JOURNAL OF GLOBAL BUSINESS AND ECONOMICS
JULY 2011. VOLUME 3. NUMBER 1

THE BENEFITS FOR LISTING SECURITIES WITH THE DAR ES SALAAM STOCK EXCHANGE IN TANZANIA

Norman, A.S. (PhD)
Faculty of Business and Economics, Tumaini University,
P.O. BOX 200 Iringa, Tanzania
adamsonnorman@yahoo.com

ABSTRACT

Stock exchange in Tanzania has become an important venture for improving income of individuals and firms. There are however few firms that have listed shares with the DSE. The number of firms that have listed shares with the DSE suggest for two propositions among others: 1) that few managements of firms do know the benefits for listing shares. 2) That individuals who have subscribed shares with the firms do not know the benefits articulated through listing shares with the DSE. The reality is that there are many benefits for listing securities with the Dar es Salaam Stock Exchange (DSE). Hence this paper provides a discussion on the benefits for listing shares in Tanzania. It entails to narrate on the importance for listing shares as opposed to not listing. The paper utilizes documentary and art facts data collection strategies to arrive at the conclusion it sets. The paper concludes that there are generally three types of benefits. 1) Those related to the firms improving their financial status/capital 2) Benefits resulting from waver of various taxes imposed by laws and 3) Benefits of financial liquidity and improved market for goods and services produced by the listed firm.

Keywords: *capital markets; stock exchange; listing securities*

1.0 INTRODUCTION

This part provides the introduction to the capital markets. It is divided into four parts. The first part provides meanings to various common terminologies commonly used in administering securities. The terms include capital markets, stock exchange and listed companies. The second is the introduction to DSE. The benefits for listing shares are discussed in part three. Part four is the conclusion. This paper provides significant knowledge on the benefits, which investors will enjoy when so do in Tanzania. It gives thorough knowledge on the entire stock exchange market prior to physically visiting Tanzania. Thorough understanding of the merits and demerits on investment in a particular place is important in doing away with losses related to lack of information (Norman, 2005 p.56).

1.1 CAPITAL MARKETS AND RELATED TERMS

Capital markets are facilities and mechanism through which funds move from idle holders to productive users. They are facilities which channel funds, at market price, to productive activities and they are divided into two inter-dependent segments namely primary and secondary markets (DSE, 2008; Benning, 2007). Primary markets are financial markets in which issues of securities are sold to initial buyers for the first time-Initial Price Offer (IPO). Initial Price Offer includes when the firms floats shares or its corporate bonds to the investors for the first time. Institutions liable for issuance of securities are those holding shares and that they are eager to raise funds for boosting their capital, among other reasons. Such institutions include the fourteen firms listed with Stock Exchange in Tanzania which include National Microfinance Bank (NMB), Tanzania Breweries Limited (TBL) and Kenya Airways (KQ).

Thus securities issued in primary markets are later traded in the secondary markets ((Michael, et al, 2004). Hence, secondary markets are financial markets, which deal with buying and selling of securities previously issued to and subscribed by investors in primary markets. Secondary markets are administered by formal institutions mandated for trading securities such as the Dar es Salaam Stock Exchange (DSE), Nairobi Stock Exchange (NSE), and London Stock Exchange (LSE).). Therefore secondary market refers to a market to buy and sell securities already launched through the primary market.

Stock Exchange is an act of trading officially the stocks held by investors. It is converting securities into cash through formalized institutions such as DSE. A listed company is one whose shares are quoted and traded on a recognized major market such as the DSE. Listed companies have to provide a substantial amount of information on a regular basis about their trading and financial position. Normally, a company selling shares in an IPO will also seek a listing on an exchange or exchanges (Benning, 2007

2.0 THE DAR ES SALAAM STOCK EXCHANGE

The DSE was incorporated in September, 1996 as a company limited by guarantee without a share capital under the Companies Ordinance (Cap. 212) (DSE, 2008). The enactment of DSE came as a result of government’s policy of transforming its economy from public government dominated economy to private sector driven economy. The DSE was established by the Capital Markets and Security Authority under the Capital Markets and Securities (CMS) Act of 1994. As of march 2009 fourteen companies listed their shares with the DSE. Out of fourteen companies, three are from Kenya and their shares not only cross listed at the DSE but also at the Uganda Stock Exchange and Nairobi Stock Exchange. The first firm to list shares with the DSE was the Tanzania Oxygen Limited (TOL) in 1998 and was followed by Tanzania Breweries Limited (TBL) in the same year. The DSE has been given mandate to create a legal framework governing the entry into business, conduct and operations of capital markets in Tanzania. The rules and laws are harnessed together with the Capital Markets and Security Authority (CMSA), which is a supreme government body created with a prime role of ensuring palatable environment to establish the DSE, and overseeing the interplay of the entire business as a referee does in any game.

