

ROLE OF FINANCIAL INFORMATION IN EMERGING CAPITAL MARKETS

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ABSTRACT: This paper adopts a conventional premise, that financial information, such as contained in audited financial statements and interim financial statements play a significant role in capital markets. However, for utility in capital markets, the paper further suggests that forward looking in addition to historical information seem to be more appropriate, not only in developed countries but also in emerging capital markets of less developed countries like Tanzania. A deliberate emphasis needs to be placed on provision of variance data to enable securities brokers, investment advisors and investors make a "discriminate" analysis between good and bad performance companies. In a world of advanced information technology (IT), use of electronic data processing naturally provides a competitive niche in the instantaneous business decision making process in stock markets.

This paper is about role of financial information in emerging capital markets. The author used both primary data, by way of personal interviews, and secondary data in a research work that extended between December 1994 and September 1998. The paper starts with an introduction on information requirements of an efficient capital market.

Section two, is literature review, which examines the role and function of financial information in securities markets in developed countries (DCs), and the problem of developing securities markets in less developed countries (LDCs) in general and in Sub-Saharan Africa (SSA) in particular. The third section looks at selected case studies of securities markets in Africa. The fourth, covers prospects of use of financial information in securities markets in Tanzania. It highlights country-specific issues in developing securities markets, and discusses possible wider use of financial information. Finally, is a section on conclusion and recommendations.

INTRODUCTION

Information is a key ingredient of performance of financial systems including capital markets. The ultimate providers of financial resources; that is depositors, bond holders, and shareholders have a right to know the way in which their funds are managed by intermediaries or direct

users. This is a valid prerequisite under the assumption of rational expectations¹.

¹ for a thorough review of rational expectations see among others Samuelson, P.A. et al (1992 pp. 646-56).

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According to Fama (1976) an efficient market is one that processes information efficiently. That is to say, for instance, prices of securities observed at any point in time are based on the "correct" evaluation of all information available at that time. In an efficient market "prices fully reflect" available information.

Trading in securities in capital markets is quite involving and requires a lot of both qualitative and quantitative information which may be financial in nature or non financial. Such information may be a product of an accounting system or financial press. The hypothesis of this paper is that the success of a securities broker or investor shall depend to a large extent on how much information one has at hand and how such information is processed into investment portfolio.

The objective of a security broker is to maximize the profit margin in dealings, whereas an investor seeks to earn a return in excess of cost of capital. Market confidence can be enhanced by having a regulatory framework that ensures that none of the players possesses inside information. Information is assumed to be freely available to all stock traders to enhance fair competition.

Accounting is one source of financial information stock traders rely upon. Such information has to be properly designed to assist brokers achieve their objective. Information which is required in the stock market has to be collected, analysed, manipulated and communicated to interested parties at the right time and appropriately. This can be facilitated through computerised systems. The most common and useful sources of financial information for capital markets are: prospectus; information published under listing requirements; annual reports and accounts. In addition, comments and research by analysts; macro and micro-economic announcements; relevant

information from other markets such as the foreign exchange market; price quotations by market makers in the context of pre-trade transparency and information about transactions that have taken place -- the post-trade transparency, are utilitarian sources. A good stock exchange typically strives to meet certain critical requirements. The requirements include; adequate financial resources to support its functions; prevalence of rules and practices conducive to orderly business and protection to investors; limit dealing to investments in which there is a viable market; requirements to issuers to provide the right information to determine the current value of investments. Such a market needs arrangements which ensure performance of transactions and satisfactory arrangements for recording transactions, and investigation of complaints. Last but not least, a good stock exchange needs adequate arrangements and resources to monitor and enforce its rules and clearing arrangements.

