

Challenges faced by Dar-es-Salaam Stock Exchange Market in Tanzania

Jared Massele* Casius Darroux, Henry Jonathan, Xu Fengju
School of Management, Wuhan University of Technology, No.205, Luoshi Road, Mafangshan
Wuhan 430070, China
*Email: jmassele@yahoo.com

Abstract

For the past three decades, stock exchanges in emerging markets have accounted for economic growth, revolution and acceleration of financial sector development. For instance in Africa, stock exchange markets have been established in many countries such as Tanzania, Rwanda, Kenya, Swaziland, Botswana, Ghana, Malawi, Zambia, and Uganda. Prior to 1989 there were just five stock markets in sub-Saharan Africa and three in North Africa. Today there are more than 20 stock exchange markets in Africa and have been one of the domestic financial liberalization programs of most African countries. The main factor towards the establishment of stock exchange markets in African countries during the past few decades is linked to some important factors for development of global financial market and economy. Despite of establishment of stock exchange markets in Eastern and Sub-Saharan countries still there are challenges which hinder the sustainable development of these markets. Dar-es-Salaam Stock Exchange (DSE) market in Tanzania is one of the emerging stock exchange markets facing challenges that hinder the efficiency, sustainable growth and development of the market. This paper is going to identify some of the challenges faced by Dar-es-Salaam Stock Exchange market in Tanzania.

Keywords: stock exchange markets, emerging markets, capital markets, financial markets

1. Introduction

Stock exchange market is the standardized and organized financial capital market which is very crucial in competitive world where by individuals, big companies, business firms, business corporations and governments participate by either investing their funds or raising funds by using this formal system and standardized capital market. This market is a formal market which trades different financial instruments of the given specific issuer at a given price and time. This market is systematically arranged with rules and regulations according to the laws and financial policy of the given country. The efficient functioning of financial markets is important not only to investors who trade frequently but also to listed companies and corporations which issued their IPO on the market. In this context, the trading system in which securities are traded is an extremely important part of the functioning of the markets. According to Singh (1997), stock exchange markets are basically playing a big role to accelerate economic growth and financial sector development by motivating, promoting, attracting domestic savings and increasing quality and quantity of investment.

The stock exchange market is a secondary market and a mechanism which holders of financial securities such as stocks and bonds can trade their holdings with other participants in the market. Secondary market transactions has always taken place in stock exchange market, one of the developed and efficient stock exchange market are LSE, NYSE, and NASDAQ. One of the functions of stock exchange market is to enable determination of prices for securities. Example in secondary market where by prices of different securities are determined by the forces of demand and supply, prices of securities (shares) are discovered while information about the market are incorporated on the prices of securities in the market. For instance if the demand of TOL shares in DSE increases because of the annual company performance and expansion of new business then the price of TOL shares will be expected to rise and this will be a good news to investors as well as TOL business, the vice versa also is true assuming other factors remain constant. In addition, stock exchange market enables transactions to be done at discovered prices as quickly, cheap and efficient hence enable investors to participate in the market easily. Information efficiency may influence the market to be efficient and sustainable. Stock exchange markets mobilize saving through investments when an investor take part of its fund and decide to invest in securities (buying shares) as a rational allocation of resources. Buying shares (securities) provide fund to business entities and companies for expansion of business activities and projects. An investor also will benefit by either receiving dividends (return) at the agreed period normally one year or benefit by selling shares and gain profit. The main participants in the stock exchange market are licensed dealing agencies (brokers and dealers), financial intermediaries, investors, listed companies and government.

In summary, stock exchange market is secondary market which facilitates the selling and buying of securities where by transactions take place between holders of financial claims and other investors (participants) in the market. The price of securities are always determined in the stock market since the fluctuation of price indexes provide useful information for investors to speculate on Return on Investment (ROI) and Return on Equity

(ROE). This can be possible if the market is efficient enough to incorporate information quickly on the prices of shares of each listed companies in the market. This market can be termed as efficient or known as market efficiency.

