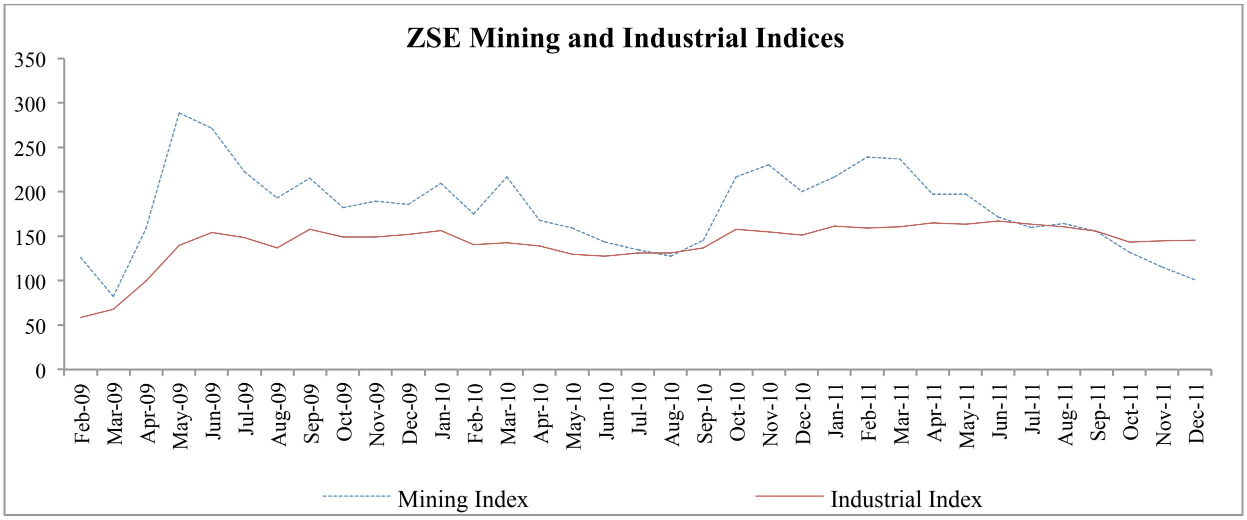

DOES THE ZIMBABWE STOCK EXCHANGE (ZSE) HAVE POTENTIAL TO SUPPORT ECONOMIC GROWTH DURING THE MULTICURRENCY SYSTEM?

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DOES THE ZIMBABWE STOCK EXCHANGE (ZSE) HAVE POTENTIAL TO SUPPORT ECONOMIC GROWTH DURING THE MULTICURRENCY SYSTEM?

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Abstract

In this paper we examine the potential of the Zimbabwe Stock Exchange (ZSE) to promote economic growth during the multicurrency regime in Zimbabwe. The study period is February 2009 to December 2011. The study period covers the multicurrency system. The data frequency is monthly. We do an external SWOT analysis of the ZSE by identifying the strengths, weaknesses, opportunities and threats facing the ZSE. We identify any potential risks facing the ZSE. We examine the technological infrastructure and institutional indicators of the ZSE. These include existence of a capital market regulator, existence of a ZSE governing law, technological nature of the clearing and settlement systems, technological nature of the trading system, trade settlement cycle, existence of an international custodian, foreign participation, exchange control regulations, existence of a central securities depository (CSD), number of trading days, length of trading times, and the nature of the accounting and auditing reporting systems. We compare the trading costs to those attaining in the African region, as well as the ZSE regional integration initiatives. We use various stock market performance indicators. These include the number of listed companies, stock market indices, traded values and volumes, market capitalization and turnover. We the weigh ZSE actual performance against the annual targeted levels. We review the ZSE planned projects, programmes and strategies. We examine the macroeconomic and political developments in Zimbabwe and how they likely affect ZSE activities. We benchmark the outcomes against what attains in similar African countries.

The results suggest that the ZSE is relatively large and ranks among the top 5 stock exchanges in Africa in terms of listings, but does not rank that high in terms of market capitalization and traded values. The ZSE stocks are considerably under-valued. The ZSE is still lagging behind in terms of automation of trading and settlement systems. There is need for a speedy implementation of planned programs that include automation. Political and economic developments seem to have a bearing on ZSE performance. We conclude that the ZSE has potential to support growth in the multicurrency period. However, this potential needs to be unlocked through the implementation of the various planned projects and programmes. The ZSE seems sensitive to the political and economic developments in the country.

Key Words: *Market Capitalization, Market Turnover and Listings.*

Acknowledgements

We acknowledge the assistance of officials in the institutions where we collected the research data and other information. The institutions include the Zimbabwe Stock Exchange (ZSE), African stock exchanges, the Reserve Bank of Zimbabwe (RBZ), the Zimbabwe Statistical Agency (ZIMSTAT), the Securities Commission of Zimbabwe (SECZ) and the World Bank.

List of Acronyms

ASEA	African Securities Exchange Association
ATMs	Automated Teller Machines
CoSSE	Committee of Southern African Development Community Stock Exchanges
CSD	Central Securities Depository
CPI	Consumer Price Index
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GNU	Government of National Unity
IEE	Indigenization and Economic Empowerment
IOSCO	International Committee for Securities Commission
IPF	Investor Protection Fund
IT	Information Technology
LOLR	Lender-of-the-last-resort
NGO	Non-Governmental Organization
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement System
NRZ	National Railways of Zimbabwe
SADC	Southern African Community
SADCSEC	SADC Stock Exchange Committee
SECZ	Zimbabwe Securities Exchange Commission
SMEs	Small-to-Medium Enterprises
UNDP	United Nations Development Programme
WFE	Federation of World Exchanges
ZIMSTA	Zimbabwe Statistical Agency
ZESA	Zimbabwe Electricity Supply Authority
ZSE	Zimbabwe Stock Exchange

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1. Introduction and Background

1.1 Overview of the Economy

Over 2000-2008, the economy of Zimbabwe declined by about 40%. Inflation reached hyper levels. The banking sector experienced challenges. Some banks were curated and others closed. Domestic and foreign currency shortages reached critical levels. The Zimbabwe Stock Exchange (ZSE), whose performance largely did not reflect economic fundamentals then, remained vibrant, alongside the property market.

The economy is now rebounding from decline. Macroeconomic conditions have stabilized. The stabilization is attributed to the multicurrency system, which was introduced in February 2009. The multicurrency system is associated with government cash budgeting, liberalization of the goods market, removal of price controls and cessation of quasi-fiscal operations by the Reserve Bank of Zimbabwe (RBZ). The economy has also benefited from exogenous factors, which include rising international mineral prices and favourable weather conditions.

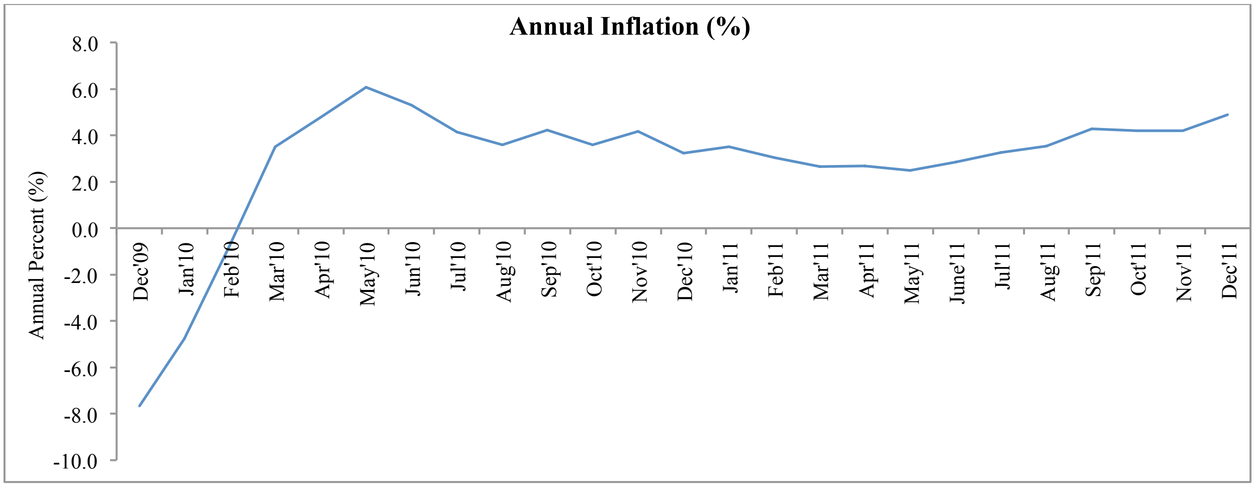
The economy is now on a positive growth path. It achieved a growth rate of 5.7% in 2009 and an estimated growth rate of 8.1% in 2010. It is estimated to grow by 9.3% in 2011. It is projected to grow by 9.4% in 2012. This economic growth rate will be underpinned by strong performance in Finance (23%), Mining (15.9%), Tourism (13.7%) and Agriculture (11.6%).

According to the Confederation of the Zimbabwe Industries (CZI), capacity utilization has improved from 40-45% by the end of 2010 to 52.3% by the end of 2011. It is projected to grow by about 60% in 2012 and by 70% in 2015, if capacity constraints are addressed. The mining sector grew by 47% and by 25.8% in 2010 and 2011, respectively. The mining sector has emerged as the key driver of economic growth. The mining growth stimulus emanates from prevailing favourable international mineral prices. The agricultural sector grew by 34% and by 7.4% in 2010 and 2011, respectively. Agriculture has also emerged as a strong driver of the recovery process, with tobacco as the main export crop. The manufacturing sector, however, has been characterized by sluggish growth, amid capacity constraints in the domestic economy.

The current capacity utilization figure is encouraging, given the low base that the economy is rebounding from, but it is still low in view of Zimbabwe's good climate, good soils, availability of mineral and other natural resources, competent and enterprising population, high literacy rates, among other factors. In addition, there are some industries that are still operating well below 47%. It may take time before the economy reaches full capacity.

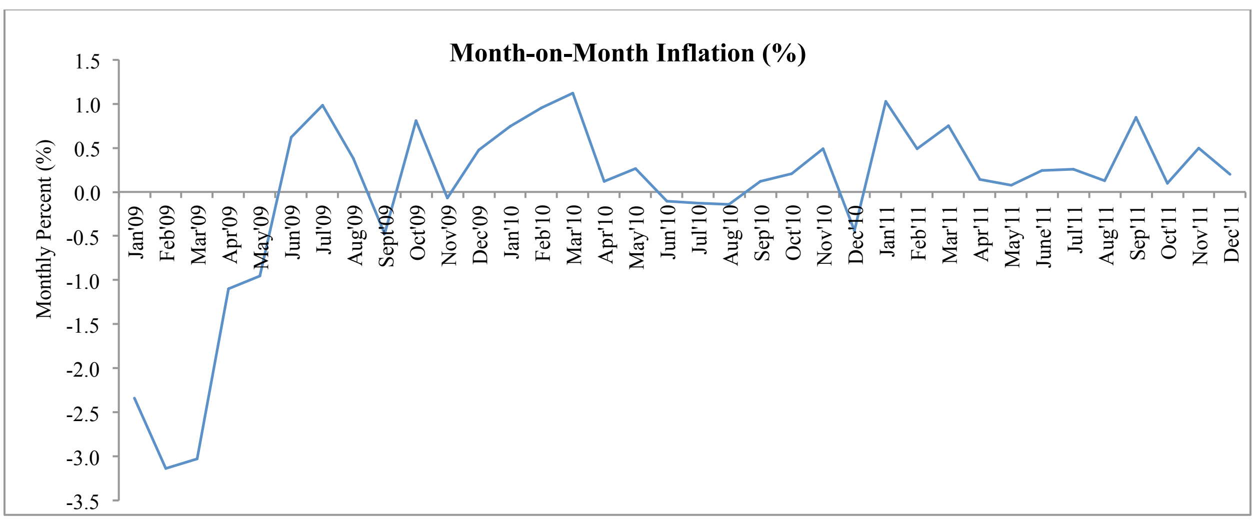
As shown in figure 1, annual inflation has stabilized to single-digit levels. It closed 2011 at 4.9% in December 2011, against the target of 5.1%. It averaged 3.5% against the target of 3.5-4.5%. It currently ranks among the lowest in the Southern African Community (SADC) region. It is consistent with the SADC macroeconomic convergence targets of single-digit inflation levels.

Figure 1: Annual Inflation (%), December 2009-December 2011



Source: ZIMSTAT

Figure 2: Month-On-Month Inflation (%), December 2009-December 2011



Source: ZIMSTAT

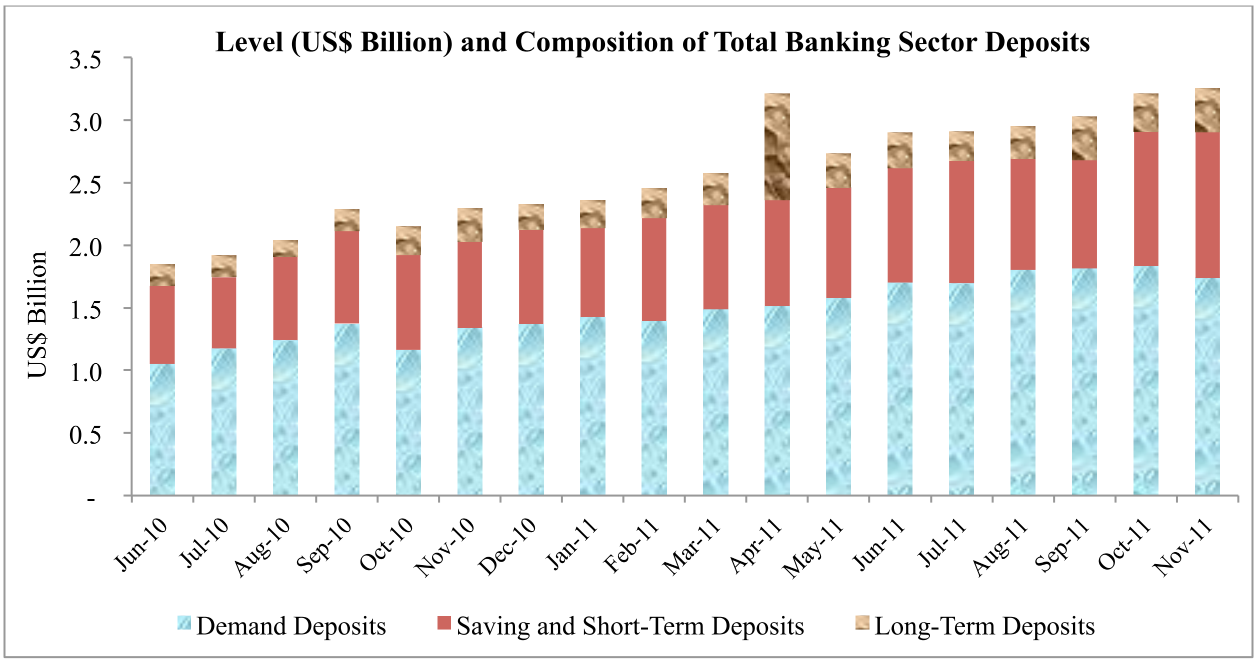
Notwithstanding these positive inflation developments, inflationary pressures still persist. These include rising international oil prices, firming of the South African Rand against the United States Dollar, high electricity tariffs, among other factors.

Despite the positive economic growth prospects, there are still some factors that could stall the speed of the economic recovery process. These include frequent electricity outages, unfavourable electricity pricing, high water charges, shortage of raw materials, persistent liquidity shortages, limited access to off-shore lines of credit, lack of fiscal space and perceived country risk. There is uncertainty surrounding the economic empowerment and indigenization (EEI) programme and proposed national elections. The influx of cheap imports, depressed domestic demand, lack of long-term working capital and the high cost of capital have hindered manufacturing sector recovery.

According to the RBZ, the banking sector is still safe and sound. However, there are still some notable challenges facing the sector. These include weak capitalization of some banks, persistent liquidity shortages, limited inter-bank lending, low amounts and stringent requirements for accessing the lender of the last resort facility (LOLR), low but improving deposit base and the short-term nature of the bulk of banking sector deposits. Inter-bank lending is limited because banks do not know the levels of risk among themselves, hence cautious inter-bank lending.

As shown in figure 3, the banking sector deposits, which exclude inter-bank deposits, are improving, reflecting improved depositor confidence, salary and wage increases in some sectors of the economy and the general improvements in macroeconomic activity.