LITERATURE REVIEW

All stock markets in developing countries are considered to be "emerging" in the sense that in such countries markets have the potential for development.² It is a blanket concept applied to most low- and middle-income economies regardless of their stage of resource management. Opong (1991) studied a sample of 100 randomly selected commercial and industrial firms listed on the London Stock Exchange (LSE) and

²International Finance Corporation (1993) "Emerging Stock Markets Factbook- 1993" p.210

found that interim accounting reports had information content which affected price activity on the day of release. In another study Opong (1980) argued that larger firms provided a more accurate and realistic basis for assessing the significance of accounting information, given that the accounting process was but one source of information about firms.

Opong (1980) followed Beaver's (1968) methodology. Beaver found the mean trading volume in the announcement week to be 33% larger than the mean volume during non-report period, and security return variability to be 67% higher in the same week. Beaver concluded that his findings supported the contention that earnings reports possess information content. The findings from Opong's study indicate that the information contained in earnings announcements might be more important for small firms than for large ones. These findings have far-reaching implications for emerging securities markets, where small firms are many.

Pope *et al* (1992) demonstrated that the variability of stock returns increases when corporate earnings are announced to the markets. They studied a sample of 1329 firms, of which 1061 were listed on the LSE and 268 being unlisted securities market (USM) members. The listed firms were classified as being either large (n=294) or small (n=767). A firm was classified as "small" if its market capitalisation at the beginning of the year qualified it for inclusion in the Hoare Govett Smaller Companies Index, the critical market capitalisation being less than £108m in 1986 and £100.8m in 1987. These companies happened to constitute the bottom 10 percent of LSE firms by market value but over 65 percent of the total population of firms. Large firms were defined as those with market capitalisation exceeding these limits.

Pope *et al* (1992) made three conclusions. First, they found significant evidence that the variability of returns in

announcement weeks was significantly higher than in the pre-announcement period. Second, the variability increase was sharpest for small firms and USM quoted firms, and less pronounced for large firms. Third, cross-sectional modelling of the earnings related volatility suggested that differential information proxies contained explanatory power not captured by firm's size alone. However, in all regression specifications tested, the overall explanatory power was very low.

There have been studies in the US with regard to the information content of interim financial reports during the week and day of release. These include studies by Jones and Litzenberger (1970), May (1971), Brown and Kennelly (1972), Kiger (1972) Hageman (1973), Foster (1977) and Morse (1981) to mention but a few³. The reported results of these studies indicate that interim financial reports contain price sensitive information.

The US studies are not automatically comparable to the UK studies due to the fact that environmental and institutional conditions are not exactly similar. First, interim reports in the US are prepared on a quarterly basis whereas in the UK they are prepared semi-annually. Second, in the US there are professional guidelines for preparing these reports whereas in the UK there are none. Lastly, in the US interim reports are legally required by the Securities and Exchange Commission while there is no legal requirement for their preparation in the UK.

³ US studies: Jones C. and Litzenberger R.H. (1970) pp-143-48 May R.G. (1971) pp 19-52 Brown, P. and Kennelly J. (1972) pp 403-21 Kiger J.E. (1972) Hageman R.L. (1973) pp 846-55 Foster, G. (1977) pp 1-21 Morse D. (1981) p 374

Interim financial reports are highly summarised statements. Strictly speaking, they are yearly reports covering the first half year of the firm's activities. The contents are modest and usually contain information about turnover, profit, tax, dividend, earnings per share and extraordinary gains and losses. It is usual also to find a short statement about analysis of the past and prospects for the coming half of the year. Although there is no legal requirement for firms to prepare these reports in the UK, such preparation is a requirement of the LSE.

Interim reports indicate how the firm is progressing within the yearly reporting cycle and should therefore aid investors in prediction at the minimum, the probable outcome for the year of variables of interest to them. May(1971) argued that interim reporting pre-empts insider trading by putting in the public domain information which would otherwise be privately held. Interim reports thus play an important role in the investment decision process by availing an avenue that provide an update of firm's changing fortunes.

