THE ROLE OF STOCK EXCHANGE MARKET TO THE ECONOMIC GROWTH IN TANZANIA: A CASE OF DAR ES SALAAM STOCK EXCHANGE MARKET

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE OPEN UNIVERISTY OF TANZANIA

2012

CERTIFICATION

The undersigned certifies that he has read and hereby recommend for acceptance by the Open University in Tanzania a dissertation entitled. "***The Role of Stock Exchange to the Economic Growth in Tanzania"***. A Case of Dar es Salaam Stock Exchange, in Partial Fulfillment of the Requirement for the Degree of Masters of Business Administration (Finance) of the Open University of Tanzania.

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DECLARATION

I, Katuma Biyan, hereby declare that this dissertation is my own account of research and contains, as its main content work which has not previously been submitted for a degree at any higher learning institution.

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Signature

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Date

DEDICATION

I dedicate this work to my late parents mummy Damari Biyan, and Doddy Biyan Wandwi and my daughter Juliana Biyan who were patient and encouraged me through their prayers from beginning of my studies.

ABSTRACT

The study was designed to identify the role of Stock Exchange market to economic growth in Tanzania. It also a determined the factors which hinder the swift growth of Dar es Salaam Stock Exchange Market and the suggested measures to be taken by DSE to promote economic development in Tanzania. The study used the case study based on triangulation and descriptive design to obtain necessary and required qualitative and quantitative data. The intended   population of this study was groups of stackholders of DSE from four categories namely representative of regulatory bodies, representative of corporate organization, stock brokers and analyst and shareholders and investors. The target sample size was 100 stakeholders from four categories of DSE.The data for the study were obtained through both primary and secondary data collection method in the former interview, observation and questionnaire were used while various published and non-published materials were used in the later. Data collection was analyzed with assistant of the statistical packaged for social science (SPSS): The findings have revealed that both market capitalization and value of share traded contribute a small amount in growth of the economy of Tanzania. Furthermore, the findings have revealed the challenges which hinder the growth of DSE, as lack of liquidity, low market capitalization, poor macro-economic high transaction costs, lack of adequate track – openness, lack of skillfully human resources, and lack of public awareness of DSE. Based on the major findings, recommendation to improve the role of DSE, in order to promote economic growth in Tanzania, were to improve automated system, promote institutional investors, strengthen education, public awareness and access information of DSE and suggesting the government to stabilize macro-economic.

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LIST OF ABBREVIATIONS

ABG	Barrick Group
CDS	Electronic Central Depository System
CMCA	Capital Market Security Authority
DATES	Automated Trading Electronic System
DCB	Dar es Salaam Community Bank.
DSE	Dar es Salaam Stock Exchange
EABL	East African Breweries Ltd
JHL	Jubilee Holding Ltd
KA	Kenya Airways Ltd
KCB	Kenya Commercial Bank.
LDMs	Licensed Dealing Members
MC	Market Capitalization.
NMB	National Microfinance Bank
NMG	National Media Group
PAL	Precision Air Ltd.
TATEPA	Tanzania Tea Packers Ltd
TBL	Tanzania Breweries Ltd
TCC	Tanzania Cigarette Company Ltd.
TOL	Tanzania Oxygen Ltd
VAT	Value of Transaction or Share Traded

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

All over the world the capital market has played significant roles in national economic growth and development. One intermediary in the market that operates as a rallying point for the overall activities is the stock exchange market. It is a common postulation that without a functional stock exchange market, the capital market may be very illiquid and unable to attract investment. This is so because the stock exchange market is the one which provides liquidity promote efficiency in capital formation and allocation (Block and Hirts, 2002).

The stock exchange market mainly provides liquidity by enabling firm to raise funds through the sell of securities with relative ease and speed. As a result the stock exchange market is able to influence investment and economic growth. The large stock exchange market lower the cost of mobilizing savings, facilitating investment in the most productive technologies (Mohtadi and Agarwal, 2004).

Thus for sustainable growth and Development, funds must be effectively mobilized and allocated to enable business and the economy harnessed their human, material and managerial resources for efficiency productive. The stock exchange market enables, government to raise long –term fund (capital), which will enable it to expand, modernize projects, and finance new investment. If funds are not provided to those, economic areas, such as industry and commercial activities which are

capable in increasing production and productivity, the rate of expansion of the economy decline. A unique benefit of the stock exchange market to entities is the provision of equity securities. Through the provision of equity securities, companies acquire perpetual capital for development.

Another way in which stock exchange market contributes toward economic growth is toward global risk diversification. As argued by Obstfeld (1994), Devereux and smith (1994) Smith and Paul (1992) ''Stock market provide a vehicle for diversifying risk. These way shows that greater risk diversification can influence growth by shifting investment into high return projects. Savers are usually risk averse and reform from investing in risking investment project yielding lucrative return.

In effort of Tanzania government's Policy to transform it economy from public government dominant economy to private sector driven economy, it establishes Dar es Salaam Stock Exchange Market. The establishment of the Dar es Salaam Stock Exchange (DSE) marked an important milestone 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 Dar es Salaam Stock Exchange was established by the capital market and security authority under Capital Market and Securities (CMS) Act of 1994. The DSE was incorporated in September, 1996 as a company limited by guarantee without a share capital under the companies' ordinance (Cap 212) (DSE, 2008a). The Capital Markets and Securities Authority (CMSA) is a government agency established to

promote and regulate securities business in Tanzania. It was established under Capital Markets and Securities Act, 1994. The legal framework for the regulation of the securities industry is the Capital Markets and securities Act, 1994 (Act No: 5 of 1994 as amended by Act No. 4 of 1997).

The act is supplemented by various regulations that are promulgated by the Minister of Finance. DSE is a non –profit making organization created to facilitate the government implementations of the economic reforms in particular on enabling the private sector raise capital. The exchange becomes operational in April 1998 with TOL Gas Limited listing as the first company followed by the Tanzania Breweries Limited (TBL) during the same year.

The delay was due to the necessary background operational preparations that were inevitable such as training rules (CMSA, 2008). Hence, a stock exchange is a secondary capital market where large and small investors can buy and sell securities (shares and bonds etc.) it is an organized market where buyers and sellers of securities meet as they are represented by dealers/brokers and acquire or dispose securities (DSE 2007; Norman, 2006).

The DSE has its structure which consist of:- three licensed dealing members, two associate members representing listed companies, one associate member representing institutional investors, two associate members representing profession, one associate members representing the public and chief executive officer who is an ex –officio members DSE (2007).

All trading system at the DSE Trading floor is conducted under an Automated Trading Electronic System (DATES), which matches bids and offers using an electronic matching engine. Brokers post their orders in the system, and matching orders are displayed on computer terminals in the trading floor. Clearing and settlement is conducted through an electronic central depository system (CDS). This is the share registration system which facilitates registration of changes of ownership of securities electronically. The CDS facilitates the delivery of securities in time for the settlement of trades to be implemented within five working days (DSE, 2007).

Pursuant to the provision of the capital market and securities Act, 1994 the DSE has established a fidelity fund Account to be used to compensate investors who suffers financial loss arising from fraud and misappropriation of funds by Licensed Dealing Members (LDMs). The fund is maintained by the DSE. The fund can also be used to compensate investor who suffers loss as a result of Licensed Dealing members (LDMs) negligence. As of December 1999, four companies have been listed on the DSE. Three of these companies have raised a combined equity capital of Tshs 28.5 billion (an equivalent of US$35.71 Million) in the primary capital market. The fourth company, East African Development Bank has raised an amount of Tsh. 10 billion (an equivalent of US$12.5 Million) through the issue of a four −year corporate bond (Ziorkhui et al, 2001).

Currently, the Dar es Salaam Stock Exchange (DSE) is the only formal trading place for securities in Tanzania. Seventeen (17) companies are listed. Tanzania Oxygen

Limited (TOL), Tanzania Breweries Limited (TBL), Tanzania Cigarette Company (TCC), Tanzania Tea Packers Limited (TATEPA), Swiss port Tanzania Limited (Swiss port), Tanzania Portland Cement Company Limited (TWIGA) Barrick Group Ltd (BG), Dar es salaam Community Bank (DCB), National Microfinance Bank (NMB), Tanga Cement Company (SIMBA), East African Breweries (EABL) and Kenya Airways (KA), Jubilee Holdings Limited (JHL), Kenya Commercial Bank Limited (KCB), CRDB Bank Public Limited Company (CRDB), National Media Group (NMG), Precision Air Limited (PAL). Treasury and corporate bonds are also listed at the Dar es Salaam Stock Exchange (DSE) among other (DSE, 2012).

Operationalization of the DSE has contributed substantially towards public enlightenment which has caused a few Tanzanian to invest in listed companies as a result of this transformation. It is the DSE's goal that Tanzanian appreciated and eventually adopts a thrift culture that thrives an equity ownership in successful business concern (DSE 2008).

According to Ekundayo (2002) argues that a nation requires a lot of local and foreign investment to attain sustainable economic growth development. Thus the establishment of the DSE, marked the beginning of the people in Tanzania indulging in purchase of share as a strategy for investing consequently a need for proper decision making on where to invest and why. It can be added that the establishment of capital market followed suit of many other change which gave a signal for the need to transform the economy from government driven economy to

private sector. It is this situation that promoted the study to look on the extent to which the DSE played its role on growth of the economy of Tanzania through privatization of public owned companies and the avenue of long –term fund to various government corporations in Tanzania, between 1998 to 2012. A good example of privatization, in which the researcher is so interested are like that of NMB Bank in which the government sold 105,000,000 shares at Tsh 600 through which are holding was reduced 51% to 30%(NMB prospectus 2008)Tanzania Portland Cement Company Limited, in which the Government of Tanzania sold all are 30% holding in the company amounting to 53,973, 900 shares at Tsh 435 each (TPCC Prospectus 2006), Swiss port (Formally DAHACO) in which the Government of Tanzania sold all her 40% holding in the company, amounting to 17, 640,00 share of 225 each (DAHACO Prospectus 2003).

1.2 Statement of the Problem.

Stock Exchange Market have played a great role in the investment process in developed countries. The literature confirms that Stock Exchange Markets have contributed to the development and economic growth to a large extent. Since the incorporated of the Dar es Salaam stock exchange in the mid 1990's, the government of Tanzania has been put forward strategies and initiatives to promote its performance. Despite of all the developments, several studies have revealed that the performance of Dar es Salaam stock exchange still is not promising (Shivji, 2010).

This study intends to fill the existing gap by identifying at what extend the Dar es Salaam stock exchange contributes to economic growth and provide recommendation what should be done in order to improve its performance.

1.3 Research Objectives

1.3.1 General Objectives

The main objectives of this study will be to explore the role of stock exchange market to the economic growth in Tanzania.

1.3.2 Specific Research Objective

Specifically the study aimed at:-

a) To identify at which extent market capitalization at the Dar es Salaam Stock Exchange contributes to the growth of the economy in Tanzania

b) To determine at which extent value of share traded at the Dar es Salaam Stock Exchange contributes to the growth of the economy in Tanzania

c) To examine the challenges facing the growth of the DSE market.

1.4 Research Questions

1.4.1 Main Research Question

The main question that attempted to be answered by this study was, "What role does DSE play to economic growth of Tanzania from 2003 – 2012"?