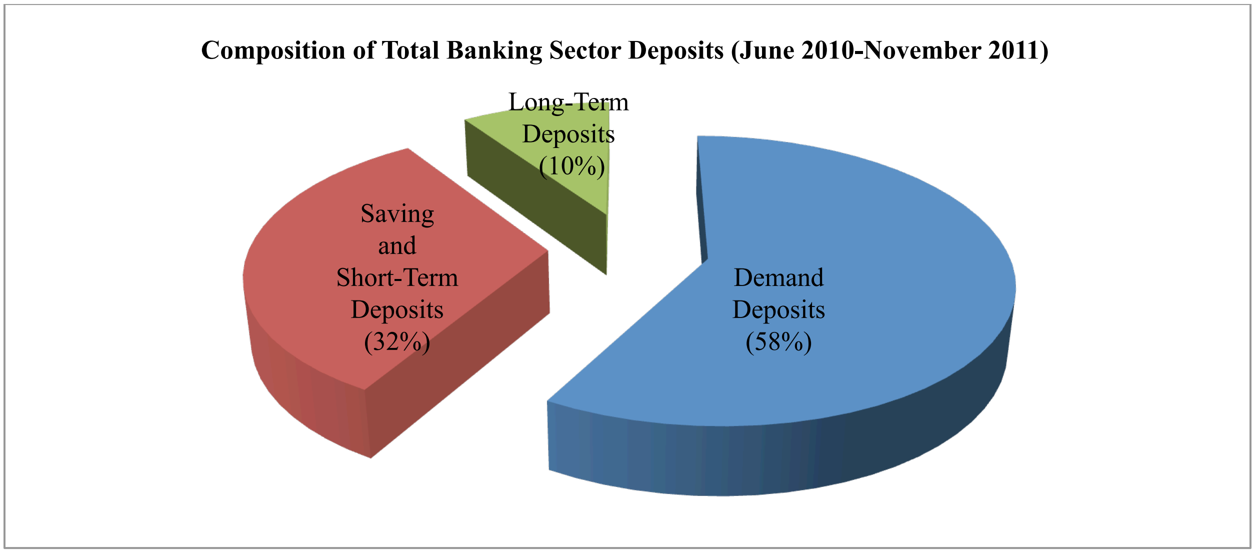
Figure 3: Level and Composition of Total Banking Sector Deposits (Jun 2010-Nov 2011)



Source: RBZ

Despite the increase in bank deposits, the term nature of the deposits raises concerns. Demand and short-term deposits dominate total deposits. Long-term deposits, which are necessary to sustain long-term investment, are still low. As shown in figure 4, short-term deposits dominate total deposits.

Figure 4: Composition of Total Banking Sector Deposits (June 2010-November 2011)



Source: RBZ

There is still need for identification of long-term sources of finance in the economy. According to industry indications, there is need for long-term finance for at least 5 years with lower rates of interest around 9% per annum. The short-term nature of the deposits translates into short-term lending, which is not favourable for long-term investment. In this view, the ZSE becomes a potential institution for mobilizing long-term capital. Table 1 shows the prevailing lending and deposit rates.

Table 1: Deposit, Saving and Lending Rates (Annual Percentages), Jan 2010-Nov 2011

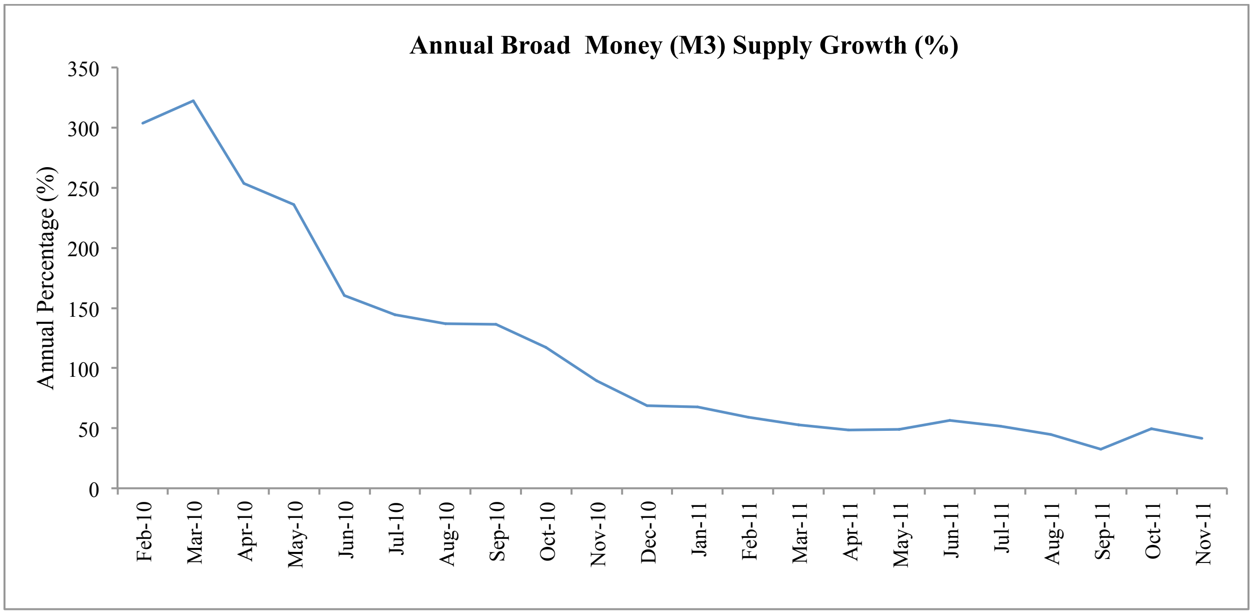
Month	(a) Lending Rate	(b) 3-Month Deposit Rate	(c) Intermediation Margin (a)-(b)	(d) Savings Rate	(e) Real Savings Rate (d)-(e)	(f) Inflation Rate	(g) Real Lending Rate (a)-(f)	(h) Real 3-Month Deposit Rate (b)-(f)
Jan-10	30.6	10.0	20.6	2.5	7.3	-4.8	35.4	14.8
Feb-10	30.6	15.0	15.6	2.5	3.2	-0.7	31.3	15.7
Mar-10	30.6	17.5	13.1	2.5	-1.0	3.5	27.1	14.0
Apr-10	29.3	17.5	11.8	2.5	-2.3	4.8	24.5	12.7
May-10	29.3	17.5	11.8	2.5	-3.6	6.1	23.3	11.4
Jun-10	29.3	17.5	11.8	2.5	-2.8	5.3	24.0	12.2
Jul-10	29.3	17.5	11.8	2.5	-1.6	4.1	25.2	13.4
Aug-10	29.3	17.5	11.8	2.5	-1.1	3.6	25.7	13.9
Sep-10	29.3	17.5	11.8	2.5	-1.7	4.2	25.1	13.3
Oct-10	29.6	9.5	20.1	1.0	-2.6	3.6	26.0	5.9
Nov-10	30.6	8.3	22.4	1.0	-3.2	4.2	26.4	4.1
Dec-10	30.6	8.3	22.4	1.0	-2.2	3.2	27.4	5.0
Jan-11	30.6	9.3	21.4	1.0	-2.6	3.5	27.1	5.7
Feb-11	30.6	9.3	21.4	1.0	-2.0	3.0	27.6	6.2
Mar-11	30.6	8.3	22.4	1.0	-1.7	2.7	28.0	5.6
Apr-11	30.6	8.6	22.1	3.2	0.5	2.7	27.9	5.9
May-11	17.0	8.6	8.4	2.7	0.2	2.5	14.5	6.1
Jun-11	21.5	8.6	12.9	2.6	-0.3	2.9	18.6	5.7
Jul-11	20.9	11.3	9.6	2.7	-0.8	3.5	17.6	7.8
Aug-11	19.0	11.9	7.1	2.7	-1.6	4.3	14.7	7.6
Sep-11	19.0	8.6	10.4	2.6	-1.7	4.3	14.7	4.3
Oct-11	19.0	8.6	10.4	2.6	-1.6	4.2	14.8	4.4
Nov-11	19.0	8.3	10.8	2.6	-1.6	4.2	14.8	4.1
Average	**26.8**	**12.0**	**14.9**	**2.2**	**-1.0**	**3.2**	**23.6**	**8.7**

Source: RBZ

The prevailing lending rates are high and prohibitive. They are not supportive of the economic recovery and growth process. The deposit and saving rates are low. The real savings rates are negative. They are therefore not supportive of the mobilization of funds into the formal banking sector. In June 2011, it was estimated that about US$2.5 billion was circulating outside the formal banking sector, which is unfavourable for an economy characterized by limited formal financing sources. The intermediation margin is high, reflecting banking sector inefficiencies. The banking sector is still being encouraged to offer higher deposit and saving rates, and to reduce lending rates. Banks are encouraged to offer lending rates in line with prevailing inflation developments. According to industry indications, lending rates should be reduced to levels below 15% per annum, given that most companies are still distressed and are on a survival mode. Banks, however, have argued that they are also on a recovery mode and are finding it difficult to raise income. Currently, banks are largely relying on bank charges and other such sources of income. They are experiencing high operating costs. For instance, they have to use generators to operate automated teller machines (ATMs) because of the frequent power outages.

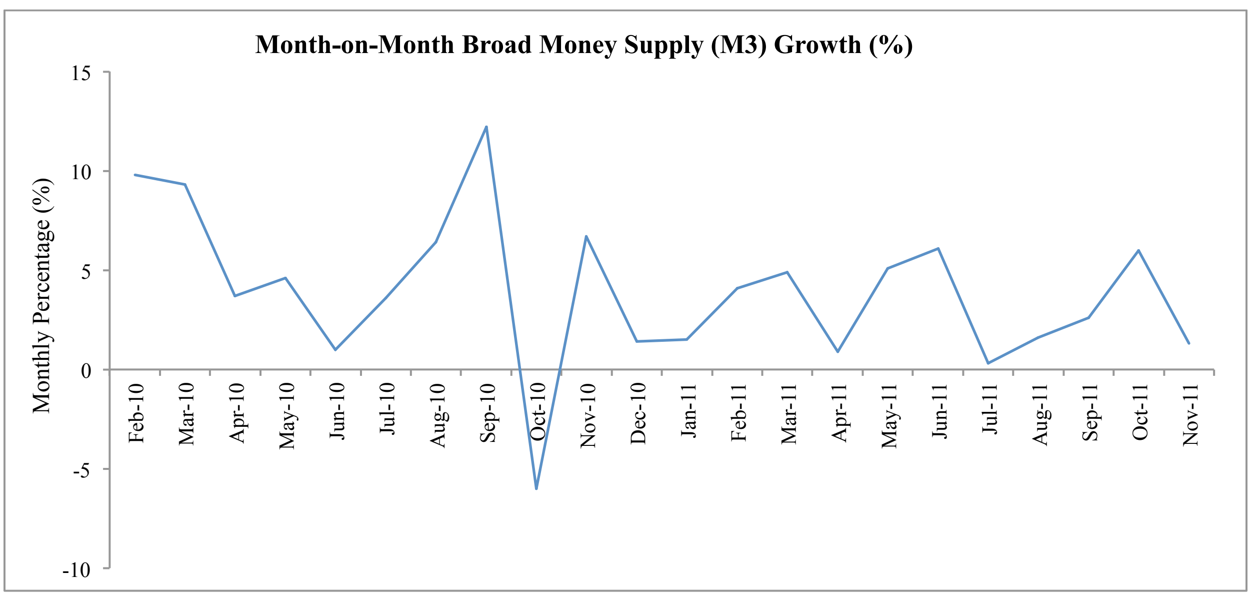
Figure 5 shows the growth rate of annual broad money supply (M3), currently defined as the total banking sector deposits. The growth in money supply is attributed to an improved bank deposit base, increased bank lending and risk taking by both banks and borrowers. However, monthly money supply growth has been unstable, posing projection challenges and unpredictability.

Figure 5: Annual Broad Money Supply (M3) Developments (Feb 2010-Nov 2011)



Source: RBZ

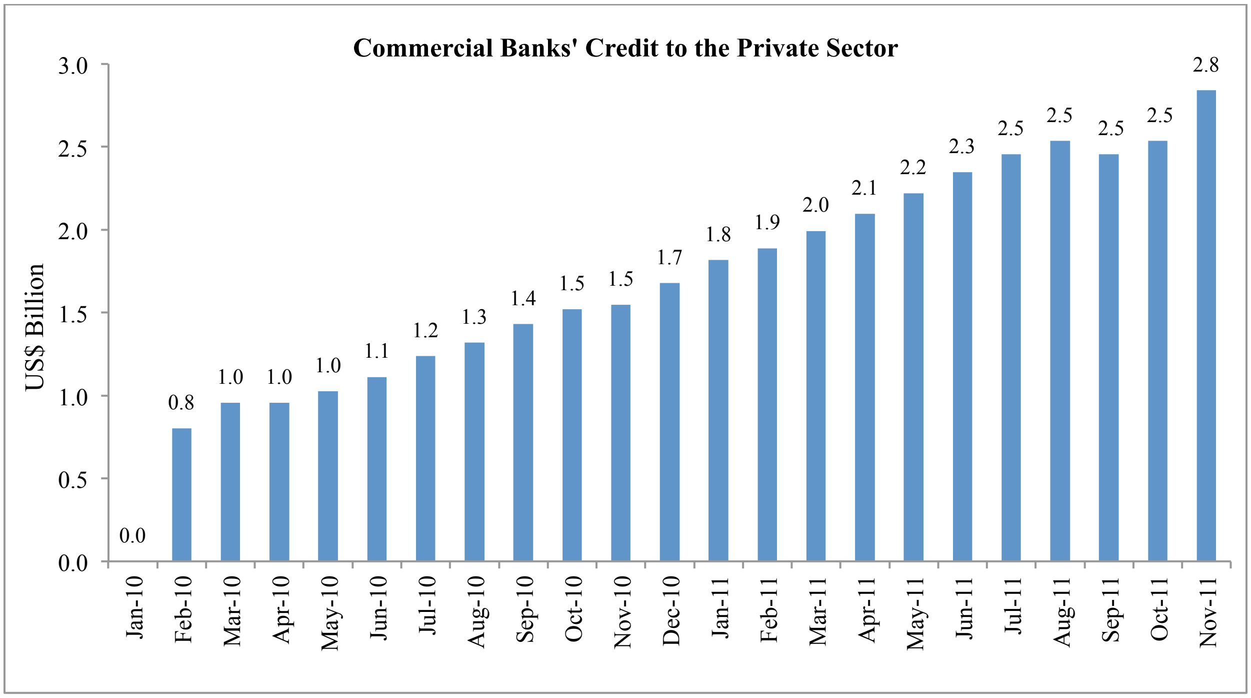
Figure 6: Month-on-Month Broad Money Supply (M3) Developments (Feb 2010-Nov 2011)



Source: RBZ

In terms of bank lending composition, the bulk of lending has been for loans and advances to the private sector. As shown in figure 6, lending to the private sector is on the increase.

Figure 7: Commercial Banks' Lending to the Private Sector (US$ Billion), Feb 2010-Nov 2011



Source: RBZ

The increase in credit to the private sector, despite its high cost, reflects increased demand by borrowers and risk taking on the part of both the banks and the borrowers.

1.2 Importance of the Zimbabwe Stock Exchange in the Multicurrency System

There is scope for the ZSE to capitalize on its potential to mobilize long-term finance, given the current inadequacies of the banking sector in mobilizing long-term finance. The ZSE can mobilize external finance, given that it is open to foreign participants. It has the potential to become a reliable indicator of GDP levels in the economy. Given that the period of speculation by underground investors is past, activity at the ZSE likely reflects economic fundamentals and actual performance of the listed companies. The ZSE is expected to play a supportive role to the economic recovery and growth processes. It should provide a means for risk diversification, acquisition of information about firms, efficient allocation of funds and tying manager compensation to stock performance. Internationally, apart from the inflow of financial resources, integrated capital markets make diversification of market risk possible. In view of the current weaknesses and vulnerabilities of the banking sector, which include challenges of non-performing loans (5% of total bank loans in June 2011), pre-dominance of short-term deposits and costly short-term finance, the ZSE is expected to complement the banking sector by mobilizing long-term capital for allocation to the private sector, which is crucial for investment.

The rest of the study is organized as follows. Section 2 reviews literature. Section 3 describes the methodology of analysis. Section 4 presents preliminary findings. Section 5 focuses on policy implications and recommendations. Section 6 concludes the study. Finally, section 8 indicates the outstanding further analysis of the ZSE.

2. Review of Literature

2.1 Theoretical Overview

Theoretically, the stock market is expected to accelerate economic growth by increasing domestic savings, quantity and quality of investment (Singh (1997)). It is expected to encourage savings by providing individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Better savings mobilization may increase the savings rate (Levine and Zervos (1998)). The stock market provides an avenue for growing companies to raise capital at lower costs. Companies in countries with developed stock markets are less dependent on bank financing, which can reduce the risk of a credit crunch. The stock market is therefore able to positively influence economic growth by encouraging savings among individuals and providing avenues for firm financing.

Through the take-over mechanism, the stock market ensures that past investments are used most efficiently. Theoretically, the threat of a take-over is expected to provide management with an incentive to maximize firm value. If management does not maximize firm value, another economic agent may take control of the firm, replace management and reap the gains from efficient firms. By providing financial discipline, a free market in corporate control provides the best guarantee of efficiency in the use of assets. The ability to effect changes in the management of listed companies ensures that managerial resources are used efficiently (Kumar (1984)).