1.1 Stock Exchange Markets Overview in Africa

Over a decade, Africa has been receiving a growing attention and investment opportunity from foreign investors to invest in Africa but still there are challenges which hinder sustainable economic growth and development (Senbet L., Otchere I., 2008). Some of the challenges may be one of the factors which affect also the sustainable growth of capital markets as well as stock exchange markets in Africa. However the increase in the number of stock exchange in Africa has been derived from the expansion and reformation of financial sector undertaken by African countries to improve the economic environment. This process of reformation has been undergone different measures on restructuring and privatization of state owned banks, promotion and development of capital markets, interest rate liberalization and credit ceilings. In addition, globalization has been part of the process which accompanied and stimulated by technology and innovation as a result of the integration between Africa and the rest of the globe. In Africa, DSE market is one of the stock exchange markets in East Africa which have relative small capitalization compared to the Johannesburg stock exchange. This can be simply measured by observation and experience which shows that there is no enough awareness to the public on the function and roles of DSE. Also DSE is an emerging capital market which has small number of companies which are listed, in 2012 there were 17 listed companies as a very small fraction of the total number of companies registered operate in Tanzania.

According to Levine (1997), the past two decades, stock exchange market liquidity has been a catalyst for long-run growth in developing countries. He further argued that without a liquid stock market, many profitable long-term investments would not be undertaken because savers would be reluctant to tie up their investments for long periods of time. In contrast, a liquid equity market allows savers to sell their shares easily, thereby permitting firms to raise equity capital on favorable terms. By facilitating longer-term, more profitable investments, liquid market improves the allocation of capital and enhances prospects for long-term economic growth. However the increase in the number of stock exchange markets in Africa has been derived from the expansion and reformation of financial sector undertaken by African countries to improve economic environment and stimulate economic growth. This process of reformation has been undergone different measures on restructuring and privatization of state owned banks, promotion and development of capital markets, interest rate liberalization and credit ceilings. In addition, globalization has been part of the process which accompanied and stimulated by technology and innovation as a result of the integration between Africa and the rest of the globe. Despite that Africa has been receiving a growing attention and investment opportunity from foreign investors to invest in Africa but still there are challenges which hinder sustainable economic growth and development (Senbet L., Otchere I., 2008). Some of the challenges may be one of the factors which affect also the sustainable growth of capital markets as well as stock exchange markets in Africa.

1.2 Dar-es-Salaam Stock Exchange Market in Tanzania

From its profile, DSE was incorporated in 1996 as a company limited by guarantee without a share capital. It became operational in April, 1998. The DSE is a non-profit making body created to facilitate the Government implementation of the reforms and in the future to encourage wider share ownership of privatized and all the companies in Tanzania. February 2005, there were seven equity listings on the exchange, up from six equity listings a year earlier. In May 2003, the DSE liberalized its restrictions on cross listings to allow cross listings by companies based in EAC partners Kenya and Uganda. Then, Kenya Airways was the first firm to cross list on the DSE (in December 2004). Tanzania's tiny bond market is currently dominated by government issues. The Tanzanian government introduced two-year bonds in 1997 and then five- and seven-year bonds in 2002, in moves to lengthen the maturity profile of government debt. Two-year and five-year bonds were first listed on the DSE in 2002, although only Tanzanian residents are eligible to invest in these instruments. In early 2005, other than the Tanzanian government's bond listings, "corporate" bonds, issued by the East African Development Bank and BIDCO, were listed on the DSE. (Irving, Jacqueline, 2005). Currently, DSE has not less than 17 listed companies in which 11 are local companies and 6 are foreign companies. Investors in the stock market always expect that stock market would provide additional financial instrument that may better meet their risk preferences and liquidity needs as Levine and Zervos (1998) argued that savings mobilization may increase savings rate. According to the World Bank Indicators (2012), the market capitalization of listed companies in stock exchange market of Tanzania is US dollar 1,180,030,000. In 2012, the market capitalization of listed companies (% of GDP) was 6.4% with 17 listed companies. However, DSE has been facing challenges in accelerating economic growth in Tanzania since it is one of emerging stock markets in Africa.

2. Methodology

The main objective of this paper is to identify the challenges faced by Dar-es-Salaam Stock Exchange market in

Tanzania. Methodology employed in this paper involved collection of information about challenges are been faced by the stock brokers in trading and business operations as main key players in the market. The collection of information has been done through "face to face" open interview with stock exchange brokers and dealers representatives, financial advisors, DSE officers and few financial analyst from listed companies as main key players in the stock exchange market. In addition, some of the information are secondary data from different literature review, DSE published journals and reports.