1.4.2   Specific Research Question.

a) What are the contributions of market capitalization at the Dar es Salaam Stock Exchange to the growth of the economy in Tanzania?

b) What are the contributions of value of share traded at the Dar es Salaam Stock Exchange to the growth of the economy Tanzania?

c) What are the challenges facing the growth of the DSE market?

1.5   Significance of the Research

The emerging of capital markets has received a considerable attention from various research and study particularly in the country. This study will trace the role of the stock exchange company is the mobilization of the resources and directing such resources to the productive sectors of the economy (CMSA, 2008 and DSE, 2008).

Furthermore, the findings obtained are expected to explore how DSE offers a relatively convenient and an alternative access to capital in comparison to the traditional financial instruments such as bank loans. The resources directing strategy has up to 2001 enabled about 40,000 Tanzanians to be owners of various companies through purchase of shares (DSE, 2008).

Moreover, the finding obtained are expected to help academicians and researchers in doing further research and the same subjects with the aim of improving the role of stock exchange market not only in Tanzania but also in other African Countries. The study also serves as a guide for future reference for both practitioners and academicians who are doing research on similar topic.

1.6 Scope of the Study

This study will cover the role of Stock Exchange Market to economic growth of Tanzania taking DSE as a case study. It will review how DSE as a Stock Exchange Market facilitate the selling and buying security. However this study will try to identify the role of DSE in economics growth of Tanzania, as well as limiting factors facing its growth and measures to be taken by DSE to curb or mitigate the

challenges facing the exchange. For this study Primary data and Secondary data collection will be used. Primary data collection will be conducted using anonymous questionnaire to selected respondent at the DSE. The secondary data will be obtained from various published and unpublished sources such as news paper, books, web site, etc.

1.7 Organization of the Study

The study is structured into five the chapters. Chapter one is the introduction which consists of the background of the study, research problems, research objectives significance of the study, scope of the study, organization of the study and limitation or the study.

Chapter two focuses on the review of related literature concerning with conceptual definition, theoretical analysis, empirical analysis and conceptual frame-work.

Chapter three examiners research methodology which include introduction, research design and procedures method of data collection. Data analysis and conclusion.

Chapter four is refers to research findings and analysis.

Chapter five focuses on summary, conclusion and recommendation as well as areas for further research.

1.8 Limitation of the Study

Data availability and accessibility is very big problem in most of African Countries including Tanzania. This has result to be one of the limitations of this study as some of the data were not found. The data of market index since the inception of Dar es Salaam of Stock Exchange to 2006 were not found only market index for 2007 to

2012 were found. A time constraint during conduction of the study was another limitation of the study. The time available to finish the whole project was very limited especially with this kind of studies which involves the category of stake holders of the Dar es Salaam Stock Exchange who may be sometimes with a busy schedule and not responding on accurate time

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter focuses on various theoretical and empirical issue on Stock Exchange Markets and economy growth of Tanzania. It consist of two parties: Part one deals with theoretical literature review and part two is on empirical studies to try to reveal the study gaps. It review the main concept and literature on the stock exchange market as well as its role in economic growth in Tanzania. Finally this chapter gives a conceptual framework and synthesis of the study gap.

2.2 Conceptual Definition.

2.2.1 Financial System

Is a collection of financial market, financial intermediaries, laws, regulation and techniques through which fixed income securities, equities and other securities are packaged, traded and yield are determine(DSE 2008).

It is universally accepted that no modern economy can flourish without the backing of an efficient financial system because the financial system is to the economy, what of is to a motor engine, as oil lubricant the engine enable it to work more efficiently. The financial system play the role of intermediations by facilitating movement of funds from savers (surplus spending unity) to users deficit spending unit) and thereby in increasing the efficiency of economic resources allocation and deployment (DSE, 2010.)

2.2.2 Financial Market

These are defined as a collection of market that deal with financial assets, including those which pay off in short term usually less than one year (money market) and whose life is of a long –term (known as capital market) (DSE 2008.)

2.2.3 Capital Market

Are facilitated and mechanism through which funds move from idle holders to productive users. They are facilitate which channel funds at market price to productive activities. Capital market have two inter- dependent segment primary and secondary market.(DSE 2008).

A capital market is a market which is made up of markets and institutions, which facilitate the issuance and secondary trading of long –term financial instrument (Onyiuke, 2010).

The capital market is a net –work of specialized financial institutions, series of mechanisms, processes, and infrastructure (Al –Fark, 2006).

2.2.4 Primary Market

Are financial market is one which new issue of securities are sold to initial buyers for the first time commonly referred as initial Public Affairs (IPOs). A good example is when a company floats its shares or sells it corporate bonds to the investing public for the first time. The securities issued in primary market are later sold in secondary market.

2.2.5 Secondary Market

A later market which deals with buying and selling of securities previously issued and subscribed to (in Hand of investors) in primary market. An example of secondary market institutions is a Stock Exchange like DSE, which is a market where investors through their brokers, sell and purchase listed securities. The DSE is therefore one of the key institution of a financial system with unique function.

2.2.6 Stock Exchange Market

According to Nyong, (1997) Stock Exchange Market is a complex institution imbued with inherent mechanism though which long term funds of the major sectors of the economy comprising households, firms and government are mobilized, harnessed and made available to various sectors of the economy.

The Stock Exchange Market can be a mechanism which can measure and detect the symptoms of impending economic boom or decline long before the predicted prosperity or decline actually occurs (Alile and Anao, 1986).

A stock exchange market is an organized secondary market since a stock exchange is really strictly a market for existing rather than new securities (Okofar, 1983).

According to DSE, (2007) Norman, (2006) a stock exchange is secondary capital market where large and small investors can buy and sell securities (share, bond). It is an organized market where buyers and sellers of securities meet as they are represented by dealers/brokers and acquire or dispose securities. According to Benchivenga (2007), a Stock Exchange is a market which securities are traded by

members of the exchange who may act as both agent (brokers) and as principal (dealers).

According to Armstrong (1994), a Stock Exchange Market is the citadel of capital the temple of value. It is the axes of which the whole financial structure of the capitalist system turns.

2.2.7 Economic Growth

Economic growth means a persistent, increase in the whole national income. It is a continuous process by which the capacity of the production of the country's economy is increasing in a given time and thus enables the raise of the national income level.

Economic growth is the persistent expansion of the possibilities of production (Portion 1990). Economic growth is an increase in output per unit of Input (Udu and Agu, 1989).

Two types of growth are extensive growth and intensive growth (Demson and Kendirch, 1985). Extensive growth is a type of growth which happen as a result of growth in output, which is a result of increasing in input i.e capital and labor.

Always extensive growth is measured by payment of wages in the value of output. Intensive growth is a type of growth which happen as a result or improving factors such as technology, equality and institution as well as efficiency market.

Four factors contributed, at a large extent to the growth under intensive growths, these factors are technology, educated labor force, improvement in resource allocation as well as economic of scale. The process of economic growth involves transformation of the structural of the whole society.

2.3 Theoretical Analysis

2.3.1 Role of Stock Exchange Market

The stock market is in the focus of the economist and policy makers because of the perceived benefit it provides for the economy. According to Obadon (1995), the stock market provides the fulcrum for capital market activities and it is often cited as a barometer of business direction: An active stock market may be relied upon to measure changes in general economic activities using the stock market index.

Stock Exchange Market provide a market for listed securities: That means, it enables those wishing to join or leave the listed companies to do so and those wishing to leave to do so as well (DSE, 2010).

Stock exchange facilities price discovery. The price mechanism ensures that buyers and sellers can do so at a price determined by demand and supply forces (DSE and CMSA 2010). Stock exchange my also affect the economic activities through the creation of liquidity. Liquid equity market makes available saving for profitable investment that requires long-term commitment of capital. As asserted by Bencivenga, Smith and Starr (1996), without liquid capital market there would be no industrial revolution.

According to DSE and CMSA (2010), the stock exchange market facilitates privatization and wider ownership of resources. The DSE has facilitated and continued to facilitate the privatization of some parastatal organization which were under the control of the government whose share have been sold by the government through DSE.

Closely related to liquidity is the function of risk diversification: stock market can affect economic growth when they are internationally integrated. This enables greater economic risk sharing. Because high return project also tend to be comparatively risky. Stock market that facilitates risk diversification encourages a shift to higher return project (Obsetfeld, 1994). The resultant effect is a boost in the economy leading to growth the shifting of society: saving to higher return investments.

According to persuade (1990) the stock market provide additional channel to encouraging and mobilizing domestic saving for productive investment and on alternative to bench deposit real estates investment and financing of consumption loan.

Stock exchange market, provide through equity financing cushion for companies against the variability of cash-flows and even possible losses: it is a permanent financing which does not demand regular fixed return like debt.

Stock exchange market improve the gearing of domestic corporate sector by facilitating equity financing and this help to reduce corporate dependence on borrowing thus making the financial system more strong.

According to DSA and CMSA (2010), stock exchange market, facilitating raising of capital for enterprises:- The stock exchange, facilitates companies to sell new share / bond at better prices which lower the cost of capital to such companies and increase the operation profit.

Furthermore Stock Exchange Market facilitate this disclosure requirement put in place by the DSE require listed companies to promptly disclose all price sensitive information so that investors may make informed decision. This is achieved at two investors accept higher prices for shares and lower interest rates for bond, when the companies selling these securities are well known and have met stringent as opposed to lesser known enterprises where the investors are faced with a greater amount of uncertainty and as a result they demand lower prices for shares or higher yield as a compensation for this increased risk (DSE 2008).

Lastly, Stock Exchange Market contributes to cultural transformation of Tanzania. A the time the DSE was established, only a handful Tanzanian could claim to be knowledgeable with stock market operations. Operationalization of the DSE has contributed substantially toward public enlightenment which has caused few Tanzanian to invest in listed companies as a result of this transformation (DSE, CMSA 2008).

2.3.2 The Policies of Economic Growth

The policy of economics growth include balances budget and monetary policy, which can lead to low interest rate, thus promote economic growth:- Other policies

which can be used to promote economic growth include, those which encourage saving and investment, within a country. Furthermore economic growth can be promoted by tax policies which encourage saving and investment.

Economic growth within a country can be affected by the following factors organization factors such as specialization and improvement in technology, quality and quantity of capital invested, skills and effort of labor force, as well as the input of government policy and the extent of monopoly (Udu and Agu 1989).

Economic growth can be generated by accumulative of capital as well as the introduction of technology. The accumulation of capital is the growing in resources of the given capital. Introduction of technology is the development of new and better method, strategy and ways of producing goods and services. Economic growth can be accurately measured by the Gross National Product (GNP) or Gross Domestic Product GNP. Gross National Product measures the power of the economics of the national, which GNP measures the standard of living or the citizens.

2.3.3 Measures of Stock Exchange Market

The indicators or index of stock exchange market development can be categorized using three main characteristics, namely as traditional, institutional and asset pricing (Dermirguc–kunt, and Levine, 1996). Traditional characteristics are concerned with basic growth measures of stock market. These measures include number of listed companies, market capitalization, liquidity (Trading value, Trading volume, Turnover ratio and total value traded ratio) and new issues. These institutional

characteristics measures are the regulatory and legal roles that may influence the functioning of the market, information disclosure and transparency requirements as well as market barriers and trading cost.