An efficient stock market reduces the cost of information by generating and disseminating firm-specific information that efficient stock prices reveal. The stock market is efficient if stock prices incorporate all available information about the firm and the economy. Reducing costs of acquiring information facilitates and improves the acquisition of information about investment opportunities. Ideally, this should improve resource allocation. Stock prices determined in stock markets and other publicly available information help investors make better investment decisions and ensure better allocation of funds among corporations. This results in a higher rate of economic growth.

Stock market liquidity reduces down-side risks and costs of investing in projects that do not pay off for a long time. With a liquid market, initial investors do not lose access to their savings for the duration of the investment project because they can easily, quickly and cheaply sell their stake in the company (Bencivenga and Smith (1991)). More liquid stock markets could ease investment in long-term, potentially more profitable projects, thereby improving the allocation of capital and enhancing prospects for long-term economic growth.

However, theory is ambiguous about the exact impact of greater stock market liquidity on economic growth. By reducing the need for precautionary savings, increased stock market liquidity may have adverse effects on economic growth. Critics of the stock market argue that stock market prices do not accurately reflect underlying economic fundamentals when speculative bubbles emerge in the market (Binswanger (1999)). In a speculative environment, prices on the stock market are not necessarily determined by discounting expected future cash flows, which according to the efficient market hypothesis should reflect all currently available information about economic fundamentals. In such cases, the stock market develops its own speculative growth dynamics, which may be guided by irrational behaviour. Such irrationality is expected to adversely affect the real sector of the economy.

Stock market liquidity may negatively influence corporate governance because very liquid stock markets may encourage investor myopia. Since investors can easily sell their shares, more liquid stock markets may weaken investor commitment and incentives to exert corporate control. Instant stock market liquidity may discourage investors from having long-term commitment with firms whose shares they own. This creates potential corporate governance problems with negative impact on economic growth (Bhide (1994)).

The actual operation of pricing and take-over mechanisms in well-functioning stock markets lead to short-term and lower rates of long-term investment. It generates perverse incentives by rewarding managers for success in financial engineering rather than creating new wealth through organic growth (Singh (1997)). This is because prices react quickly to a variety of information influencing expectations on financial markets. Prices on the stock market tend to be highly volatile and enable profit making within short periods. Because the stock market undervalues long-term investment, managers are not encouraged to undertake long-term investment because their activities are judged by the performance of a company's financial assets, which may hurt long-run growth prospects of companies (Binswanger (1999)). Empirical evidence shows that the take-over mechanism does not perform a disciplinary function. Competitive selection in the market for corporate control takes place much more on the basis of size rather than performance (Singh (1971)). A large inefficient firm has a higher chance of survival than a small relatively efficient firm.

The problems associated with the stock market are argued to be more pronounced in developing countries, especially Sub-Saharan African (SSA) countries, which have weaker regulatory institutions and greater macroeconomic volatility. The higher degree of price volatility on stock markets in developing countries reduces the efficiency of the price signals in allocating investment resources. These limitations of the stock market have led some researchers to question the importance of the stock market in promoting economic growth in African countries.

2.2 Empirical Literature

Empirically, the debate on the contribution of the stock market to economic growth is still unsettled. There are empirical studies that have found that stock markets can promote economic growth by providing market liquidity (Boyd and Prescott (1986); Greenwood and Jovanovic (1990); Atje and Jovanovich (1993); King and Levine (1993); Levine and Zervos (1993, 1998); Demirguc-Kunt (1994); Japillo and Pagano (1994); Bensivenga et al. (1995); Levine (1996); Harris (1997); Boyd and Smith (1998); Levine and Zervos (1998); Arestis et al. (2000); Mauro (2000); Rousseau and Wachtel (2000); Khan and Senhadji (2000); Beck and Levine (2003, 2004); Minier (2003); Scott Baier (2003); Caporale, et al. (2004, 2005); Adjasi and Biekpe (2005); Adam and

Sanni (2005); Abdullahi (2005); Blackburn et al. (2005); Obamiro (2005); Siliverstovs and Doung (2006); Capasso (2006); Nurudeen (2009) and Adamopoulos (2010)). Levine and Zervos (1995) and Demirguc-Kunt (1994) find that stock markets can give a big boost to economic development. Levine and Zervos (1993), Atje and Jovanovic (1993), Levine and Zervos (1998), Rousseau and Wachtel (2000) and Beck and Levine (2003) show that stock market development is strongly correlated with growth rates of real GDP per capita.

Greenwood and Smith (1997) suggest that stock market components of the financial system play an important role in the efficient allocation of resources, which helps promote specialization, reduces the cost of mobilizing savings and ultimately results in higher economic growth. Levine (1996) suggests that stock market liquidity boosts and precedes economic growth. Some researchers have even gone further to show that both stock markets and banks are necessary to promote economic growth (Boyd and Prescott (1986); Boyd and smith (1998) and Blackburn et al. (2005)). They consider stock markets as complements, rather than substitutes to banks. On the contrary, there are also empirical studies that raise counter-arguments that the stock market does not really matter for economic growth because the liquidity it generates can hurt economic growth. Some researchers have not found positive association between stock market development and economic growth (Arzarmi et al. (2005)). For example, Singh (1997) indicates that stock markets do not lead to long-run economic growth due to macroeconomic instability, volatility and arbitrariness of pricing processes.

There are claims that very liquid markets can create investor myopia. This is because in liquid markets, dissatisfied investors can sell quickly. Liquid markets can reduce investor commitment, reduce investor incentives to exert corporate control by overseeing managers and monitoring firm performance and potential. Stiglitz (1993) argues that stock market liquidity does not provide incentives for acquiring information concerning firms or improving corporate governance. Shliefer and Summers (1988) assert that stock market development may hinder economic growth by promoting counter-productive corporate takeovers. Singh (1997) argues that the stock market may not be important in attaining higher economic growth. Demirguc-Kunt and Levine (1996) point out that increased liquidity can deter economic growth through at least 3 channels. Firstly, by increasing returns to investments, greater stock market liquidity may reduce saving rates through income and substitution effects. If savings rates fall enough and if there is an externality attached to capital accumulation, greater stock market liquidity may slow down economic growth. Secondly, by reducing uncertainty associated with investment, greater stock market liquidity may reduce saving rates because of the ambiguous effects of uncertainty on savings. Thirdly, stock market liquidity encourages investor myopia, adversely affecting corporate governance and thereby reduces economic growth.

Notably, most empirical studies have focused on developed and emerging market economies. This is likely due to a lack of data because there are few African countries with a stock market. Given the conflicting views on the contribution of the stock market to economic growth and a lack of empirical studies on Zimbabwe, the potential contribution of the stock market to economic growth in Zimbabwe can only be empirically determined.

2.3 Overview of African Stock Markets

In Africa, most stock exchanges proliferated in the 1990s. Most of them are in still in their early and formative stages. Up to 1989, there were only 5 stock exchanges in Sub-Saharan Africa (SSA) and 3 in North Africa. As of December 2011, Africa had 22 stock exchanges with an average of 65 listed companies. There are a total of 1,431 listed companies in Africa's 22 stock exchanges (December 2011). Excluding the 3 largest African stock exchanges with 3-digit numbers of listings, namely the Johannesburg Stock Exchange (JSE) with 410 counters, Nigerian Stock Exchange with 217 counters and the Egyptian Stock Exchange with 213 counters, the average number of listed companies is 31. The rapid expansion of stock exchanges in Africa has facilitated economic development through privatization processes, diversification of financial services, facilitation of long-term capital mobilization, provision of alternative investment opportunities, need for funds by private sector, attraction of foreign capital inflows and serving as a signal of overall macroeconomic performance. The proliferation of stock exchanges in Africa is largely associated with countries' consideration of stock exchanges as a key strategy for developing national and regional economies.

Despite their proliferation, most African stock markets still face several constraints. These include political instability, volatile economic growth, macroeconomic uncertainty, small number of indigenous listed companies, low level of listings, market dominance by a few large firms, limited trading by institutional investors and government, low market capitalization, infrequent trading, limited trading time, small average company size, low liquidity levels, limited domestic investor base, under-developed trading systems, slow clearing and settlement systems, and limited market information availability. The best shares are often held by local pension funds, banks and insurance firms that do not want to sell because they have few alternative assets to buy with the sale proceeds. Further, supervision by regulatory authorities is often inadequate.

Although African stock markets have been growing steadily in terms of market capitalization and the number of listings, most have not reached the internationally recommended thresholds to attract meaningful foreign participation from global emerging market funds. According to the World Bank (2006), a stock exchange must realize US$50 billion per annum in market capitalization and US$10 billion per annum in values traded to attract meaningful interest from global emerging market funds. In practice, however, most stock exchanges in Africa are not yet meeting these thresholds. As of 2010, only South Africa (US$580 billion), Egypt (US$84.1 billion), Morocco (US$76 billion), Botswana (US$67 billion) and Nigeria (US$66.7 billion) met the internationally recommended market capitalization thresholds (table 3). African stock markets are relatively small in relation to the size of their economies. The relative small size of the African stock markets and lack of liquidity also deters foreign investors. This is because the exposure of foreign institutional investors is generally negligible until a stock market reaches the recommended thresholds. Notwithstanding this constraint, most African stock markets have foreign participation, which boosts liquidity inflows on their stock exchanges.

Despite problems of small size and low liquidity, African stock markets continue to perform well in terms of return on investment, as measured by the price/earnings (P/E) ratios and the return on dividends. The return on portfolio investment in Africa has been much higher than in advanced countries. However, the perceived portfolio risks have been higher in Africa. Theoretically, investment decision makers prefer high-risk and high return bundles to low-risk and low-return ones, but in Africa, most decision makers do not seem to follow this economic principle.

In terms of infrastructure and technology, electronic trading, which is considered more efficient, is now widely used in most African stock exchanges (see table 4). Most countries are now migrating out of manual systems for trading, clearing and settlement. Manual operating systems tend to pose impediments to the operational efficiency of the stock exchanges, liquidity mobilization efforts, create bottlenecks and slow down trading and information production.

In terms of regional integration, most African stock exchanges tend to operate in isolation from other markets. They are sheltered from competition by national regulations. They face barriers to capital mobility because of high costs of travel and communications.

Political uncertainty, unfavourable economic policies and risk of deterioration in the business climate in some African countries, have facilitated the decline in public confidence and subsequent poor performance of the stock markets. Most of the new African stock exchanges, apart from the JSE, Casablanca and Cairo securities exchanges, lack attractive and diverse types of securities to offer to foreign investors. Low savings in most African countries have constrained the demand and supply of equity in stock markets. Poverty, war, political unrest and disease have resulted in a large portion of the African population living on less than US$1.00 per day, thereby constraining savings. The demand for securities on the African stock exchanges is also affected by low disposable incomes of the local population, perceptions about market risk, high tax levels, attractiveness of yields on capital market products in comparison to alternative investment products, macroeconomic instability, level of public confidence in the financial sector, banking sector developments, institutional quality and the level of shareholder protection.

3. Methodology

3.1 Statement of the Research Issue

Despite the relative large size of the ZSE in terms of listings, its age and clearly stated goals, there is still lack of research-based empirical evidence on its potential to contribute to economic growth. The period before the multicurrency system was characterized by a vibrant stock market, which, however, did not reflect actual macroeconomic fundamentals. It reflected speculative behaviour and inflation developments, as opposed to GDP growth. With the multicurrency system currently in place, the economy has stabilized and is now on a positive growth path. The question we ask is whether the ZSE has the potential to support economic growth during the multicurrency regime. The basis of the investigation is that the ZSE infrastructure, technology, listing requirements, transactions costs, governance, macroeconomic environment, rules and regulations, planned programmes and performance trends should be indicative of such potential.

The challenges faced by the banking sector in providing long-term credit to the private sector create a need for the development of the ZSE to mobilize and allocate long-term capital to the private sector for growth and poverty alleviation. The ZSE is crucial for raising long-term capital by issuing securities to the public in the form of initial public offerings (IPOs) or additional issues of stocks.

3.2 Objectives of the Study

The objective of the study is to examine the potential of the ZSE to promote economic growth during the multicurrency system. We recommend strategies and policies that can enable the ZSE to perform in a way that contributes to the economic growth process. Such policies and strategies should be able to attract and encourage the creation of wealth and active domestic and foreign participation on the ZSE. The study is a useful update on the developments on the ZSE in the multicurrency period. It is expected that the study will bring new understanding and knowledge on the efficiency of the ZSE and its relative position among stock exchanges in Africa, which is crucial for regional integration initiatives, among other factors.

3.3 Importance of the Study

This study is useful in that it will indicate the potential of ZSE to support economic growth. It is an up-date on developments on the ZSE during the multicurrency system. The study brings stock market debate in the Zimbabwean context. It addresses key research questions that have been raised by Government and other policy makers in Zimbabwe. It is expected to lead to formulation of policy recommendations towards development of a more efficient and growth-enhancing ZSE. The policy recommendations are expected to enhance private sector development in Zimbabwe. The policy lessons may be applicable to other African countries that share similar problems with Zimbabwe.

3.4 Methodology of Analysis

We do an indicator analysis of the ZSE. We do a SWOT analysis of the ZSE. We identify strengths, weaknesses, opportunities and threats facing the ZSE, as well as potential risks. We use descriptive statistical analysis on a monthly basis. The study period is February 2009 to December 2011. This period covers the multicurrency system. We examine the technological infrastructure and institutional indicators of the ZSE. These include existence of a market regulator, ZSE governing law, technological nature of clearing and settlement systems, settlement cycle, existence of an international custodian, foreign participation, exchange control regulations, technological nature of the trading system, existence of a central securities depository (CSD), number of trading days, trading times and the nature of the accounting and auditing reporting systems. We compare the trading costs to those attaining in the African region, as well as the ZSE regional integration initiatives. We use various stock market performance indicators. We analyze the trends in these performance indicators. These include the number of listed companies, stock market indices, traded values, traded volumes, market capitalization and turnover. We review the ZSE planned projects, programmes and strategies. We measure ZSE actual performance against the annual targeted levels. We focus on the macroeconomic and political developments of Zimbabwe and how they likely affect ZSE activities. We benchmark the outcomes against similar African countries.

The methodology we use follows a study by Senbet and Otchere (2009) of 18 African stock markets. Senbet and Otchere (2009) used 11 indicators of stock exchange development and their relation to the economic growth process. We use a basket of indicators to reflect multiplicity of factors that influence stock market outcomes. This approach is broad in several ways. Firstly, we go beyond the use of the ZSE mining and industrial indices, and market performance that most authors rely on. Secondly, we focus on the institutional set up of the ZSE. Thirdly, we analyze the potential influence of political and economic conditions on the operations of the ZSE. Fourthly, we weigh actual performance against the targeted levels and explain reasons for any gaps. We benchmark the ZSE analysis against other African countries with stock markets.

3.5 Data Issues

The paper uses secondary data. The key data sources include the ZSE, individual stock markets in Africa, World Development Indicators (WDI), the RBZ, ZIMSTAT, the SECZ and the World Bank. We reviewed various financial statements for listed and unlisted companies.

4 Presentation and Analysis of Preliminary Findings

4.1 Relative Position of the ZSE Among African Stock Exchanges

Table 2 shows the relative position of the ZSE among African stock exchanges. The comparative analysis is in terms of the year of commencement of operations, number of listed companies and market capitalization. As shown in table 2, only 4 African countries meet the World Bank (2006) thresholds of the annual market capitalization of US$50 billion (South Africa, Nigeria, Egypt and Morocco). The total annual market capitalization is US$1,332.90 billion. Excluding the largest 4 stock exchanges, total annual market capitalization is US$107.85 billion. The average annual market capitalization for the 22 African countries is US$15.5 billion. Excluding the 4 largest stock exchanges, the average is US$6.3 billion, which is very low. In terms of market capitalization, the market is therefore largely driven by the 4 largest stock exchanges. In terms of the size of the stock exchange in relation to the size of the economy, as measured by market capitalization as a percentage of GDP, only 4 countries have large stock exchanges. These include South Africa, Zimbabwe, Morocco and Mauritius.

