

THE ZIMBABWE STOCK EXCHANGE

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1. Introduction

The literature on developing country stock exchanges is not that extensive [Kitchen, 1987]. However, the issue of stock exchange relevance has been discussed in several development oriented journals. The literature on this important area has however been inclusive. Both empirical and theoretical research has come up with different conclusions on the necessity of developing country stock exchanges.

Lloyd (1976, 1977) gives limited support to developing country stock exchanges. Drake (1980, 1977, 1985) is highly in favour of the setting up of stock exchanges in developing countries while Dickie (1981) is supportive. Samuels (1981) and Samuels and Ya-cout (1981) are also supportive, but hold that the markets might be inefficient and lead to increased inequalities in the distribution of income and wealth.

In addition, Calamanti (1979, 1980a, 1983b) on the Tunis, Abidjan and Morocco Stock Echanges writes on the limited role of the stock exchanges in the raising of new capital by companies.

Most of the above research had looked at the relevance of stock exchanges mainly on the basis of whether there are a potent vehicle in the raising of capital for firms within the respective countries. Kitchen (1987) on the other hand looked at the necessity of stock exchange in the context that they are a vehicle for increasing competition in the financial markets thus making the markets more efficient.

While Kitchen's analysis is highly relevant it is still important that any stock exchange plays the critical role of being an important vehicle for companies to raise equity and debt capital. A stock exchange that does not fulfil this role will not provide much competition to the other sectors of the financial market.

In this paper we would like to use data that we have collected on the Zimbabwe Stock Exchange to determine the role of the stock exchange in the raising of capital by firms already quoted on the stock exchange and those seeking new quotations.

We have done this by collecting data on new capital raised on the stock exchange through new issues, rights issues, preference shares and long term debt for the twelve year period from 1980 to 1991. The data collected is somewhat similar to the one used by Parkinson (1984) on the Nairobi Stock Exchange.

Our aim of the study is to see whether we can reach any definite conclusion as to the role of the Zimbabwe Stock Exchange in allowing firms to raise new equity and other

capital. We also sought to find the conditions under which this role can best be fulfilled by the stock exchange.

2. A Short History of the Zimbabwe Stock Exchange

The first stock exchange was established in 1896, in the then Rhodesia, soon after the arrival of the white settlers in Bulawayo, which is now the second largest city in Zimbabwe. The stock exchange was an essential component of the settlement process because most of the economic activity was in mining.

Other stock exchanges were established in what was then called Gwelo (Gweru) and Umtali (Mutare). Again all these stock exchanges were based on the mining economy which required an efficient mechanism for the exchange of ownership of mining claims.

The stock exchange in Bulawayo only thrived for six years until the South African war. The other exchanges also only thrived for short periods, with the stock exchange in Gwelo, which had been also set up in 1896, surviving only until 1924. The reason for the closing of these stock exchanges was that mineral deposits in the then Rhodesia had not been as extensive as originally forecasted, therefore, when the mining activity declined, it became unnecessary to have the stock exchanges.

The stock exchange in Bulawayo was revived after the second world war and was called the Rhodesia Stock Exchange. The exchange started trading on the 2nd of January 1946. A second floor was established in Salisbury, now Harare, in 1951, and dealing was conducted by telephone between the centres.

During the 1960's, the period of the Federation of Rhodesia and Nyasaland which included Zimbabwe (Rhodesia), Zambia (Northern Rhodesia) and Malawi (Nyasaland) the centre of economic activity became Salisbury.

Because of this, the operations of the exchange were moved to Salisbury, including the trading floor, the secretaries and the administration.

In the 1960's it was decided that legislation was necessary to govern the rights and obligations of members of the Exchange and the general investing public.

The rules of the stock exchange were extensively revised between 1972 and 1973 by a committee with the government through the treasury also undergoing a similar exercise.

The exercise by the committee and the treasury resulted in a Act which was passed

by the House of Assembly in 1974. The Act is the basis of most of the operations of the stock exchange today. This Act of Parliament is administered through the Registrar who works closely with the stock exchange.