A major feature of interim financial reports is that they are unaudited. This therefore raises an important issue about their reliability for investment decision making. Intuitively, however, even if interim reports contain valuation relevant information, the market might take longer to incorporate such information into prices. The element of reliability of interim reports by the Stock Exchange (SE) and financial analysts seem to indicate that investors are prepared to sacrifice some reliability for a much more frequent update of the major events within the business enterprise which have valuation implications.

EMERGING SECURITIES MARKETS IN AFRICA

One of the astonishing changes in world financial markets over the past decade has been the rapid growth and maturation of the emerging stock markets of the world. In 1982, 32 developing country stock markets surveyed by the International Finance Corporation (IFC) had a combined market capitalisation of about \$67 billion for about 7,300 listed companies. At \$13.9 billion, Malaysia had the single largest stock market in this group in terms of market capitalisation, followed by Brazil at \$10.2 billion.

By the end of 1992, the emerging stock markets had increased their market capitalization about eleven times to \$770 billion, and nearly tripled their share of world equity market capitalisation, from 2.5 to 7%. Trading volume increased 25 times from 1982 levels and the number of listed companies in these markets currently represents about 40% of the approximately 30,000 listed companies world-wide. Today, the Mexican, Korean and Taiwanese stock markets are among the 115 largest markets in the world, surpassing several stock markets in developed countries. A number of factors account for the developments just discussed.

The foregoing developments were made possible by the following forces. First, many LDC governments adopted more market - oriented policies. Secondly, sectors of these economies, such as commercial banking that had been closed to foreigners have been opened to foreign private sector investment. Third, restructuring of the

corporate sector of many emerging market countries continued, following the international debt crisis and severe recession faced by many developing countries in the 1980s. As a result, numerous companies in less-developed countries are now highly competitive internationally. Fourth, as more companies are listed and their shareholdings disbursed among the population by the privatisation exercise these, stock markets gain much needed depth and breath. Finally, from the international investors perspective, the list of stock markets in developing countries in which one might invest is growing, as stock markets are being created in countries where they had not existed (at least not for some time) such as China, Poland and the Czech Republic, or existing markets previously closed by law to foreign participation relax regulations and open to such investment, such as India and Korea.

Emerging stock markets are undergoing wide-ranging institutional reforms that appeal to both domestic and international investors. Some of these are; stock exchange modernisation, establishment of central clearing and settlement corporations and central depositories; establishment and improvement of securities regulatory agencies; decrease in commission rates and other transaction charges; stricter accounting, auditing and information disclosure requirement; and establishment of insider trading rules.

Popiel (1994) observed that financial systems in Sub-Sahara Africa were shallow, narrow and undiversified as a result of a decade of deteriorating economic conditions, macro-financial instability, fiscal imbalances, and financial distress. As a result countries in the region were unable to mobilise and allocate financial resources

efficiently. Popiel's study covered eleven countries in the sub region⁴.

Financial systems play an essential role in mobilising savings and allocating credit, and they limit, price and trade the risks resulting from these activities. Their contribution to the economy depends on the quantity and quality of their services and the efficiency with which they provide them.

Popiel (1994) found that financial markets in the sub-region were undeveloped and that financial systems remained heavily bank-centred also deepening and diversification had not taken place. In the study it was revealed that with the exception of Ghana and Zimbabwe, money markets were in their infancy and with the exception of Kenya, there was no significant development of leasing institutions, housing finance institutions, hire purchase, and retail credit companies.

⁴ Popiel, Paul (1994) pp. 1-2: Countries covered were; Benin, Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Mali, Madagascar, Niger, Senegal, Togo, and Uganda. They were divided into two groups, non-WAMIJ and WAMU countries (WAMU= West African Monetary Union) The non-WAMU group consisted of Ghana, Kenya, Madagascar, and Uganda; countries which have individual Central Banks and currencies. The rest were the WAMU group, that is Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, and Togo countries that share a common currency, the CFA franc which is fully convertible and also share a common central bank, the BCEAO. CFA franc - *Franc de la Communauté Financière en Afrique* (French) BCEAO: *Banque Centrale des Etats de l'Afrique de l'Ouest*. Popiel's paper was principally based on a comparison of monetary management, financial deepening, and of some features of informal and semi-formal financial systems in selected Sub-Saharan Africa countries.