2.3.3.1 Traditional Characteristics

2.3.3.1.1 Market Capitalization.

An index which is commonly used as a measure of stock market size is the market capitalization. Market capitalization equal to the total value of all shares which are listed on the stock exchange market. It is a product of current quoted price of the share and the number of share, which are outstanding on the stock market.   The market capitalization of the entire equity market is thus obtained by summing up the market capitalization of all quoted companies.

Hence, market capitalization always increase or decrease with movement in the price of the market company's equity. To determine, the extent to which a stock market is large in an economy of a country the market capitalization is usually compared with the GDP.

2.3.3.1.2 Liquidity

Is an index, which is used in the stock exchange market: it refers to the ability of investors to buy and sell securities easily? It is an indicator which is so vital, for stock market development, since it signifies how the market helped in improving capital allocation and   hence   enable long –term economic growth. Three main indices of liquidity, which are often used are:- Trading value or value of transaction, Trading volume or volume of transaction and Turnover ratio.

2.3.3.1.2.1 Trading Value

It refers to the amount of all the deals, which have been transacted in the stock exchange, in a given period. The value of transaction on each trading day is obtained by multiplying the number of shares bond/stock that is transacted among shareholders by prevailing market price of such securities. A fast increase in volume of transactions of the share in the stock exchange is an indicator that there is interest in the security or market. Persistent rise in price and volume of transaction can lead to crash of the market.

2.3.3.1.2.2 Volume of Transaction

The number of share/stock which have been traded and value are known as volume of transactions; it is also an important indicator of the market on the level of liquidity.

2.3.3.1.2.3 Turnover Ratio

This is also, an indicator of the liquidity of the market, which is a value of transaction as a percentage of market capitalization. It is usually so high in the active market, and very low in the market which are not active. The ratio is used as an index, to compare liquidity of the market and the level of the cost of transaction.

2.3.3.1.3   Number of Listed Companies on the Stock Exchange.

The total number of listed companies on the stock exchange market is an indicator, of economic development or growths of the market. In the countries which companies, see as prestige to go public, the number of listings on equity is high,

while in those countries which the companies averse, to go public the number of listing is very small.

2.3.3.1.4   Primary Securities (New Issues)

Primary securities or new issues, are funds which are generated through the sales of long –term securities in a form of stock or bond for the first time after subscription by the public or by existing shareholders of a company. The total amount or new issue which has been raised on the capital market could be on indication of the popularity of the capital market.

2.3.3.1.5   Market Average and Indices

A market average or index is a vital item for evaluating the performance of a stock market. It is an analytical tool, which disclose out the behavior of stock market and direction of the economy as a whole. Summing up the prices of all equities and dividing total sum by the number of total securities deliver stock average or index. In an alternative way a selected group of compared securities could be chosen their piece should be summed up and divided by the number of securities. In real sense, an average is an arithmetic mean of the prices of the group selected securities:-

The most popular stock average is the Dow Jane Industrial average. Increasing average and indices are evidence at firm price rising while falling indices indicates general drop in prices.

Purposes of Index, according to marsh (2002) are: - It support research for evaluating trading rules, technical analysis system, risk management and measurement, asset

allocation and international diversification decision. It tell us how much richer or poor investors become. Equity and bond indices are economic barometer.

2.3.3.2 Institutional Characteristics

2.3.3.2.1 Regulatory Institutions

It ensures fair play and transparency in the operation of the market, since it is seen as a way of buoying investor's confidence in brokers and other capital intermediary   as well as stakeholder, thus it encourages investment and trading of securities in the stock exchange market.

2.3.3.2.2 Transaction Costs

It is also a measure of efficiency in the stock market. If in the stock market, there are higher transaction costs, then there will be high inefficient of the market and vice – versa. Transactions cost can be on companies listed or an individual. On companies listed, transaction cost include all expenses incurred in the bid to make public offer of equity, for investors, it include all expenses incurred in the purchase of share.

2.3.3.2.3. Concentration

It measures at which extent the stock market in dominated by few companies. The importance of concentration as a measure of performance of capital market is because of the address effect it may have on the liquidity of the market.

2.3.3.3 Asset Pricing Characteristics

It determine, the efficiency of the asset pricing in the securities market. The major, purpose for measuring efficiency in term of prices of the market is the information

content which are in that prices. A price of a market is identified to be strongly efficient market of it correctly reflects all available information i.e past present and future. If it reflect only the historical information it, identified as weak. (Inanga & Enenuga 1997).

2.3.4. Determinants of Stock Market Development in Africa

The policy question, therefore, is what determines stock market development? The literature suggests that well developed banking sector, sound macroeconomic environment, and shareholder protection, transparent and accountable institutions, are necessary preconditions for the efficient functioning of stock markets in Africa.

2.3.4.1. Banking Sector Development

The development of the banking sector is important for stock market development in Africa. At the early stages of its establishment the stock market is a complement rather than substitute for the banking sector. Developing the financial intermediary sector can promote stock market development. Many East Asia countries are successful examples, support services from the banking system contribute significantly to the development of the stock market. Consequently, liquidity inter – bank markets, largely supported by an efficient banking system, are important for the development of the stock market. Conversely a weak banking system can constrain the development of the stock market. On the empirical front, Demirquc –Kunt and Levine (1996) found that most stock market indicators are highly correlated with banking sector development. Countries with well –developed stock markets tend to have well developed financial intermediaries. Yartey (2007b) finds that a percentage

point increase banking sector development increases stock market development in Africa by 0.59 percentage point controlling for macroeconomic stability, economic development and the quality of legal and political institutions.

2.3.4.2 Macroeconomic Stability

A stable macroeconomic environment is crucial for the development of the stock market. Macroeconomic volatility worsens the problem of informational asymmetries and becomes a source of vulnerability to the financial system. Low and predictable rates of inflation are more likely to contribute to stock market development and economic growth. Both domestic and foreign investors will be unwilling to invest in the stock market where there are expectations of high inflation. Garcia and Liu (1999) finds that sound macroeconomic environments and sufficiently high income levels –GDP per capita, domestic savings, and domestic investments –are important determinants of stock market development in emerging markets.

2.3.4.3 Shareholder Protection

Another key determinant of stock market development is the level of shareholders protection in publicly traded companies, as stipulated in securities or company laws (Shleifer and Vishny, 1997). Stock market development is more likely in countries with strong shareholders protection because investors do not fear expropriation as much. In addition, ownership in such markets can be relatively dispersed, which provides liquidity to the market. La Porta el al (1999) provide evidence for the importance of minority rights protection by using indicators of the quality of

shareholder protection as written in laws. They demonstrate that the quality of shareholder protection is correlated with the capitalization and liquidity of stock markets in 49 countries around the world.

2.3.4.4 Institutional Quality

Institutional quality is important for stock market development because efficient and accountable institutions tend broaden appeal and confidence in equity investment. Equity investment thus become gradually more attractive as political risk is resolved over time.

Therefore, the development of good quality institutions can affect the attractiveness of equity investment and lead to stock market development. Yartey (2007) finds good quality institutions such as law and order, democratic accountability, bureaucratic quality as important determinant of stock market development in Africa because they reduce political risk and enhance the viability of external finance. Bekaert (1995) provides evidence that higher levels of political risk are related to higher degrees of market segmentation and consequently low level of stock market development. Erb et al (1996) show that expected returns are related to the magnitude of political risk. They find that in both developing and developed countries, the lower the level of political risk, the lower is required returns.

The evidence in the literature suggests that political risk is a priced factor for which investors are rewarded and that it strongly affects the local cost of equity, which may have important implications for stock market development.

2.3.5   Challenges Facing the Dar es Salaam Exchange Stock Exchange Market

Several studies have been analyzed and undertaken in order to identify the challenges, which are facing the stock exchange market development in Africa.

Various researcher, have identified the factors, affecting the development of Africa stock exchange market according to Benimadhu (2003). The factors which are affecting the development of Africa stock exchange market can be categorized into two groups, first group Political and Macro – economic factors. Political factors include things like political instability, while micro –economic factors includes inflation rate as well as high volatility in GDP.

Second group, is the stock exchange market specific factors, which are manual trading, liquidity, availability of market information, practice of listed companies as well as corporate governance.

According to Mensah (2003) the challenges which are facing the development of Africa stock exchange market are low investors confidence, limited listing, illiquidity and insufficient of legal frame –work. The challenges which are facing the growth of DSE are as follow:-

2.3.5.1 Macro – Economic Factors

Macro economic instability in Tanzania is a first factors or challenge, which are facing the growth of Dar es salaam stock exchange:- Macro –economic includes unemployment level, inflation rate: Thus most citizen in Tanzania lack capital, due to poverty, which is facing them, and which lead them   to fail to participate in the

financial system. According to (Word Bank 2008) statistics shows that between 2000 -2006, 36% of Tanzania population, where living below national poverty. Due to such low income and expensive living expenses, it becomes so difficult, for most Tanzanians participate in financial system.

2.3.5.2 Liquidity

Low liquidity is considered to be major challenges to growth of DSE. According to Cohn (2000), the lack of significant number of listed companies is a major cause of the paucity of daily trading and concomitant lack of liquidity with the stock. According to Attu (2007) liquidity remain a big risk in Africa due to small floats and the small size of many listed equities. The data shows, that since March 2007, out of ten companies, which are listed on the DSE, only three companies contributed third of the total market capitalization (DSE 2007). That means, only few companies, are liquidity.

2.3.5.3 Lack of Public Awareness and Availability of Information on DSE Operation

The majority of Tanzanians do not understand, or they are not aware about the operations or activities of DSE. According to Zervos and Levine (1996) easy access to information about listed firms by the domestic and foreign investors is positively associated with the development of stock exchange market. Mc Gregor (2008) reported that in an interview with IPS this year, the CEO of DSE, mentioned, some of the challenges faced by DSE in its development include lack of understanding and awareness on the operation of DSE.

2.3.5.4 Manual Trading

Manual trading and poor infrastructure has been a stumbling block for growth of DSE. The infrastructure for information communication Technology (ICT) is very poor. The DSE, has been operating in manual system for nine years, up to 2007, when the market become electronics:- thus since the ICT technology is a frequency change, then modern infrastructure are required.

2.3.5.5 Accounting Requirement

The accounting requirement has been an obstacle for more companies to be listed of DSE, due to the fact that, many company, afraid or refuse to join the market, in order to avoid, exposing their accounting statements for   public scrutiny; many private companies in Tanzania take advantage of weak laws and lack of adequate law enforcement to tinker with taxes and accounting books.

2.3.5.6 Initial Cost

Initial costs to prepare the company's legal affairs as well as balance sheets have been limiting factors for companies to be able to join DSE. The initial cost associated with preparation of legal affairs and accounting statements has caused some of the private companies to hesitate to accept invitation to join DSE.

2.4 Empirical Literature Review

Under empirical review, the study will try to show what others have done in their research studies and then showing the existing gap with those researchers who have done related research study. A number of studies have addressed the relationship between stock exchange market and economic growth as here under.

Levine and Zervous (1993) in their research shows that stock market development is strongly correlated with growth rates of real GNP per capita. More importantly they found that stock market liquidity and banking development both predicts the future growth rate of the economy when they both enter the growth regression. They concluded that stock markets provide different services from those provided by banks. However stock exchange are expected to accelerates economic growth by increasing the liquidity of financial assets, making global risk diversification easier for investors and promoting better investment decision. However the author did not show how stock exchange market is stimulant to the economic growth through the security markets and the role of companies to participate in stock exchanges markets.