At independence in 1980 the name of the stock exchange was changed from the Rhodesia Stock Exchange to the Zimbabwe Stock Exchange.

The number of companies listed and members of the stock exchange has changed widely over the years. The number of companies traded was highest when external trading of shares was allowed by the government. However, in 1984, the government of Zimbabwe purchased all shares held externally by Zimbabwean citizens. This greatly reduced the number of shares traded on the exchange.

The number of members of the exchange have also varied considerably mainly with changes in the level of activity on the exchange. In general, the greater the activity on the exchange, the greater the number of members on the exchange and vice versa.

Today there are 61 companies that are quoted on the Zimbabwe stock exchange. Of these, 54 are in what is called the industrial sector and seven (7) are within the mining sector.

The Zimbabwe Stock Exchange publishes daily stock prices in the daily newspaper and summaries are available from a weekly financial newspaper. In addition, the Stock Exchange also publishes two indices, one for the industrial companies and the other for the mining companies.

The Zimbabwe Stock Exchange also deals in gilts and near-gilts. These short term securities are issued by governments and quasi-government bodies to finance their operations.

2.1. The Administration of the Exchange

The stock exchange is run by a committee and a secretariat whose functions are to:

- * run the operations of the stock exchange
 - * administer the rules and regulations of the exchange
 - * make sure that the exchange dealings are efficient, and
 - * make decisions on which shares are to be dealt in.
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Table 1

TURNOVER AND INDICES AS AT YEARS ENDED 31ST MARCH ON THE ZIMBABWE STOCK EXCHANGE

Year	Value Z\$'000	Share Vol. '000	Capitalization millions	Year End	
				Industr. Index	Mining Index
1980	91566	45343	1106	477.77	207.36
1981	86891	38496	507	277.70	53.16
1982	57018	20914	316	136.13	44.45
1983	64950	16461	300	123.84	34.00
1984	18067	25681	262	122.73	23.76
1985	13794	24576	588	251.91	92.18
1986	19669	21869	688	286.30	116.70
1987	37440	42995	1193	450.05	245.10
1988	69675	55630	1499	552.61	308.35
1989	75262	39202	2395	869.13	327.64
1990	125563	58679	7075	2282.76	413.31
1991	281585	137667	7101	1953.16	388.28

2.2. Listed Companies

The Zimbabwe Stock Exchange presently only deals with local shares. The shares must be of public companies which are quoted on the stock exchange.

The shares that are traded on the stock exchange represent a wide cross section of Zimbabwean firms although only 61 companies make up the exchange. Industries such as banking, newspapers, pharmaceutical, light engineering, heavy engineering, food, textiles, paper, packaging, hotels, breweries, stores, agriculture, cables, building and mining shares are found on the stock exchange. Some of the industries are represented by a holding company.

As with other developing country stock exchanges there is very little trading in corporate debt securities on the Zimbabwe Stock Exchange.

3. Research Methodology

Data was collected from the Zimbabwe Stock Exchange files on the amount of new funds raised through ordinary stock issues, rights issues, preference shares and long term debt for the twelve year period from 1980 to 1991.

Gross National Product figures for the same period were obtained from the "Quarterly Digest of Statistics" Central Statistical Office (CSO) December 1991.

Using the above information ratios were calculated and the information analyzed to see whether the amount raised through the stock exchange was significant as compared to the capitalization of the market, and the Gross National Product.

We also did a correlation analysis to see whether we could find any relationship between the amount of funds raised in the market and the underlying performance of the stock exchange as measured by the stock exchange index.

Ordinary Share Issue - 1980 - 1991.

Table 2 provides data on the amounts raised by companies quoted on the stock exchange through new stock issues, rights issues, preference shares and long term debt.