It was also realised that the long term end of the market remained underdeveloped with small and weak contractual saving institutions and relatively small and inefficient stock exchanges. As a result, money and capital market intermediaries such as dealers, brokers, discount houses and merchant banks have not developed.

Securities markets are essential to development as they provide long-term debt and equity finance for the corporate sector and the government. By making long-term investment liquid, securities markets mediate between different maturities and maturity preferences of lenders and borrowers. Furthermore, securities markets facilitate the spread of business ownership and the re-allocation of financial resources among corporations and industries.

Several developing countries have made great steps in recent years in establishing and expanding equity markets. Such markets exist in about forty countries. Sub-Saharan Africa has the least developed capital markets and perhaps the fewest in relation to the developing regions. Only about nine countries have established stock exchanges, but a few including Tanzania more recently. In Popiel's study only Cote d'Ivoire, Ghana, Kenya and Uganda had Stock Exchanges, though trading had not begun in Uganda's.

The ratio of market capitalisation to GDP was dramatically low in the three countries; 6.15% in Cote d'Ivoire, 1.2% in Ghana, and 5.17% in Kenya. Compared with such ratios as 50% in Chile and 114% in Malaysia, activity was sluggish in the three markets, inclusive of Kenya's, which was the most developed. The turnover ratio was 1.3, in Cote d'Ivoire; 0.5 in Ghana; and 2.2 in Kenya; two to three times lower than in the Stock Exchanges of Bangkok or Djakarta. The markets are even narrower than the number of listed companies or turnover ratios would suggest. Of the thirteen companies listed in

Accra, three represent two thirds of the market capitalisation. Of the fifty four companies listed on the Nairobi Exchange some thirty are dealt in, and major management companies limit their participation to six or seven "blue chips." In Abidjan, five companies account for 75% of transactions.

The same factors explain the weak development of capital markets in the sample countries; the financial repression of the 1970s, and the deteriorating economic environment of the 1980s, administered interest rates, unfavourable tax system, weak and unclear legal and regulatory frameworks, preferential treatment for banks, and inefficiencies in stock exchange operations.

Until the end of the 1980s, central banks regulated interest rates in Cote d'Ivoire, Ghana, and Kenya. Many countries kept the lending rate low sometimes highly negative in real terms to encourage investment under conditions in which project opportunities were limited. Such easy access to subsidised credit encouraged sub-optimal investment and induced enterprises to rely on bank financing rather than to float equity or to issue bonds on the markets, and in the process stifling the development of financial markets.

Stock market operations have also been inefficient. In Cote d'Ivoire, for instance, the costs of issuing equities in 1990 reached 5.5% of the issue, compared with 0.5% applicable for borrowing from banks. Moreover, the trading system did not permit prices to reflect changes in demand and supply. In Kenya, it could take up to 60 days to deliver securities. The stock exchanges further suffered from overstaffing, a shortage of skilled and trained personnel, little or no computerisation, and until recently, a lack of dynamism.

Until the end of the 1980s, securities on the three markets received unfavourable tax treatment. Kenya introduced a capital gains tax in the mid- 1970s. In Cote d' Ivoire, one of the fundamental problems has been multiple taxation of dividend income prior to its receipt by the shareholder. Typically, corporate profits are subject to corporate income taxes and then, if paid as dividends to withholding tax and personal income tax at the rate applicable to individual shareholders.