Benchivenga and Smith and Starr (1996) emphasized on the role of liquidity provided by stock exchange on the size of asset investments through common stock financing. According to him, investors are more easily persuaded to invest into common stocks, when there is little doubt on their marketability in stock exchanges. This in turn motivates corporation to go to the public when they need more finance to invest into capital goods.

Obstfed (1994) shows that international risk sharing through internationally integrated stock markets improves resources allocation and accelerates growth. He also argued that stock markets liquidity, the ability to trade easily, plays a key role in economic growth, although profitable investment require long run commitment to capital, savers prefer not to relinquish of their saving for long periods. Yet Kyle (1984) argues that, an investor can profit by researching a firm, before the

information becomes widely available and price change. Thus investors will be more likely to research and monitor firms. To the extent that larger, more liquid stock markets increase incentives to research firms, the improved information will improve resource allocation and accelerate economic growth. The role of stock market exchange in improving the economy has been questioned by Stieglitz(1985) who argues that the stock markets reveals information through prices change rapidly, creating a free − rider problems that reduces investor incentives to conduct costly search.

Ziorkhui et al (2001) conducted out their studies on capital market development and growth in sub-Saharan Africa focusing on Tanzania. The objective of their study was to examine the various problems that constrain the development of functioning capital market. Parametric statistical analysis was adopted in testing various hypotheses. The study found out that the policy changes in Tanzania have had positive impact and challenges on the capital market development, that in norm terms, Tanzania experienced economic growth throughout the period 1986 to 1998.

Adebiyi (2003) empirically investigates the directions of causality between index of industrial production and some indicators of development in the Nigerian stock market using annual time series data from 1980 -2002. He examined stochastic characteristics of each time series by testing their stationery using Augmented Drekey Fuller (ADF) and Phillip Perron (PP) tests: Then the effect of stochastic stocks. Effort was made by Nyong (1997) to develop an aggregate index of capital market development and used it to determine its relationship with long-run economic

growth in Nigeria. The study employed a time series data from 1970 to 1997 for measures of capital market development the ratio of market capitalization of GPD (in percentage), the ratio of total value of transactions on the main stock exchange to GDP (in percentage), the value of equities transaction relative to GDP and listing were used. The four measures were combined into one overall composite analysis. The result of the study was that capital market development is negatively and significantly correlated with long-run growth Nigeria.

Studies on the interrelationship of the stock market with macro-economic variables have been conducted for the Indian economy among others Naka et al Shama and Kennedy (1997) Sharma (1983) , Darrat and Mukheriee (1987). While some of these studies focused on the stock market and aspect of the India Economy the work of Darrat and Mukheriee (1987) used the vector auto regression model (VAR) to find a causal relationship between stock return and some macro – economic indicates.

2.5 Theories of Stock Exchange Market

2.5.1 Efficient Market Hypothesis – Theory

It is an investment theory that states it is impossible to '' beat the market'' because stock market efficiency causes existing share prices to always incorporate and reflect all relevant information.

According to the EMH, stocks always trade at their fair value on stock exchanges, making it impossible for investor to either purchase undervalued stocks or sell stocks for inflated prices, as such, it should be impossible to outperform the overall market

through expect stock selection or market timing, and that the only way an investor can possibly obtain higher returns is by purchasing riskier investments. According to Fama (1976) the capital market is efficient if price, full reflect all available information in the market. There are four schools of thought on the theory.

2.5.1.1 Technical Analysis School or Chartists Theory

It involves the study of historical price and volume data for one stock or a group of stock and predict future trend. That means, the technician predict future price level of a stock by examining the past data from the market. The basic assumption of technical theorist is that history tends to repeat itself. In other words, past pattern or market behavior will occur in future and can be used for predictive purpose.

The Dow theory named after its creator Dow, who established the wall street Journal is the grandfather of most technical analysis, its purpose is to identity long-term trend in stock market prices.

2.5.1.2 Fundamentalist Theories

It is on analysis which uses earnings and divided prospect or the firm, expectation of future interest rates, and risk evaluation of the firm to determine proper stock prices. It usually start with a study or past earning and examination of a company balance sheet. They add more data such as economic analysis, evaluating firm's management. The purpose is to identify future performance of the firm that is not yet recognized by the rest of the market. The fundamentalist, believe that the market will eventually see '' the error of its ways'' (Dreman 1977) and by following this

policy on above average market performance can be obtained. Although it is a cornerstone of modern theory, the EMH is highly controversial and often disputed. Believers argue it is pointless to search for undervalued stocks or to try to predict trends in the market through either fundamental or technical analysis. Meanwhile, while academics point to a large body of evidence in support of EMH, an equal amount of dissension also exists. For example, investors, such as Warren Buffett have consistently beaten the market over long periods of time, which by definition is impossible according to the EMH.

2.5.2 Random Walk Theory

The theory that stock price changes have the same distribution and are independent of each other, so the past movement or trend of a stock price or market cannot be used to predict its future movement. Therefore, this is the idea that stocks take a random and unpredictable path. A follower of the random walk theory believes it's impossible to outperform the market without assuming additional risk. Critics of the theory, however, contend that stocks do maintain price trends over time – in other words, that it is possible to outperform the market by carefully selecting entry and exit points for equity investments.

2.5.3   Chaos Theory

Chaos theory has been applied to many different things, from predicting weather patterns to the stock market. Simply put, chaos theory is an attempt to see and understand the underlying order of complex system that may appear to be without order at first glance. Related to financial markets, proponents of chaos theory believe

that a price is the very last thing to change for a stock, bond, or some other security.

2.5.4   Risk Theory

According to this, theory, the chance that an investment's actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. Different versions of risk are usually measured by calculating the standard deviation of the historical returns or average of a specific investment. High standard deviations indicate a high degree of risk.

Many companies now allocate large amounts of money and time in developing risk management strategies to help manage risks associated with their business and investment dealings. A key component of the risk management process is risk assessment, which involves the determination of the risks surrounding a business or investment.

2.6 Research Gap

Despite the fact that there are many duties on the role of DSE toward the economic growth in Tanzania, but most of studies does not concentrate or address the exclusive impact that Dar es Salaam Stock Exchange has to the economy of the country. As we speak about investments, the stock market exchanges are not put under greater consideration of the major investment of capital goods on financial and stock markets in Tanzania, with this study the observed gap is expected to be filled by investigating the role that DSE have to the economic growth though focusing on listed companies and stock brokers all of them are located at Dar es Salaam.

2.7 Conceptual Frame work

Various studies argued that, where a framework exist it is advisable to use it, rather starting a purely exploratory study. The aim of the frame-work here under is to provide a clear understanding of the variable that may lead to either to economic growth or uneconomic growth of Tanzania.
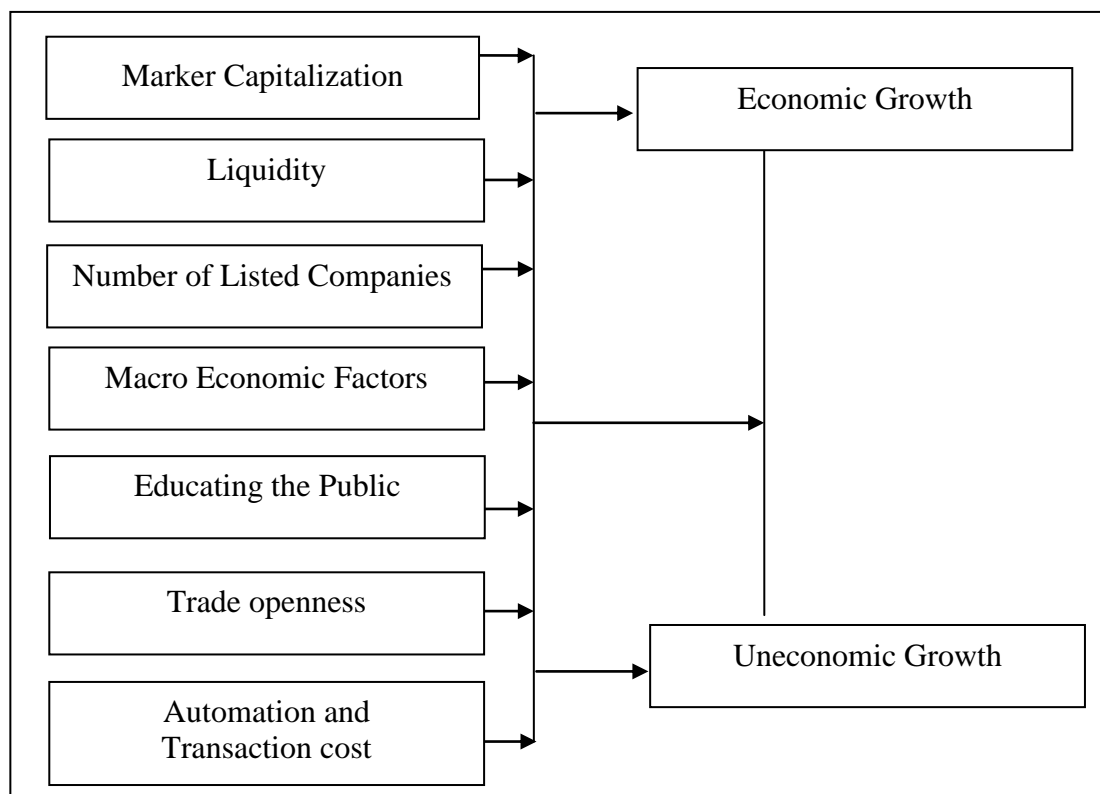
Figure: 2.1 Conceptual Frameworks

Source: DSE (2012)

2.7. 1 The underlying Theory or Assumption

It is the opinion of the study that there is a positive correlation between the stock exchange market and economic growth. Several studies depict that the role of stock exchange market, in economic growth can be achieved if the market has high market capitalization, high liquidity, large number of companies listed on the stock

exchange, Trade openness, Literary rate, macroeconomic factor, high level of , automation of the stock exchange and low transaction cost within the stock exchange. The study revealed that low level of market capitalization, low liquidity, few numbers of companies listed on stock exchange, no trade openness, no public awareness and high transaction cost, no automation and poor macro economic factors can attribute to failure of the role of the stock exchange to achieve economic growth in Tanzania.

2.7.2   The Element or Variables for the Study.

The study has conceptualize the required variables for this study to be market capitalization, Liquidity, number of listed companies, Macro economic factors, Educating the public, Trade openness, Automation and Transaction cost. The purpose of this study market capitalization is a measure of stock market size. Market capitalization equal to the total value of all shares which are listed on the stock exchange market. When market capitalization increases the value of the stock exchange market increases and lead to growth of the economics. Liquidity is an index which is used in the stock exchange market to explain the ability of investors to buy and sell securities easily. If liquidity increases the value of stock exchange market increases and thus economic growth will be achieved. But if liquidity the value of exchange market decreases and thus economic growth will not be achieved.

Number of listed companies of the stock exchange is an indicator of economic growth. This is so because if the number of listed companies on the stock exchange increases the value of stock exchange increases and thus economic growth will be

achieved. But if the number of listed company on the stock exchange market decreases the value of stock exchange decreases and thus economic growth will not be achieved.