Table 2

ORDINARY SHARE ISSUE: ZIMBABWE STOCK EXCHANGE 1987-1991

Year	New Issues	Rights Issue	Debt	Preference Shares	Total
	Z\$	Z\$	Z\$	Z\$	
1980	12 750 000	12 495 724	3 390 092	—	28 635 816
1981	6 061 000	11 469 192	2 470 000	—	20 000 192
1982	—	—	—	—	—
1983	—	—	—	—	—
1984	—	1 465 093	—	—	1 465 093
1985	—	3 066 145	—	—	3 066 145
1986	—	—	3 000 000	—	3 000 000
1987	—	16 053 494	—	—	16 053 494
1988	—	11 745 035	—	—	11 745 035
1989	15 300 000	46 929 692	14 997 260	—	77 226 952
1990	167 599 200	88 129 716	27 050 995	—	282 779 911
1991	102 086 120	595 298 397	—	40 000 000	737 384 517

In Table 3 we give additional data on the new listings that were made on the stock exchange during the period 1980 to 1991.

Table 3

DETAIL ON NEW LISTING ON ZSE 1980-1991

Year	Company	Number of Shares Issued	Amount of Issue Z\$
1980	Rodall	3 000 000	3 750 000
	Dunlop	5 000 000	9 000 000
1981	Truworhs	1 810 000	1 991 000
	Agricor	3 700 000	4 070 000
1989	Tabex	17 000 000	15 300 000
1990	KCI	16 000 000	17 600 000
	Zimsun	70 000 000	94 500 000
	Cluff	34 687 000	55 499 200
1991	Barclays	33 276 400	51 578 420
	Falgold	18 100 000	19 910 000
	UDC	10 927 750	30 597 700

What is of great interest in the ownership of the firms that sought new listing is that most of them were wholly foreign owned before being floated on the stock exchange.

Firms such as Barclays, Cluff, Dunlop, Rodall (under Union Carbide), Falgold, UDC, and Truworhs are all part of large foreign owned firms. The new listings, while meant to raise funds for these firms, also resulted in the localization of some of the ownership of these firms.

Another way in which we can view the data is by looking at the percentage of firms which raised new equity capital during each year as compared to those which did not raise any capital. We have done this for the period 1987 - 1991 in Table 4.

Table 4

COMPARISON OF FIRMS WHICH RAISED CAPITAL AND THOSE THAT DID NOT RAISE CAPITAL

Year	Total Number of Quoted Firms	Firms Raising New Equity Capital	%age of Firms Raising New Capital
1987	53	7	13%
1988	53	2	4%
1989	54	6	11%
1990	57	8	14%
1991	60	25	42%

The Gross National Product of Zimbabwe for the period 1985 - 1990 is given in Table 5.

Table 5

GROSS DOMESTIC PRODUCT OF ZIMBABWE 1985-1990

Year	GDP Z\$ millions
1985	6505
1986	7431
1987	8256
1988	9642
1989	11272
1990	13029
1991	n/a

4. Analysis of Data

The data was analyzed in order to determine the ratio of new capital raised through the exchange and the total capitalization of the market and the Gross National Product. This information is given in Table 6.

Table 6

RATIOS

Year	Equity Issues to Capitalization %	Equity Issues to GDP %
1980	2.69	—
1981	3.94	—
1982	0	—
1983	0	—
1984	0.56	—
1985	0.52	0.05
1986	0.44	0.04
1987	1.35	0.19
1988	0.78	0.12
1989	3.22	0.69
1990	4.00	2.17
1991	10.38	n/a

From the ratios we can see that during the beginning of the period under study the ratio of new capital issue to capitalization was around 3%, however this reduced to less than 1% for the period between 1982 to 1986. The ratio then began to move up between 1987 to 1990 and then rose dramatically in 1991.

The ratio between new issues and GDP was insignificant for the period of 1985 to 1988 but began to rise in 1989 and rose dramatically in 1990. If the 1991 figures for GDP were available we would have seen a more even greater increase in that ratio because of the amount of funds raised on the market in that year.

We then did a Pearson correlation analysis of amount of equity funds raised on the exchange and the level of activity on the exchange as measured by the industrial index. In order to remove any distortion caused by mining shares we removed funds that were raised by these firms in our analysis.