Table 2: Comparative Position of the ZSE among African Stock Exchanges (2011)

	Country	City	Name of Stock Exchange	Stock Exchange Acronym	Date of Est.	Number of Counters	Annual Mkt. CAP. (US$ Bn)	Year	(Mkt CAP/GDP) (%)	Year
1.	South Africa	Johannesburg	Johannesburg Stock Exchange	JSE	1887	410	1,012.53	2010	278.39	2010
2.	Nigeria	Abuja	Abuja Securities & Stock Exchange	ASCE	1998	217	50.88	2010	26.27	2010
3.	Egypt	Cairo	Egyptian Stock Exchange	EGX	1883	213	82.49	2010	37.68	2010
4.	Mauritius	Port Louis	Stock Exchange of Mauritius	SEM	1988	89	6.5	2010	66.87	2010
5.	Zimbabwe	Harare	Zimbabwe Stock Exchange	ZSE	1896	78	42.9	2010	153.55	2010
6.	Morocco	Casa Blanca	Casablanca Stock Exchange	Casa SE	1929	73	69.15	2010	75.82	2010
7.	Sudan	Khartoum	Khartoum Stock Exchange	KSE	1995	54	3.4	2009	5.12	2009
8.	Tunisia	Tunis	Bourse des Valeurs Mobilierses	BVMT	1969	52	10.68	2010	24.11	2010
9.	Kenya	Nairobi	Nairobi Stock Exchange	NSE	1954	50	14.5	2010	46.04	2010
10.	Namibia	Windhoek	Namibian Stock Exchange	NSX	1992	34	1.18	2009	9.67	2010
11.	Botswana	Gaborone	Botswana Stock Exchange	BSE	1989	30	4.08	2010	27.43	2010
12.	Ghana	Accra	Ghana Stock Exchange	GSE	1990	28	3.53	2010	11.28	2010
13.	Mozambique	Maputo	Bolsa de Valores de Mocambique	BVM	1999	20	0.33	2009	…	…
14.	Zambia	Lusaka	Agric. Cdts. Exchange of Zambia	LuSE	1994	16	2.81	2010	17.39	2010
15.	Tanzania	Dares Salaam	Dar es Salaam	DSE	1998	15	10.68	2010	5.48	2010
16.	Libya	Tripoli	Libya Stock Market	LSM	2007	12	3	2010	3.08	2009
17.	Uganda	Kampala	Uganda Securities Exchange	USE	1997	11	2.2	2009	20.88	2009
18.	Swaziland	Mbabane	Swaziland Stock Exchange	SSX	1990	10	0.2	2008	…	…
19.	Malawi	Blantyre	Malawi Stock Exchange	MSE	1995	8	1.36	2010	26.69	2010
20.	Cameroon	Doula	Doula Stock Exchange	DSX	2001	4	0.2	2009	0.69	2009
21.	Rwanda	Kigali	Rwanda Stock Exchange	RSE	2011	4	…	…	…	…
22.	Algeria	Algiers	Bourse d'Alger	ASGBV	1999	3	0.3	2010	0.1	2007
	Average					**65**	**15.52**			
	Total					**1,431**				

Source: Stock Market Internet Websites (2011) and World Development Indicators (WDI (2010))

Notes

The countries are arranged according to the number of companies listed on the stock exchange in descending order.

The ZSE was legally established in 1896 as the Rhodesia Stock Exchange (RSE). It started operating in Harare in 1974. It operates according to the Stock Exchange Act (Chapter 198). The ZSE has 20 stock broking firms and 78 listed companies. It was opened to foreign investment in June 1993, following the partial lifting of exchange control regulations. It is headed by a Chief Executive Officer (CEO). It currently has 9 committees. These include the Listings, Executive, Surveillance, Central Securities Depository (CSD) Settlement, Disputes, Legal and Lobbying, Finance and Budgeting, Membership, Management and Audit, and the Business Development Committee. The Business Development Committee is relatively new. It was established in 2011. It seeks to find strategies to grow ZSE business. The ZSE has 5 key departments. These include Listing, Market Participants, Compliance, Surveillance and Enforcement. The ZSE therefore satisfies the criteria of being a stock exchange with requisite organizational structures.

The ZSE is supervised by the Zimbabwe Securities Exchange Commission (SECZ). The SECZ is a statutory body established in terms of the Securities Act of 2009. It was established to act as a regulator of the securities market. The SECZ has the power to intervene in the event that irregularities arise in areas of conduct of licensed members, financial difficulties, rejection of applications or termination of membership. The SECZ monitors the trading process to ensure transparency and to prevent manipulation of the capital market.

In terms of regional ranking, the ZSE is one of the oldest stock exchanges in Africa, following the JSE and the Egyptian Stock Exchange (ESE). In terms of listed companies, it is the fifth largest stock exchange in Africa, following the JSE, which is the largest, the Nigerian Stock Exchange (NSE), which is the second largest, the Egyptian Stock Exchange (EGX), which is the third largest and the Mauritius Stock Exchange, which is the fourth largest. In terms of both age and listings, the ZSE ranks second in Southern Africa, after the JSE. While the ZSE is among the 5 large stock exchanges in Africa, in terms of listings, it is, however, not among the 5 largest stock exchanges in terms of market capitalization and values traded. It ranks sixth in terms of market capitalization among 22 African stock exchanges (December 2011).

In terms of regional integration, the ZSE is a member of various regional groupings. It is an active member of the SADC's Stock Exchange Committee (SADCSEC), which includes Botswana, Lesotho, Mauritius, Namibia, South Africa and Zambia. After the proposed demutualization process, the ZSE plans to become a member of the Federation of World Exchanges (WFE). The current ZSE Chief Executive Officer, Mr E Munyukwi is the chairman of the Committee of Southern African Development Community Stock Exchanges (CoSSE). This development, it is envisaged, will place the ZSE back on the regional investor map and increase its regional visibility. CoSSE was established in 1997. Its aim is to increase cooperation and links among stock exchanges in the SADC region and to find ways to make member stock markets more attractive to investors. Its members are Botswana, Malawi, Mauritius, Namibia, Mozambique, Swaziland, Tanzania, South Africa, Zambia and Zimbabwe. CoSSE aims to oversee the launch of a hub and inter-connectivity platform, driven by the JSE, which will enable stocks to be traded across member stock exchanges. For the ZSE, this development would bring about good prospects for closer integration with Africa's biggest stock exchange, the JSE. Within CoSSE, it has been found necessary to give bigger companies in smaller markets the visibility that they need to raise capital and improve information flows.

The ZSE is a member of the African Securities Exchange Association (ASEA), which was incorporated in Kenya in 1993. The ASEA has 20 members in 27 countries. These include Botswana, BVM countries, Egypt, Ghana, Kenya, Libya, Malawi, Mauritius, Morocco, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. The objective of the ASEA is to provide a formal framework for mutual cooperation and a systematic exchange of information, provision of material, human and other assistance in the development of member stock exchanges. The ASEA is a non-profit making association. It seeks to increase visibility of African stock exchanges as preferred frontier markets for investments, which include attracting foreign direct investments (FDI). Among other topical issues, the ASEA has been discussing capital markets and economic growth in Africa, the role of financial systems in capital market development, a road map for the future of African stock exchanges, market regulation, investor protection and corporate governance, credit ratings, information technology (IT) solutions and the role of stock market technology, valuations, market research, asset management, bond market development strategies, regional integration, cross-border securities settlement and private equity versus public-private partnership (PPPs). ASEA aims to shape the future of African capital markets by pursuing the following strategies:

- Emerging as the organization of reference and choice for investors to obtain first-hand information on African stock markets and increase the visibility of African stock markets;
- Revamping the ASEA website to give up-to-date information to investors who want to understand the performance of African stock markets and to become a major source of real-time information, including the changes that stock exchanges are going through;
- ASEA will work with a major index provider to come up with an investigate African index that will be jointly owned and should serve as a benchmark for investors and to be used as reference for the creation of an African Stock Exchange Traded Fund;
- It will track ASEA’s 22 member exchanges, although they have not yet decided the weighting of the JSE; and
- ASEA should become a mouthpiece of African stock exchanges with African governments and regional organizations as well as the African Union (AU), the African Development Bank (AfDB) and the World Bank (WB).

As defined in the ZSE Act, the functions of the ZSE are to mobilize and efficiently allocate resources for the country’s economic development, provide a fair, efficient, transparent and secure price discovery mechanism in a well-regulated environment and to build-up liquidity through innovation (ZSE (2011)). The ZSE provides means for raising capital for both Zimbabwean and international companies. The capital funds are raised by means of common stock, corporate debentures, preferred shares, warrants, government stocks and fixed interest securities, depository receipts and by issuing equity. Much trading is currently through common stock. The ZSE provides investors with the opportunity to buy and sell shares in any of the listed companies. The ZSE enables companies to raise capital funds at a fairly lower cost in comparison to other sources of finance like bank borrowing, which is currently constrained by liquidity shortages. Companies that need funds to start new business or to expand current operations can get these funds from the stock market. Investors are also able to invest their excess funds in the listed companies. The ZSE provides a properly constituted and regulated environment that ensures market integrity among stock market participants. The ZSE provides a critical link between companies that need funds to set up new businesses or to expand their current operations and investors that have excess funds to invest in such companies. The ZSE provides a regulated market for buying and selling of shares at prices determined by supply and demand, not withstanding other macro economic fundamentals such as interest rates and inflation developments.

The ZSE was forced by the RBZ to suspend trading in November 2008. This move was attributed to the unwarranted share price movements associated with speculative behaviour by individuals, bank officials and stock brokers. Market participants were allegedly using unfunded cheques through the Real Time Gross Settlement System (RTGS). Speculative behaviour was widespread on the ZSE in the period 2006-2008. The ZSE was accused of attracting money away from government instruments such as Treasury Bills (TBs), which were not earning sufficient yields to counter rising inflation as the ZSE did. The ZSE was accused of operating as a money exchange institution. Its fund raising activities, arguably, did not translate into real economic activity. The ZSE prices were inefficient and unrelated to economic fundamentals.

Given the poor macroeconomic fundamentals of the economy over 2000-2008, the relative vibrant performance of the ZSE defied predictions of sound macroeconomics. This outcome was attributed to several factors. In an environment with negative real interest rates, high inflation and a fixed exchange rate regime, investors sought alternatives for the preservation of their financial assets. Negative real interest rates and high inflation caused a stampede for assets. This increased share prices to record high levels. Investors moved away from interest bearing instruments and invested in real estate and equities. The ZSE became a repository for trapped local savings. The scramble for assets led to continuously rising share prices in huge percentages. In 2007 for instance, the ZSE was considered as one of the "best-performing" stock exchanges in the world as the industrial index rose by more than 12,000%. The ZSE ballooned to phenomenal levels as a result of bullish behaviour that characterized the market. Most counters recorded huge gains. Stock prices beat the high inflation rate that characterized the country (ASEA, 2007). The ZSE "performed well" when most other sectors were not doing well. Despite the economic crisis, the ZSE posted impressive performance in both 2005 and 2006. The ZSE rally was also attributed to the few investment options that could provide good real returns. Most alternative investment options like mining and land ownership lost value after most foreign investors out-migrated due to political and economic instability. Most investors were left with the stock market as one of the few viable investment options.

The bullish ZSE performance over 2006-2008, however, did not reflect actual macroeconomic fundamentals. Ideally, a country's stock market performance should reflect the performance of the economy. However, in Zimbabwe, this did not apply over 2006-2008. The ZSE stocks were over-valued. They were likely to lose disproportionately if economic conditions normalized. The ZSE could face an eminent crash. The ZSE boom reflected pseudo profits made on paper, while on the ground, several other businesses went bankrupt. Along with the property market, the ZSE was viewed by investors in Zimbabwe as one of the few relatively safe havens in an economy that was characterized by high and unstable inflation. Activity on the ZSE reflected inflation developments as opposed to GDP growth.

However, despite locals participating actively on the ZSE during the crisis period, only a few people outside Zimbabwe were prepared to trade on the ZSE. As a result, the ZSE saw foreigners pulling out of the market. Local companies used the ZSE as a hedge against inflation. For example, in 1997, about 30% of ZSE trading was driven by foreigners. In 2008, it went down to only 2%. The pseudo profits for foreign investors were eroded by inflation because of foreign exchange controls that made it difficult to take money out of the country.

The ZSE resumed trading in multiple currencies on 19 February 2009. This followed the establishment of stringent regulations that brought normalcy on the ZSE trading. The ZSE reopened to 79 listed companies in 2009. In 2009, the ZSE realized an annual market capitalization of about US$35.9 billion with a monthly average of US$3.5 billion. It closed 2009 with US$3.8 billion in market capitalization.

As shown in table 3, the ZSE currently has 78 listed companies, 74 industrial and 4 mining (ZSE (December 2011)). The number of listed companies was 57 in 1990, suggesting that the ZSE has experienced growth over the years. The growth rate in listings has, however, stagnated since 2003. The 78 companies listed are categorized into Agriculture, Banking, Conglomerate, Consumer Goods, Construction, Food Processing, Health Care, Industrial, Insurance, Mining, Printing, Real Estate and, Spirits and Wines. Thus, the ZSE is well-diversified in terms of the economic sectors that the listed companies represent. Currently, only about 20 companies dominate market capitalization. These include, among others, Delta Corporation, Innscor Africa, Barclays Bank, Old Mutual, Econet Wireless, AICO Africa, CBZ, Hippo Valley Estate, Seed Co and Lafarge Cement. Table 3 shows the companies listed on the ZSE.

Table 3: Companies Listed on the ZSE

Industrial Counters	Industrial Counters Cont'	Mining Counters
1. ABC	37. Mash	74. Bindura
2. AFDIS	38. Med Tech	75. Falgold
3. Afre	39. Meikles	76. Hwange
4. African Sun	40. Natfoods	77. RioZim
5. AICO Africa	41. Nicoz Diamond	
6. Apex	42. NMB	
7. Ariston	43. NTS	
8. Art	44. OK Zimbabwe	
9. Astra	45. Old Mutual	
10. Barbican (Suspended)	46. Padenga	
11. Barclays	47. Pearl Prop	
12. BAT	48. Pelhams	
13. Border	49. PG Industries	
14. Cafca	50. Phoenix	
15. Cairns	51. Pioneer	
16. CAPS Holdings (Delisted in September 2011)	52. Power Speed	
16. CBZ	53. PPC	
17. Celsey	54. Radar	
18. CFI	55. RTG	
19. Chemco	56. Seed-Co	
20. Colcom	57. Star Africa	
21. Dawn	58. Steelnet	
22. Delta	59. TA Holdings	
23. DZLH	60. TN Holdings	
24. Econet	61. Tractive	
25. Edgars	62. Trust	
26. FBC	63. Truworths	
27. Fidelity Life	64. TSL	
28. GB Holdings	65. Turnall	
29. Gulliver	66. TZI (Suspended)	
30. Hippo	67. Willdale	
31. Hunyani	68. ZBFH	
32. Innscor Africa	69. Zeco	
33. Interfin	70. ZHL	
34. Interfresh	71. Zimpapers	
35. Lafarge	72. Zimplow	
36. M & R	73. ZPI	

Source: ZSE (December 2011)

4.2 ZSE Trading System, Trading Days and Times

The ZSE has 5 trading days, namely Monday-Friday. There is one trading session per day. The trading times are 10:00 AM-12:00 Noon. These trading hours are limited and compare with 9:00 AM-5:00 PM at the JSE. Trading is done through stock brokers. Since 19 February 2009, trading is now conducted in US cents. Trading is not real-time. The ZSE uses a call-over floor system with a manual board. Trading is on a transaction-by-transaction basis. Settlement is by delivery of scrip against payment on a T+7 day basis. T+7 is relatively long as some countries are now mostly operating at T+3. The ZSE is also lagging behind other African stock exchanges in terms of technology and infrastructure.

4.3 ZSE Listing Rules for Local Participants

A company wishing to apply for listing on the ZSE must conform with the listing rules and regulations of the Listing Committee. These include the following:

- Minimum of one million shares with a value of not less than US$500,000.00;
- Minimum of 30% of the issued equity capital being offered to the public;
- Compliance with the requirements of the ZSE by the company's Memorandum and Articles of Association, regardless of whether this is a legal requirement;
- Existence of a spread of shareholders, wide enough to justify listing. This requires a minimum of approximately 300 shareholders;
- Provision of name, history and description of the company's interests and activities;
- Report by the company's auditors for the last 5 financial years;
- Forecast earnings and dividends;
- Details of share capital structure, loan capital and borrowing powers;
- Audited earnings forecast and annual reports;
- Satisfactory profit history;
- At least 30% of the company's issued shares to be in the hands of the public or as agreed with the executive committee on the ZSE;
- Company prospectus containing the same information as submitted to the Registrar upon incorporation with certain additional details; and
- The prospectus must be published in a local newspaper and made available to investors through sponsoring brokers.

One of the successes at the ZSE has been the regional harmonization of the listing requirements. The listing requirements are similar and emulative of those that guide the London Stock Exchange (LSE) and the JSE. Currently, the ZSE has no second tier listing, which would assist small companies that ordinarily would not qualify to list in their own right. The ZSE allows dual listing.

4.4 ZSE Listing Rules for Foreign Participants

Companies may not allow more than 40% of their ownership to be foreign. No single overseas shareholder can possess more than 10% shareholding. The indigenization and economic empowerment (IEE) policy requires local and international firms with a value of more than US$500,000.00 to transfer 51% ownership to indigenous Zimbabweans. Those bringing in funds through a registered commercial bank may repatriate their income and sale proceeds free of charge. Taxes of 15% on dividends and 10% on capital gains are levied on individuals. The tax rate on interest is 10%. The RBZ has placed fresh controls on dual listed shares. These include that those importing foreign bought scrip now need permission to sell locally, while locally acquired dual listed scrip remains unsalable outside Zimbabwe.