Macro economic factors refer to inflation rate, employment and the gross domestic product. If the macro economics of a country is good that means the rate of inflation is low, there is full employment and high national income then the value stock of exchange will increase, since most citizen will able to purchase share on the stock exchange. This will lead to increase the economics growth of the country. But if the macro economics is poor, that means high inflation, high level of unemployment and low level of national income then most citizen will not be able to purchase share and thus the value of the stock exchange market will fall and this will lead to uneconomic growth.

Educating the public refers to keep the public within the society to be aware about the role and activities of the stock exchange market. If the public will be aware of the role and benefit and activities of the stock exchange then they will be to purchase the share and thus increase value of stock exchange and economic growth. Automation refers to introductions of ICT within the stock exchange market. This will lead most of the activities of stock exchange market to be undertaken using high technology. Thus the stock exchange market will increase productivity, save cost and time. This will lead the value of stock exchange to increase and thus increase economic growth within the country. Transaction cost refers to cost which are charged by the stock exchange market in on its operation. If the cost operation of the stock exchange is so

high then the value of stock exchange market will decline and thus limit the achievement of the economics growth but if the cost of operations in the stock exchange market is low, the value of stock exchange market will increase and thus achievement of economics.

Trade openness refers to introduction of foreign companies within the domestic market of the exchange.   Such introduction will enable the market to increase the number of equity within the stock and thus market capitalization will increase. Obviously the value of the market will increase and economic growth will be attained. But in case there is no trade openness within the stock exchange, the value of the stock will decline and thus no attainment of economic   growth.

CHAPTER THREE

3.0 RESEARCH METHOLODOLOGY

3.1 Introduction

There exist different methods and techniques that can be employed in research depending on the nature and type of research being undertaken. The nature and type of data to be collected dictates the types of techniques to be used in collecting scientific data.

The purpose of methodology is to discover answers to questions through application of scientific procedures. The main objective was to find out the role of stock exchange market to the economics growth of Tanzania. The section has answered the procedural question of research that has been undertaken. It has addressed the research design, research strategies, survey population, area of the research, sampling design and procedures, data analysis, expected results of the study and the conclusion of the chapter.

3.2 Research Design

Research design is the framework or plan for study used as a guide in collection and analyzing data. Gill (1997) suggests that research design is the road map used to guide the implementation of the study. Therefore, it is the blueprint that is to be followed in completing a study. The research design helps the research to obtain relevant data to fulfill the objective of the study (Rwegoshora, 2006). The study chose to use a case design. A case study research is an in depth investigation of an individual, group, institution or phenomenon. Most of the case studies are based on

the same premises that a case can be located that is typical of many other case. Mugenda and Mugenda (2003) argued that, the case under study is viewed as an example of a class of events or a group of individuals.

The case study strategy will be very good for this research because it will give the much needed in depth understanding into the role of DSE in economics growth of Tanzania. Since a case study is closely aligned with interpretive perspective, the proposed study will triangulate survey with case study. The primary benefit of this triangulation is that survey is that survey will flesh out larger data collection than case study which emphasizes on a small scale.

Since the study will use triangulation in order to seek convergence of result the research will use both qualitative and quantitative research methodology. Quantitative and qualitative data collection techniques and analysis procedures each have their own strengths and weakness (Smith, 1975.) Tashakkor and Teddlie (2003) say that '' multiple methods are useful because they provide better opportunities to answer research questions and better evaluate the extent to which research findings can be trusted and inferences made from them. 'The qualitative research approach seeks to gain insights and understand people's perceptions of issues surrounding them (Creswell, 1994).

Strauss and Corbin 1990 consider that qualitative research is any research that procedures findings not arrived at by any means of statistical procedure or other means of quantification. On the other hand quantitative research methodology is the

systematic, controlled, empirical and critical investigation of natural phenomena guided by theory and hypothesis about the presumed relationship among such phenomena (Strauss and Corbin, 1990).

The quantitative research approach involves the collection of actual data. Studying the relationship between the facts and how they relate to the theories and findings of previous studies. Thus, both approaches have been used to find out information about the role of stock exchange market in economics growth of Tanzania a case of DSE.

3.3 Research Strategies

These study is expected to describe the variables in a situation of interest to the researcher. Thus, the study will be descriptive in nature. Descriptive study will be appropriate because the nature of the problem is well known and the objective is clearly specifies(Kothari, 2004).Various studies and scholars advocate that; descriptive research uses a set of scientific method and procedures to collect raw data and create structures that describes the existing characteristics of defined target population or market structure. This strategy is perfect for this research since the problem is structured and well understood and thus, a study is undertaken in order to ascertain and be able to describe the characteristics of the variables of the researcher's interest.

3.3.1 Survey Population

Population is defined as a full set of cases from which a sample is taken (Saunders et al 2009). The target population for this study was DSE stakeholders, which includes

a group of four stakeholders namely as representatives of regulatory bodies, representatives of corporate organization, Stock brokers and analysts, as well as Shareholders and investors.

3.4 Sample and Sampling procedure.

A sample is a group hopefully representative of the population intended to be studied and from which one devices generalization about the population (Bailey, 1994) sample size is the number of respondents selected for interview from a research population. It depends on the accuracy needed, population size, population heterogeneity whether the sample will be subdivided or not and resources available (Bailey 1994).

In this study the sample will be selected judgmentally/purposively and randomly. For the purposive sampling, respondents will be chosen based on the study judgment that they have desirable characteristics and can provide the required information. The simple random sampling will be applied in selecting respondents from several stakeholders of the DSE in order to provide equal chances for them to be selected as sample.

The sample of 100 of the population will be drawn from DSE stakeholders. The sample size is reasonable as the population is heterogeneity and study are not enough, also the sample is considerably larger therefore questionnaires will be used as one among a tool for data collection and they have low rate of response and hence the use of larger sample will help to generalize the findings. After that the

study will use simple random sampling which will include all stakeholders of DSE from different organization or part. The reason for this method is to provide equal chances for every stakeholder to be selected as a sample.

Table 3.1: The Sample of the Population

Group	Sample to be Selected
Representatives of regulatory bodies	25
Representatives of corporate organizations	30
Stock brokers and analysts	20
Shareholders and investors	25
Total	**100**

Source: Field Data (2012)

3.5 Variables and Measurement Procedures

The types of data collected aimed at filling the gap raised in the research questions and were of two types, namely qualitative and quantitative. The research variables used to collect data and information were Market capitalization, Liquidity, Macro economic factors, Education to the public, Automation, Transaction cost, Trade openness, and Number of listed companies.

The build up of the data collection tools were based on the research objectives and research questions. Therefore the data sought are intended to answer and achieve the said research questions and objectives and ultimately enabled the study to assess the roll of Stock Exchange Market economic growth of Tanzania.

3.6 Methods of Data Collection

Both primary sources and secondary sources of data were used in this study. Empirical data were collected from different sources to ensure their reliability and

validity. Primary data were obtained through structured interviews, questionnaires and observations while secondary data were obtained through documentary review. Personal interviews has provides the opportunity for the interview to clarify issues. The reason behind adoption of several techniques centered on truth that the strengths of one method offset the weakness of other methods. Frankfort –Nachmias(1996) proposes that social science studies should choose from among or make a combination of questionnaire, interviews, observation, and documentary methods of gathering data in case studies.

Structured self administered questionnaires with both closed and open ended questions were used to collect primary data, because they facilitate the collection of data at minimal cost and also are means that respondents to guide the respondents to bring about more objectively as well as consume less time. Open ended questions capture free responses in the respondent's own words (Kothari 2004).

Observation assisted the study to validate information obtained through questionnaires and interview. The observer considered the real situation in the DSE. The researcher has also used the already worked data i.e secondary data from various data banks. Published and non- published materials were used as a source of data to supplement primary data.

3.7 Data Analysis

The study involved both qualitative and quantitative methods. In explaining qualitative findings, content analysis was employed. The role of stock exchange

market in economic growth was measured in terms of percentage according to response from selected sample size. The necessary tables and narrative models were also used to represent the results obtained from the data analysis. Furthermore each question used in the questionnaire or interview has been structured in such a way that it provides the underlying information, thereby answering a particular research item so as to meet a defined objective. Quantitative data collected were processed using the statistical package for social sciences (SPSS) as it has extensive analytical capacity. The sources of the data for quantitative are obtained from various issue of the central Bank of Tanzania (BOT) and DSE in their annual report and a statements for accounts between 2003 and 2012. The multiple regression analysis was used to test whether the capital market indicators of capital market development such as market capitalization, transaction value, can contribute to economic growth of Tanzania, proxy by Gross Domestic Product (GDP).

Aprori

Since the large the size of the market capitalization, the better the market and the more we expect the economy to grow. Thus we expected a positive relationship between market capitalization and economic growth as measured by Real growth domestic product (GDP). Conversely if the relationship is negative, it means the market in bearish.

In case of the value of transaction (VAT), a positive relationship is expected with economic growth since, a rapid increase in the trading volume of securities of the DSE is indicative of interest of the capital market.

Model specification

The model is based on Demirgue – Kunt and Levinc (1996), Levine and Zervos (1996), Demirque hunt (1996) which have investigated linkage between stock market and economic growth.

GDP = F(MCAP + VAT)

GDP = a + a$_1$ MCAP + a$_2$ VAT + U

Where the apriori expectation is $^a1$, $^a2$, ,>0 and

GDP = Gross Domestic Product, MCAP = Market capitalization, VAT = Total value of transaction, U = Disturbance Term,

a =Intercept, a$_1$- a$_2$= coefficient of the independent variables.

3.8 Data Cleaning, Reliability and Validity

Kothari (2004) defines data cleaning as data preparation, which includes editing and eliminating errors in coding and transmitting the data to the computer. For the purpose of achieving maximum data quality standard editing was done. Detected errors and omissions were corrected. In the process, responses were studied and compared to assess the accuracy and consistency with other information. Similarly, cleaning of data was also done to ensure completeness of questionnaires as well as their uniformity and consistency due to the fact that different respondents used different terms to give the same information.

Validity as suggested by Kothari, (2004), refers to the extent to which the concept one wishes to measure is actually being measured by particular scale of index.

Saunders et al (2009) suggests validity to be referred to the extent to which a test measures what actually intended to be measured. In order to judge how well the instrument met standard, some questionnaires were given to a carefully selected group of experts during the pilot study. The questionnaires were modified following the feedback and insights given on the questions, before distributed to the respondents.

Reliability of a measure refers to consistency of which repeated measures produce the same results across time and observation. It is a contributor to validity and is a necessary but not sufficient condition for validity) Kothari, 2004; Saunders et al, 2009). With assumption that, what is being measured is not changing, a measure is considered reliable if it would give the same results over and over again. For this study, in order to assess reliability of the instrument, some respondents were visited twice i.e test –retest. The results indicated that the instruments used in the study were reliable.

3.9 Conclusion

The discussion above has focused on research methodology. The research design adopted enabled the study to get information both quantitative and qualitative. Both exploratory and explanatory studies were conducted. The results obtained from the data analyzed enabled the researcher to come up with the findings detailed in chapter four.

Findings from this study are expected to generate useful information to the role of Stock Exchange Market to economy growth of Tanzania and ultimately came up

with feasible recommendations on improving the role stock exchange market in Tanzania taking a case study of DSE.