We found the following correlations:

$$r = 0.769$$

$$r \text{ square} = 0.591$$

These results show that there is a relatively high level of correlation between the performance of the market and whether or not firms will raise funds on the market through new equity issues.

Given this result we then sought to determine reasons for reduced performance and activity in the market for the low periods such as 1982 to 1986 and the recent collapse of the market, which is not shown in the article data, but which has seen the index reduce from the 2 000 range in 1991 to a present level around 1 000 and dropping.

We have found out that the main determinants of the performance of the stock exchange in Zimbabwe are government fiscal and political policies. In addition, other factors such as drought and commodity prices have contributed to the performance of the stock exchange.

During the period of 1982 to 1986 many industrialists in Zimbabwe lost confidence in the economy because of government's moves towards socialism. These policies such as the introduction of price controls, the introduction of wage regulations, the taking over of externally trade shares, the talk of turning the country into a Marxist state and other policies all resulted in lack of confidence in the stock exchange and thus the collapse of the exchange.

The more recent collapse of the exchange has been caused by the introduction of the

Structural Adjustment Program which has resulted in short term interest rates reaching the 30% range while dividend yields on stocks averaged around 20%. This of course meant that investors moved funds from stocks to the money market.

The collapse of the stock exchange has always brought a reluctance by companies to raise money on the stock exchange because of the low prices. At the same time investors are wary of investing in equities because of the high returns in the less risky money market securities.

By looking at the results of the analysis we conclude that given the right environment, in terms of government policy, the stock exchange can be a very important instrument in the raising of capital by firms. This is clearly shown by the amount of funds raised in the 1990 and 1991 period when the stock exchange was at its peak.

While developing country stock exchanges will have their high and low performance periods the inconsistency and frequent changes in government policy and sometimes governments make it very difficult for them to consistently perform their major role of providing capital to business.

5. Conclusion

In this paper we have sought to look at the relevance of developing country stock exchanges in terms of being a vehicle for firms to raise funds on the capital markets.

We gathered data on funds raised on the Zimbabwe Stock Exchange between 1980 and 1991. The results show that in years when the performance of the stock exchange is good with rising indices, firms make extensive use of the stock exchange as a market to raise funds. In these periods the stock exchange really fulfils its role of providing a market for new funding for business and the indigenization of foreign owned businesses.

On the other hand when the market collapses there is great reluctance to raise money by firms and the stock exchange no longer fulfils one of its main purposes which is to provide equity funds.

However it is important to note that the performance of the Zimbabwean Stock Exchange has largely been influenced by government decisions on socialism and of late the Structural Adjustment Program. Therefore, in order for the stock exchange to meet its purpose of providing an avenue for firms to raise new capital it is important that govern-

ment policies enhance this role instead of destroying the performance or confidence in the stock exchange.

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Abstract

The current literature on the necessity and role of stock exchanges in developing countries is not very conclusive.

This article looks at the necessity of stock exchanges in developing countries by using data on a stock exchange that had not been used by other authors, the Zimbabwe Stock Exchange.

We measure role and necessity of the Zimbabwe Stock Exchange by looking how it has performed as a market where firms can raise new funds for their operations. Previous research in this area had shown limited use of the developing country stock exchanges as a source of long term capital for firms in the respective studies.

We found that on the Zimbabwe Stock Exchange, between the years 1980 to 1992 there was varying use of the stock exchange as a source of capital. We find significant use of the stock exchange to raise capital during the early part of the period and the last part of the period under study.

We also found that the extent of use of the stock exchange as an avenue for raising funds was largely determined by the performance of the stock exchange. The higher the performance, as measured by the stock market index, the greater the amount of funds raised by firms on the stock exchange.

Given that most of the downward movements on the stock exchange have been caused by government policy we conclude that, within the Zimbabwean market, whether or not the stock exchange fulfils its role as provider of capital largely depends on government policies.

