments traded and lack of liquidity. DSE developed a strategic plan in 2005 with the objective of increasing the products and investors but it was largely unimplemented due to lack of financial and other resources (DSE Prospectors, 2007). The first objective of the study was to examine the extent to which size of instruments traded at DSE and problem of liquidity relates to efficiency performance of DSE. The focus have is on perception of DSE clients on instrument size increase.

#### **4.3.1.1 Perception of DSE Clients on Instrument Size Increase**

Respondents were asked to indicate which one of the 3 aspects of instruments, services and products offered by DSE increase, capacity building and maintaining trading of share and bond, would significantly contribute to efficiency performance of DSE. Table 4.3 provides the findings.

Table 4.3 reveals the findings of the study. 22(64%) respondents out of 34 interviewed respondents reveal that the size of instruments offered by DSE were the most important factor that contributes significantly to efficiency operation of DSE. The second category included 9(25%) respondents out of 34 interviewed who

indicated that capacity building were an important factor in terms of providing capital market education to clients before increasing new instruments and products to the market. Finally, 3(11%) respondents out of 34 interviewed indicated that the current services offered by DSE of trading share and bond were still very important for efficient performance of DSE.

**Table 4.3: Perception of DSE Clients on Instrument Size Increase**

No	Respondents on Instrument size increase	Category of respondents	Frequency	Percentage
1	Instruments, services and products offered by DSE increase.	22	0.64	64%
2	Capacity building.	9	0.25	25%
3	Maintaining trading of share and bond for efficient performance of DSE.	3	0.11	11%
<b>Total</b>		<b>34</b>	<b>1.00</b>	<b>100%</b>

**Source:** Field Data (2013)

Therefore, 22(64%) respondents represent the majority of the respondents who revealed that more instruments services and products are prominently needed by DSE for its effective performance. This finding also compares favorably with the findings from Kalapo and Adaramola (2010) who found that capital market in Nigeria has the potential to induce growth, but has not contributed significantly due to small market size and other factors. The findings also reveal that respondents from selected samples in NGO's and enterprises, especially employees reveal that there is difficult in obtaining loan from commercial banks and other financial institutions for raising up capital for their business and family related financing. They mentioned that DSE as an alternative financing source should allow domestic national social

security funds such NSSF, PPF, LAPF and PSPF granting them as member of the funds to list their shares at DSE based on Mutual and Unit trust funds schemes, the service or instruments that is currently not offered by DSE.

#### **4.4 Conditions, Rules and Regulations Administered By DSE in Relation to its Performance**

This study found that, the establishment of DSE in 1998 was an important decision in the effort toward the development of a functioning capital market for the mobilization and allocation of long-term capital to the private sector. The second objective of the study was to examine the extent to which conditions, rules and regulations administered by DSE relates to efficiency operation of DSE.

Table 4.4 illustrates the performance level of DSE by March 2008.

**Table 4.4: IPO Subscriptions Levels Status by March, 2008**

<b>Company</b>	<b>Offer Price per Share</b>	<b>Shares on Offer</b>	<b>Offer Value (TZS)</b>	<b>Amount Raised (TZS)</b>	<b>Level of Subscription (%)</b>	<b>Subscribers</b>
TOL	500	7,500,000	3,750,000,000	3,750,000,000	80	10,500
TBL	550	23,594,277	12,976,852,350	9,630,874,000	74	23,000
TATEPA	330	1,584,912	523,020,960	523,020,960	109	2000
TCC	410	19,500,000	7,995,000,000	9,394,125,000	118	7508
SIMBA	300	20,693,090	6,207,927,000	24,210,915,300	390	14228
DAHACO	225	17,640,000	3,969,000,000	31,196,340,000	786	41025
TWIGA	435	53,975,900	23,479,516,500	86,419,680,855	368	18300
<b>TOTAL</b>				<b>165,124,956,115</b>		<b>116,561</b>