According to a UN study (1991), another weakness is found in the legal and regulatory framework for securities markets. Responsibility for regulation and supervision of markets for securities, public companies and individual investors, is not defined, incentive for companies to go public are lacking; requirements for information flows and disclosure are weak and ambiguous; and accounting and auditing standards remain inadequately specified. In Cote d'Ivoire, for instance, there is almost no provision against insider trading. Kenya was working to introduce a comprehensive legal framework that included rules on trading, intermediation, information disclosure regulation of takeovers, and professional codes of conduct for brokers and underwriters. Despite these developments, company law was still in its infancy, disclosure requirements were not clear, and protection clauses for shareholders were not included.

Popiel (1994) suggests that in order to promote securities and capital markets, the development of such financial markets should start at the short term end. Of the two approaches; proactive and evolutionary, the former is preferred. Experience has shown that a proactive approach consisting of providing a legal, regulatory, and prudential framework that fosters and when possible accelerates financial market development is better than the evolutionary.

The evolutionary approach envisages letting financial markets develop as the economy develops, intervening through changes in laws and regulation, only when major distortions or bottlenecks emerge or when the reaching of a further development stage warrants it.

When compared to financial systems in other developing regions (South Asia, Latin America, and East Asia) Popiel's study (1994) found that financial systems of Sub-Sahara Africa showed some distinctive features. African financial systems were both shallower and narrower. In most African countries there was considerable concentration in the banking sector, with little intra-sectoral competition. Moreover, the capital base of banks and of relatively scarce non-bank financial institution was low, rendering these institutions highly geared. On top of that, the systems were fragmented, and semi informal and informal financial mechanisms and institutions were particularly important. The general causes, for the unsatisfactory situation of the financial systems in Africa were; the early stage of development of African economies, low income of households and most economic agents, lack of appropriate legal, regulatory, and prudential frameworks, instability of the macro-financial environment and the unsteadiness of macro-economic policies, weak monetary management, a history of financial repression and government interference in the financial system and finally scarcity of technical and managerial financial skills.

The author concurs with Inyangete (1993) in that emerging securities markets, particularly in Africa need to pay greater attention to financial regulation necessary to enhance the operation of competitive capital markets. Regardless of the rationale, the primary objectives of financial regulation are to prevent systemic risk, achieve efficiency, stability and fairness, in the financial sector and the wider economy.

The author proposes that initial emphasis

by regulators be placed on prudential controls, as a strategy to achieve the primary objective of financial regulation. Such prudential controls entail dealing with permitted behaviour of firms in their chosen activities, aimed mainly at securing the safety and soundness of individual financial institutions and as a consequence maintain public confidence in the stability of the financial system (e.g. minimum capital requirements, reporting requirements, authorisation criteria and limits on ability to take on certain risks)

Prudential controls also require financial institutions to satisfy capital adequacy requirements, diversify their risks, adopt generally accepted accounting policies, engage professionally suitable managers, report their true financial position and be subject to effective supervision. Managers, owners and financial institutions are mandated to minimise adverse selection and detailed conduct rules to guard against moral hazard.

It has to be noted that prudential regulation does not remove the risk of financial intermediation, as the IMF put it:

"A fundamental task of financial intermediaries is to equate and assume risk and to charge for it appropriately. As a result of regulatory changes, the growth of derivative product markets, and technological innovation, competitive pressure appears to be increasing the general level of risk assumed by intermediaries while only partially providing the tools needed to manage that risk" IMF (1989)

Inyangete (1993) confirms that prudential controls are essential because financial institutions are prone to both imprudent and fraudulent behaviour. History has shown that private financial institutions do make mistakes and their decisions are not perfect and subject to excesses. Indeed, fraud and instability affect market based financial systems as it does public sector based systems. As a consequence, the key objective of prudential regulation is to achieve stability without compromising efficiency. The extent and success of designing prudential regulation based on markets mechanisms which do not distort competition and financial behaviour remains an enigma, nonetheless.