2.1 REGULATORY FRAME WORK

There are basically two main laws governing the operation of the securities in Tanzania. The third is emergent one as results from powers conferred to Capital Markets and Securities Authority (CMSA) and the Dar es Salaam Stock Exchange (DSE) by a supreme/basic law. The laws are 1) the capital markets and securities Act, 1994 (Cap 79) as amended. This is the basic law which regulates the conduct of business in capital markets and is enforced by the CMSA which is the supreme government institution governing the capital markets and securities 2) the companies Act, 2002 (Cap.212). This law regulates a wide range of corporate issues including the formation of companies both private and public.

The law further provides a guide on all matters relating to issuance of securities, rights of shareholders, obligations of directors and governance issues, and is enforced by the Registrar of Companies and 3) rules and regulations made by CMSA and DSE. These are rules and regulations made by the named institutions to carter for various issues regarding the trading of securities and qualifications for listing shares among others. The mandate of creating laws regarding the management of day to day business activities of the stock exchange were conferred to the CMSA and DSE on the realization of the fact that capital markets are sufficiently complex and the speed of changes within the industry is so fast than the ability of the parliament to cope with it through statutory enactments. Through such mandates the CMSA has made more than 14 sets of Regulations to carter for various issues. On other hand the DSE has also made several sets of rules enshrined in a blue print (DSE, 2008; 2003; CMSA, 2008; 2004). Generally, the mandate conferred to the two bodies stands to benefit the firms that list shares with the DSE and investors that purchase securities altogether.

3.0 BENEFITS FOR LISTING SECURITIES WITH THE DSE

Benefits for listing securities are embedded in the rules and regulations for listing shares as provided in the DSE hand book (2008). Although the benefits discussed in this article are essentially those enjoyed by investors in Tanzania, yet there exist less similar privileges the world over in the business of securities. Differences are essentially culminated by some factors including growth of the entire market as reflected in market capitalization, and number of firms listed securities in the entire stock exchange. Another difference may emerge due to the level of development of the country. Strong economies are assumed to have more strict rules and regulations than weak economies. Investors experience what can be termed huge benefits when investing in slim economy (immature) due to 'loose' rules and regulations which tend to benefit the investor than the host country. This is always done purposefully as a way of tapping and encouraging more investors. This is the case with securities investment in Tanzania. The benefits for listing securities ranges from those that entails to increase capital of the firms listing securities, waver or reduced interest charged in various operational segments and privileges enjoyed due to liquidity experienced by the firms.

3.1 ADVANTAGES OF LISTING SECURITIES

With the ever increasing techniques in terms of investment and technological advancement, the choice to allocate finances as a strategy for investment is crucial. It has been however noted in this literature that there are potentials of investing in securities such as bonds and shares compared to the cardinal practice of depositing finances with the financial institutions such as banks and wait for the accrued money through interests. The vitality of investing in the stocks is a reality that no sane person can deny. Thus this part provides advantages for listing securities specifically at the DSE.

a) The company can raise capital relatively cheaply from the public. While the normal practice for financial increases of the firms are raising capital through loan acquisitions from banks and other financial institutions, which culminates for the interest of about 16% to 23% in favor of the banks and other financial institutions.

b) On the contrary the Stock Exchange does the same role of raising the capital of the firm without subjecting the entire firm in interest charged against it. Thus the firm listing the securities with the DSE does so with minimum risk of loosing its capital.

c) The performance of the company is monitored by the market and therefore a listed company is likely to perform better to meet the expectations of the public. The qualifications for the companies' listed as indicated in this study limits to the maximum the possibilities of a company to perform contrary to the wishes of the investors. Thus it can be added that it is of paramount importance for the company to list her shares with the Stock Exchange, since it further helps the company to assess itself on whether it has a favorable future survival.