Table 4: Comparative Position of ZSE Infrastructure and Technology in Africa

	Country	Clearing and Settlement System	Nature of Trading System	Central Securities Depository (CSD)	Demutualised Stock Exchange	Range of Trading Hours	No of Trading days	Settlement Cycle	Existence of a Market Regulator	Name of Regulator
1.	Algeria	Electronic	Electronic	Yes	No	…	…	…	Yes	Organizing Committee for Securities & Exchange Surveillance (COSOB)
2.	Botswana	Electronic	Electronic	Yes	No	9.30-10.30	5	T+5	Yes	Non Bank Financial Institutions Regulatory Authority (NBFIRA)
3.	Cameroon	Electronic	Electronic	Yes	No	9.00-11.00	1	T+4	Yes	Financial Markets Commission
4.	Egypt	Electronic	Electronic	Yes	No	10.30-2.30	5	T+2	Yes	Capital Market Authority
5.	Ghana	Electronic	Electronic	Yes	No	9.30-10.00	5	T+3	Yes	Securities and exchange commission
6.	Kenya	Electronic	Electronic	Yes	No/Planned	10.00-12.00	5	T+3	Yes	Capital Market Authority
7.	Libya	Electronic	Electronic	Yes	No	10.00-12.00	5	T+3	Yes	Capital markets Authority
8	Malawi	Manual	Manual	No	No	10.30-	5	T+7	Yes	Reserve Bank of Malawi
9.	Mauritius	Electronic	Electronic	Yes	Yes	9.00-13.30	5	T+3	Yes	Financial Service Commission
10.	Mozambique	Electronic	Electronic	Yes	No	9.00-12.00	5	T+3	Yes	Central Bank
11.	Morocco	Electronic	Electronic	Yes	No	10.00-15.30	5	T+3	Yes	Securities Ethics Board
12.	Namibia	Electronic	Electronic	Yes	No	9.00-16.00	5	T+3	Yes	Namibia Financial Institutions Supervisory Authority
13.	Nigeria	Electronic	Electronic	Yes	No/Planned	11.00-13.00	5	T+3	Yes	Securities and exchange commission
14.	Rwanda	Electronic	Electronic	Yes	No	…	5	T+2	Yes	Central bank of Rwanda
15.	South Africa	Electronic	Electronic	Yes	Yes	9.00-17.00	5	T+3	Yes	Financial Service Board
16.	Sudan	Electronic	Electronic	Yes	No	10.00-11.00	5	T+0	Yes	Central Bank
17.	Swaziland	Manual	Manual	No	No	10.00-1200	5	T+5	Yes	Capital Markets Development Unit Central Bank
18.	Tanzania	Electronic	Electronic	Yes	No	10.00-12.00	3	T+5	Yes	Capital Market Authority
19.	Tunisia	Electronic	Electronic	Yes	No	10.30-12.30	5	…	Yes	Financial Market Council
20.	Uganda	Electronic	Electronic	Yes	No	8.30-17.30	5	T+5	Yes	Capital Market Authority
21.	Zambia	Electronic	Electronic	Yes	No	10.00-12.00	5	T+3	Yes	Securities and exchange commission
22.	Zimbabwe	Manual	Manual	No	No/Planned	9.00-12.00	5	T+7	Yes	Securities and exchange commission (SECZ)

Source: Individual Stock Exchange Websites (December 2011)

The ZSE is among the 3 out of the 22 stock exchanges (14%) that are still using manual systems, has no central securities depository (CDS) and is not yet demutualised. The settlement cycle is relatively long, T+7 days. The ZSE is therefore still lagging behind other stock exchanges in terms of stock market infrastructure and technology.

4.5 ZSE Activity in the Multicurrency System

Since February 2009, companies have been on the ZSE either for rights issues or private placement, off-shore loans or other internal means of fund-raising. Currently, the ZSE is raising funds through shares and the PG Industries debentures. Delisted companies such as David White Head and Star Africa and CAPS Holdings have automatically become private companies.

4.6 Recent, Current and Planned Developments on the ZSE

The ZSE is currently planning to modernize its activities. Planned developments include demutualization, setting up of a central securities depository system (CDS) and automation of the trading system.

4.6.1 Planned Demutualization

Demutualization refers to the transformation of a member-owned stock exchange into a shareholder stock exchange. Ownership, trading rights and management of the stock exchange becomes divorced from one another to circumvent conflict of interest, which is often associated with mutual stock exchanges.

There are plans to demutualize the ZSE into a private entity. Plans to demutualize the ZSE are said to be at an advanced stage after the ZSE managed to raise part of the funding. The initial budget for this purpose was US$4 million. Demutualization means that the ZSE will be turned into a private company owned by stockbrokers listed on the bourse. It is an opportunity for companies that are already listed to raise more funds by attracting more investors. According to the Minister of Finance, there is need to unlock value in the ZSE for it to be a viable, attractive and be able to lure prospective shareholders. Demutualization would imply that the ZSE is geared to keep up with international stock market standards and be able to expand its revenue generating capacity. The Minister of Finance has, however, expressed a need to develop the ZSE to ensure growth in revenue streams, prior to demutualization. To enhance accountability in the manner in which ZSE is run, Government seeks to demutualise the bourse. Demutualization is critical to prevent cartels of members from dictating the affairs of the bourse, which potentially creates credibility crises. Once the bourse lacks investor confidence it would struggle to attract more investors.

Some ZSE members would want demutualization to be modeled along the lines of the Malaysia's Bursa Malaysia (Bhd), which demutualized in 2004 and listed in 2005. In the Malaysian case, 40% of the total value of the exchange was allocated to the stock broking firms and a further 30% was allotted for setting up a Capital Markets Development Fund and 30% to the Treasury. Other demutualised stock exchanges in Africa include the JSE, which demutualised in 2005 and the Mauritius Stock Exchange. Kenya and Nigeria are planning the demutualization. Beyond Africa, other demutualized stock exchanges in the world include the New York Stock Exchange, Toronto, Malaysian Stock Exchange and the LSE.

In general, benefits of demutualization include improvements in commercial competitiveness and efficiency of the stock exchange. This is because it would now timously respond to market information, decision-making becomes quicker, the stock exchange becomes a profit-oriented company that promotes financial innovation, reduces transactions costs through competition, improves access to a wider pool of funds by the demutualized bourse, new sources of funds become available, becomes easier to raise more funds and an improvement in corporate governance as ownership gets divorced from control. However, challenges to demutualization include that if the expected capital inflows that usually come with the demutualization process are not forthcoming, this could result in stalled growth, potential illiquidity, regulatory framework challenges, conflict of interest and low income people participating, who cannot invest much.

4.6.2 Planned Introduction of a Central Securities Depository System (CSD)

After the planned demutualization exercise, the ZSE plans to set up a central securities depository system (CSD) and become a member of the French-based Federation of World Exchanges (WFE). The WFE is a global trade association for the stock exchange industry. Its membership is open to leading stock exchanges in all regions. The aim of the WFE is to support mutual communication among members, development of regulated markets, as well as help to develop emerging markets. The establishment of a CSD at the ZSE is expected to facilitate maintenance of settlement and ownership records. In the absence of electronic trading at the ZSE, the establishment of a CSD, it is envisaged, will assist speed up the processing of share dealings, which currently can take several weeks. It is envisaged that the CSD will improve liquidity, promote market integrity and transparency. It is expected to minimize market manipulation, fraud and financial crime. The CSD is a critical institution for modern capital markets because it reduces the payment cycle, enhances transparency and monitoring of shareholding thresholds of foreign participants on ZSE. The proposal to establish a CSD was presented before the Cabinet in 2011. Plans were that the CSD be in place by the end of 2011 but this did not take place due to constraints, which include funding. In terms of shareholding, it was proposed that the National Social Security Authority (NSSA), RBZ or ZSE would own at least 51% of the CSD company.

4.6.3 Planned Automated Trading System

The ZSE is still planning to automate its trading, settlement and clearance systems. The implementation of the computerization project has been on the cards for a long time. The implementation delays have been attributed to difficulties in raising the required US$2.5 million for the process. Computerization would eliminate cumbersome paperwork. It would allow stock brokers to input buying and selling orders directly into the system, which would assist execute transactions automatically. It would improve the operational efficiency of the ZSE by reducing the transaction cycle, which is currently T+7. It would improve liquidity levels, reduce bottlenecks, improve the speed of trading and information production of the ZSE and enhance the consolidation of the ZSE in regional markets. Currently, the ZSE calculates the market (industrial and mining) indices manually. With automation, the system would be real-time. Automation is good for investors because it enables dissemination of information much more quickly and more reliably. It deters those who want to manipulate the market. It makes regulation much easier. The ZSE website was hacked twice in 2011. The ZSE is planning to modernize its trading, settlement and clearance infrastructure to meet world class standards. A private firm, Chengetedzai, which has been tasked to oversee the establishment of the electronic trading system, will also have shareholding in the CSD. The CSD company shareholding is being planned to reflect national ownership by both the public and private sector players.

4.6.4 SECZ Investor Protection Fund (IPF)

The SECZ is planning to set up an investor protection fund (IPF). This development is aimed at making the ZSE an attractive destination for investors. The various instruments will guide and protect investors regarding disclosure, insider trading, operations of central securities, conduct of business by licensed entities, mergers and take-overs. The SECZ has so far collected over US$4 million for the IPF. The fund is aimed at cushioning investors when there are financial challenges on the bourse. It is collected from a 5% levy on all transactions done on the ZSE. The fund is a small amount compared to what is obtaining in South Africa, with a smaller percentage. In South Africa, the FSB Investor Protection Levy is 0.0002% (excluding VAT) on all trades. However, the comparative size of the market and the economic situation on the ground were also considered. The ability of the fund to cover any eventualities depends on the nature and magnitude of the event. The establishment of the IPF followed criticism from stakeholders in the sector, who felt the various contributions to the fund, eroded their profitability. The rules relate to general regulation of the securities sector as well as compensation of affected investors.

4.6.5 On-Going SECZ Investor Education

The SECZ has realized that most people lack basic knowledge about capital markets, what is involved, how to participate and whom to approach. In view of this, the SECZ has embarked on a programme to raise awareness about capital markets in Zimbabwe, especially among the marginalized groups in society. The SECZ has made presentations to future investors, who include school children in a bid to create public awareness about the ZSE and its activities. The SECZ has lined up various investor awareness programmes for on-going dissemination.

4.6.5 SECZ Regulation and Regional Integration Initiatives

The SECZ is an independent capital market regulator, which was established in 2009. In terms of regional integration, the SECZ is working on becoming a member of the International Committee for Securities Commission (IOSCO) in order to draw directly and participate in the setting up of international best practices in the securities and capital markets. In this respect, SECZ has done road shows in South Africa and the Hong Kong. The SECZ seeks to lure foreign investors to the ZSE. The SECZ is also a member of the SADC Committee of Insurance and Non-Banking Financial Institutions (CISNA), which is spearheading the harmonization of regulation of financial markets and encourages integration of securities markets in the SADC region. The SECZ has the power to regulate activities on the local securities market, with a view to ensuring that the interests of investors on the local capital markets are protected. However, there have been governance challenges relating to the relationship between the SECZ and the ZSE board, which need to be rectified for effective operations of the ZSE.

4.6.6 Commodity Exchange of Zimbabwe (COMEZ)

The ZSE launched a Commodities Exchange market in early 2011. This was meant to facilitate trade in agricultural commodities and mining products.

4.6.7 Planned Second Tier Bourse for Small-to-Medium Enterprises (SMEs)

The ZSE is planning to set up a second tier bourse by 2013 to cater for small-to-medium enterprises (SMEs). The basis is that some investors may prefer to buy shares in small-to-medium-sized companies because they often have higher growth potential than larger firms. Smaller companies should overcome their tendency to associate share issues with loss of control and to recognize the role of stock markets in helping companies grow. The United Nations Development Programme (UNDP) has urged African stock exchanges to lower barriers to the entry of indigenous, small and medium-sized firms. However, according to the Kingdom Financial Holdings (KFH (2011)) assessment, with challenges of market shallowness, lack of investor education at the individual level, low turnover, paucity of tradable securities and weak capitalization of most Zimbabwean SMEs, it is difficult to see how a multiplicity of exchanges would benefit the country. In addition, the KFH argues that if current investors are shying away from small capitalized stocks what will give them impetus to delve into microcapitalized stocks. Given that the ZSE listing requirements are not very stringent yet, many companies are not listing on the ZSE, it is difficult to see how they would list on the SMEs bourse. Reduced listing requirements for the planned bourse could be seen as another stumbling block by stakeholders.

In comparative terms, in the African region, Kenya is currently planning to set up a similar facility for SMEs in 2011. South Africa already has the Alternative Exchange (AltX), which is a stock exchange that was founded as a division of the JSE in order to accommodate small-and-medium-sized high growth companies. Second tier listing is already in place in Botswana, Nigeria and Mauritius. However, some analysts have argued that it may be better to develop the existing stock exchanges and make them match world class standards, rather than complicate the situation through multiplicity. In addition, the SMEs bourse in Zimbabwe may face funding challenges, which are currently delaying a number of planned projects on the ZSE.

4.6.6 Establishment of a Bond and Futures Market

Future ZSE plans include the establishment of bond and futures markets.

4.6.7 Initiatives to Encourage Listing of More Mining Companies

The ZSE has appealed to the Zimbabwe Chamber of Mines to encourage 5 mining companies operating in Zimbabwe, but listed elsewhere in the world, to float shares on the ZSE. Targeted companies include the ZIMPLATS, which is trading on the ASX, Aqaurius Platinum, which is trading on ASX, JSE and LSE, Unki Mine and ACR, which are trading on the LSE. The mining companies have been encouraged to buy into the economic empowerment and indigenization policy drives. According to the ZSE, if these mining companies listed, the ZSE would realise about US$10 billion in market capitalization, would improve the quality of listings, improve the market profile of the concerned companies and would also reduce their foreign shareholding. The initiative would ensure utilization of long-term cheap capital for mining companies. It would grow exploration investment. According to the ZSE (2011), the ZIMPLATS, which went to raise money in

Australia because the ZSE was still trading in Zimbabwe dollars, has no reason not to list on the ZSE now, especially when their resource is in Zimbabwe. There is potential in mining companies because Zimbabwe has over 40 base minerals and the world's third largest platinum deposits after South Africa and Russia. Banking institutions will also be encouraged to list on the ZSE. Pension funds, which are recovering, are argued to have capacity to buy the IPOs. They are major players on the ZSE.

4.7 ZSE Institutional and Infrastructure Indicators

Table 5 shows how the ZSE currently satisfies the institutional and infrastructural indicators of a modern stock exchange as of December 2011. As shown in table 5, lack of automation and a CSD are major constraints. The trading hours are limited. The settlement cycle (T+7) is long.

Table 5: Institutional and Infrastructural Indicators of the ZSE (December 2011)

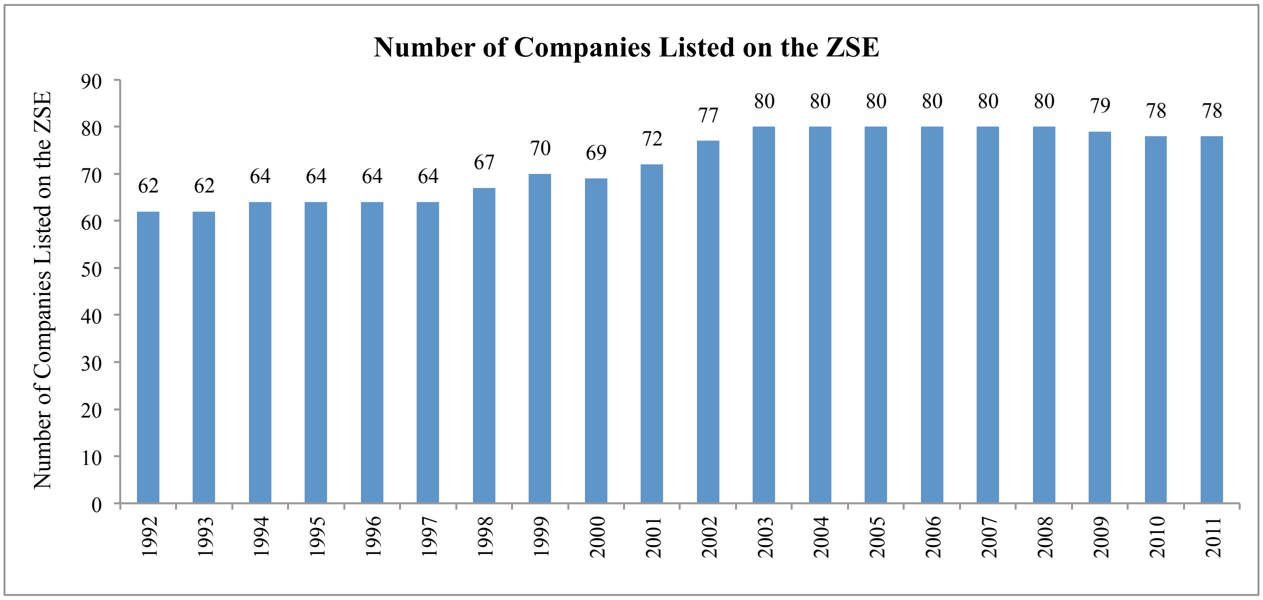
	Rating Criteria	ZSE Rating	Comment
1.	Existence of a Market Regulator	Yes	SECZ
2.	Governing Law	Yes	ZSE Act. Chapter 24:18 of 1996
3.	Nature of Clearing and Settlement System	Manual System	Manual
4.	Settlement Cycle	T+7 days	Long Cycle (Unfavourable)
5.	Existence of an International Custodian	Yes	Yes
6.	Foreign Participation	Yes	Yes
7.	Exchange Control Regulations	None	None
8.	Repatriation of Income and Sale Proceeds	Free	Favourable
9.	Tax on dividends (individuals)	15%	High
10.	Tax on capital gains (individuals)	10%	High
11.	Nature of Trading System	Manual System	Automation is on plan
12.	Existence of a Central Securities Depository	None	CSD is on plan
13.	Number of Trading Days	5 days	Monday-Friday
14.	Trading Hours	9.00 AM-12.00 Noon	Limited Trading Hours
15.	Accounting and Auditing Reporting System	International Standard	International Standard

Source: ZSE (December 2011)

4.8 ZSE Market Performance Indicators

The following tables and figures show the performance of the ZSE in the multicurrency system. Key determinants of current market performance at the ZSE include liquidity constraints, general performance of the economy, the policy environment, investor market perceptions and the political environment, among other factors .