CHAPTER FOUR

4.0 RESEARCH FINDINGS AND OBSERVATIONS

4.1 Introduction

This chapter presents and analyses the empirical findings of the study regarding the role of Stock Exchange Market in economic growth of Tanzania, a case of Dar es salaam Stock Exchange Market (DSE) is presented and discussed. The findings are analyzed in relation to research objectives, question, and proposition of the study and literature review. As stated in chapter three, the research methods used were of a quantitative and qualitative.

4.2 Respondent's Rate of Response

The table 4.1 shows questionnaires administered and the result of the field work.

Table 4.1 Status of the Questionnaires Distributed and collected

Respondents	Number of Questionnaires		Collected in %
	Distributed	Collected	
Representatives of regulatory bodies	25	20	80
Representatives of corporate organizations	30	25	83.3
Stock brokers and analysts	20	10	50
Shareholders and investors	25	20	80
Total	**100**	**75**	**75**

Source: Field data (2012)

The field work comprised administration of questionnaires, observation interviews and documentary review. Response rate was very high ranging from 83.3 for Representatives of corporate organizations, 80% from both Representatives of regulatory bodies and Shareholders and investors as well as 50% from stock brokers and analysts.

4.3 Respondents Characteristics

The section analysis the findings concerning the characteristics of respondents.

4.3.1 Gender Respondents

A total number of 60 respondents i.e Representatives of regulatory bodies, Representatives of corporate organizations, Stock brokers and analysts, and Shareholders and investors gave their opinions. The researcher summaries the information as shown in table 4.2 below.

Table 4.2. Gender results

Gender	Frequency	Percentage %
Male	40	53.33
Female	35	46.67
Total	**75**	**100**

Source: Field Data (2012)

From the result (Table 4.2) of visited respondents, 53.33% were male, remaining 46.67% represents female. The researcher discovered gender imbalance.

4.3.2. Age of Respondents

The distribution result of the respondent's age is revealed by table 4.3 above.

Table 4.3 Respondents Age

Age	Frequency	Percentage
18- 24	15	20
25 -34	20	26.67
35 – 44	30	40
45 -54	8	10.67
55 and Above	2	2.67
Total	**75**	**100**

Source: Field Study 2012

The majority of respondent were having age between 35 -44, which comprise 40% followed by 25 -34, which have 26.67% , followed by 18 -20 which have 20% , while 44 -54 have 10.67% and the last are those 55 and above have 2.67%.

4.3.3 Education and Qualification of Respondent

Distribution results of respondent education are revealed on table 4.4

Table 4.4 Educations and Qualifications of Respondents

Education level	Frequency	Percentage
Secondary	10	13.33
Ordinary diploma	15	20
Bachelor degree	30	40
Masters degree	20	26.67
PhD holder	-	-
Total	**75**	**100**

Source: Field study (2012)

30 of the respondent has Bachelor degree which comprise 40%, followed by 20 of the respondent which comprise 26.67% who have master degree, followed by 15 respondent which comprise 20% have Ordinary diploma, and 10 respondent which comprise 13.33 has Secondary level of education. None of the respondent has PhD level.

4.3.4 Level of Computerization.

The researcher was so interest to know the level of computerization at the DSE. The table 4.5 below shows the exchange of computerization.

Table 4.5 Level of Computerization

SN	Option	No of Respondent	Percent
1.	Yes	75	100
2.	No	-	-
Total		**75**	**100**

Source: Field study (2012)

4.5 Statistical Results, Analysis and Findings

In this section the statistical result of the role of stock exchange market to the economy growth of Tanzania a case of DSE were presented and discussed.

4.5.1 Identification of the Contribution of Market Capitalizations of the DSE to the Economic Growth of Tanzania

This section analyses the findings regarding the question "what are the contributions of market capitalization of the DSE to the economic growth of Tanzania"? This is in line with the first objective which aimed at identifying the contribution of market capitalization of the DSE to the economic growth of Tanzania.

The summary of the results are summarized in the table 4.6 that follow. Table 4.6 reveals the total market capitalization for the period 1998 -2012: The market capitalizaiton drop by -11% in 1999, but in 2000 it increases by 30% in 2001 the marekt capitalization increases by 100% and in 2002 it incease by 82%.

The market capitalization increasing by 9.39% in 2008 due to appreciation of prices of TBL, TWIGA and Kenya Airways, in 2009 the market capitalization increases by 51.90% due to listing of NMB shares, in 2010 the market capitalization decreases by

4.96 % due to follow in prices of TBL, TOL Gases, Swissport, Twiga and CRDB

Bank.

Table 4.6 Market Capitalization

Year	MCA(Tshs Billion)	Change %
1998	163	-
1999	145	-11
2000	189	30
2001	378	100
2002	689	82
2003	500	-38
2004	800	6.0
2005	2500	212.5
2006	2573	2.92
2007	3118	21.18
2008	3411	9.39
2009	5181.41	51.90
2010	4924.53	-4.96
2011	5,924	20
2012	12,909	117

Source: DSE Annual report, Publication, Market report 2007 – 2012

In 2011 the market capitalization increases by 20% due to prices gain to listed

company as result of dividend announcement. In 2012 the market capitalization

increases by 117% percent due to price gain to CRDB, TWIGA, NMB and

Swissport.

Table show that there is a remarkable performance from Tshs 163 billion in 1998 to

12,909 billion in 2012 a growth of 7,819.63%. This is due to persistent increase in a

number of equity year after year and appreciation of current price of shares. Only in

1999, 2003 and 2010, there is lowest growth of 11%, 38% and 4.46% due to prices

losses in equity sector. The persistent increases in market capitalization are an

indication of growth of Economic of Tanzania, even though at a small amount of contribution from DSE.

4.5.2 Identification of the Contribution of Value of Share Traded of the DSE to Economic Growth of Tanzania

This section analyses the findings regarding the research question, "what are the contributions of value of share traded of DSE to the growth of economy of Tanzania?". This is in the line with the second objective which aimed at identifying the contribution of value of share traded to the economic growth of Tanzania.

The summary of the result are summarized in Table 4.7 that follow:-

Table 4.7   Value of share Traded

Year	VAT (Tz Shs Billion	Change %
1998	-	-
1999	5.21	500
2000	32.08	515
2001	7.60	-76
2002	18.85	148
2003	22	-
2004	17	-22.7
2005	28	64
2006	15.30	-45
2007	27.30	78.95
2008	26.39	-3.33
2009	33.81	28
2010	55.12	63
2011	14.96	-72.9
2012	59 .80	299.73

Source: DSE Annual report, Publication, Market report 2007 – 2012

The value of share traded in 1998, was nil but in 1999, the value of share traded increases by 500%, due to increase in new listing.

In 2000, the value of share traded increases by 516% due to new listing at the DSE, and increasing of trading activities.

In 2001, the value of share traded fall by -76% due to fall in trading activities.

In 2002 the value of share traded increased by 148% due to increase in trading activities of the DSE.

In 2003 the value of share traded increased by 16% due to increase of trading activities and new listing.

In 2009, the value of share traded on the DSE, increases by 28% in 2009, due to new listing of the share of CRDB.

The value of share traded on the DSE, increase by 63% in 2010, due to highest trading activities following listing of NMB and CRDB.

In 2011 the value of share traded on the DSE decreased by 72.9% due to decreasing in trading activities.

The value of share traded increased by 299.9% in 2012 due to increased in trading activities at DSE. That's the value of share traded at the DSE from (1998 – 2012) show that the volume of trading activities at DSE increases and some time decreases. That means the liquids of share at the DSE is not stable and thus it contributes to the growth of economy at a small amount.

4.5.3 Identification of Other Indicators of DSE which Contributes to Economic Growth of Tanzania

In regard to the question, 'What other indicator of DSE contributes to economic growth of Tanzania? The study used indicators of market growth and economic in general to show how DSE, contributes to economic growth of Tanzania. The indicators which were used are number of listed companies at the DSE, all share Indexes of the DSE, Turnover ratio, market capitalization ratio and value of share traded ratio. Also the study used multiple regression analysis whereby, variable used as a measure of economic growth was GDP at factor cost, and other independent variable used were Market capitalization and value of share traded of DSE.

The data used were from (1998-2012).

Table 4.8 Number of listed Companies.

Year	Number of Companies
1998	2
1999	4
2000	4
2001	4
2002	5
2003	6
2004	7
2005	8
2006	10
2007	10
2008	13
2009	14
2010	13
2011	17
2012	17

Source: DSE (2012) Field Study

The number of companies which were listed at the DSE in 1998 was only two (2) companies, but in 2012 share are seventeen companies. This is an increase of 750%. When number of listed companies increases at the Stock Exchange Market, it is an indicator of Economic growth.

Thus at the DSE, the increasing number of listed companies is a good indicator of growth of Economic of Tanzania from DSE. But the contribution to the economic growth of Tanzania is very small since the annual mean of companies listed of DSE from 1998 to 2012 is only 9 companies, while annual mean of Malaysia Stock Exchange was 911 companies in 2007, and Mexico Stock was 158 companies (Senbet and Otchere, 2009).

The number of companies listed at the DSE in 2003 was only six (6) companies. But in 2012 there are seventeen (17) companies. The increasing in number of listed companies of DSE is an indicator of the growth of the economics of Tanzania, even though the growth of the economy may be very small since the mean of growth in listed companies is still very small, only 12 per annum companies while the mean for growth listed companies in Malaysia is 911 companies, and Mexico is 158 companies according to the Global stock Markets fact book (2006).

Thus its contribution to the economy is still low, more effort, should be initiated to attract more composes at DSE.

All share Indexes in 1998, 2000 were nil at the annual report of DSE, of 2007 and 2008. But the Index was 100 points, 151.86 point in 2001, and 2002 respectively.

Table 4.9 All Share Index at the DSE

Year	Index	Change %
1998	-	-
1999	-	-
2000	-	-
2001	100	100%
2002	151.8	51.8%
2003	-	-
2004	-	-
2005	-	-
2006	-	-
2007	1011.21	100%
20088	1081.49	6.95
2009	1231	13.9
2010	1170.8	-1.81
2011	1264	7.96
2012	1290.59	2

Source: DSE Annual Report, Publication 2007- 2012

All share indexes in 2003, 2004, 2005, 2006, was Nil in the annual report of DSE, in 2007. But from 2007 to 2008, it shows significant increases of 6.95%. From 2008 to 2009, again a significant increase of 13.9%. But 2009 to 2010, it dropped by 1-81%, and again 2011 it show a significant increase of 7.96% and 2012 it show rise by 2%. Thus market index of DSE, show a significant increase, thus implication to the economic growth of Tanzania, but the rise is still very low, compare to South Africa Stock Exchange which has an average index 14,116 points, in September, 2012 (World Development Indicators 2012).

Table 4:10 Turnover Ratio

Year	Turn-Over Ratio%
1998	-
1999	3.4
2000	16.97
2001	2.01
2002	2.74
2003	4.4
2004	2.1
2005	1.12
2006	0.59
2007	0.87
2008	0.77
2009	0.65
2010	1.12
2011	0.25
2012	0.46

Source: DSE Annual Report, Publication 2007-2012

Turnover ratio measures the trading activities within the stock relative to the size of the market. The turnover is usually high in active market, and low in inactive market. The turnover ratio at DSE, for fifteen years, from 1998 to 2012, has on annual mean of 2.4% compare to south Africa stock exchange market which has annual mean of 47.25% in 2007 (Senibet and Otchere, 2009). Therefore the DSE, is still small in size, and its trading activities in thin. The implication is that, the DSE market is not efficient, since its transaction cost is high. Thus its contribution to the economy of Tanzania is very low; Regulators at DSE should minimize transaction cost DSE in order to boost trading at the market i.e liquidity and thus improve stock –m turnover

liquidity and thus improve stock – turnover ratio and promote the economy of Tanzania.