Table1 Distribution of interviewees

Interviewee	Number	%
Brokers and dealers representatives	5	14.70588
Financial Advisors	6	17.64706
Companies' representatives	10	29.41176
DSE officers	7	20.58824
Financial experts	6	17.64706
Total Interviewed	34	100

For an emerging stock exchange market to operate and facilitates trading of securities, the following factors are "sine quo non"; desirable characteristics of stock exchange market such as liquidity, availability of information which lead to market efficiency, high price sensitivity to new information, small price fluctuation and narrow price spread. Others are awareness and knowledge of capital markets to the public, number of market participants, ICT and advanced technology in trading example automated trading system, macro-economic stability of the country and competent experts (professional experts). The following is a simple conceptual framework for the challenges faced by DSE in Tanzania;-

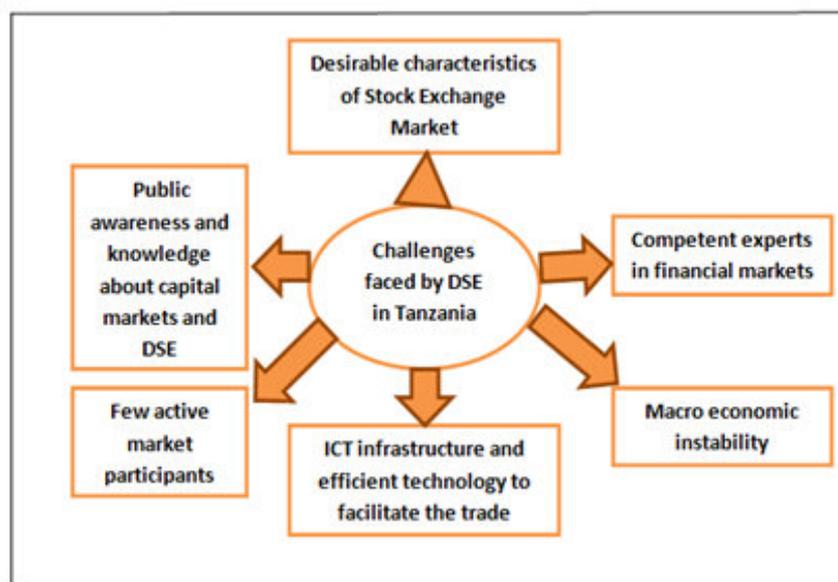


Figure 1. Conceptual Frame Work for the challenges faced by DSE in Tanzania

3. Challenges faced by stock market in Tanzania

This paper identifies the main challenges faced by stock exchange market in Tanzania, a case of DSE. The situation and experience shows that these challenges are also been faced by other emerging markets in Africa. The following below are an identified challenges faced by stock exchange market in Tanzania.

3.1 Lack of desirable characteristics of Stock Exchange Market

One of the challenges DSE has been facing is to operate its trading activities of securities under sufficient desirable characteristics of stock exchange market such as liquidity, availability of information which lead to market efficiency, high price sensitivity to new information, small price fluctuation and narrow price spread. This supports the argument from Senbet L. and Otchere I. (2008) that despite the establishment and development of stock exchange markets in Africa, the market remain thin and illiquid with exception of South Africa and North Africa.

DSE is not liquid enough because the change of hands of shares is too low; this is caused by lack of active market participants partly as a result majority of investors do not buy and sell their shares actively, they just hold for too long either to buy or sell while other just waiting for share price appreciation to occur in order to sell them and earn capital gains. Liquid equity market allows savers to sell and buy shares easily, thereby permitting firms to raise equity capital on favorable terms (Levine, R. (1997). According to Bencivenga and Smith (1991), liquid stock market is expected to minimize the downside risk and cost of investing in projects that do not pay off for a long time. They argued that if the stock market is liquid therefore initial investors would not lose access to their savings during the time period of investing since can easily, quickly and cheaply sell their holding securities.