**Source:** DSE Handbook, (2008)

**Table 4.5: IPO Subscriptions Levels by June 2010**

Company	Offer Price per Share	Shares on Offer	Offer Value (TZS)	Amount Raised (TZS)	Level of Subscription (%)	Subscribers
TOL	500	7,500,000	3,750,000,000	3,598,086,000	80	10,500
TBL	550	23,594,277	12,976,852,350	9,630,874,000	74	23,000
TATEPA	330	1,584,912	523,020,960	571,461,000	109	2000
TCC	410	19,500,000	7,995,000,000	9,394,125,000	118	7508
SIMBA	300	20,693,090	6,207,927,000	24,210,915,300	390	14228
SWISSPO RT	225	17,640,000	3,969,000,000	31,196,340,000	786	41025
TWIGA	435	53,975,900	23,479,516,500	86,419,680,855	368	18300
NICOL	300	50,000,000	15,000,000,000	5,601,735,000	37	2987
DCB	275	5,454,546	1,500,000,150	3,704,094,900	247	5446
NMB	600	105,000,000	63,000,000,000	224,999,340,000	357	27303
CRDB	150	125,429,692	18,814,453,800	82,624,366,200	439	21282
<b>TOTAL</b>				<b>481,951,018,255</b>		<b>173,579</b>

**Source:** DSE Handbook, (2010).

Table 4.5 above shows that by June 2010, a total of 11 companies raised a combined capital of Tanzanian shillings 481,951,018,255/= through IPO subscription in the primary capital market compared to 7 companies which raised a combined capital of Tanzanian shillings 165,124,956,115/= by March, 2008 as shown in Table 4.4. This is an increase of 34% between the period of 2008 & 2010 whereas 57018 subscribers from NICOL, DCB, NMB and CRDB subscribed their shares. This is a significant development in DSE performance. Despite of this development DSE still face challenges in implementing rules, conditions, regulation and procedures administered by DSE and CMSA.

#### 4.4.1. Regulatory Framework

Respondents were asked the extent to which conditions, rules and regulations administered by DSE relate to efficiency operation of DSE. More particularly, they were asked to indicate which among the following category of regulatory framework would be most important in supplementing the efficiency operation of DSE. This question sought to contribute to the study by improving the efficiency of DSE. Table 4.6 below provides the findings:

**Table 4.6: DSE Client's Response on Regulatory Framework**

S/N	Respondents views on regulatory framework	Respondent's category	Frequency	Percentages
1	Listing requirements is too stringent.	20	0.595	59.5%
2	Act amendment on regulatory framework.	12	0.345	34.5%
3	Rules, conditions and procedures remain the same.	2	0.06	6%
<b>Total</b>		<b>34</b>	<b>1.0</b>	<b>100%</b>

**Source:** Field Data (2013).

Table 4.6 reveals the client's response on regulatory framework changes. The finding of the study revealed that 20(59.5%) respondents interviewed out of 34 indicated that listing requirements for DSE was too stringent for some potential companies to comply with. Furthermore, the findings reveal that 12(34.5%) respondents interviewed out of 34 indicated that Act amendment on regulatory framework was very important for efficiency of DSE. Finally, the finding reveal that 2(6%) respondents out of 34 interviewed indicated that the current condition, rules, regulations and procedures administered by regulatory authority to be reinstated.

In response to a follow-up question on the above topic, 20(59.5%) of the respondent's represent the majority of the respondent percentage as compared to other categories. They believe that listing requirements is too stringent. The findings align with Sam (2001) who found that passage of various regulatory laws and reforms have provided strong legal foundation for efficient capital market development in Tanzania. This finding has implication to regulatory authorities and government on reviewing conditions, rules, regulations and procedures for many domestic and foreign companies to comply with listing shares at DSE and supplement DSE efficiency.