Meanwhile, regulators would pay heed to the necessity of balancing the seemingly conflicting objectives of financial regulation between on the one hand those controls aimed at stimulating competition, efficiency and innovation, and on the other, those that promote stability, safety and fairness. This can be realised through radical action in devising a country's underlying financial framework particularly in Africa.

In a survey of institutional and operational framework for African capital markets Postel (1996) offers a list of critical issues cited by emerging markets fund managers. These are summarised in Table 1.0 below.

Table 1. Issues Cited by Emerging Market Fund Managers

		Mauritius: Should move to exchange trading five days a week.
Botswana:	Insufficient liquidity	Needs to clarify tax policies for shares held beyond one year.
Cote d' Ivoire:	Local banks are not good brokers	
	Lack of available shares to buy	Namibia: Insufficient liquidity.
Egypt:	Some companies declare bonus shares but then don't deliver them in a timely manner (e.g. Suez Cement and Misr oil) Better administration of dividends needed. Liquidity (hard to buy in bulk)	Exchange should not charge for providing information on issues.
		Nigeria: Little custody.
		Settlement takes up to one year Commissions are too high (3-5%).
		Capital gains tax
Ghana	Need to complete regulatory reform program.	Swaziland: Insufficient liquidity
	Liquidity (often can only buy 100 shares or 3 -4 % of a company)	Tunisia: Nobody knows how much foreigners own which makes compliance with foreign ownership restrictions very difficult.
Kenya:	Foreign ownership restrictions are too onerous in that they include the shares owned by foreign strategic investors. Many barriers to buying T-bills.	Daily price movement restrictions have frozen the market.
	Better administration of dividends needed.	Zambia: Several aspects of privatisation procedures need improvement.
	Better disclosure of corporate actions needed.	Liquidity (need bigger -sized issues).
Malawi:	Insufficient liquidity	Zimbabwe: Needs improved clearing.
Morocco:	OTC prices not always the same as regular prices.	Needs to clarify tax policies for shares held beyond one year.
	OTC should provide bid-asked prices, not just last trade.	

Source: Postel, 1996

PROSPECTS OF SECURITIES MARKETS IN TANZANIA

The Dar es Salaam Stock Exchange (DSE) market was formed in April, 1998. It is organized as a private sector company, limited by guarantee and under the Companies Ordinance. It is a self-regulatory organisation, which is regulated by the Capital Markets and Securities Authority (CMSA) and subscribed by the National Insurance Corporation Ltd; the National Social Security Fund, and the Parastatal Pension Fund. The DSE currently consists of a membership of five brokers, namely; Tanzania Securities Ltd; Solomon and Company Ltd; Orbit Securities Ltd; and Raslimali Ltd. All these members are licensed by the CMSA, and have been subsequently admitted by the DSE Council to become members of the stock exchange.

The trading system adopted at DSE is called Open Outcry Continuous Auction. As the name implies, trading is conducted in an open atmosphere of the trading room, fronted by large trading boards on which trade is conducted. Members of the public can watch trading through a transparent glass from the public gallery designed for viewing trading as it is conducted.

In order to sell or buy shares, investors must approach stockbrokers who will take their orders and transact on their behalf. Customers orders are arranged in chronological order (first come first served basis) and in priority of clients -first -dealers last. This is meant to uphold the market principle of fairness to all investors.

On each trading day, the opening bid and offers are guided by the closing price recorded during the previous trading session. The DSE trading rules require that opening bids and offers are within 15% of the previous closing price. For example, if the previous closing price for Tanzania Oxygen Limited (TOL) was Tsh 510, the highest offer price cannot exceed Tshs.

586.50. However, due to the rule of spreads or "ticks" the figure is rounded up to Tshs 580. Like wise the lowest opening price will be Tshs 433.50 and again rounded off to the nearest Tshs 10. that is, in this case to Tshs 430.

Spreads (ticks) are basically what is referred to as bidding or offering in advance. Thus when traders intend to improve upon a bid or an offer they are restricted to charge the bid and offer price by specified spreads. This is usually strictly followed in the event of competitive auction or over-bidding and under-selling.