Figure 8: Number of Listed Companies on the ZSE (1992-2011)

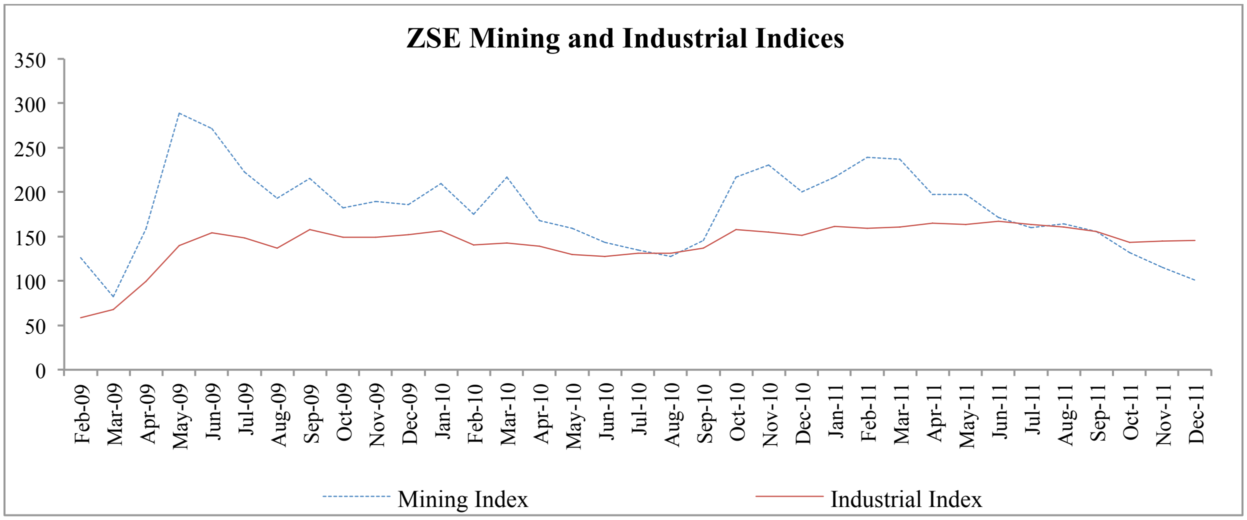


Source: ZSE (December 2011)

The ZSE, which allows dual listings, currently has 78 listed companies. No new listing has been done in 2011. As shown in figure 7, the ZSE has experienced a listings drought in recent years. It has not attracted significant new listings since 2003. The highest number of listed counters has remained at 80 and below for several years. In 2010, only 2 counters were listed by way of reverse take-over of existing counters. The TN Financial Holdings Ltd acquired TEDCO Limited in order to get listed on the ZSE and Interfin Holdings took over CFX Financial Services, and with it the CFX Bank. Lack of listings is attributed to funding constraints affecting local firms as recapitalization and re-tooling still remain a challenge, failure to comply with the country's indigenization law by some companies, depressed activity on the bourse and the wait-and-see attitude by most investors, among other factors. These developments imply that there may be fewer new listings till most companies recover.

In view of these developments, among other factors, the Chamber of Mines has encouraged mining companies to list on the ZSE. A number of mining companies are not listed on the ZSE. Others are listed in international stock exchanges. Some of the leading mining properties that are not listed on the ZSE include the New Dawn Mine, Caledonia Mining Corporation and Unki Platinum mines. Currently, there are only 4 listed mining firms. These include Bindura Nickel Corporation (BNC), Falgold, Hwange and RioZim. These listed ones have been facing liquidity challenges and other recapitalization constraints.

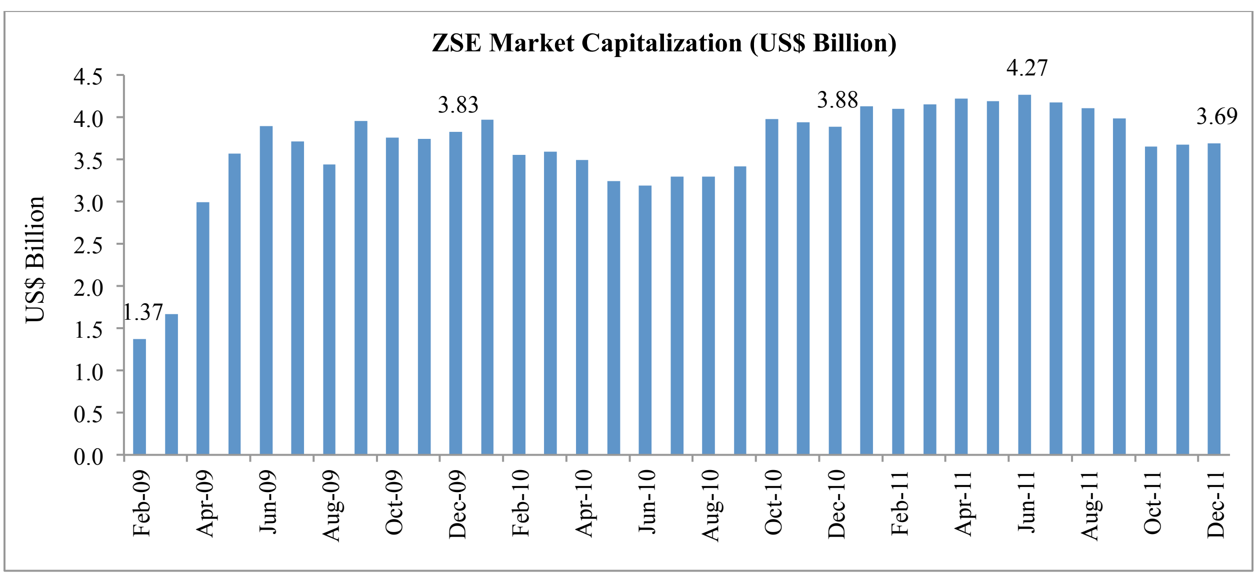
Figure 9: ZSE Mining and Industrial Indices (February 2009-December 2011)



Source: ZSE (December 2011)

The ZSE has 2 market indices, namely the industrial and the mining indices. The industrial index is the mainstream index. The graphs suggest mixed trading for both the mining and industrial counters. The fluctuations are more pronounced for the mining counters. The reason is partly attributed to perceptions relating to the indigenization and empowerment plans affecting mining companies and lack of funding for listed mining companies. All the 4 listed mining companies are arguably facing challenges in sourcing funds for recapitalization, working capital and to retire expensive debt accumulated over time. It is understood that more mining companies are being enticed to list on ZSE, a move that is expected boost the performance of the mining index and market capitalization.

Figure 10: ZSE Market Capitalization (February 2009-December 2011), US$ Billion



Source: ZSE (December 2011)

Market capitalization opened 2009 at US$1.4 billion and closed the year at US$3.8 billion. 2010 opened with US$3.97 billion and closed the year at US$3.9 billion in market capitalization. In 2011, market capitalization closed with US$3.63 billion in December 2011. This actual figure was below the target of US$4 billion, which was actually revised from US$7 billion by the ZSE. The revision was in view of the effects of liquidity constraints on ZSE performance, among other factors. The highest level of US$4.3 billion in market capitalization was achieved in June 2011. The ZSE made gains in 2011 despite tight liquidity conditions prevailing on the market. Values traded amounted to a cumulative US$36.66 million over Feb 2009 to December 2011. However, foreign portfolios dominated market transactions. Since October 2010, market capitalization has stagnated around US$4 billion. Factors underpinning these developments include liquidity constraints and uncertainty surrounding the indigenization policy. In comparative terms, the market capitalization of around US$4 billion is also below prevailing regional levels. These outcomes imply that ZSE stocks are under-valued, given the number of listed counters. The ZSE has projected market capitalization to close 2011 at US$4 billion, from the earlier projection of US$7 billion. The downward revision is attributed to persistent liquidity constraints and low industrial capacity utilization.

Table 6: ZSE Performance Indicators as a Percentage of GDP (Feb 2009-Nov 2011)

Year	Market Capitalization/GDP
2009	70.18%
2010 Estimate	49.38%
2011 Estimate	43.01%

Source: World Bank Development Indicators (WDI, 2010) and ZIMSTAT

In terms of market capitalization as a percentage of GDP, 2009 realized 70.18%, the estimate for 2010 was 49.35% and the estimated figure for 2011 is 43.01%. These figures are still well below 100% and are declining over time. In comparative terms, Egypt has a market capitalization of 100%. The Zambia Commodity Exchange (ZCE) had a closing market capitalization of 48.03% in 2010, 38.77% in 2009 and 37.84% in 2008.

The ZSE's market capitalization is dominated by about 20 counters, which represent 25.32% of the market with 78 companies. This implies that the market is concentrated in a few large companies. Despite the good performance of the heavy counters, smaller counters are struggling. A number of them are looking for fresh capital for re-tooling and re-capitalization. The ZSE has not been performing well, following the indigenization and economic empowerment policy proposals. Since June 2011, market capitalization on the ZSE has exhibited a downward trend, partly reflecting low investor confidence. Most foreign investors moved out of the market due to perceived country risk. In addition, liquidity constraints, in the absence of balance of payments (BOP) and budget support, coupled with subdued export performance, depressed activity on the ZSE.

Table 7: ZSE Turnover (February 2009-November 2011)

	Values Traded (US$ Million)	Volumes Traded (Million)	Market Capitalization (US$ Million)	Turnover (%)
Feb-09	2.50	6.80	1,371.24	0.00
Mar-09	3.01	68.47	1,666.28	0.00
Apr-09	11.62	202.90	2,996.17	0.00
May-09	35.72	415.38	3,568.24	0.01
Jun-09	57.17	804.72	3,895.12	0.01
Jul-09	51.57	425.32	3,717.24	0.01
Aug-09	45.10	309.95	3,437.05	0.01
Sep-09	47.03	857.44	3,954.50	0.01
Oct-09	51.33	415.97	3,755.97	0.01
Nov-09	60.55	687.25	3,746.14	0.02
Dec-09	48.36	399.27	3,829.93	0.01
Jan-10	32.45	741.27	3,973.42	0.01
Feb-10	29.61	444.25	3,552.36	0.01
Mar-10	39.63	1,119.13	3,595.94	0.01
Apr-10	29.41	543.68	3,490.29	0.01
May-10	30.87	1,221.95	3,242.68	0.01
Jun-10	29.23	451.74	3,193.16	0.01
Jul-10	28.64	269.29	3,296.95	0.01
Aug-10	35.74	415.51	3,299.90	0.01
Sep-10	25.96	351.32	3,418.04	0.01
Oct-10	29.70	290.77	3,978.29	0.01
Nov-10	53.47	427.68	3,942.84	0.01
Dec-10	26.86	523.58	3,884.49	0.01
Jan-11	32.55	302.74	4,131.82	0.01
Feb-11	47.48	239.52	4,101.65	0.01
Mar-11	36.37	349.98	4,156.32	0.01
Apr-11	35.50	357.06	4,222.67	0.01
May-11	28.90	474.99	4,191.38	0.01
Jun-11	42.91	377.73	4,267.50	0.01
Jul-11	51.34	619.77	4,172.70	0.01
Aug-11	42.39	318.01	4,105.93	0.01
Sep-11	34.94	304.27	3,984.47	0.01
Oct-11	38.62	545.15	3,656.59	0.01
Nov-11	41.32	309.88	3,677.60	0.01
Dec-11	45.21	410.91	3,689.70	0.01
Average	**36.66**	**457.25**	**3,633.27**	**0.01**

Source: ZSE (December 2011)

Only the blue chip counters have managed to attract several investors because they have a potential of yielding attractive returns. However, these heavy weight counters' share prices are beyond the reach of most potential investors, particularly individual investors.

Over the review period, the values traded fluctuated around an average of US$36.66 million. The average volumes traded fluctuated around 457 million. Market capitalization averaged US$3.63 billion. The turnover rate, measured as values traded over market capitalization, has averaged 0.01. This compares with 0.05 at the Nairobi Stock Exchange in 2005 and 0.38 at the JSE in 2011. These statistics suggest low activity on the ZSE.

In comparative terms, the ZSE, which has 78 listed companies, closed 2010 with a market capitalization of US$3.8 billion while Zambia, with only 22 counters closed with US$6.3 billion at the same time. In 2009, the ZSE closed with US$3.8 billion while Zambia closed with US$5.3 billion. This implies that the ZSE stocks are, to some extent, under-valued.

Table 8: ZSE Volumes and Values Traded Annually (2009-Dec 2011)

Year	Values Traded (US$ Billion)	World Bank Threshold (US Billion)	Volumes Traded (Billion)	Market Capitalization (US$ Billion)	World Bank Threshold (US Billion)
2009	0.41	10	4.89	35.94	50
2010	0.39	10	6.80	42.87	50
2011	0.48	10	4.61	44.75	50
2011*	…	10	…	48.91*	50

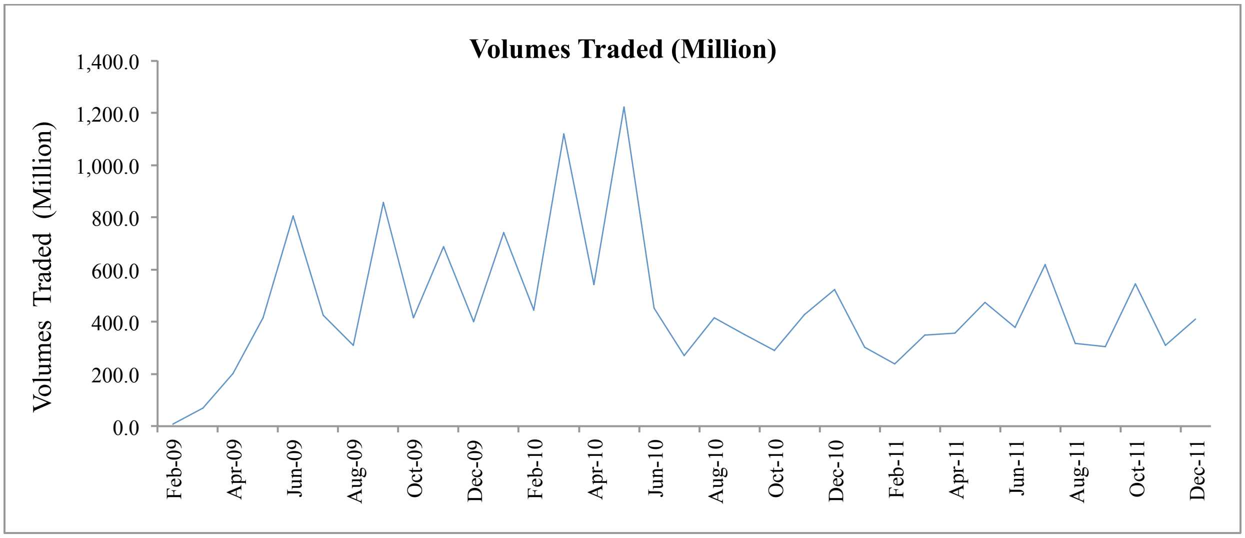
Source: Calculated from the ZSE figures (December 2011)

* 2011 estimate if the June 2011 market performance had been maintained.

In terms of annual performance, market capitalization in 2009 amounted to US$35.94 billion. It was US$42.87 billion in 2010. It amounted to US$44.75 billion in 2011. The annual figures are below the internationally recommended thresholds to attract more foreign investment. The 2011 annual market capitalization was below the recommended World Bank (2006) threshold of US$50 billion. If the June 2011 momentum was maintained in which the peak market capitalization of US$4.27 billion was achieved, the annual market capitalization in 2011 would have been about US$48.91 billion. These outcomes imply that the ZSE still needs to perform better to attract more foreign investment. The domestic market should perform better to attract more foreign investment.