#### **4.5 Challenges of Capital Market and Information Accessibility in Relation to DSE Performance**

Promotion of capital market industry in Tanzania to some extent has shown an economic growing sign through implementation of legal and regulatory framework supervised by capital market security authority (TNBC, 2010). These reforms in financial industry have increased the public general awareness to certain extent in the sector. The evidence has shown, different market players have been licensed and public issues in equities and bonds are taking place. Despite of these achievements there are a number of challenges to be addressed (TNBC, 2010). The third objective of the study was to examine the extent to which information accessibility relates to efficiency operation of DSE.

##### **4.5.1 Challenges of Capital Market and Information Accessibility**

Respondents were asked the extent to which information accessibility relates to efficiency operation of DSE. Furthermore, they were asked to indicate which among

the three aspects on the challenges of capital market and information accessibility would significantly contribute to efficiency of DSE. Table 4.7 provides the findings of the study.

**Table 4.7: Challenges of Capital Market and Information Accessibility**

S/N	Respondents views	Respondents Category	Frequency	Percentages
1	Higher transaction costs in IPO and secondary market operations.	10	0.29	29%
2	Lack of adequate financial securities education provided by government and DSE.	17	0.50	50%
3	Lack of technology in communication, and computer networks for DSE information accessibility.	7	0.21	21%
<b>Total</b>		<b>34</b>	<b>1.00</b>	<b>100%</b>

**Source:** Field Data, (2013)

Table 4.7 reveals client's response on information the accessibility as related to efficiency operation of DSE. The finding of the study reveal that 10(29%) respondents interviewed, out of 34 revealed that transaction costs in IPO and secondary market operation was too high to affects effectiveness of DSE. Furthermore, the findings reveal that 17(50%) respondents out of 34 interviewed indicated that very little initiative had been taken by DSE and the government to explore financial securities education to meet requirements of business entrepreneurs. The finding also show that 7(21%) respondents out of 34 interviewed

indicated that lack of adequate technology in communication and computer networks infrastructure affects information accessibility and hence DSE performance.

The majority of respondents about 17(50%) believed that adequate investment in financial securities education by DSE and government would offer greater opportunity by attracting more investors in the sector. This finding compares favorably with the finding from Sam (2001) who found that, investors might not be attracted to the stock exchange because of limited awareness in the financial security education.

#### **4.6 Discussion and Research Findings**

Information from this study shows that even though stock exchange investment in Tanzania is growing fast and many people of different varieties of income are participating in the purchasing of shares commonly known as stock exchange still DSE lacks enough capital for maximum clearance and settlement of traded securities.

Generally, it has been observed that, DSE has changed the life of people in a positive way. DSE clients and DSE itself have increased their incomes, increased the capital invested and therefore gradually expanded their businesses. These are the indicators of achievements in their business activities. DSE impact surveys indicate that they have an impact in establishing an alternative finance source through stock market investment in Tanzania. However, most of DSE operations are based in Dar es Salaam and at large depends on information technology knowledge to access DSE information. Furthermore, large investment is needed into computer network and



infrastructure to meet more people at regional and districts level where many Tanzanians live. It was also observed that conditions to enter DSE market is too stringent for many companies to comply with. With such conditions, it is only those with large capitals and highly valuable assets who will be allowed to access DSE services.

It was also observed that, low income investor category; especially employees and members of domestic national pension and social security funds such as NSSF, PPF, LAPF and PSPF are excluded in the efforts of improving DSE performance. The study suggested to the government to allow these funds granting their members and list their shares at DSE based on Mutual and Unit trust funds schemes, the service or instruments that is currently not offered by DSE.

## **CHAPTER FIVE**

### **5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter concludes the study. It presents the summary of findings, conclusion and recommendations. It also presents areas for further studies.

#### **5.2 Summary of Findings**

The main objective of this study was to assess competitive advantages and challenges in capital market and the challenges that hinder DSE effectiveness and efficiency operation. Respondents were purposively selected from investors in capital market, DSE and CMSA staff and officials who provided crucial information for the study. Judgmental sampling was also used to enable meeting expected respondents familiar with DSE activities.