Table 4:11 Value Traded Ratio

Year	Ratio Of Share Value To Gdp %
1998	-
1999	0.083
2000	0.42
2001	0.90
2002	0.19
2003	0.19
2004	0.13
2005	0.19
2006	0.09
2007	0.14
2008	0.12
2009	0.13
2010	0.19
2011	0.039
2012	0.12

Source: DSE Annual Report, Publication (2007 – 2012)

The percentage of trade value to Gloss Domestic Product measures trading relative to economic activities. This ratio to DSE is still thin and small although it has been increasing over the years. The value of trade ratio in Tanzania at DSE is less than 1% of GDP. The annual mean ratio of value Traded to GDP is only 0.19%   compare to South Africa wits annual mean of 108% in 2007 ((Senbet and Otchere, 2009). That means its contribution to the economy of Tanzania is very low it need more efforts.

Table 4:12 Market Capitalization as a percentage of GDP Market Capitalization Ratio

Year	Ratio Of Market Capitalization To Gdp %
1998	2.6
1999	2
2000	2.48
2001	4.45
2002	7.07
2003	4.43
2004	6.2
2005	17
2006	15.8
2007	16
2008	15
2009	23
2010	16.8
2011	15.6
2012	26.7

Source: DSE (2012) Annual Report and Publication (2003 – 2012)

The market capitalization as a percentage of GDP at DSE, show a significant increase from 1998 to 2012. At 1998 it was only 2.6%, but it is 26.7% in 2012. This is an indication of growth of economy. This is so because, the percentage GDP shows, at which extent the DSE is large to the Tanzania economy: That means how much market capitalization contribute to the growth of Tanzania economy. The mean of market capitalization to GDP of DSE form 2003 to 2012, was only 11.7%, compared to the annual mean market capitalization to GDP of Malaysia of 148.5% in

2007 (Senbet and Otchere, 2009) . Thus the size of market of Tanzania is still small,

and is not so much significant to the growth of the economy.

Table 4.13 Gross Domestic Product

Year	GDP(Tz Shs Billion)
1998	6283.97
1999	7222.56
2000	7624
2001	8488
2002	9740
2003	11,275
2004	12,973
2005	14,598
2006	16,278
2007	18,990
2008	22,452
2009	25,510
2010	29,298
2011	38,052
2012	48,415

Source: BOT annual report 1998– 2012

From the empirical literature, Gross Domestic Product is used as an indicator of

economic growth. Table 4.14 reveals the gross, domestic product at factor cost sand

the rate of growth from1998 to 2012. In   1998 the Gross Domestic Product stood at

Tshs 6283.97 billion against Tshs 48,815 billion in 2012 which is 670% percent

increases.

Regressions Result

Method: Least square regression

Dependent variable: Real domestic product (Y)

Independent variable (a_1, and a_2).

Sample period 1998 -2012.

Table 4.14 Regression Statistic

Multiple R	0.64855683
R. Square	0.42062596
Adjusted R. Square	0.3723448
Standard	2738.98234
Observation	15

Table 4.15 Regression Constant and Intercept

Details	Coefficient	Standard Error	T-Statistic	P- Value
Constant	90024291.1	7502024	-	-
MC	139.106414	47.129	2.9516	0.001211
VAT	-281.95464	1357.41186	-0.2020771	0.838935

Using the ordinary least square (OLS) estimation technique

$GDP = a_1 \ MC + a_2 \ VAT + U$

$a_1 = \ 139.106$

$a_2 = -281.95$

$U = 90024291.1$

$GDP = 139MC - 281.95 \ VAT + 90024291.1$

The t - values of MC of 2.9516 is statistically significant at 5% level.

The t-value of VAT of -0.20771 is not statistically significant at 5% level

$R^2 = 0.4206$

Adjusted $R^2 = 0.3723$

The Regression results reveal that about 42.06% of the systematic variation in the dependent variable is explained by the two independent variable i.e market capitalization (MC) and value of transaction (VAT).

That means about 42.06% of the systematic variation in the GDP, is explained by market capitalization (MC) and value of transaction (VAT).

On the basis of a prior expectation only of transaction (VAT), had negative sign. Market capitalization was correct and positively signed. In fact a unit increase in MC, result in on increase in the GDP by 139 units. The implication is that the economy respond favorable to dramatically increase in market capitalization, for fifteen years since 1998 to 2012 due to increase in listed companies on the DSE and appreciation of listed current market price.

On the other hand a unit decreases in VAT result in a decrease in GDP by -281 units. Thus market capitalization of GDP is the only dependable variable which significant contributes to the economy growth of Tanzania.

4.5.4 Identification of the Challenge Facing the Growth of DSE

The study was so interest, to know, if there are challenges which hinder the growth of the DSE.

Challenges which were in mind, in which the study thought worth to be studied include low market capitalization, low liquidity, lack of awareness, high initial cost, manual trading, macro –economic instability, lack of good governance in corporate, Accounting requirement. From the list of the challenges, respondents were asked to either agree, disagree or to stand on the fence i.e neither agree nor disagree.

The summary of results is summarized in the table 4.16 that follows:-

Table 4.16 Challenges Hindering Growth of DSE.

Challenges hinders growth of DSE	Frequency				
	YES	NO	N/A	TOTAL	Agreed M %
Liquidity	70	5	-	75	93.33
Lack of awareness	60	13	2	75	80
Initial costs	65	8	2	75	86.67
Manual Trading	10	65	-	75	13.33
Macro –economic Instability	63	11	-	75	84
Lack of good governance in Corporate	50	13	4	75	66.67
Lack of skillfully human resource in DSE	45	20	10	75	60
Accounting requirement	56	10	9	75	74.67
Low market capitalization	45	19	11	75	60
Absence of trade openness	45	20	10	75	60

Source: Field data (2012)

Based on Table 4.16 above 93.33% of the responded insisted that illiquidity to be the challenge, which hinders the growth of DSE. This is due to lack of significant number of listed companies, which cause the paucity of daily trading and concomitant lack of liquidity with the stock: at the DSE, there only 17 listed companies, which is a very small number compare to their stock exchange market, like Nigeria which has almost 269 companies.

The next dominant fact to illiquidity as a challenge, which hinder growth of DSE is initial cost which account for 86.67%. It has been noted that initial costs to prepare the companies legal affairs as well as balance sheet has been one of the stumbling block for companies to join the DSE. The initial cost associated with preparation to be listed in DSE has caused some of the private companies to hesitate accepting the invitation to join the marker.

Macro – economic instability ranked third with 84%. It was noted that, macro – economic instability has been among of the major factor affecting the growth of DSE. Macro -economic instability is indicated in inflation rate, unemployment as well as real income and saving rate. The statistic shows that between 2000 – 2006, 36% of Tanzanians population were living below national poverty line (World bank 2008) with such law income and expensive living expenditure it become very difficult for most of people to participate in financial system either by saving or investing.

The fourth dominant challenge is in growth of the DSE is lack of awareness, which account for 80% .Majority of Tanzanians do not understand or they are unaware about the activities of the stock market. This lack of understanding among business and individual regarding the mechanics of the stock exchange has been one of the stumbling blocks for the progress of DSE.

The fifth challenge which hinders the growth of the DSE is Accounting requirements which account for 74.67%. Accounting requirement has been a major block for

companies to be listed at DSE as many companies are reluctant to join the market due to the concern of exposing their accounting book for the public scrutiny. Many private companies in Tanzania take advantage of weak laws and lack of adequate law enforcement to evade with taxes and accounting books as the results most or these companies do not want to expose themselves for the public scrutiny after listing with DSE.

Sixth challenge, which hinder the growth of DSE, is lack of Good cooperate governance which account for 66.67%. The big problem, in Tanzania, similar to other African countries is corruption and lack of good governance of the people entrusted with the public to manage the national resource on behalf of the society. The economic improvement of the country could have boost the development of DSE as the majority of Tanzanians could have better life and good income which means, they would be able to participate in financial system and hence become stakeholders in DSE.

Other challenges which carries the same weight according to the result from the respondent which is 60% as hindering challenges for the gross of DSE are lack of skillfully, knowledgeable, human resource in the DSE, low market capitalizations and lack of trade openness whereby in the DSE, there are only few companies from abroad. However, manual trading were not justified to be the challenges that hinder the growth of DSE, since the results from respondent fall for below 50% i.e 13.33%. This is due to the fact that the DSE already is automated with ICT, even though previously it was, not automated.

4.5.5 Discussion of Findings

As regards to the responses of the respondents, the study were conducted with the stakeholders of the DSE, who are Representatives of regulatory bodies, Representatives of corporate organizations, Stock brokers and analysts as well as shareholders and investors.

The data collected through the questionnaire administered shows that the respondents that property filled their questionnaires were 75 out of the 100. Put differently, 75 of the questionnaire were retrieved and analyzed.

In view of the aforementioned, the responses given by the respondents on Table 4.5 shows that DSE department are automated or computerized.

In regard to the specific objective which was identifying the contribution of market capitalization of DSE, it was revealed that market capitalization of DSE contributes to growth of economy at small amount.

In regard to specific objective which was identifying the contribution of value of share traded of DSE it was revealed that value of share traded of DSE contribute to growth of economy only in significant amount.

In view of other indicator of DSE which contribute to economy growth of Tanzania multiple regression analysis were used using to independent variables namely as market capitalization and value of share trading, while dependent variables was GDP. It was concluded that market capitalization play a vital role in economy growth of Tanzania and it significantly contributes to the growth of economy while

value of share traded is not significant to economy growth of Tanzania. Thus liquidity should be improved in the DSE in order to enable value of share traded to be significant to the economy growth.

Table 4.16 reveals the challenges which hamper the growth of DSE, in regard to the vivid response of the respondents, it was ascertain by the study that the major challenges acting as drawback to the growths, of the DSE in Tanzania are illiquidity, high initial costs to prepare company legal affairs, macro- economic instability, lack of awareness, accounting requirement, lack of Good Governance.

Supporting the view on illiquid, Cohn (200) argued that, the lack of significant number of listed companies, is a major cause of the capacity of daily trading and concomitant lack of liquidity with the stock. In additional to small number of the listed companies, in must African stock market only few stock are actively traded and hence few stock influence the market capitalization.

Supporting the view on lack of public awareness Kibuthu (2005), studying the capital market in emerging economics. Found public awareness among the factors affecting the Nairobi stock exchange. Osei (1998) studying the factors affecting the development of emerging capital market the case of Ghana found lack of awareness, lack of effective education as among the major challenge for the development of Ghana stock exchange. Yartey (2005) studying on the Ghana Stock Exchange revealed that 33% of firm surveyed were unwilling to list on the exchange because of fear of losing control.

In view of macro –economic instability Garcra (1999) insisted that '' general macro –economic stability may well be important factor for development of stock market. Yartey and Komia(2007) studying the development of Global Stock market insisted that stable macro –economic environment is crucial for the development of the stock market.