DSE market does not exhibit market efficiency because the availability of information is not quick which increase the cost and does not incorporate on the market prices of shares quickly. It sometimes fails to execute orders and settle transactions in the fastest possible manner. Failure to execute orders and settle transactions as fast as possible is caused by lack of active market participants and illiquid market. One of the evidence is when a buy or sell orders stay for too long without getting a corresponding match and sometimes the expected information about the listed companies does not incorporate in the market prices. Some of the interviewed DSE brokers argued that prices do not react quickly to new information. Sometimes it may not or may take too long for price changes to occur following a certain announcement or news regarding a certain company trading in the exchange. This indicates that prices do not fully reflect all available information. According to Yartey and Adjasi (2007), argued that efficient stock markets may reduce costs of information through generation and dissemination of firm specific information that efficient stock market prices reveal. If the stock market is not efficient, market prices would not incorporate all available information and not expected to facilitate the information's acquisition concerning investment opportunities.

3.2 Public awareness and knowledge about stock market

Lack of public awareness about the capital markets and DSE market in Tanzania was pointed out by all DSE stock brokers who were interviewed since the market needs people and people should be aware of the market and products or services available in the market. Despite the efforts which have been done by DSE to publicize and provide market information via TV and radio programmes, seminars, fair exhibitions and regional integration, there are number of Tanzanians who are still unaware of its existence and basic information about capital markets in Tanzania. The statistics shows that 75% of Tanzanians population are in rural areas and many are participating in Agricultural and self-entrepreneurship activities. Also many of them are earning low income and fail even to have little to save. This is also a big challenge to capital markets in Tanzania since the main participants who are participating in the stock market are corporations, financial institutions, business companies, government parastatals, rich people and medium income earners which account for low volume of trade in DSE.

3.3 Few market participants

Currently, DSE has 17 listed companies which is a very low number. The market participants in the stock market compared to the total population is very low while the total population is 44.9 million people (NBS, Tanzania, 2012). According to unpublished statistics, it has been said that an estimated number of individuals who are participating in stock exchange trading apart from government corporations, parastatals, business companies and financial institutions are 200,000. The following are listed companies in DSE as December 2012.

Table 2. Listed Companies in DSE as December 2012

Company's Name	Listed date	Industry	Shares Issued
Tol Gases Limited TOL	15.04.1998	Production & distribution	42,472,537
Tanzania Breweries Limited TBL	09.09.1998	Production	294,928,463
Tanzania Tea Packers Limited TATEPA	17.12.1999	Manufacturing	17,857,165
Tanzania Cigarette Company Limited TCC	16.11.2000	Manufacturing	100,000,000
Tanga Cement Company Limited SIMBA	26.09.2002	Production	63,671,045
Swissport Tanzania Limited SWISSPORT	26.09.2003	Airport Service	36,000,000
Tanzania Portland Cement Company Limited TWIGA	29.09.2006	Production	179,923,100
Dar Es Salaam Community Bank DCB	16.09.2008	Banking Services	32,393,236
National Microfinance Bank Plc NMB	06.11.2008	Banking Services	500,000,000
*Kenya Airways Limited KA	01.10.2004	Air Transport	461,615,484
*East African Breweries Limited EABL	29.06.2005	Production	658,978,630
*Jubilee Holdings Limited JHL	20.12.2006	Insurance	36,000,000
*Kenya Commercial Bank Limited KCB	17.12.2008	Banking Services	2,217,777,777
CRDB Bank Public Limited Company CRDB	17.06.2009	Banking Services	2,176,532,160
Precision Air Services Plc PAL	21.12.2011	Air Transport	193,856,750
*African Barrick Gold Plc ABG	07.11.2011	Mining	410,085,499
*National Media Group NMG	21.02.2011	Media	157,118,572

* Cross-listed foreign Companies

Source: DSE and writer

Table 3. DSE Market Participants

Brokers of Dar-es-Salaam Stock Exchange (DSE)	Registered (NOMADS) Nominated Advisers
Orbit Securities Company Limited Core Securities Ltd SOLOMON Stockbrokers Limited Rasilimali Limited Tanzania Securities Limited Vertex International Securities Zan Securities Limited	Enterprise Growth Marker Advisors Ltd TSL Investment Management Ltd ARCH Financial & Investment Advisory Limited Exim Advisory Services Ltd. (Fund Manager)