The findings shows that 22(64%) respondents represent the majority of the respondents who revealed that more instruments services and products are prominently needed by DSE for its effective performance. This finding also compares favorably with the findings from Kalapo and Adaramola (2010) who found that capital market in Nigeria has the potential to induce growth, but has not contributed significantly due to small market size and other factors. The findings also reveal that respondents from selected samples in NGO's and enterprises, especially employees reveal that there is difficult in obtaining loan from commercial banks and other financial institutions for raising up capital for their business and family related financing. They mentioned that DSE as an alternative financing

source should allow domestic national social security funds such NSSF, PPF, LAPF and PSPF granting them as member of the funds to list their shares at DSE based on Mutual and Unit trust funds schemes, the service or instruments that is currently not offered by DSE.

Furthermore 20(59.5%) of the respondent's represent the majority of the respondent percentage as compared to other categories. They believe that listing requirements at DSE is too stringent. The findings align with Sam (2001) who found that passage of various regulatory laws and reforms have provided strong legal foundation for efficient capital market development in Tanzania. Finally the majority of respondents about 17(50%) believed that adequate investment in financial securities education by DSE and government would offer greater opportunity by attracting more investors in the sector. This finding compares favorably with the finding from Sam (2001) who found that, investors might not be attracted to the stock exchange because of limited awareness in the financial security education.

### **5.2.1 Implications for Policy Makers**

Politician and policy makers should present and come out with new gas policy on repositioning Tanzania in gas economy by allowing and enabling TPDC to go for IPO and list share at DSE. As discussed in this study it will be the big mistake for government and policy makers to ignore the involvement of low income investor's citizens to invest in stock market. Furthermore policy makers should model regulatory framework in capital market investments for many companies to comply with registrations conditions.

### **5.2.2 Implication for Business and Business Development**

Policy makers will need to have a view on the desirability or otherwise of the private sector and new entrants – domestic or international – creating new models or carving out market share using existing models.

Public and business enterprises should understand, investing in capital market business is another alternative financing source for their business that will increase their capital investment and gradually expands their business and national economy as a whole. This should be supported by creating models in technology and promoted by media companies. Ambitious capital market players will need to move fast to establish new models and secure partnerships internationally and domestically for their business and sector development.

### **5.2.3 Implications to Academics for the Development of Theory**

This study will add new knowledge to existing board of knowledge and platform for other researchers, nevertheless there is a need for academicians to conduct more studies in capital market on enhancing public awareness and its importance.

## **5.3 Conclusions**

This study examined competitive advantages and challenges in capital market and reflected challenges that hinder DSE effectiveness and efficiency operation. It also examined the extent to which size of instruments traded at DSE and lack of liquidity related to efficiency performance of DSE. Furthermore, the study examined the extent to which conditions, rules, procedures and regulations administered by DSE, related to efficiency operation of DSE and finally the extent of information

accessibility on the DSE performance. The study also reviewed other studies on capital market development in Africa and Europe and how they related to the problem in Tanzania in particular DSE as a case study. The findings revealed that even though stock exchange investment in Tanzania is growing fast and many people of different varieties of income are participating in the purchasing of shares commonly known as stock exchange still DSE lacks enough capital for maximum clearance and settlement of traded securities.

#### **5.4 Recommendations**

This section presents recommendations in accordance to research objectives. Recommendations are put forward in order to improve capital market in Tanzania and DSE efficiency operations.

##### **5.4.1 The Size of Instruments and Liquidity Problems in Relation to Efficiency**

###### **Performance of DSE**

From the finding of the study DSE lacks enough capital for maximum clearance and settlement of traded securities and limited instruments sizes. The study has revealed that there is lack of instruments or product diversification in the capital market. This situation does not provide incentive for investing in the capital market. The introduction of new products through privatization and introduction of debt instruments is important for capital market development in Tanzania. Thus the government is recommended to empower the DSE so that it improves capital market.