Table 2: The Guiding Spreads at DSE

Price Range	Spreads (ticks) size
T.Shs.	T.Shs.
Below 200	2.50
200-499	5.00
500-999	10.00
Above 1000	25.00

Source: Technical Advisor, DSE, July, 1998

The purpose of these spreads is to establish order in price movements suppressing any sporadic price rises and drops. This may exonerate the exchange from being branded a 'casino' as is common notion among some people. Transactions clearing rules of the DSE are based on delivery of securities against payment (DVP) on the fifth day following the transaction date.

The DSE trading report after every trading session is one of the most important outputs. It carries facts about the days transactions. The report is usually a market release targeted at existing and potential investors as it helps to keep them informed and updated and interested in the market that continuously value their assets.

In a stock market with several listed companies and many transaction, summary measures of market performance are desirable. That is why stock exchange indices have become popular as conventional measures of the stock markets

they represent. A stock exchange index is basically the market barometer and generally tells the direction of the markets after every trading session.

Up to 9th September, 1998 DSE had listed a single company - TOL. Under such circumstances, changes in market capitalisation suffices as an indicator of market performance. As the number of listed companies increases, a statistical measure will be inevitable. The following table summarises trading in TOL shares on the DSE as it took place since inception up to 2nd September, 1998.

Table 3: Dar es Salaam Stock Exchange: Central Depository System: Trading Report (TOL, Between 15 April and 2 September, 1998)

Trading Date	No. of Deals	No. of Clients	No. of Shares	Market Capitalization (T.Shs.)	High T.Shs.	Low T.Shs.	Spread T.Shs.	Average T.Shs.
15 April	4	8	1,350	678,000	520	500	20	502,222.222
22 April	3	6	2,040	1,050,800	520	510	10	515,098.039
29 April	2	4	2,000	1,010,000	510	500	10	505
06 May	2	4	200	104,000	520	520	0	520
13 May	13	26	35,280	18,012,800	520	510	10	510,566,893
20 May	1	2	6,000	3,060,000	510	510	0	510
27 May	4	8	2,600	1,316,000	510	500	10	506,153,846
03 June	2	4	1,000	500,000	500	500	0	500
10 June	21	4	400	201,000	510	500	10	502.50
17 June		2	1,100	550,000	500	500	0	500
24 June	2	4	70	35,500	510	500	10	507,142,857
01 July	3	6	1,450	725,000	500	500	0	500
15 July	1	2	40	20,000	500	500	0	500
22 July	1	2	200	100,000	500	500	0	500
19 July	6	12	2,510	1,255,000	500	500	0	500
05 Aug.	1	2	200	100,000	500	500	0	500
12 Aug.	1	2	100	50,000	500	500	0	500
19 Aug.	2	4	100	50,000	500	500	0	500
26 Aug.	1	2	100	50,000	500	500	0	500
02 Sept.	7	14	48,000	24,000,000	500	500	0	500
TOTAL	41	84	53,730	27,363,100				

Source: DSE, July, 1998

It can be observed that during the period, the price for TOL shares moved between a low of Tshs 500 and a high of Tshs 520. On 9th September, 1998 when TBL shares were listed, the move was up from Tshs 550 to Tshs 650. The opening price was Tshs 560 and closing Tshs 630. On the same day TOL shares remained at Tshs 500, without any bid. One observation is that there were more investors who wanted to buy TBL share than TOL shares, despite the fact that par value price for TBL were Tshs. 550 higher than the par value

price of TOL shares. Trading one week after, did not alter the trend. The main reason that is likely to account for this state of affairs is that publicly available information about the comparative performance of these two companies currently favours TBL. In a nutshell, there was good news about TBL and bad news for TOL.