d) Listing of securities is a marketing tool for a company as it would be referred to frequently during the release of the market information to the public. The DSE is currently conducting five trading per week. Thus a company listed, would be enjoying marketing benefits whenever trading results of listed companies are announced in either electronic or print media.

e) Listed companies are generally considered to be good performers and therefore are perceived to have the potentials of providing a good return to the investors. Thus listed companies experience other benefits.

f) Listing widens the range of financing choices of the company. Thus a company is not bound to raise its capital through a certain means only. Rather has variety of options including listing shares, financial institutions, directors, and banks.

g) Listing of shares lowers financing cost of the enterprises. This could be associated with raising capital without incurring any substantial amount as a fee to the capital such as interest. Thus the burden for the company would be reduced.

h) Listing facilitates share ownership changes or privatization. The listing company paves a way for transfer of shares from one individual to another. Thus it enables individuals to enjoy ownership of the company for time they want.

i) Listing attracts foreign portfolio investors. Just as local investors are attracted through listing, the same happens to foreign investors. It enables foreign investors realize where to invest. Among the components important for investing is market and capital availability. An assurance of the market and ability to raise capital facilitates foreign investors to bring their intended capital from out side, and raise some capital within.

j) Listing enables both firm and individuals to realize the value of the company through the interplay of the demand and supply of the company shares at the DSE. Normally, assessing oneself can be a difficult thing, and some time challenging. The difficulties arise due to the fact that self assessment means giving value of your self using the criterion set the same. Nevertheless, listed companies can easily know their value through the interplay of the markets. This can be termed as facilitates open assessment as opposed to self assessment. Since it is the market which gives the value of the company, therefore the assessment attained is an open and done by the mixtures of professionals, businessmen, firms representatives and the public in general.

k) Listing of shares enables the company to increase the opportunities to venture into new investments and expansions by having alternative means of raising capital for such investments. Currently there exists cooperation between the East African Securities Regulators as well as cooperation of East African Stock Exchanges. The said cooperation has enabled the company wishing to expand its wings in the region, to list shares in other East African countries such as Kenya, Uganda and Tanzania thus raising the opportunities for raising capital. Today there are three Kenyan companies namely; Kenya Airways, and East African Breweries Limited and Jubilee Holding Limited that are listed in the three stock exchanges of Kenya, Tanzania and Uganda.

l) The listed companies also experience improved marketing of the products.

m) The listing of shares facilitates economic growth and improved livelihood of the people. Wealth that would be enjoyed by few people who established the business or firm would benefit all subscribers of shares of the particular firm. This is a key to improved growth of income of the people. Most people who used to deposit their finance with banks have confessed that shares listed at the DSE have made them gain between 100 to 2500 percent in three years. The benefits which supersedes gain resulting from bank's interest by far. Generally, on average in Tanzania banks provide interest rate of 2 to 3 percent on deposit (Norman, 2010). The trend is similar the world over.

There are other packages that are associated with the listing of the shares with the DSE, and have been listed in the DSE handbook (2007) as fiscal incentives.

3.2 FISCAL INCENTIVES

The Government has deliberately provided several incentives in order to encourage active participation in capital markets by issuers and investors. The DSE hand book (2007) further provides some incentives for the companies that list shares with it. The privileges include:

3.2.1 INCENTIVES TO ISSUERS

The incentives to issuers are in accordance to the DSE handbook (DSE, 2008 p. 32; 2010, p. 21).

1) Reduced corporate tax from 30% to 25% for the period of three years where the Issuer has issued at least 35% of the issued shares to the public. The reduced rate is applicable for five years starting from listing date.

2) Tax deductibility of all Initial Public Offering (IPO) costs for the purposes of income tax determination. All IPO costs are accepted by the Tanzania Revenue Authority (TRA) as acceptable expenses used in the generation of income and profits, and therefore are taken into consideration when determining profit for tax purposes; and

3) Withholding tax on investment income made by Collective Investment Schemes (CIS) is final tax. Investors in CIS are not charged with tax on the income.

3.2.2 INCENTIVES TO INVESTORS

The incentives to investors are as stipulated in the DSE handbook (2008, p. 32; 2010, p.21).