Secondly, the government should come with the new policy of repositioning Tanzania for the gas economy whereby TPDC will be allowed and helped out to go

for IPO and list shares at DSE. To date, Tanzania stands at 32trillion cubic feet of natural gas (TPDC, Handbook 2013) and each citizen would wish to share this prosperity given by God. This recommendation intends to involve each citizen of this nation to participate in the capital market development through buying shares offered by TPDC on equal basis proposed to three shares each valued at 10,000/=that makes each citizen to own three shares wealthy 30,000/=. This implies that 25,000,000 citizens approximately will raise 750,000,000,000,000/= capital in IPO subscription for TPDC to trade at DSE.

Along with this recommendation, an intensive public education on capital market and benefits of citizen participation in stock exchange business is required by government and DSE. However, the policy should guide the best way of identifying citizens and shares sold in equal basis. This recommendation will restore trust among citizen on equally sharing the national fruits of human natural resources from dividends and returns from citizen investment. Furthermore this recommendation explains the essence that it is possible to build capacity using own human resources for the national and the families development rather than relying on donors help. Finally this recommendation answers the research question that DSE will get enough capital to operate efficiently.

#### **5.4.2 Conditions, Rules, Procedures and Regulations Administered by DSE, CMSA and Government**

Based on the second research objective, conditions, rules, procedures and regulations administered by DSE, CMSA and the government are too stringent for many domestic and foreign companies to comply. Regulatory framework should be

reviewed time to time on reflecting the market demand where rules, conditions, procedures and regulations prevail on attracting investors and maintain market efficiency. Nevertheless, there is a need of introducing guarantee schemes for domestic companies to acquire loans and comply with regulatory authorities conditions.

#### **5.4.3 Challenges of Information Accessibility and Technology**

Based on the third research objective, the government of Tanzania is recommended to invest more in capital market structures such as providing education programs in information technology, computer networks, and communications. Academic programs establishment in schools, college and universities would enhance the prospects of capital market development in Tanzania. On the other hands DSE should put more emphasis in promoting and advertising its products and services through television, newspapers, brochures, DSE handbook and DSE website that would serve an important source of educating the public about the stock exchange and its importance of accumulating investment earnings in capital market.

#### **5.5 Areas for Further Studies**

As DSE has been observed to have a serious problem of illiquidity, there is a need to conduct a study to determine whether National Domestic Pensionable fund such as NSSF, PPF, PSPF and LAPF would help pull funds to DSE to facilitate the efficient operation of DSE, but also contribute in the national economic growth. Due to limited size of financial instruments at DSE, there is a need to conduct a study to determine whether or not lack of product diversification in the capital market provides dis-incentive for investing in the capital market.

## REFERENCES

- Abu, Baker N, Naser K (2000). Empirical evidence on corporate social disclosure (CSD) practices in Jordan. *Intl. J. Commerce Manage.* 10(3/4): 18-34.
- Abu-nassar, M, Rutherford BA (1996). External users of financial reports in less developed countries: the case of Jordan. *Br. Account. Rev.*,28: 73-87.
- Anderson, R, Epstein M (1995). The usefulness of annual reports. *Australian Accountant April*, pp. 25-28.
- Anderson, R (1981). The usefulness of accounting and other information disclosed in corporate annual reports to institutional investors in Australia. *Acct. Bus. Res. Autumn*, pp. 259-265.
- Arnold, J, Moizer P (1984). A survey of the methods used by UK Bank of Tanzania. (1996) Economic and Operations Report for the Year Ended 1996, various issues.
- Brealey-Meyers (2003): *Principles of Corporate finance 7<sup>th</sup> edition*.
- Chijoriga, M. M. (2000) “The Performance and Sustainability of Micro Finance Institution in Tanzania” Working Paper.
- Dow, J., Gorton G. (1997), Stock Market Efficiency and Economic Efficiency: Is There a Connection? *The Journal of Finance*, Vol. 52, No. 3
- DSE Handbook (2010): “Dar es Salaam Stock Exchange Annual Report 2010”
- Eugene, Fama (1989): Notes on efficiency Market.
- Fama (1970) Capital Market Efficiency: *Journal of Economic Literature* Published by American Economic Association (vol.27 No4 (Dec.1989).
- (Garcia and Liu, 1999). Macroeconomic Development of Stock Market Development. *Journal of Applied economic* vol 2. No 1. PP. 29-59 may