3.4 Lack of Information and Communication Technology (ICT) and advanced technology

Lack of ICT and advanced technology in trading securities is also one of the challenges of DSE in Tanzania. Many brokers and trading sessions are operating business manually. Lack of reliable internet services, sufficient and reliable information about the market is a very critical problem since it increases the cost of investing and trading operations. This is supported by Yartey and Adjasi (2007) which shows in their constructed indicators that the trading system in stock exchange market in Tanzania is operating manually despite that clearing and settlement has been done electronically. They also argued that the main institutional and infrastructural bottleneck of African stock markets is the use of slow manual systems. However, emerging stock markets in developing countries are gradually adopting electronic system still there are substantial African stock markets which trade manually and use manual clearing and settlement which slow down trading and induce inactivity. The trading system at DSE is not sufficiently automated. This situation does not eliminate the need for trade intermediation because investors cannot log onto systems online to monitor markets and trade, thus increase the cost by the use of brokers.

3.5 Macro-economic instability

Tanzania is facing inflation, currency depreciation over dollar, unemployment, population increase and poverty. These factors may affect either indirect or direct economic stability of the country. For instance in February 2012, inflation rate was 19.8 which was a persistence increase of general price of basket of basic goods and services such as diesel and petrol, transport cost, sugar and food in general. This inflation sometimes affects the purchasing power of the currency since the value of shilling depreciates and hence affects trading in stock market in Tanzania by increasing cost of trading stocks. The currency depreciation over dollar also affects macro-economic stability of the country which leads to inflation. Basically, sustainable macro-economic stability

may accelerate growth and performance of stock exchange by motivating investors to invest with positive expectation; also vice versa is true under “*Ceteris Peribus*”. According to the World Bank, the poverty headcount ratio at national poverty line (% of population) in Tanzania is above 30% and 33.4% (2007). The inflation has been fluctuating and not stable, at the end of 2012 the annual average inflation was 16% while the peak was in January and February, 19.7% and 19.4% inflation respectively (NBS, Tanzania). The table below shows the summary of the Consumer Price Index and Inflation from 2002 to 2012.

Table 4. National Consumer Price Index and Inflation

National Consumer Price Index (NCPI) September, 2010 =100

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Index	57.58	60.64	63.51	66.71	71.54	76.57	84.44	94.69	99.87	112.55	130.56
Inflation Rates	5.3	5.3	4.7	5.0	7.3	7.0	10.3	12.1	5.5	12.7	16.0

Source: National Bureau of Statistics

3.6 Lack of competent experts in financial markets

Lack of competent experts in financial markets is one of the challenges faced by DSE. It affects the sustainable development of stock exchange market since few competent experts would not be sufficient to provide adequate demanded services to all investors as per needs. However, competent experts may determine the quality of services provided in capital market and quality of the stock exchange. These competent experts are stock analysts, financial analysts, lawyers, licensed brokers and professional financial advisors. DSE has only 6 licensed brokers and few dealers. One of the successful factor for sustainable development of London Stock Exchange LSE as emerged market is reliability of financial experts and financial institutions. For Tanzania there are almost 4 registered nominated advisors in stock market and 6 licensed brokers. This number is too low to accommodate financial advisory to investors. According to Mensah (2003), most of African Stock markets except South African stock exchange, exhibit immature markets and market inefficiency. He added that low market professionalism leads to market inefficiencies and low returns which are realized to active management.

4. Conclusion

This paper identifies challenges which are faced by stock exchange market in Tanzania. These challenges should be identified first by policy and decision makers and find solutions. According to Yartey and Adjasi (2007), it shows that African stock exchange markets are small and illiquid. Despite the bottlenecks of stock exchange markets in Africa, DSE has been assisting companies to raise fund for financing business operations and expansion of business projects. It is a job for Tanzania’s policy makers to set policies with objectives of increasing the size of stock exchange market in Tanzania, create public awareness, improve information technology, improve electronic automation system for trading of securities and professionalism with better regulatory enforcement in order to improve stock market efficiency. The Government of Tanzania should take the necessary steps to assist DSE to carry out public awareness campaigns and train workers to be equipped with enough skills and knowledge about capital market and stock exchange business operation. DSE should attract SMEs by seminars and train them about the advantages of raising fund and investing in stock exchange market. DSE should keep standards of stock exchange market by maintaining quality and assurance of service it offers to increase efficiency and attract more investors to participate in the market.

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