Impediments to the development of stock markets in the Southern African Development Community

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A thesis submitted for the degree of Doctor of Philosophy at The Australian National University

February 2009
Declaration

I hereby declare that this thesis is my own original work and that it contains no material previously published or written by another person, except where due acknowledgement is made in the text.

Abraham Sethibe
Acknowledgements

I would like to express my deepest gratitude and appreciation to everyone who supported me in various ways throughout my period of stay and study in Canberra and The Australian National University. I owe gratitude to my supervisory panel, Dr Greg Shailer, Dr Royston Gustavson, and Dr Janet Lee (advisor) for their guidance, support, encouragement and the friendship. To Dr. Greg Shailer, I thank him for introducing me to the concept of property rights and the continued guidance that helped find my way.

I wish to express my gratitude to the Government of Botswana through the University of Botswana for the opportunity to study and the financial support towards it.

I am grateful for the helpful comments and suggestions I received from the participants of the January 2009 Southern African Finance Association conference in Cape Town, South Africa.

To my dear wife, Tsholo, I am grateful for the sacrifices she made for me, the unselfish support and patience that allowed me to focus on this project. To my kids Aone and Letang, I am thankful for their patience with a studying father. I heartily thank Tsholo, Aone and Letang and other family members and friends for their prayers that kept me sane until the completion of this project.
Abstract

This thesis examines how property rights regimes impede participation in stock markets, emphasising institutional transformation processes, property rights ownership culture, and quality of institutions.

The adopted theoretical framework incorporates property rights effects into the overall institutional structure of the society and the economy. This institutional structure comprises the political order that defines and protects property rights; property rights institutions that are laws, regulations and contracts; and cultural value systems that regulate behaviour and influence choices in the society (Feder and Feeny 1991:136). In doing so, it is argued that the popular view in the comparative markets and governance literature regarding the influence of property rights institutions on the development of capital markets does not adequately address the peculiarities and complexities characterising institutional developments in SADC countries.

This thesis argues that the institutional environment in which SADC stock markets operate has been shaped by the development of property rights, and that differences in development processes reflect differences in colonial policies. These policies differed among territories depending on the nature of colonial political power and the extent of the settler private property ownership. Colonial powers imposed property rights regimes underpinned by a strong private ownership culture that were inherently in conflict with the pre-existing traditional value systems underpinned by a strong communal ownership culture. This conflict persisted because the conflicting rights of settlers and indigenous communities coexisted during the colonial period.

An outcome of colonial policies was institutions in which either private ownership culture or communal ownership culture is dominant, or the two cultural dispositions are in conflict. Consequently, the nature of institutions and their related economic and
stock market outcomes, and in turn participation in the domestic stock markets, varies among countries according to the type and the extent of imperial government policy and the extent of the settlers’ economic activities.

The economic and stock market outcomes in SADC countries vary according to the nature of the dominant ownership culture underpinning the ownership and utilisation of economic assets, and to a certain extent the quality of the institutions. The quality of the institutions varies according to the nature and the extent of colonial institutional conflicts.

The extent of the settler influence on the nature of the emergent institutions depended on the degree of their political autonomy and their number, which were critical for them to transform traditional institutions.

In countries where settlers established and institutionalised a Western tradition of property rights, settlers greatly influenced the nature of post-independence property rights regimes. These countries tend to have more robust private sector participation in the economy and better-developed industrial sectors, and consequently relatively higher levels of participation in their stock markets.

In countries where settlers established a Western tradition of private property rights but had neither political autonomy nor the numbers to impose their preferences, and the conflicting settlers’ and indigenous communities’ rights were protected by the imperial government, conflict dominates the nature of institutions. In addition, these countries have relatively high communal ownership. The economic outcome of the relatively fairly developed industrial structure, inherited when a country gained independence from the colonial power, is generally declining. Stock markets in these countries are mostly small and stagnant because of low levels of participation.

In countries where settlers acquired private property rights but did not institutionalise property rights and had no political autonomy, and the indigenous communities’ rights were protected by the imperial government, institutional structures are underpinned by strong traditional value systems. In general, these countries tend to have low institutional conflict and low industrial development. This set of conditions has led to
the same outcome: stock markets are mostly small and stagnant because of low levels of participation.

Overall, this thesis indicates that the low participation in and consequent stagnation of SADC stock markets is because of low industrialisation. A persistent colonial legacy of institutional conflict with respect to property regimes does not encourage long-term projects and savings and consequently limits the capacity to enhance participation in stock markets. The channel through which these factors impede participation in stock markets is the low supply of shares due to the small size of domestic firms. The thesis argues that the small size of domestic companies is because of the poor business prospects, and consequently firm profitability, due to the dominant communal ownership culture that does not encourage efficiency in the utilisation of economic resources. Inefficiency in the utilisation of economic resources impedes industrial development, which impedes the demand for and supply of capital, which in turn impedes participation in the stock market.
Contents

Declaration ...........................................................................................................i
Acknowledgements ...........................................................................................ii
Abstract ..............................................................................................................iii
Contents ..............................................................................................................vi
List of figures .....................................................................................................xii
List of tables .......................................................................................................xiii
Abbreviations ...................................................................................................xv