The Tanzanian stock market constitutes a primary market and a secondary market that are meant to support one another. When TOL raised Tshs 3.75 billion from

about 10,000 investors through an Initial Public Offer (IPO) by issuing to the public a new organised and regulated primary market was established in Tanzania. This was followed by TBL's IPO which mobilised Tshs 9.6 billions from 19,052 shareholders.

Members of the public who made the decision to buy TOL and TBL shares most probably relied on information relayed through the company's prospectus, which included audited financial statements. The TOL prospectus showed that TOL earnings per share (EPS) to be Tshs 25.87 as at 31st December, 1996. It also revealed historic dividend at Tshs 18.91 (1996) and dividend yield at the offer price at Tshs 23.05 (1998)

On the other hand, the TBL prospectus issued at a later date 18th May, 1998 showed that TBL's EPS was Tshs 62.9 for calendar 1996 with a dividend per share (1996) at Tshs 37.7. TBL shares were sold at Tshs 550. The number of shares offered for sale was 7,500,000. TOL shares were offered prior to listing on the DSE on 29th December, 1997; at Tshs 500. The IPO was initially set to be closed on 7th February, 1998. It was, however, extended to end of February to allow broader indigenous participation. It is important to note that all TOL shares offered were purchased in full. It is worth further research to identify the nature and characteristics of investors for the TOL's IPO contributing the Tshs 3.75 Billions and find out exactly what kind of financial information they did rely on to make the decision. Such a study would also find out the source of funding used to finance the investment. The Tanzanian investor, who is on average a low income earner can invest in shares a little at a time and thus over time accumulate say up to 1000 shares in one company before thinking of diversifying into another company. In a nutshell, it has to be a long term investment strategy.⁵

The emerging capital market in Tanzania is a significant departure from the pre- 1991 policy vacuum. Financial institutions were then largely in the public domain. Government's dominance of the financial system was until then virtually complete. Credit, that is, supply of funds, for the most part was directed on the basis of 'national' priorities without regard to credit worthiness, and banks became *de facto* agents of fiscal policy, channelling public expenditures through extra-budgetary conduits. In such a system, the assessment of financial risks against rewards was largely "blind" and that did militate against formation of capital markets.

Lack of separation between fiscal and financial activities combined with the overall pricing distortions and economic decline in the early 1980s, and inadequate regulatory framework and managerial skills led to: significant misallocation of credit, and a banking system clientele (consisting mainly of mismanaged large state-owned institutions) that was, for the most part, bankrupt and chronically in arrears; inability of the system to mobilize adequate domestic resources; an ineffective monetary policy, which resulted in money supply growing unchecked; loss of accountability and lack of competition. These factors combined to erode a domestic resource base.

CONCLUDING REMARKS

Policy makers in countries with emerging securities markets have to legislate to allow smooth operations of securities markets. Prudential regulations for emerging stock markets should require that firms quoted and listed on the stock exchange provide adequate financial information. Such information should allow investors and stock traders to distinguish between good and bad performance companies over time.

⁵ Mathu & Tairo-Urassa (1998)

Interim financial statements happen to provide a more timely perspective of the prospects of a company. Despite the risk involved, market participants may rely on them due to their timeliness relative to audited statements.

Apart from other sources of information such as financial press, there are firm specific accounting information which can only be provided by the firm's management without a better substitute. Small firms promise to play a significant role in the emerging stock markets and hence the regulation and requirement for listing needs to be more sympathetic.

Emerging stock exchanges would be better placed if they took a lead in establishing computerised accounting systems, to speed up processing of information for dissemination to brokers, investment advisers, and potential investors.

Economists have severally argued for subjecting financial intermediaries to special regulations; the key rationale for financial regulation, being to prevent market failure (financial collapse) due to externalities.

Such measures would dilute pessimism about the role of capital markets and over-reliance on the development of banks and other financial intermediaries given that under unfavourable conditions capital markets may cause fluctuations that seriously affect the stability of the financial system and the economy as a whole (i.e. market crash).

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