1999.

George, Tsibouris (2007): Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges *IMF Working Paper (2007)*

Ghani, E. (1992). "How Financial Market Affect Long-run Growth: A Cross Country Study, "*World Bank Working Paper WPS 843*.

Jensen and Mecking, (1976). Theory of the firm Managerial Behavior Agency Costs and Ownership structure.

John Wiley & Sons (2003) Essentials of Research Design and methodology

John Wiley & Sons. (2010) "The basics of finance" An introduction to financial Market, Business finance, and Portfolio Management.

Lexington (1976) Share Prices and Mergers: A Study of Stock Market Efficiency  
Lexington Books Business/Economics/ Finance.

McGraw-Hill (2002): Fundamentals of Corporate finance 6<sup>th</sup> edition V1

Norman (2011): Research Paper on Financial analysis as a consideration for stock exchange investment decisions in Tanzania. *Journal of Accounting and Taxation Vol. 3(4), pp. 60-69, August 2011*

Sam Q (2001): Constrain to Capital market Development and Growth in sub-Saharan African the case study of Tanzania.

Severine S. A. Kessy and Fratern M. Urio (2006): The Contribution of Microfinance Institutions to Poverty Reduction in Tanzania. (REPOA)

Stephen F. (1989): Efficiency Capital market and marrrtingulas journal of Economic

Tobias O. Olweny1 and Danson Kimani2 (2011): Stock market performance and economic growth Empirical Evidence from Kenya. *Journal of advances in Management & Applied Economics, vol.1, no.3, 2011, 153-196 International*

*Scientific Press.*

TNBC (2010): ‘Tanzania National Business Council Report 2010’

Treynor, J. (1981), What Does It Take to Win the Trading Game? Financial

USE Prospectors (2013): Uganda Securities Exchange Limited “Uganda Securities  
Exchange annual report 2010”

Willy (2003): financial management and Analysis 2<sup>nd</sup> edition

Ziorklui (2001): Capital Market Development and Growth in Sub-Saharan Africa:  
The Case of Tanzania.

## APPENDICES

### Appendix i: 'DSE' Listed Companies To-date With Their Respective Issued

#### Shares

S/N	Company Name	Symbol	Issued Shares	Percent
1.	Tol Gases Limited	TOL	42,472,537	0.51
2.	Tanzania Breweries Limited	TBL	294,928,463	3.55
3.	Tanzania Tea Packers Limited	TATEPA	17,857,165	0.22
4.	Tanzania Cigarrete Company Limited	TCC	100,000,000	1.2
5.	Tanga Cement Company Limited	SIMBA	63,671,045	0.77
6.	Swissport Tanzania Limited	SWISSP ORT	36,000,000	0.43
7.	Tanzania Portland Cement Company Limited	TWIGA	179,923,100	2.17
8.	Dar Es Salaam Community Bank	DCB	32,393,236	0.39
9.	National Microfinace Bank Plc	NMB	500,000,000	6
10.	Kenya Airways Limited	KA	461,615,484	5.6
11.	East African Breweries Limited	EABL	658,978,630	7.93
12.	Jubilee Holdings Limited	JHL	36,000,000	0.43
13.	Kenya Commercial Bank Limited	KCB	2,950,169,143	35.5
14.	CRDB Bank Public Limited Company	CRDB	2,176,532,160	26.19
15.	Nation Media Group Limited	NMG	157,118,572	1.89
16.	AFRICAN BARRICK GOLD PLC	ABG	410,085,499	4.9
17.	Precision Air Services PLC	PAL	193,856,750	2.3
<b>18</b>	<b>TOTAL</b>		<b>8,311,601,784</b>	<b>100</b>

**Source:** DSE data (2013).

E.g. issued shares by National Microfinance Bank LTD is 6% of the total shares issued by listed companies at DSE.