CHAPTER 1 INTRODUCTION ............................................................................. 1

1.1 Stock market participation and property rights ......................................... 3
  1.1.1 Participation in stock markets .................................................................3
  1.1.2 Property rights definitions ......................................................................4
  1.1.3 The role of institutions in stock market participation ............................4

1.2 Research questions and contributions of the study ..................................... 7
  1.2.1 Previous research and initiatives limitations ........................................... 8
  1.2.2 The scope of capital market development literature ............................10

1.3 The background of SADC stock markets ..................................................11

1.4 Developing a theoretical framework .........................................................14
  1.4.1 Finance theory of stock markets ............................................................15
  1.4.2 Property rights literature .....................................................................16
  1.4.3 Institutional path dependence theory ....................................................17

1.5 Method ......................................................................................................17

1.6 Organisation of the thesis .........................................................................19
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2.1.1</td>
<td>The effect of the mission in Malawi</td>
<td>103</td>
</tr>
<tr>
<td>5.2.2</td>
<td>European settlers: objectives, strategies and their effects</td>
<td>104</td>
</tr>
<tr>
<td>5.2.2.1</td>
<td>Settlers in British South African protectorates</td>
<td>108</td>
</tr>
<tr>
<td>5.2.2.2</td>
<td>Settlers in British Central African protectorates</td>
<td>111</td>
</tr>
<tr>
<td>5.2.2.3</td>
<td>The case of Tanzania</td>
<td>113</td>
</tr>
<tr>
<td>5.2.2.4</td>
<td>Belgian Congo and Portugal: Angola and Mozambique</td>
<td>114</td>
</tr>
<tr>
<td>5.2.3</td>
<td>Colonial policies and state formations</td>
<td>115</td>
</tr>
<tr>
<td>5.2.3.1</td>
<td>Characteristic features of settler states</td>
<td>116</td>
</tr>
<tr>
<td>5.2.3.2</td>
<td>Characteristic features of trustee states</td>
<td>117</td>
</tr>
<tr>
<td>5.2.3.3</td>
<td>Characteristic features of exploitative states</td>
<td>118</td>
</tr>
<tr>
<td>5.2.3.4</td>
<td>Characteristic features of extractive states</td>
<td>120</td>
</tr>
<tr>
<td>5.2.4</td>
<td>The effects of colonial policies on cultural values</td>
<td>120</td>
</tr>
<tr>
<td>5.2.4.1</td>
<td>The legal system</td>
<td>124</td>
</tr>
<tr>
<td>5.3</td>
<td>The concept of democracy</td>
<td>125</td>
</tr>
<tr>
<td>5.3.1</td>
<td>Transition to democracy and the effects</td>
<td>127</td>
</tr>
<tr>
<td>5.3.2</td>
<td>Property rights protection</td>
<td>132</td>
</tr>
<tr>
<td>5.4</td>
<td>Institutional transformation processes and the effects</td>
<td>136</td>
</tr>
<tr>
<td>5.6</td>
<td>Conclusion</td>
<td>139</td>
</tr>
</tbody>
</table>

CHAPTER 6 ECONOMIC CAPACITY AND BUSINESS ENVIRONMENT | 141 |

6.1 | Introduction | 141 |
6.2 | Data sources and description | 142 |
6.3 | Description of the economic capacity | 142 |
| 6.3.1 | Size of the economy | 143 |
| 6.3.2 | Savings capacity | 146 |
| 6.3.3 | Industrial capacity | 149 |
| 6.3.4 | Private sector support | 154 |
| 6.4 | Business environment: firm perspective | 155 |
| 6.4.1 | Industrial structure | 158 |
| 6.4.2 | The effect of trade practice | 159 |
6.4.3 Size of domestic companies ................................................................. 159

6.5 Cultural disposition and the colonial legacy ............................................. 159

6.5.1 The settler states (South Africa and Zimbabwe) .................................. 160

6.5.2 The trustee states (Botswana; Swaziland) ........................................... 161

6.5.2.1 Economic dependence ..................................................................... 163

6.5.3 The exploitative states (Malawi, Tanzania and Zambia) ..................... 167

6.5.4 The extractive states ........................................................................... 169

6.5.6 Special cases: Mauritius and Namibia ................................................ 170

6.5.6.1 Mauritius ...................................................................................... 171

6.5.6.2 Namibia ....................................................................................... 172

6.4 Conclusion ............................................................................................. 173

CHAPTER 7 PROPERTY RIGHTS AND STOCK MARKET PARTICIPATION ....
.................................................................................................................... 175

7.1 Introduction ............................................................................................ 175

7.2 Stock market participation ........................................................................ 176

7.2.1 Data sources and description of participation indicators ...................... 176

7.2.2 Listing criteria .................................................................................... 178

7.2.3 Trading activities ................................................................................ 180

7.2.4 The demand for and supply of shares ................................................. 181

7.2.5 The effect of ownership structures on participation ............................ 184

7.3 Stock market promotions ........................................................................ 186

7.4 Development of property rights and stock market outcomes ............... 187

The settler states stock markets (South Africa and Zimbabwe) .................... 189