However, it is also possible that the June 2011 market performance could be an outlying outcome when the prevailing market capitalization levels reflect actual fundamentals in the economy.

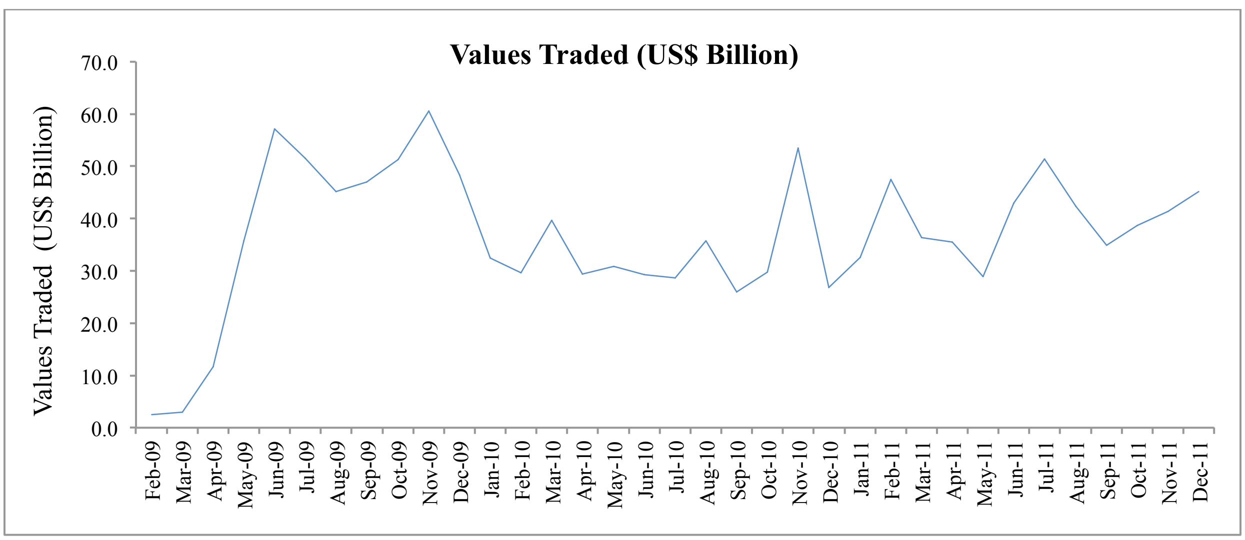
Figure 11: ZSE Volumes Traded (February 2009-December 2011)



Source: ZSE (December 2011)

The volumes traded have been fluctuating widely over the review period. This suggests relative instability of activity at the ZSE. The cumulative volumes traded amounted 4,610 million over January to December 2011.

Figure 12: ZSE Values Traded (February 2009-December 2011), US$ Million



Source: ZSE (December 2011)

The values traded have been fluctuating widely over the review period. This suggests relative instability in the stock market. The market average is US$36.66 million over the period February 2009 to December 2011. The illiquidity on the ZSE can be explained by low investor sentiments on the market and the state of the economy.

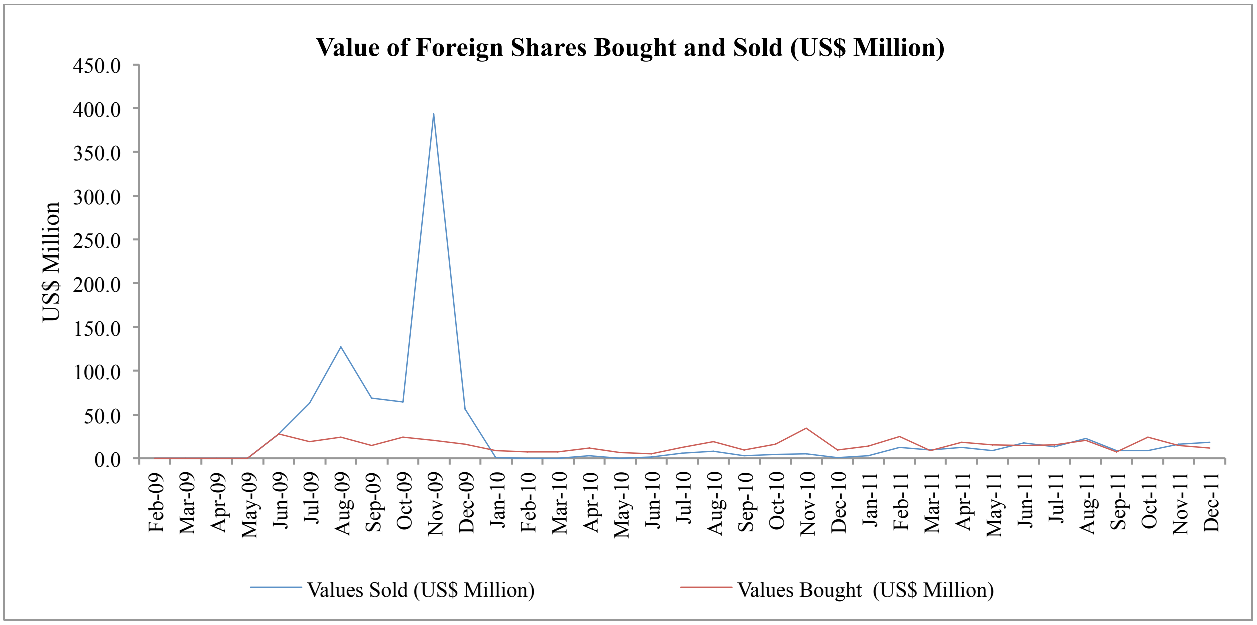
Table 9: ZSE Foreign Values and Volumes of Shares Bought and Sold (Feb'09-Dec'11)

	Values Sold (US$ Million)	Values Bought (US$ Million)	Number of Shares Sold (Million)	Number of Shares Bought (Million)
Feb-09	…[1]	…	…	…
Mar-09	…	…	…	…
Apr-09	…	…	…	…
May-09	…	…	…	…
Jun-09	27.53	27.92	…	…
Jul-09	63.14	18.91	…	…
Aug-09	126.87	23.79	…	…
Sep-09	68.46	14.55	…	…
Oct-09	64.49	24.04	…	…
Nov-09	393.03	20.80	…	…
Dec-09	56.59	16.41	…	…
Jan-10	0.64	8.67	2.13	74.97
Feb-10	0.37	7.12	2.05	25.21
Mar-10	0.22	7.02	3.33	37.14
Apr-10	2.84	11.98	1.00	40.64
May-10	0.36	6.25	1.05	29.45
Jun-10	1.77	4.90	22.21	18.12
Jul-10	5.55	12.18	27.55	52.10
Aug-10	7.87	19.33	96.72	129.55
Sep-10	2.89	9.35	42.38	75.64
Oct-10	4.15	16.43	31.80	65.62
Nov-10	4.90	34.42	23.70	64.16
Dec-10	0.84	9.73	4.27	28.16
Jan-11	3.10	13.78	24.58	67.86
Feb-11	12.15	25.15	35.29	38.81
Mar-11	9.67	8.50	55.97	47.32
Apr-11	12.78	18.65	57.78	80.70
May-11	8.72	15.66	92.43	110.06
Jun-11	17.73	14.76	140.36	85.33
Jul-11	13.17	15.69	22.63	42.02
Aug-11	22.92	20.50	87.06	69.73
Sep-11	9.06	7.34	50.09	36.74
Oct-11	9.14	24.14	19.09	38.78
Nov-11	15.84	14.77	33.34	50.76
Dec-11	18.25	11.58	21.82	18.59
Average	**31.78**	**15.62**	**37.44**	**55.31**

Source: ZSE (December 2011)

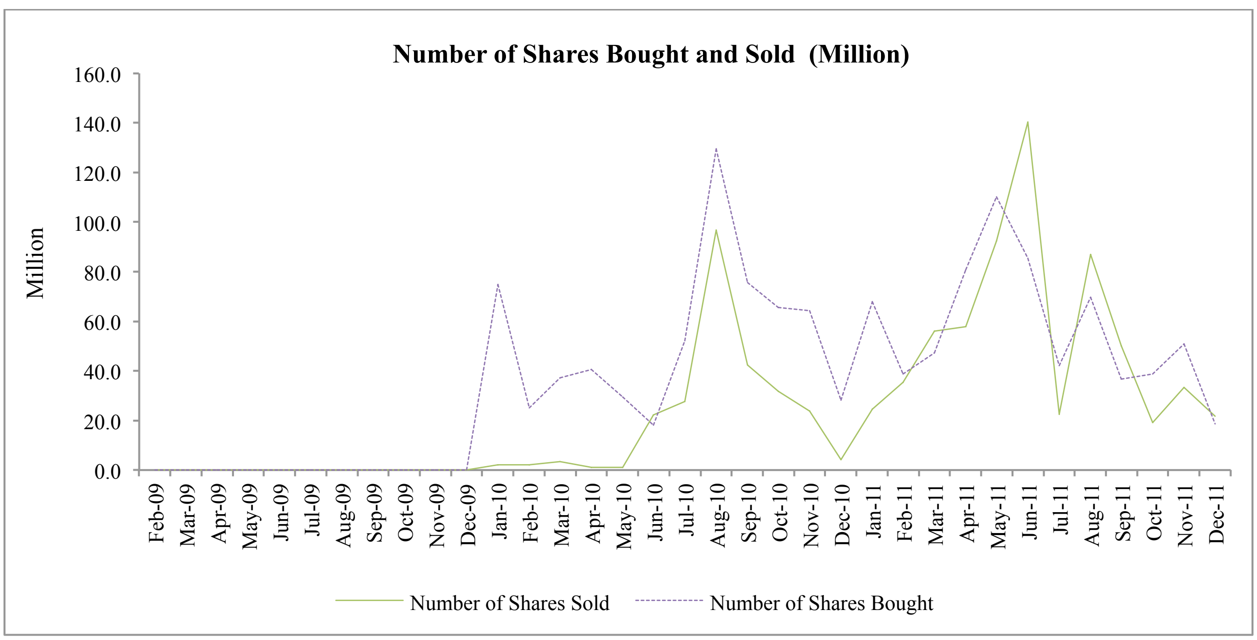
[1] … Indicates lack of data on the respective variable.

Figure 13: ZSE Foreign Values of Shares Bought and Sold (February 2009-December 2011)



Source: ZSE (December 2011)

Figure 14: ZSE Foreign Volumes of Shares Bought and Sold (February 2009-December 2011)



Source: ZSE (December 2011)

4.9 Challenges, Risks, Weaknesses and Threats Facing the ZSE

(i) Persisting Liquidity Constraints

Currently, this is one of the most serious challenges affecting activity on the ZSE. Accessing adequate levels of funding at viable interest rates has proved difficult for most local companies. The multicurrency system has been associated with limited inter-bank lending and limited access to the lender of the last resort (LOLR) facility at the central bank. Inter-bank lending is limited because banks are not sure about each other's risk levels, hence cautious inter-bank lending. The LOLR facility, which was opened in February 2011, was capped at US$7 million and has stringent collateral requirements. These include a Deed of Title on immovable property and other transaction costs. Since the opening of the facility in February 2011, there have been no draw-downs, reflecting the stringent collateral requirements. Off-shore lines of credit are still limited. Due to the liquidity constraints and foreign investor flight, the ZSE revised its end of 2011 market capitalization from US$7 billion to US$4 billion. This figure was further revised to US$4.5 million. The actual outturn was US$3.67. Low liquidity levels imply that it would be harder for the ZSE to support a local market with its own trading system, market analysis and stock brokers. This is because the business volumes would simply be too low. For instance, this implies that stock brokers, who get a commission from trading, would have less income. As a result, some ZSE stock brokers are understood to have been experiencing challenges in paying salaries.

(ii) Manual Trading System

Plans to align the ZSE with regional stock markets are being limited by lack of automation, which has been constrained by lack of funding. The ZSE is currently undercapitalized.

(iii) Inadequate Measures to Enforce Listing Rules and Surveillance of Trading Activities

The ZSE has inadequate measures to enforce listing rules and surveillance of trading activities. This is partly compounded by the use of manual trading and settlement systems.

(iv) Frequent Power Outages

Frequent power outages, among other capacity constraints, have contributed to the low capacity utilization in the economy, implying low potential participation at the ZSE.

(v) Indigenization and Economic Empowerment (IEE) Policy

The ZSE has not been spared by the government's drive to compel foreign-owned businesses to sell stake to indigenous Zimbabweans. The procedure requires local and international firms with a value of more than US$500,000.00 to transfer 51% ownership to indigenous Zimbabweans. This development has brought investor uncertainty because a number of investors are no longer keen to invest in the country.

(vi) Political Uncertainty

There is still political uncertainty surrounding the Government of National Unity (GNU), national elections, the dates for the referendum and the completion of the constitution-making process.

Political developments have played a big role in influencing the performance of the ZSE, resulting in some investors adopting a wait-and-see attitude.

(vii) Difficulties in Attracting More Foreign Investors

Stock market performance is highly sensitive to political and economic developments, as well as any rumours and news about such developments. It is still difficult to attract more investors into Zimbabwe because of these developments. There is still uncertainty surrounding the Global Political Agreement (GPA), indigenization and economic empowerment laws and the completion of the constitution-making process.

(viii) Weak Public Awareness and Education

The operations of the ZSE are not well known to most ordinary people. Some savers do not have enough information about this market. The stock market is commonly overshadowed by the banks in terms of attracting customers.

(ix) Low Domestic Disposable Incomes and Low Savings

Currently, the economy is characterized by low disposable incomes and low savings. There is less income for investment.

(x) High Taxes and Investment Levy

The tax rates are 15% on dividends, 10% on interest and 10% on capital gains.

(xi) Corporate Governance Issues

The corporate governance issues at the ZSE are still outstanding.

(xii) Low Potential to Attract Emerging Market Economy Investors

The current market capitalization and values of shares traded are still weak to attract emerging market economy investors. In 2009, 2010 and 2011, the ZSE did not pass the test of the annual US$50 billion and US$10 billion in market capitalization and values traded, respectively.

(xiii) Negative Investor Perceptions

These continue to depress activity on the ZSE.

(xiv) High Money Market Interest Rates

High interest rates are expected to continue discouraging leveraged positions on the ZSE. When interest rates are subdued, traders invest in equities with funds borrowed cheaply from the fixed income market, which supports the performance of the equities. Currently, in Zimbabwe, this cannot work because the cost of funds on the local money market is higher relative to the expected returns on the ZSE.

4.10 Current Opportunities for the ZSE

There are a number of factors and developments in the economy that are promotive of ZSE activities and economic growth. These include the following.

(i) Current Macroeconomic Stability

Macroeconomic conditions are currently stable. The economy has stable prices, absence of asset price bubbles, limited speculation and moderate money supply growth. After the departure of rent seekers, who dominated the market before the multicurrency system, the ZSE is now a real stock exchange, offering an adequate balance between long, medium and short-term investments. The multicurrency system brought meaningful returns to investors, which reflect economic fundamentals.

(ii) Reduced ZSE Transactions Costs

In 2009, the government reduced transaction costs on buying and selling of shares to 3.21%, from the previous 7.5%. On a comparative basis, the 3.21% level was against regional levels of around 3.5%. The reduction was done to boost activity on the bourse, align transactions costs to regional levels and to attract more investment, from both existing and potential investors. Prior, investors were already shifting focus to the money market due to the high charges on the equities market. The cost reduction was expected to generate renewed interest in the stock market because some investors were previously deterred by the high charges, resulting in them opting for the money market investments. At 7.5%, the transaction costs were too high compared to those prevailing in the region, especially South Africa at around 3.5%. The 4.21% fee is 2.1% higher than the SADC regional averages. In addition, most of the companies that trade on the ZSE have links to the British, American and South African companies, among other strong economies. Foreign investment participation could have been more had it not been for the high transaction costs that rendered the market illiquid. The ZSE can now capitalize on the reduced transaction costs to attract more investment. A reduction in transactions costs and fees would potentially increase trade. However, there are arguments that the too many fees still tend to scare away foreign investors. Stock brokers, who are contributing a total of 6 levies into the IFP are struggling to stay afloat. In January 2011, the total transactions costs were increased to 4.21% due to the reintroduction of the capital gains withholding tax of 1.00% on selling. The basis charge on selling or buying is US$2.00.