**Appendix ii: Research Questionnaire**

Instruction to respondents

- a) This questionnaire is conducted for academic purpose.
- b) The researcher shall keep all information given with confidentiality.
- c) The main objective of the study is to assess competitive advantages and challenges in the capital market in Tanzania a case of DSE.
- d) Put a tick (√) beside the answer you think is appropriate or fill the gap where there is a blank.

**PART A**

**GENERAL QUESTIONS**

1. Does the government of Tanzania put efforts to enhance the state of Capital market and efficiency operation of DSE?

YES (    )

NO (    )

**COMMENTS**

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

2. What should the government do to make DSE work efficiently?

.....  
.....

**PART B: SIZE OF INSTRUMENTS TRADED AT DSE AND PROBLEM OF LIQUIDITY**

Put a tick (√) beside the answer you think is appropriate

3. Of the following 3 aspects, which one do you think is likely to lead into efficient operation of DSE?

- a) Instruments, services and products offered by DSE. (     )
- b) Capacity building. (     )
- c) Maintaining trading of share and bond for efficient performance of DSE. (     )

COMMENTS.

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

4. Does the limited instruments and services offered by DSE affect efficiency performance of DSE?

YES (     )

NO (     )

Comments;

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

5. Does DSE management take initiatives to add and trade new instruments on increasing capital to DSE?

.....  
.....

**PART C**

**CONDITIONS, RULES, AND REGULATIONS ADMINISTRED BY DSE**

Put a tick (√) beside the answer you think is appropriate

6. Of the following 3 aspects, which one do you think is likely sought to contribute into efficient operation of DSE?

- i) Listing requirements is too stringent ( )
- ii) Act amendment on regulatory framework ( )
- iii) Rules, conditions and procedures remain the same. ( )

Comments;

.....  
.....

7. Does the rules and procedures administered by DSE and CMSA affect efficiency operation of DSE?

YES ( )

NO ( )

Comments;

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

8. Does DSE clients complain on the difficult rules, condition and regulations administered by DSE and CMSA on listing companies?

YES ( )

NO ( )

Comments;

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

**PART D**

**CHALLENGE OF CAPITAL MARKET AND INFORMATION ACCESSIBILITY**

Put a tick (√) beside the answer you think is appropriate

9. Of the following 3 categories, which one do you think is likely sought to contribute into efficient operation of DSE?

i) Higher transaction costs in IPO and secondary market operations ( )

ii) Lack of adequate financial securities education provided by government and DSE ( )

- iii) Lack of technology in communication, and computer networks for DSE information accessibility. ( )

Comments;.....  
 .....

10. Do you think DSE clients are facing challenges on accessing DSE information?

YES ( )

NO ( )

Comments;  
 .....  
 .....

The other set of questions will be used on interviewing “DSE” Top Management.

**Questions**

1. What should the government do to make DSE work efficiently?
2. Do you have enough instruments or services to serve DSE clients?
3. Where do you get capital to operate DSE?
4. Why are cross listed companies by DSE very few?
5. To what extent does DSE has managed to eliminate bureaucracy for the companies whom they wish to list their shares at DSE?
6. To what extent does the DSE management has tried to minimize transaction cost in accessing DSE information on improving efficiency and good performance.
7. What is your opinion on challenges facing DSE?

**THANK YOU FOR YOUR COOPORATION**