In a views of accounting requirement, Mc Gregor (2008), reported that, in interview with IPS, that reluctance of companies to join DSE due to accounting requirement.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The first part of this chapter presents on overall summary key findings, followed by conclusion. The last part of the chapter presents the recommendation for action, area for further research and contribution to knowledge.

5.2 Summary of Key Findings

The analysis of the data collected has answered the research questions, and thus, the specific objectives of the study have been fulfilled. The first objective was to identify the extent at which market capitalization contributes to economic growth of Tanzania. It was evidenced that market capitalization contributes to economic grwoth of Tanzania at small amount.

The second objective was to determine at which extent value of share traded contributes to economic growth of Tanzania. It was evidenced that value of share traded contributes to economic growth of Tanzania only in small amount.

The third objective was to examine the challenges which hamper the swift growth of DSE. Findings reveal that there are a number of challenges which hinder growth of DSE us evidence by respondent in table 4.17. Evidence of 86% of respondent said the challenges which hamper the gross of DSE are initial cost. Evidence of 93.33% said the challenges which hinder the growth of DSE are illiquidity. Evidence of 80%

of respondent said the factors which hinder growth of DSE are lack of awareness to the public. Evidence 0f 84% of respondents said the factors which hinder the growth of DSE is macro economic instability within the country. Evidence of 66.67% of respondents say that the factors which hinder gross of DSE is lack of good governance in corporate. Evidence of 74.67% said the challenges which hinder the DSE growth is accounting   requirement. Evidence of 60% of respondent said that the challenge which hinders the growth of DSE are lack of skillfully human resource in DSE, Low market capitalization and absence of trade openness. While only 13.33% of respondent said that manual trading hinder growth of DSE.

In regards to what other indicators of the DSE contribute to economic growth of Tanzania significant indicators of Stock Exchange Market such as number of listed companies, indexes of DSE indicated that DSE show growth rate in economic in a low rate, while multiple regression analysis which were used indicates that market capitalization show a significant contribution to the economics of Tanzania.

5.3 Conclusion

The main theme or central question of this study was about the role of stock exchange market in economic growth of Tanzania taking a case study of DSE. The studies have been conducted in developing markets and the perception is that emerging market such as African market, cannot plays a vital role, of improving economic growth. Therefore, the study was conducted in effort of finding the empirical evidence of the role of stock market in economic growth of Tanzania taking DSE as a case study.

The study was meant to answer three main research questions. The research question was what are the contribution of market capitalization of DSE in economic growth of Tanzania, what are the contributions of value of share traded of the DSE to economic growth of Tanzania and what are the challenges which hampering the swift growth of DSE. Also multiple regression analysis was used to identify the relationship between market indicators such as market capitalization and value of share traded at DSE and GDP as a measure of economic growth.

In regard to the first question of identification of the contribution of market capitalization of the DSE to economy growth of Tanzania, it was revealed that the market capitalization contributes to economic growth of Tanzania at a small amount.

In regard to the second question of identification of the contribution of value of share traded of the DSE to economy growth of Tanzania, it was revealed that the value of share traded contributes to economic growth of Tanzania at a small amount. The discussion regarding the challenges affecting the development of DSE of which was the second question of the study the researcher revealed that in additional to macro – economic instability, other challenges are low liquidity, lack of awareness and education on DSE, high initial cost, accounting requirement, human resource constant, law market capitalization , and manual trading. However since 2007, manual trading was no longer a major challenge for the market as it become electronic.

Based on the findings from multiple regression analysis, two independent variables which were used and tested are market capitalization and value of share traded.

While GDP were used as dependent variable. In the finding the analysis reveals that market capitalization contribute significant to the economy growth of Tanzania. This is due to the fact that since 2003 there is a constantly increase in a number of share listed at DSE and appreciation of current market price of the share DSE (2007) but the value of share traded are not contributing to the economy growth of Tanzania. This is due to the fact that liquidity at the DSE is still low and thus the DSE should improve liquidity by encouraging more listing of companies.

5.4 Recommendation

5.4.1 General Recommendation

Thus in viewing that perspective, the study recommends the following to be possible solution to the improvement of the role of Stock Exchange Market (DSE) to the economic growth of Tanzania.

Even though the market capitalization of DSE is contributing significantly to the economy growth of Tanzania, but still this is not sufficient if you compare with other emerging countries of Asia which has highest market capitalization. Example Taiwan as a market capitalization of USD 520776.2Million, India has a market capitalization of USD 598, 759.7Million, China has a market capitalization of USD 1509,995 Million and Korea has a market capitalization USD 687,356.5 Million Global stock Markets fact book (2008). Thus DSE should improve its in growing market capitalization by encouraging more foreign investors to participate in the market. That means trade – openness, should be encouraged in order to have more company from abroad which involves foreign multinational companies (MNCs) or

their subsidiaries to be listed on the DSE. On the other side of the coin, this will also increase the number of listed companies, at the DSE, and thus, achieve economic growth. Computerization of the stock exchange should be accompanied by increases in the frequency of trading on the stock exchange. Thus this will increase liquidity, marketability and the attractiveness of trading on the stock exchange, and enable value of share traded to be significantly contributing to growth of Tanzania economy.

The introduction of various capital market product such as mutual funds, unit trust, government and corporate bond will increase prospect for portfolio diversification and thereby enhance the attractiveness of the stock exchange and bond market in Tanzania. This collective investment instrument would also attract small investors who may not be able to invest in individual stock that require more income and greater sophistication and risk concentration.

An effective monetary policy, coordinated by a product fiscal policy of balanced budget will provide stable macro-economic environment that is necessary for capital market development. That means, changes in stock prices are casually – related to the rate of economic growth. Thus, measured should be designed to prevent excessive fluctuation in stock prices. This will contribute, to the stability of macro – economic and growth of DSE. The government should emphasize on the elimination of any impediments to the growth and development of the Dar es Salaam stock exchange (DSE) including any regulatory barriers that may act as disincentives to investment. The capital market authority should check and avert any sharp practices by market interest of shareholders.

Boost the value of transaction in the DSE, whereby there is need for a availability of more investment instrument such as derivates, convertibles, futures, swops, option in the market. Establishment of a proper system of educating the general public about the activity of the DSE. The education, about the activity of the DSE, should be provided, in various categories of people. Starting with those with no previous knowledge on the DSE operation to the advance level, for those with some knowledge on stock market. The education can be provided through radio, television, advertisement, print media pamphlets and even – in public lectures of universities and colleges. The DSE should encourage the companies, in order they can be listed on the market. Such encouragement include, reducing listing fees, minimizing listing requirement as well as, providing tax incentive to foreign companies.

Transparency

The DSE should provide full disclosure about the historical and current financial statements of companies listed on the DSE.

5.5 Contribution to Knowledge

This study has contributed enough knowledge – regarding to the role of stock exchange market, to economic growth. The data suggest that stock exchange market is positively associated with economic growth.

With the study, useful contribution has been made to knowledge in the following areas.

a) Tanzanian public in general.

b) Capital market regulators and operators

c) Investors.

d) Government policy making.

5.5.1 Tanzania Public in General

In Tanzania, the public is largely uneducated about the essence, working and benefit of capital market. This project therefore contribute to the fact that it is imperative for the Dar es Salaam Stock Exchange and Market regulators to vigorously embark on programme aimed at improving knowledge about the capital market. The most widely used method for public education has been the creation of public for a such a summers, conferences, workshops, essay writing on capital market, through media such as radio, television etc.

5.5.2 Capital Market Regulators and Operators

This study have been very valuable to market regulators and operators in discussing issues aimed at improving the professional expertise of regulators and operators, the operational efficiency of the market, listing on the stock exchange, introduction of new financial instruments, investors protection for sustaining investor confidence which does not stop at setting and enforcing the rules for fair trading but include a frame −work for monitoring the market to see that false market are not created. Market operators now know the importance of running their business transparently and efficiently in accordance to stipulated guidelines. The study have enumerated problems which characterized the DSE and what can be done to solve them with a view to empowering DSE to foster capital market development and economic growth. Market regulators strive to generate awareness among market users.

5.5.3 Investor

The study   re –affirms that investors, need to expand their ownership structure and move from family business structure to the universally accepted model − operated by quoted companies.

5.5.4 Implication to Government & Policy Maker

The study is in the opinion that government should make the environment conducive for business. This included making the monetary policy stable and predictable/ government's policies should ensure that equities have attractive yield when compared to another domestic and foreign investment alternative.

Furthermore the study has contributed at a large extent to the understanding of social issues and policy implication of poverty alleviation following establishment of DSE. In addition, the findings obtained are expected to help academician and other study in doing further study, to fill the gap available in this body of knowledge. The studies also serve as guide for future reference for both practitioners and academicians who are doing research on smaller topic.

5.6 Area for Further Research.

For the sake of establishment of dependable, reliable and comprehensive conclusion on the role of stock exchange market to the economy growth of Tanzania taking a case study of DSE, it is recommended   that further studies using other stock exchange market in East Africa, should be carried out. This will permit unquestionable inferences from   the sample result of the population.

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APPENDIX

DATA GATHERING QUESTIONNAIRES

Introduction

The questionnaire intends to capture data concerning the level of adherence to procurement and issuing procedures in organization. The researcher assures you that data collected will be used only for academic purposes and will be treated in strict confidence. Your discretion and authenticity in answering these questions will be highly appreciated.

Instructions

1. Kindly tick ( ) in the appropriate box for the answer you consider to be logical.

2. Please comment or explain, in the space provided. You may use additional paper if you wish and attach the paper to this questionnaire.

Personal Information

1. Designatio/Position /Title…………………………………………………………….

2. Duration in position/number of years with institution……………………………

    Age_____

i.	18 -24 years	{	}
ii.	25 -34 years	{	}
iii.	34 -44 years	{	}
iv.	45- 54 years	{	}
v.	55 and above	{	}

3. Gender _____

      a) Male   {   }

      b) Female   {   }

4. What is your highest education level?

      i.   Secondary   {   }

      ii.   Ordinary Diploma   {   }

      iii.   Bachelor   {   }

      iv.   Master's degree   {   }

      v.   PhD   {   }

5. In which category of DSEs stakeholders   are you coming from?

      i.   Representatives of regulatory bodies   {   }

      ii.   Representatives of corporate organizations   {   }

      iii.   Stock brokers and analysts   {   }

      iv.   Shareholders and investors   {   }

6. Is DSE computerized or automated?

      i.   Yes   {   }

      ii.   No   {   }\

7. What other indicators of DSE contributes to economic growth of Tanzania?

8. The study was so interest, to know, if there are challenges which hinder the growth of the DSE. Challenges which were in mind, in which the researcher

thought worth to be studied include low market capitalization, low liquidity, lack of awareness, high initial cost, manual trading, and macro –economic instability, lack of good governance in corporate, Accounting requirement. From the list of the factors, respondents were asked to either agree, disagree or to stand on the fence i.e neither agree nor disagree.

Challenge Hinders Growth of DSE	Frequency				
	YES	NO	N/A	TOTAL	Agreed M %
Liquidity					
Lack of awareness					
Initial costs					
Manual trading					
Macro –economic Instability					
Lack of good governance in Corporate					
Lack of skillfully human resource in DSE					
Accounting requirement					
Low market capitalization					
Absence of trade openness					

** THANK**