Table 10: ZSE New Transaction Costs (%) without Capital Gains Holding Tax

	Type of Fee	Buying (%)	Selling (%)
1.	Brokerage Fee	1.00	1.00
2.	Stamp Duty (Buying)	0.25	
3.	Securities Commission (SECZ) Levy	0.18	0.18
4.	Investor Protection Fund (IPF) Levy	0.05	0.05
5.	ZSE Levy/Fee	0.01	0.01
6.	Value Added Tax @ 15% on Brokerage Fee	0.15	0.15
Total Cost		**1.73**	**1.48**
Total Cost on Both Sides (Buying and Selling)		**3.21**	

Source: ZSE (2009)

Table 11: ZSE New Transaction Costs (%) with Capital Gains Holding Tax

	Type of Fee	Buying (%)	Selling (%)
1.	Brokerage Fee	1.00	1.00
2.	Stamp Duty (Buying)	0.25	
3.	Securities Commission (SECZ) Levy	0.18	0.18
4.	Investor Protection Fund (IPF) Levy	0.05	0.05
5.	Capital Gains Tax (Selling)		1.00
6.	Value Added Tax @ 15% on Brokerage Fee	0.15	0.15
Total Cost		**1.73**	**2.48**
Total Cost on Both Sides (Buying and Selling)		**4.21**	

Source: ZSE (January 2010)

These fees compare with the JSE fees and taxes, which include:

- Securities Transfer Tax of 0.25%, which applies to share purchases only and not share sales;
- Strate 0.005459% (excluding VAT), which is based on the value of the share transactions;
  - ✓ Minimum R10.92 for trades with a value up to R200,000.00;
  - ✓ Maximum R54.59 for trades with a value over R1 million; and
- FSB Investor Protection Levy 0.0002% (excluding VAT) on all trades.

(iv) Foreign Participation

During the hyper-inflationary period prior to 2009, the ZSE was mainly driven by local investors. For instance, in 2008, foreigners made up only 2% of the funds invested on the ZSE. Since February 2009, foreign investors have accounted for about 60% of the total participation, with locals contributing 40%. Foreign investor participation on the ZSE is expected to increase to above 50% The expected increase is attributed to the stability associated with the multicurrency system and reduced transaction costs. 2009 saw an increased level of foreign investor participation soon after the introduction of US dollar trading on the local bourse. The rise in participation by foreign investors on the ZSE was enhanced by the fact that local investors were constrained by lack of investment funds arising from the liquidity constraints in the economy. The emergence of alternative markets, such as the foreign currency and money markets, further dampened activity by local investors on the stock market. Foreign investors have been driving activity on the ZSE as locals do not have the cash to participate due to liquidity constraints. Foreign investors have been determining the fate of the bourse. In addition, if brokers have foreign players in their books, they are bound to generate more income.

However, foreign investors, whose money Zimbabwe needs to fund economic reconstruction, commonly withdraw from the local bourse if there are negative perceptions about the economy. When foreign participants start selling, this tends to shake the bourse. For counters traded by foreign investors, the withdrawal of foreign investors on the ZSE has exposed the counters. As a result, foreign investors have remained net sellers on the ZSE.

Foreign ownership of securities and assets remains controversial. Some financial experts have pointed out that as a country integrates its financial markets more tightly with world markets, it becomes more and more susceptible to global volatility. Large cross-border movements of capital invested in portfolio securities, tend to accompany and fuel financial instability.

(v) Favourable Regional Position of the ZSE

In terms of listings, the ZSE currently ranks as the fourth largest stock exchange in Africa and the second largest in Southern Africa. The ZSE can capitalize on its regional position to attract more foreign investment. In addition, the ZSE listing rules conform with similar listing laws in the 14-member SADC community. This makes it easier for companies to seek dual listing in any of the SADC states.

(vi) Positive Economic Growth Prospects

The ZSE can capitalize on the economy's positive growth prospects to attract more domestic participation. However, over-reliance on the mining sector is risky in the long-term because minerals are non-renewable. The exogenous increase in international mineral prices can be reversed later. In any case, growth of mineral output depends on how Zimbabwe manages to continue extracting the minerals. Based on an assumption of GDP growth of 5% per annum, and if ZSE follows trends seen elsewhere, both turnover and market capitalization could increase several times in the near future.

(vii) International Commodity Price Boom

The international commodity price boom is good for the African stock markets. However, despite the firming of metal prices on international markets, absence of medium to long-term capital has seen most mining houses in Zimbabwe failing to improve their productivity in order to benefit from the bullish metals sentiment. With available funds largely short-term in nature, operations of mining houses remain at low levels.

(viii) Increasing Demand for Long-Term Private Sector Credit

The demand for private sector credit is increasing. The private sector is in need of long-term credit at affordable interest rates. Given the current banking sector vulnerabilities, the banking sector is failing to satisfy the demand. The ZSE has witnessed a number of capital-raising initiatives but very few companies have managed to raise the full amount of money required to refinance businesses. Local financial institutions are not extending adequate long-term financing to local industries. Banks have resorted to short-term financing, which is more secure in a volatile environment. The short-term financing by banks is linked to the short-term nature of banking sector deposits. In the absence of long-term funding for industry, the ZSE could be an alternative to deal with the liquidity constraints in the economy. It would complement the banking sector by mobilizing long-term credit.

(ix) Absence of Government Treasury Bill Market

The ZSE can capitalize on the absence of Government Treasury bills, which would compete with stock market instruments.

(ix) Government Cash Budgeting System

The Government is currently operating on a cash budgeting system. This implies that the government is not borrowing using Treasury Bills, whose returns would compete with than the stock market returns.

(x) Establishment of a ZSE Regulator

The fact that there is now a capital market regulator in Zimbabwe, SECZ, has added to positive sentiments on the market for both local and foreign investors. SECZ was established in 2009.

(xi) SECZ Measures to Reduce Corruption

The ZSE is also attempting to prevent insider trading in shares, particularly by company directors.

(xii) Returning Wealth of the Zimbabwean Diaspora

Zimbabwe has a large population of professionals and business people in the Diaspora, which is estimated at 4 million. The ZSE can tap on the investment funds from the Diaspora.

(xiii) Maturity of the ZSE

The maturity of the ZSE cannot be underestimated. The ZSE is one of the oldest stock exchanges in Africa. It has gone through various economic and political regimes. Historically, it has been vibrant in certain periods. This can rebound if political and economic conditions improve further.

Table 12: Summary External SWOT Analysis of the ZSE

Strengths	**Weaknesses**
• It is not a self regulatory entity. There is a regulatory body, the Securities Commission of Zimbabwe (SECZ). • Well diversified. Listed companies represent a diverse set of economic sectors. • Adheres to international accounting standards and requirements. • Absence of foreign exchange rate risk due to the use of the multi-currency system. • Access and links to regional stock exchange associations. • Maturity in terms of age and operations.	• Manual clearing system (paper based transactions). This exposes the ZSE to fraud. • Weak corporate governance issues, which can give rise to insider trading. The weak corporate governance is a result of unclear separation between the board and management of the ZSE. • Market capitalization is concentrated in the hands of few large companies. e.g. Econet, Delta and PPC. • Undervalued stocks. • Over-reliance on foreign participants, whose activities on the ZSE are highly sensitive to political and economic conditions.
Opportunities	**Threats**
• Demutualization, which is on plan, enables the stock market to raise or attract investors as this increases its independence and its affairs are run as a private entity. • Automation, which is on plan, could improve efficiency and reduce paper work. • Positive economic growth and stability. • Absence of other alternative long-term investment instruments, which can compete with the stock market. • Foreign investor participation on the stock market helps to generate more income and business.	• Controls on dual listed companies. This inhibits the free movement of shares between the corresponding stock markets. It reduces the liquidity of the shares. It reduces the firms' access to foreign capital. • Funding constraints are affecting new listings. • Indigenization and economic empowerment policy. The policy has brought about investor uncertainty on the stock exchange. This is affecting the volume of trade. • Firm competition from regional stock exchanges. These include the Johannesburg Stock Exchange Africa Board, which allows firms from other African countries to list on the board. This takes away business from regional stock exchanges such as the ZSE.

Source: Deduced from ZSE Information (2011)

5. Policy Implications and Recommendations

5.1 Policy Implications

The current operations of the ZSE, the state of the economy and political conditions imply the following:

- The ZSE is still dependent on foreign participants, who are still key in raising capital;
- Local participants cannot raise enough capital on the ZSE;
- Activity on the ZSE is driven by current economic and political conditions;
- The ZSE has potential to boost economic growth provided the macroeconomic and political conditions are stable;
- The fortunes of the ZSE, from a liquidity dependence perspective, hinge on the ability of the economy to generate more liquidity via exports, lines of credit and the level of foreign participation on the bourse;
- The institutional and technological infrastructure of the ZSE requires improvement; and
- The performance of the ZSE will continue to be driven by the performance of the economy and the expected strong performance of most key sectors of the economy in 2011 is favourable for the ZSE.

5.2 Policy Recommendations

For the ZSE to remain viable and to promote growth, the macroeconomic conditions should remain stable, typical of the multicurrency system. Economic policies should support stability. Efforts should be made to maintain the multicurrency system while the economy recovers, avoid excessive monetary growth and to prevent asset price bubbles. In addition, stable political conditions will remain crucial in enhancing ZSE viability and its ability to mobilize funding.

(i) Promote Local Institutional Investors

There is need to promote local institutional investors, with potentially high income levels for investment. Zimbabwe should strengthen financial market regulations, improve governance in general, promote listing of solid, well-managed and competitive local companies. Ideally, if companies are performing well, one would not expect people to withdraw their funds and invest them in other alternative markets.

(ii) Corporate Reform of the ZSE

The reform of the ZSE would ensure compliance with the Act and SI (Statutory Instrument) 100 of 2010. Corporatization of the ZSE, which will result in the separation of trading rights, ownership and management (independent board and executive management), will meet the requirements of the ZSE regulations. The regularization of governance at the ZSE would make it more efficient.

(iii) Strengthen Regulation, Supervision and Surveillance

There is need to enhance regulation and supervision of the ZSE to make sure that its activities match international standards and to avoid circumstances that led to the closure of the bourse in 2008, following speculative activities and irregular trading. There is need to improve surveillance on the enforcement of rules and regulations. The SECZ is also working on statutory instruments to address insider trading and disclosure issues. It would be good to strengthen regulation, increase regulatory transparency and to ensure that the ZSE gradually converges to international regulatory standards, such as the IFRS Reporting Standards.

(iv) Attract Capital Flows and Foreign Participation

Activity on the ZSE is prone to restrictions on foreign shareholding. It is crucial that rules and regulations governing the ZSE and the transparency of its reflect best international practices. It is important to encourage more foreign participation on the ZSE.

(v) Enhanced Education and Awareness on the ZSE

There is need for more education of the public on the benefits of investing in the stock market. The ZSE could increase attention to educational and promotional programmes to attract more investors. The ZSE could participate in local and regional business fairs, offer short courses and seminars on market investments and personal finance. The ZSE could do more advertisements in the local press, radio and television and enhance the maintenance of its website. The ZSE could sponsor some radio programmes in order to be known to small prospective investors. The broadcasts could assist in generating public interest in the stock exchange by explaining investment topics to listeners. The ZSE could hold a weekly quiz which awards some money prizes to be invested in shares of the quiz winner's choice.

(vi) Peace and Political Stability

The performance of a stock market is highly sensitive to peace and political stability. As such, there is need to promote these, if the ZSE is to contribute meaningfully to the economic recovery and growth process. Political resolutions need to be achieved on the GPA, constitution making and the indigenization laws.

(vii) Regional Integration of the ZSE

It is crucial for policy makers to encourage regional integration in order to ensure increased free inflow of foreign capital among countries. For example, Botswana has surplus domestic savings while Zimbabwe does not have adequate savings. Regional integration innovations would help Botswana nationals with a wider range of financial instruments and Zimbabwean investors with additional sources of funding. Regional partnerships would therefore enhance the depth and liquidity at the ZSE. Regionalization seems inevitable for African stock markets as they struggle to consolidate in order to overcome low liquidity constraints and to attract more foreign investment. However, some of the salient constraints at regional level include disparities in levels of economic development, absence of uniform regulatory frameworks and accounting standards, lack of currency convertibility and restrictions on capital transfers. This could be done through, for example, regional cross listing and pooling issuances. This would increase the scale and thus render the ZSE more attractive. Enhanced access to regional markets would promote cost efficiency and overcome the small market size concern.

(viii) Enhanced Measures to Boost Investor Confidence

The stock market is very sensitive to political and economic developments, with implications on investor confidence. For the ZSE to be viable and promote economic growth, there is need to ensure enhanced investor confidence or to avoid conditions that erode investor confidence.

(ix) Encourage More and Better Quality Listings on the ZSE

The depth and liquidity of the ZSE can be enhanced through privatization. The ZSE still needs to convince the business community that the market still remains buoyant as well as a safe haven for investments. If the ZSE can attract big companies to list, especially in the mining and banking sectors, it can grow the size of the market. There is also need to improve the quality of ZSE listings in order to attract both foreign and local investment. Currently on target for listings are big mining companies and banks.

(x) Introduction of a Secondary Bourse for Emerging Companies

The ZSE could diversify its trading portfolios through introduction of a secondary trading market.

(xi) Re-Capitalization of the ZSE

The ZSE needs to be adequately capitalized. This would enable the implementation of planned programmes such as automation of trading and settlement systems. These are aimed at maintaining international standards and to enhance regional integration.

(xii) Creation of New Products to Enhance Local Participation

The ZSE can create new products which will enable domestic participants, especially low income earners to invest in the stock exchange. For example, mutual funds can be created to spread wide ownership of securities in the stock market.

(xiii) Automation of the Trading, Clearance and Settlement Systems

There is need for the ZSE to automate trade to improve operational efficiency and to enhance regional integration. The ZSE should automate its trading operations so that investors do not necessarily have to congregate in order to trade. Ideally, anyone should participate on the local bourse from wherever they are in the world. Automation brings in transparency. Migration from the floor-based centralized system to a wide area network trading system would improve operations. Extension of the daily trading session would also enhance trade.

(xiv) Participation Through Initial Public Offers (IPOs)

One way for the ZSE to improve is through participation through initial public offers (IPOs) and secondary offerings.

(xv) Timely Availability of Macroeconomic Data on Key Economic Variables

The timely availability of macroeconomic data would enable the market to assess the state of the economy, economic fundamentals and the general performance of companies. This includes data on monetary growth, inflation, exchange rates and interest rates, among others.

(xvi) Macroeconomic Stability and Conducive Policy Framework

To attract more investors, the ZSE needs to operate in a conducive macroeconomic policy environment with prudent fiscal and monetary policies, alongside tight controls on inflation.

(xvii) Speedy Implementation of the Planned Programmes and Activities

The success of the ZSE in promoting economic growth in the multicurrency period also depends on the effective implementation of the planned activities and programmes. These include demutualization, automation of the trading and settlement systems, among others. The implementation of these programmes is behind schedule.

(xviii) Market Expansion Drives

The ZSE should focus on the 4Ps, namely products, players, participants and partnerships. The market needs new products, new players, local participants and international investors. Some top mining companies are not listed on the ZSE. There is potential to put leading companies onto the radar screen of the international investors. The ZSE needs to enhance partnerships with other countries' stock exchanges.

6. Conclusion

The ZSE is one of the oldest stock exchanges in Africa. In terms of listings, it ranks higher than most other African stock exchanges. In terms of market capitalization, it still ranks lower than some of the smaller stock exchanges. The annual market capitalization is still below the internationally recommended threshold of US$50 billion that is encouraged to attract more foreign participation. The annual traded values are also still below the internationally recommended threshold of US$10 billion to attract global funds. The ZSE has been performing below targeted levels. The institutional and technological infrastructure requires improvement.

Despite the current liquidity challenges, the ZSE still presents scope for investment opportunities for the long-term investor and opportunities to switch from expensive to cheaper stocks. However, the potential of the ZSE largely depends on the state of political and economic developments. Going forward, the political developments will remain critical in influencing trading trends. The fact that the ZSE is dominated by foreign participants poses risks, should they start selling. The major driver of growth could be the exploitation of the country's mineral wealth because Zimbabwe's recovery potential is large. There is need for the ZSE to implement the planned programmes. On the part of Government, there is need to provide funding for the planned programmes. In addition, there is need to sort the politics, legislation, corporate governance issues and market regulation to attract more investors to the ZSE.

7. Outstanding Further Analysis of the ZSE

What remains is the linking of economic growth variables with ZSE indicators using regression analysis. We propose to use 2-Step System Generalized Method of Methods (GMM) by Arellano and Bover (1991) and Brundell and Bond (1998). This method has been used by several previous authors of stock market analysis (For example Rousseau and Watchel (2000), and Beck and Levine (2001, 2003, 2004)). This method controls for various estimation problems such as heteroscadasticity of an unknown form, serial autocorrelation and persistence in variables, among others. The proposed method will show the actual relationship between the ZSE indicators and the growth of the economy.

We need a high frequency output variable. We propose to use the index of production on a monthly basis to proxy the output variable. GDP in Zimbabwe only has an annual frequency. Stock market indicators are a high frequency variable. The proposed exercise will give a more detailed analysis of ZSE developments. The regression analysis is reserved for further analysis because the current monthly data set (Feb 2009-Dece 2011) does not give enough degree of freedom to do so.

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