7.4.1 Trustee states stock markets (Botswana and Swaziland) ...................... 192

7.4.1.1 Institutional and development path effects .................................... 194

Exploitative states stock markets (Malawi, Tanzania, Zambia) ....................... 196

7.4.3.1 Institutional and development path effects .................................... 197

7.4.2 Special cases (Mauritius and Namibia) ............................................... 198

7.5 Influence on participation ........................................................................ 202
Figure 1.1: African countries with stock markets ......................................................... 13
Figure 3.1: Interaction of the components of the institutional structure .................. 68
Figure 3.2: Property rights development model......................................................... 68
Figure 4.1: Traditional consultative forum: symbolises BTA board of directors ..... 91
Figure 4.2: Traditional consultative forum: symbolise BTA management meetings . 91
Figure 5.1: Colonial policy institutional structures................................................... 116
Figure 5.2: Property rights development path......................................................... 138
Figure 6.1: Botswana commercial banks loan structure as at December 2006....... 165
Figure 7.1: Flow of institutional influence............................................................... 203
Table 2.1: General features of SADC countries
Table 2.2: Reasons for establishing stock markets – SADC
Table 2.3: The number of listed companies
Table 2.4: Market capitalisation ratio
Table 2.5: Turnover ratio
Table 3.1: Definition of key variables
Table 4.1: Bantu communities in SADC countries
Table 4.2: Land tenure system in SADC countries
Table 5.1: Religious beliefs in SADC Countries (percentage of the population)
Table 5.2: European settlers in SADC countries
Table 5.3: Sources of labour for South Africa
Table 5.4: Urbanisation rate
Table 5.5: Sources of legal system in SADC countries
Table 5.6: Political regime transitions
Table 5.7: Political freedom indices
Table 5.8: Property rights protection indices
Table 5.9: Transparency International Corruption Perceptions Index 2006
Table 6.1: [panel A] Average GDP and population (1997-2006)
Table 6.1: [panel B] Country size ranking based on GDP and population for 2007
Table 6.2: Gross domestic saving per capita (US$)
Table 6.3: Income distribution
Table 6.4: Contribution to GDP per sector
Table 6.5: [panel A] Manufacturing value added
Table 6.5: [panel B] Manufacturing value added per capita (USD)
Table 6.6: Credit to private sector
Table 6.7: South African companies doing business in SADC countries
Table 6.8: Business environment
Table 6.9: SADC trade flow
Table 7.1: Listing criteria: minimum requirements
Table 7.2 [panel A]: Traded shares- volume (mn)
Table 7.2 [panel B]: Traded shares- volume (mn), per listed company
Table 7.3: Total assets of institutional investors (percentage of GDP)
Table 7.4: Top three large shareholders in SADC listed companies
Table 7.5: Controlling shareholding ................................................................. 186
Table 7.6: African stock market performance ranking ................................. 192
Table 7.7: Rank correlations among the colonial influence (private ownership) variables ........................................................................................................ 206
Table 7.8: Rank correlations among quality of institutions variables............. 207
Table 7.9: Rank correlations among the capital demand and supply variables .... 208
Table 7.10: Rank correlations among stock market development variables .......... 208
Table 7.11: Rank correlations among the demand and supply of capital, and stock
development market variables........................................................................ 209
Table 7.12: Rank correlation among stock market participation related variables..... 211
Table 7.13: Spearman’s coefficients and probabilities (all variables) ............... 212
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>African Development Bank</td>
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<tr>
<td>ASEA</td>
<td>African Securities Exchanges Association</td>
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<tr>
<td>BDC</td>
<td>Botswana Development Corporation</td>
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<td>BSAC</td>
<td>British South Africa Company</td>
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<td>BTA</td>
<td>Botswana Telecommunications Authority</td>
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<tr>
<td>CCBG</td>
<td>Committee of Central Bank Governors</td>
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<tr>
<td>CIA</td>
<td>Central Intelligence Agency</td>
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<tr>
<td>COSSE</td>
<td>Committee of SADC Stock Exchanges</td>
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<td>CPI</td>
<td>Corruption Perception Index</td>
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<td>D.R.C</td>
<td>Democratic Republic of Congo</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>ICRG</td>
<td>International Country Risk Guide</td>
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<td>IFC</td>
<td>International Financial Corporation</td>
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<td>IFI</td>
<td>International Financial Institutions</td>
</tr>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPO</td>
<td>Initial Public Offerings</td>
</tr>
<tr>
<td>MVA</td>
<td>Manufacturing Value Added</td>
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<td>RISDP</td>
<td>Regional Indicative Strategic Development Plan</td>
</tr>
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<td>SADC</td>
<td>Southern African Development Community</td>
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<td>SADCC</td>
<td>Southern African Development Coordination Conference</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organisation</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>WIDER</td>
<td>World Institute for Development Economics Research</td>
</tr>
<tr>
<td>WDI</td>
<td>World Development Indicators</td>
</tr>
</tbody>
</table>