1) Zero capital gain tax as opposed to 10% for unlisted companies;

2) Zero stamp duty on transactions executed at the DSE compared to 6% for unlisted companies;

3) Withholding tax of 5% on dividend income as opposed to 10% for unlisted companies;

4) Zero withholding tax on interest income from listed bonds whose maturities are three years and above;

5) Exemption of withholding tax on income accruing to fidelity fund maintained by DSE for investor protection; and

6) Income received by the Collective Investment Scheme (CIS) investors is tax-exempt.

4.0 DISADVANTAGES FOR LISTING SHARES

While there seem to be many advantages, equally there exist some opposing forces as to the extent of such benefits of listing. For example the Virgin Company Limited of the United Kingdom, deregistered its shares from the London Stock Exchange for what it named improper management of resources by the new shareholders. The Virgin Company had the view that it had experienced difficulties in terms of progress after listing compared to the period before listing its shares with the LSE (ProShare, 2001). Below are some disadvantages:

a) Prolonged period for decision making, even in circumstance of urgent need for such decision. This is because meetings are scheduled on specific dates and numbers of such meetings are known.

b) Weak ideas in meetings because the qualification for purchasing shares are essentially money rather than skills in that area. Hence when the majorities shareholders are not familiar with the entire business the possibility of not assenting to viable solutions become slim, hence distorting the performance of the company.

5.0 CONCLUSION

There are many benefits for listing securities as discussed and narrated in this article. The sustenance of these benefits depends on many other factors which can be summarized as fidelity of the firms regarding all transactions of the business. Rules and regulations that are set in benefiting investors is one thing, and fidelity in observing the rules and regulations set by the firms is another. Both the CMSA and the DSE monitor the market trading activities to detect possible market malpractices such as false trading, market manipulation, insider dealing, short selling and so forth. DSE is responsible for on the line/on-site surveillance while the CMSA for online/off-site surveillance. The DSE can suspend any time offers and bids that are deemed to be suspicious (DSE, Ibid). Efforts to monitor and/or supervise could be reduced through observance of the rules and regulations as disclosed by CMSA and the DSE. The emphasis of fidelity assumes the fact that market performance implies both an intuitive sense of crowd psychology and a fundamental understanding of the context in which the game is played. Trading is more than arithmetic concerns in economics, accountancy and market models. There is an art to it as well. In this vein Norman (2005) reveals that a mere presence of good rules and regulations summed up as laws does not necessarily guarantee just practice of business-it depends solely on the level of observance of such rules and regulations by the players in the entire business. Hence, observance of laws which will culminate enjoyment of benefits as provided in rules and regulations will depend on the way human behave.

BIBLIOGRAPHY

Benning, FJ(2007). Trading Strategies for Capital Markets. MacGraw-hill, Newyork.

The Capital Markets and Securities Act, 1994 (Cap 79 as amended).

The Companies Act 2002 (Cap 212)

DSE (2008). Dar es Salaam Stock Exchange Hand Book. DSE, Dar es Salaam

DSE (2010). Dar es Salaam Stock Exchange Hand Book. DSE, Dar es Salaam

CMSA (2008). Frequently Asked Questions. Capital Markets and Securities Authority, Dar es Salaam

Day, JFS (1986). The use of annual reports by UK investment analysts. Accounting and Business Research Autumn, 295–307.

DSE (2008). DSE Journal 10TH Anniversary. DSE, Dar es Salaam

DSE (2008). DSE Annual Report. Dar es Salaam Stock Exchange, Dar es Salaam

DSE (2007). DSE Annual Report. Dar es Salaam Stock Exchange, Dar es Salaam

DSE (2008). DSE Handbook. Dar es Salaam Stock Exchange, Dar es Salaam

DSE (2003). Blue Print. Dar es Salaam Stock Exchange, Dar es Salaam

Gitman, LJ and Joehnk, MD (2004). Fundamentals of Investing. Addison Wesley.

Friedman, M (1992). Money Mischief: Episodes in Monetary History. Harcourt, Brace, Jovanovich.

Norman, AS (2005). Financial Analysis as a Consideration for Stock Exchange Investment in Tanzania. Mzumbe University.

Norman, AS (2010). Capital Markets in Tanzania: A Comparative Analysis Between Foreign and Local Investors. J. of Accountants and Aud. V. 2(2): 26-34

ProShare (2001). The investor’s handbook ProShares’s No-Nonsense Guide to Sensible Invesitng. Penguin Books, London.